Track 5: SMEs, international ventures and international entrepreneurship

Interactive paper

Towards a theory of border firm internationalization

Abstract

In the international business literature, border firm internationalization is a rather unexplored concept. In this paper, we discuss possible conceptual developments towards a theory of border firm internationalization. In doing so, we will emphasize concept clarity in terms of elements related to coherence, a good definition, the involved constructs and their relationship, and scope conditions. We will give a critical evaluation of the contributions of extant knowledge related to these elements, and will evaluate traditional international business theory, international entrepreneurship and SME internationalization theory, and cross-border entrepreneurship theory. Based on this evaluation, we suggest a model and a definition of border firm internationalization and we discuss future direction for research.

Towards a theory of border firm internationalization

INTRODUCTION

In this paper, we will discuss possible conceptual developments toward a theory of border firm internationalization. In the introductory part of this paper, we will give an overview of what border firm internationalization is, why we need a theory of border firm internationalization and what we mean that a theory of border firm internationalization should explain.

In the international business literature, the concept of border firm internationalization has received scarce attention. In order to explain border firm internationalization, we will give an account of a firm that is engaged in border firm internationalization. For the purpose of this account, we call the firm MANU. MANU develops and produces electronic equipment for use in hazardous areas. The firm was founded in 1993 in a Norwegian town close to the Russian border. MANU started as a domestic venture, but the entrepreneur had dreams about establishing business activity in Russia right from the beginning. After six years, in 1999, MANU moved its production to Russia, and in 2002, a Russian subsidiary was established. Today most of the production takes place in Russia with around 50 employees. The unit in Norway serves as headquarter and a centre for testing and logistics. MANU in Norway has around 20 employees. Today, MANU has developed their international activities to include operations all over the world, mostly on the market side. MANU started their internationalization, however, by crossing one adjacent border, which means that at the start-up they engaged in what we call border firm internationalization.

As a further illustration, we quote a key entrepreneur from another firm that is engaged in border firm internationalization. Unlike MANU, this company started their border internationalization right from start-up. Here is what the entrepreneur says:

> "Our company is perhaps not the best example of traditional internationalization. When this company was established, it was from the outset meant to work across the border. It was not a Norwegian company which would gradually also encompass the Russian market. Rather, from the first day, we engaged in mutual projects and supplied services to Norwegian customers who were interested in the Russian market. Therefore, it was perhaps not internationalization, but the core of the venture idea to work across the border."

This quote goes right to the core of what border firm internationalization is. Firms that are engaged in the similar type of international activities exists along national border all around the world.

An important question is why we need a theory of border firm internationalization. In spite of the existence of firms that cross the nearest border, this phenomenon has so far not received much attention in the literature. Traditional existing literature is either about the step-wise internationalization of larger companies (Johanson & Vahlne, 1977, 2009) or the innovative globalization of small and new firms, so called born globals (see for example Knight & Cavusgil, 2004). Moreover, Oviatt and McDougall (1994), which identified geographically focused international ventures. We still know little, however, about how these firms internationalize and there is a gap in the extant knowledge base related to internationalization across one adjacent border.

The competition today is tough, and many firms must internationalize in order to sustain or develop their competitiveness. However, internationalization is demanding and few firms go global right from inception. Taking the first steps across the nearest border can therefore be an

attractive alternative to broader internationalization. The generation of more knowledge about this important step is lacking.

Another question is what a theory of border firm internationalization should explain. In this paper, we will use a qualitative lens when we approach the development of a theory of border firm internationalization. In a qualitative approach, researchers try to answer how and why questions rather than questions about what or to what degree. In order to be more specific about what a theory of border firm internationalization should explain, we have limited our focus in this paper to try to understand more about *how* border firm internationalize. Theory that can explain how this process unfolds can help support firms in how to take their first step across an adjacent border. This step is important in itself, but can also be seen as a starting point of future international success, as in the case of MANU.

We will now move on by presenting how we have established conceptual developments toward a theory of border firm internationalization. Thereafter, we will present and evaluate five extant knowledge approaches; from the international business field, the international entrepreneurship and SME internationalization field, and from the cross-border entrepreneurship literature. Finally, we will present some ideas for a theory of border firm internationalization and suggest future direction for research.

CONCEPTUAL CLARITY IN THEORY DEVELOPMENT

There are many ways to develop theories. In this section, we will present in more detail how we have approached the development towards a theory. We have highlighted the creation of construct clarity (Suddaby, 2010), and concentrated on the four elements in doing so: coherence, clear definitions, constructs and their relationships and scope conditions.

Border firm internationalization is, similar to many other constructs in the international business literature, a multidimensional concept. There is therefore a need to clarify what dimensions that should be included in a theory of how border firms internationalize, and how these dimensions can be connected in a logical and convincing way. According to Suddaby, these questions are related to the importance of coherence in the process of creating concept clarity. In our paper, we have chosen to focus on five approaches from extant knowledge in order to achieve coherence in the development of a theory of how border firms internationalize.

Conceptual developments rely on the ability to accurately abstract empirical phenomena into robust conceptual generalizations. This requires a translation from abstract concepts into crisply defined theoretical constructs (Suddaby, 2010). In the conceptual development towards a theory of border firm internationalization, we rely on Suddaby who emphasizes that a good definition should accomplish several tasks. First, the definition should effectively capture the essential properties and characteristics of the phenomenon under consideration. Second, a good definition should avoid tautology or circularity. Tautology or circularity occurs when elements of the term being defined is used in the definition, for example if border firm internationalization is defined as border firms that internationalize. Third, a good definition should be parsimonious. This means that the definition should focus on the meaning of border firm internationalization as narrowly as possible, but not too narrow, because then it may lack relevance and cannot be generalized.

The third element in creating conceptual clarity is, according to Suddaby (2010), the character of the involved constructs and the relationships between them. New concepts are not developed in isolation – they build on existing constructs. An important part of developing theory about border firm internationalization, is therefore to clarify what extant constructs and the relationships between them that the new theory builds on.

Fourth, and finally, Suddaby (2010) emphasizes the element of scope conditions. A theory of border firm internationalization will not have universal application. Rather, a theory of border firm internationalization will be highly sensitive to and contingent on contextual conditions. It is therefore important to clarify as far as possible the scope conditions under which the proposed theory will or will not adhere. There are several scope conditions, and among the most important are constraint related to time and space. Time refers to various temporal constrains. Space can refer to what different types of organizations, what different levels of analysis or what different contextual circumstances that the theory applies to.

THE CONTRIBUTION OF FIVE EXTANT KNOWLEDGE APPROACHES

Based on the elements for conceptual development of theory presented above, we will now evaluate how insights from five extant knowledge approaches can contribute to the conceptual development towards a theory of how border firm internationalize. These approaches are The Uppsala internationalization process model (Johanson & Vahlne, 1977, 2009), the international opportunity development approach (Mainela, Puhakka, & Servais, 2014; Oviatt & McDougall, 2005), the venture type perspective (Oviatt & McDougall, 1994), patterns of SME internationalization (Kuivalainen, Sundqvist, Saarenketo, & McNaughton, 2012) and cross-border entrepreneurship (Smallbone & Welter, 2012). As we will come back to, we have chosen these approaches because they represent significant dimensions that can create coherence in the development of a theory of border firm internationalization.

We will now evaluate how each of these five knowledge approaches contribute to the three remaining elements of creating concept clarity (Suddaby, 2010) in various ways. From traditional international business theory, we have chosen the Uppsala internationalization process model, developed by Johanson and Vahlne (1977) and revised by the same authors in

2009. The Uppsala model perceives internationalization as a stepwise process consisting of stages with increased commitment to foreign markets. Insight from the Uppsala model can help conceptualize border firm internationalization as the first stages of this stepwise internationalization process. This knowledge approach also helps set temporal limits related to what stages of the internationalization that the theory encompasses.

The international opportunity development approach was first introduced by Oviatt and McDougall (2005), when they re-defined international entrepreneurship as the discovery, enactment, evaluation and exploitation of opportunities across national borders. Internationalization in term of the development of international opportunities have since then been described in rather abstract ways. However, Mainela et al. (2014) draw on entrepreneurship research and present new conceptualizations of international opportunities that can be relevant in order to understand more about how border firm internationalize. They define international opportunities as “a situation that both spans and integrates element form multiple national contexts in which entrepreneurial action and interaction transform the manifestation of economic activity” (page 120). This knowledge approach helps to define border firm internationalization as a process of developing international opportunities.

The venture type perspective, which has its roots in the seminal article written by Oviatt and McDougall (1994), helps identify border firms as a distinct type of geographically focused international venture and their internationalization as geographically focused activities. This approach has inspired us to define border firm internationalization as processes across one adjacent border. The approach also helps identify the firm as the level of analysis.

Insights from Kuivalainen et al. (2012) on patterns of SME internationalization divides such internationalization as distinctive start-up and development patterns. Since border firms are often new and small, this perspective is relevant in order to develop theory about how these

firms internationalize. This knowledge approach contributes to the identification of both start-up and development patterns as central constructs.

Finally, the cross-border entrepreneurship approach, as developed by Smallbone and Welter (2012), views internationalization as cross-border cooperation in context. Their research emphasizes that special characteristics of the cross-border region will influence this process. This perspective helps understand that the border firm internationalization process takes place in a particular cross-border context. In addition, it contributes to clarify the spatial scope of the new theory. Table 1 summarizes the contributions of the five knowledge approaches.

Insert Table 1 about here

A MODEL AND DEFINITION OF BORDER FIRM INTERNATIONALIZATON

We now present a model of border firm internationalization based on the evaluation of the five knowledge approaches in relation to the four elements of concept clarity.

Insert Figure 1 about here

The model illustrates the central issues that we have made in our conceptualizations towards a theory of border firm internationalization. First, it identifies border firm

internationalization as the process where start-up patterns, development patterns, and the cross-border context are the most central constructs. We also suggest that the model should include some more unspecified input and output constructs that future research must explore. Based on the model it is possible to analyse the relationship between the patterns and the context. The patterns are embedded in the cross-border context, but only partly. This is because the process can both start and end outside the cross-border context. It can start by developing opportunities solely domestically and it can end up outside the cross-border context if a firm develop its internationalizing to contexts that are more global. The model illustrates that a theory of border firm internationalization should try to explain how border firms internationalize in the cross-border context.

Based on the discussion above, it is also possible to suggest a definition of border firm internationalization. We suggest that border firm internationalization should be defined as *the first stage of the process of developing international opportunities across one adjacent national border*.

FUTURE DIRECTIONS FOR RESEARCH

In this last section of the paper, we discuss possible directions for future research. These aim to strengthen the coherence, definition, constructs and relationships, and scope conditions of the new theory of border firm internationalization.

First, we need more research that can strengthen the coherence of the border firm internationalization theory. Such research may enhance the logic and consistency of the new theory, both by asking other questions and by using different knowledge approaches. In this paper, our aim was limited to understand more about *how* border firms internationalize. Other questions could be, for example, *to what extent* do border firms internationalize or *why* do

border firms internationalize? Moreover, other knowledge approaches could introduce other dimensions of border firm internationalization that can strengthen the logic of the theory and the connection between the dimensions. For instance, we think that it could be interesting to explore both how transnational entrepreneurship theory and immigrant entrepreneurship theory could contribute in this respect.

Related to the suggested definition of border firm internationalization, we need future research that can shed more light on the nature and characteristics of border firm internationalization. We believe that comparative studies can contribute in that direction. There are possibilities for future research to compare start-up and development patterns of border firms and domestic firms on the one hand, and border firms and born globals on the other. In addition, future research that compares border firm internationalization in different types of cross-border contexts, for example processes across “hard” versus “soft” borders, can also contribute to better understandings of the nature of this phenomenon.

We also need more research that can dig deeper into what constructs that could be relevant for a new theory of how border firms internationalize, and what relationships that exist between them. Figure 1 views border firm internationalization as start-up and development patterns in context. More research is needed, however, to identify what input and output constructs these processes are related to. Examples of relevant inputs could be diverse motivational factors for the entrepreneurs, and examples of outputs could be different kinds of performance measures, both financial and social, but also the subsequent steps of internationalization. Finally, future research should test the boundaries of the theory. In what temporal and spatial contexts is the new theory of border firm internationalization applicable?

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Table 1. Contribution towards a theory of border firm internationalization

Possible approaches	Contribution to coherence	Contribution to definition	Contribution to constructs and relationships	Contribution to scope conditions
The Uppsala internationalization process model	BFI* as the first stage of the internationalization process	BFI as the first stage of a process		A theory about the first stage of internationalization
International opportunity development	BFI as the development of international opportunities	BFI as a process of developing international opportunities		
The venture type perspective	BFI as geographically focused internationalization	BFI as the development international opportunities across one adjacent border		A theory with a narrow geographically scope A theory with the firm as the level of analysis
Patterns of SME internationalization	BFI as patterns		Start-up patterns Development pattern	
Cross-border entrepreneurship	BIF as cross-border cooperation in context		The relationship between BIF and the cross-border region context	A theory with application to cross-border regions

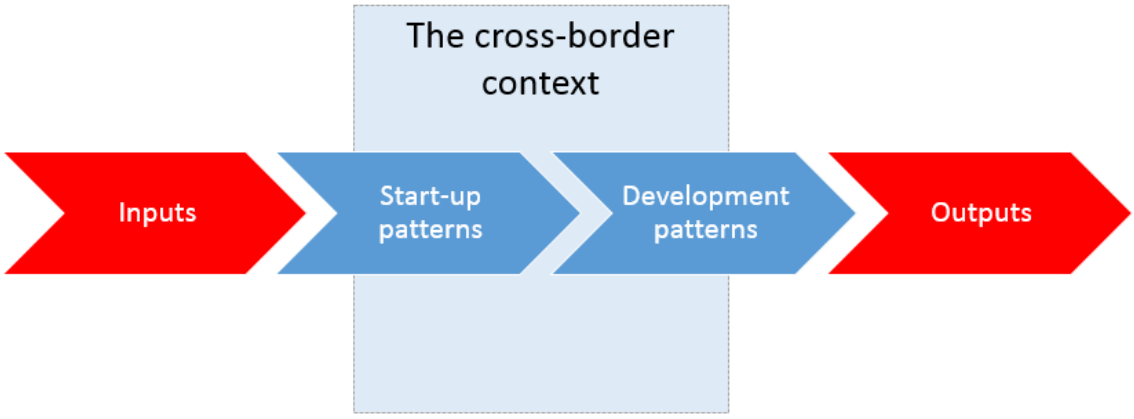

Figure 1. A model of border firm internationalization