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Theoretical discussion on internationalisation of the firm in business studies

Vijay Narayanan

Cracow University of Economics
Faculty of Economics and International Relations
Doctoral Studies in Economics, Finance and Management
ul. Rakowicka 27, 31-510 Kraków, Poland
e-mail: prvijayan@gmail.com

Abstract:

Internationalisation and the involved processes such as globalisation and Europeanisation have many different dimensions, horizons, perspectives and levels. As internationalisation is an ongoing process, it is not possible to provide an universal definition for it (Wach, 2014, Narayanan, 2015) and what is more internationalisation can be researched into at three levels – macro (economy), meso (industry) and micro (firm). In the current generation of increasing internationalisation with advancements in communication, firms around the world are trying to expand into foreign markets. Expanding into international markets may provide benefits like new and profitable businesses, facilities to develop new ideas, make innovations in manufacturing and in new technologies (Knight, 2000; Hollensen, 2007). The main objective of the paper is to discuss the concept of the internationalisation of the firm in business studies. The article is based on in-depth literature review and its critics.

Keywords: international business; internationalisation; globalisation; MNCs; SMEs
JEL codes: F20, F23

1. INTRODUCTION

The firm-level internationalisation is explained as the expansion of business operations in geographic locations that are new to the organisations (Matanda, 2012; Narayanan, 2015). During the internationalisation process, firms are able to exploit their existing potential to new business opportunities in external markets (Koksal & Ozgul, 2010; Matanda, 2012; Narayanan, 2015). Closeness to foreign markets, reduced growth possibilities in domestic markets, economic expectations, underutilized production capacity and opportunities to diversify and enter new markets are the key motivators for SMEs to go international (Sullivan & Bauerschmidt, 1990; Ahmed, Baalbaki, Hadidian, 2006; Narayanan, 2015). Due to internationalisation, firms must adopt business strategies that balance both domestic and international requirements through transfer of innovation and learning (Bartlett & Ghoshal, 1987; Klein & Wocke, 2009; Matanda, 2012; Narayanan, 2015).

The main objective of the paper is to discuss the concept of internationalisation of the firm in business studies. The article is based on in-depth literature review and its critics. The article consists of six sections. The first section discusses the definition of internationalisation of the firm. The second section includes review of theoretical conceptualisation of various theories on internationalisation. The third section describes the various stimuli and barriers for internationalisation. The fourth section explains the various patterns of internationalisation. The fifth section gives an overview of how to measure internationalisation of firms. The last section provides the summary conclusion on the concept of internationalisation of firms in business studies.

2. DEFINING INTERNATIONALISATION OF THE FIRM

Internationalisation from an economic perspective is connected mainly to international trade. International trade has increased significantly in the last few decades that have given rise to greater economic integration. This has further contributed to the formation of regional trade blocks like NAFTA, APEC, and the EU (Rodriguez, 2007). Firms generally can slightly influence the level of internationalisation of the industry they belong to. Industry level internationalisation is primarily driven by international marketing environment. How the firm reacts in these situations depend on the strategic behaviour of the firm's international competitive structure (Hollensen, 2007).

Internationalisation is not only restricted to large multinational firms. The Entrepreneurship Unit of the European Commission undertook an empirical study among the twenty seven countries in the Union (EU27) and found that 25% of SMEs belonging to EU27's export, 7% of them either undertake subcontracting work for other companies or they themselves hire subcontractors. The tendency to export was stronger among larger SMEs. 53% of the medium-sized SMEs export followed by 38% of smaller SMEs and 24% of micro SMEs (EC, 2010; Gubik & Bartha, 2014).

There is no one universal definition for the internationalisation process of the firm. The widely accepted definition of internationalisation is Dunning's definition "an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value added activities in more than one country" (Dunning & Lundan, 2008; Gubik & Bartha, 2014).

Harvey & Novicevic (2002) in their study pointed out various reasons that can be attributed to the increasing internationalisation of firms and they can be broadly classified into four categories. They are i) macro-economic factors, ii) political factors, iii) technological factors, and iv) organisational factors. The macro-economic factors include issues like increased technology transfer among nations, rise in population among developing countries, etc. Political factors include changes in laws like liberalisation of trade, increased privatisation, increased free trade etc. Technological factors include effective increase in communication through technological innovations, advancements in transport sectors through which trade between nations can increase resulting in higher level of internationalisation. Organisations like multinational enterprises (MNEs) also play a major role as agents of internationalisation. The change in strategy of organisations with more global focus as well as managers viewing the world as a market place have ultimately impacted in increasing firm level internationalisation (Thoumrungroje & Tansuhaj, 2007).

3. REVIEW OF THEORIES ON INTERNATIONALISATION OF THE FIRM

In the literature there exist abundant models, concepts or theories that explain the patterns of internationalisation of a firm. There seems to be a common principle of patterns in the firm level internationalisation. Still several inconsistencies exist due to the fact that the models can be explained from different perspectives and can be classified in many different ways. The main approaches to firm level internationalisation according to Wach (2014) are tabulated below in Table 1 (Wach, 2014).

Stages models explain internationalisation as a stage wise development process where the requirements for successful internationalisation occur in gradual steps. The Uppsala model was developed in the 1970s by Swedish researchers (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) from the University of Uppsala. Their model was based on the internationalisation of the Swedish manufacturing firms and their study was influenced by the work of Aharoni's seminal study done in 1966. It is best explained by the Figure 1 below which explains that the firms enter new markets based on the psychic distance which includes factors like differences in language, culture and political systems. This means, firms will enter markets that can be easily understood by them (Hollensen, 2007).

As the firm's knowledge grows, so does its internationalisation in incremental steps. According to this model, there are four stages of internationalisation namely: (i) no regular export activities, (ii) export via representative in the foreign markets, (iii) sales subsidiary in the foreign market, (iv) production / manufacturing in the foreign market. In the first stage, the firm has no information about the foreign market (knowledge) and hence no presence in the foreign market. In the second stage, by selling through a sales representative the firm has not still made any significant resource commitment. In the third stage, there is a controlled information flow and the fourth stage is when the resource commitment is made. This stage is reached when the firm has accumulated significant amount of knowledge about the foreign market. Johanson and Vahlne (1977) emphasize that market knowledge leads to resource commitment decisions with the end result being market commitment (Johanson & Vahlne, 1977; Narayanan, 2015).

Innovation related models (I-models) were derived from the initial work of Rogers from 1962 (Ruzzier, Hisrich & Antoncic, 2006). Innovation-related models (as

Table 1. Main approaches to Firm level Internationalisation according to Wach

Approaches	Models	Representatives	Brief Characteristics
Stages	U-model	J. Johanson & F. Wiedersheim-Paul (1975), J. Johanson & J.E. Vahlne (1977)	Internationalisation is explained in terms of gradual development of stages. Knowledge of markets or technical knowhow works as drivers and advancement in each stage enhances the possibility of internationalisation.
	I-model	W.J. Bilkey & G. Tesar (1977), S.T. Cavusgil (1980), S.D. Reid (1981), L.H. Wortzel & H.V. Wortzel (1981), M.R. Czinkota (1982), J.S. Lim, T.W. Sharkey & K.I. Kim (1991), R. Rei, T.R. Rao & G.M. Naldu (1992)	
	Hybrid models	K. Yoshihar (1978), R. Swedenborg (1982), M. Juul & P. Walters (1987)	
Resource-based view (RBV)	Resource-based models, Capabilities-based models, Resources-and-Capabilities based models.	P. Westhead, M. Wright & D. Ucbasaran (2001), O.N. Toulan (2002)	Resource based view emphasis on development of unique resources that are difficult to copy by competitors and that provide competitive advantage in the market.
Networking approach	Theories of network internationalisation	J. Johanson & L.G. Mattsson (1988), H. Håkanson & J. Johanson (1992) , J. Johanson & F. Wiedersheim-Paul (2009)	Networking approach explains the advantage of forming formal and informal networks or strategic alliance that helps to reduce risk, enhance synergies and provides access to markets that were previously unknown or not available.
International entrepreneurship	International entrepreneurship general models (GIEMs)	M. Ruzzier, R.D. Hisrich & B. Antoncic (2006), H.Etemad (2004), R. Schweizer, J.-E. Vahlne & J. Johanson (2010)	International entrepreneurship models discuss about acquiring knowledge / information from a very early stage of their initiation and go global instantly.
	International new ventures (INVs)	P.P. McDougall & B.M. Oviatt (1994)	
	Born globals (BGs)	G.A. Knight, T.K. Madsen & P. Servias (2004), R. McNaughton & J. Bell (2004)	
	Rapid internationalisation	I. Kalinic & C.Forza (2012), N. Hashai & T. Almor (2004)	
Managerial and strategic approach	Strategies-based models	J. Bell, D. Crick & S. Young S. (2004), B. Hagen, A. Zucchella, P. Cerchiello & N. De Giovanni (2012)	Managerial and strategic approach models discuss the strategic orientation and strategic behaviour in decision making and performance linkage to internationalisation.
	Decision-making models	R. Schweizer (2011)	
	Organisation-based models	S. Andersson& H. Florén (2008)	
Integrative approach (Protoholistic approach)	General holistic models	R. Flecher (2001), J. Bell, S. McNaughton, S. Young & D. Crick (2003), H. Etemad (2004)	The integrative or proto-holistic approach approaches help in explaining an integrative model that incorporates the existence of multiple internationalisation roadmaps. These models attempt to provide a generalized explanation to internationalisation.
	Knowledge-based models	K. Mejri & K. Umemoto (2010), M. Kutschker, I. Bäurle & S. Schmid (1997)	

Source: Adapted from Wach (2012 cited in 2014, p. 16).

a sub-group of various stages models) explain internationalisation as stage wise innovation of the firm. Various authors distinguish different stages involved in the innovation of the firm and they are determined on export to sales ratio (Yenera, Doğruoğlu & Ergun, 2014, Narayanan, 2015). Leonidou and Katsikeas in their comprehensive study in 1996 of the various existing models (like Bilkey and Tesar, 1977; Cavusgil, 1980; Reid, 1981) concluded that there exists definite number of stages between models that are consistent. In general the number of stages may vary from three to six and there exists three stages that are generic to all models (i) pre-export stage, (ii) initial export stage, (iii) advanced export stage (Ruzzier, Hisrich & Antoncic 2006).

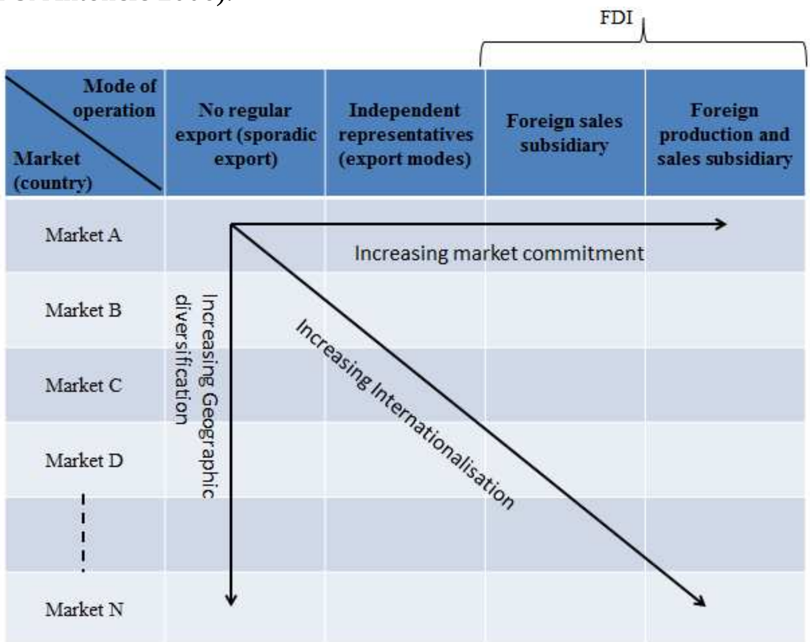

Figure 1. Internationalisation of the firm: an incremental (organic) approach
Source: Forsgren and Johanson (1975) quoted in; Hollensen (2007, p.64).

Resource-based view (RBV) or theory (RBT) provides insight on the firm's ability to derive competitive advantages that are valuable and rare. Such advantages can seldom be copied and cannot be substituted (Barney, Wright & Ketchen, 2001). These resources can be considered as both tangible and intangible assets like the firm's management skills, organisational processes and routines and the information and knowledge the firm has with it (Barney, Wright & Ketchen, 2001; Armstrong & Shimizu, 2007). Resource-based view provides the explanation for the optimum conditions under which a firm's resources can provide the maximum benefits in the form of competitive advantage. Such resources obtained must be rare to provide the competitive advantage else these resources will only provide competitiveness for the firm and no distinct advantage (Barney, 1991; Armstrong & Shimizu, 2007).

Networking approach helps in overcoming functional problems by formation of strategic alliance or any formal or at least informal networks formation in the internationalisation among entrepreneurial firms (Beamish, 1999; Lu & Beamish 2001). Inkpen and Tsang (2007) define a strategic alliance as a long term agreement between two or more firms at a strategic level where they together improve their performance level by sharing resources and risks (Zhao, 2014; Narayanan, 2015). Previous researches have pointed out many benefits to alliance formation such as reduction in transaction costs, increased market access, and shared risks, resources, access to information (Kogut, 1988; Mowery, Oxley & Silverman, 1996; Gulati, Nohria & Zaheer, 2000; Lu & Beamish, 2001; Narayanan, 2015). Strategic alliances help overcome obstacles and help SMEs reduce their mistakes and help in acquiring market knowledge at a faster pace. They also help the SMEs overcome deficiencies in resource and capabilities (Lu & Beamish, 2001; Narayanan, 2015).

International entrepreneurship (IE), contrary to the stage-wise development model in which knowledge acquisition is a slow and gradual process, focuses on rapid and accelerated internationalisation. International new ventures (INVs) or born globals (BGs) based on the international entrepreneurship concept do not exploit prior knowledge, however, are able to exploit current networks and quick acquisition of knowledge to expand quickly and internationalize (Coviello & Munro, 1997; Oviatt & McDougall, 1994; 2005; Casillas & Acedo, 2013; Narayanan, 2015). Such firms from the onset establish sales footprints in several international markets. This new trend of rapid internationalisation has led to several new internationalisation concepts that can be explained under (Knight, Madsen & Servais 2004; Madsen & Servais, 1997; Oviatt & McDougall, 1994; Sleuwaegen & Onkelinx, 2014; Wach & Wehrmann, 2014; Narayanan, 2015) (i) INVs, (ii) born globals, (iii) born-again globals, (iv) global startups, (v) born regionals (vi) international entrepreneurs.

4. OBSTACLES AND STIMULI FOR INTERNATIONALISATION OF THE FIRM

Sheth and Parvatiyar (2001) defined the major drivers for global integration in business (internationalisation) that includes both stimulus and obstacles. The stimuli include i) removal of trade barriers (deregulation), ii) development of global key account customers, iii) network organisation (both internal and external), iv) standardisation of worldwide technologies, v) worldwide market – common strategies for a product segment worldwide, vi) global village – growing homogeneity among different cultures, vii) worldwide communication through low cost methods like internet and viii) global cost drivers. The obstacles include i) cultural differences, ii) regional protectionism and iii) deglobalisaton trend – cultures returning to their traditional practices (Hollensen, 2007).

There exist four types of motivation to indulge in FDI activity namely i) natural resource seekers, ii) market seekers, iii) efficiency seekers and iv) strategic asset or capability seekers. The natural resource seekers primarily invest overseas to acquire high quality resources at low cost compared to home market availability. The reason for this kind of investment is to make the enterprise more profitable and competitive in the market to which it belongs to. The resource sought could be physical resource (like raw material, manufactured goods etc), cheap production by skilled and semi-skilled labour and technological alliance or partnership. The market seekers are those firms which invest in markets to serve them and adjacent markets/countries. Primarily these markets would have been served by exports. Investment would have been justified if transaction costs have risen or the market size would have grown large enough to justify FDI. Efficiency seeking FDI is done when it makes sense to rationalize the organisational structure by already established resource based or market seeking firms when it makes sense to maximize benefits through common governance consolidating geographically diversified operations. The strategic assets seekers invest in FDI by acquiring firms to meet their strategic requirements (Dunning & Lundan, 2008).

Many of these obstacles are responsible for smaller firms to view exporting with doubt and refuse to enter such markets, new exporters tending to withdraw and seasoned exporters struggling with diminished performance and their survival threatened in international markets (Leonidou & Katsikeas, 1996; Miesenböck, 1988; Leonidou, 2004; Narayanan, 2015). According to Shaw & Darroch (2004), barriers to internationalisation can be classified into five categories namely i) financial, ii) managerial, iii) market-based (domestic and international), iv) industry specific and v) firm specific (Table 2).

5. PATTERNS OF INTERNATIONALISATION

Going international is an important decision a firm can make to achieve better results with respect to their competitors. Depending on the challenges faced during internationalisation with respect to the conditions in the new market, firms might need to take decisions that would not be restricted to one form of entry mode. At times a combination of entry modes would be needed for successful launch as deciding for one entry mode and waiting for it to gain momentum and make progress would be counterproductive (Burillo & Moreno, 2013).

Wach (2014) classifies the important patterns of internationalisation such as: (i) entry mode, (ii) entry scope, (iii) entry pace, (iv) entry strategy.

5.1. ENTRY MODES

The choice of an entry mode is an important decision a firm is to make in its foreign investment strategy as choosing one mode over the other can have an enormous strategic bearing on the firm (Chang & Rosenzweig, 2001). The mode of entry to a new market, a new country or an industry is a critical strategic decision that involves companies, the target market countries and their regulations as all of them are related. Though many entry modes are available, companies tend to choose those modes that are suitable to their characteristics. The entry modes are key to the understanding of the weakness the firms have and it pays way to the process of correcting them. Though the decision on entry mode will be strategic, may other factors like returns, bigger profits, control, risk, resource commitment, assets specificity etc. play an important role in defining the entry mode for internationalisation (Burillo & Moreno, 2013). According to Hollensen (2007), market entry modes may be classified into i) export modes (exporting modes), ii) intermediate modes (contractual modes) and iii) hierarchical modes (investing modes).

Table 2. Summary of barriers to internationalisation according to Shaw & Darroch

No.	Typology	Barriers	Authors
1	Financial barriers	financial barriers in general	Burpitt & Rondinelli (2000); Campbell (1996); Ward (1993)
		resource availability	Ali & Camp (1993); Karagozoglu & Lindell (1998)
		cost of operating overseas	Rhee (2002)
		limited access to capital and credit	Ward (1993)
2	Managerial barriers	managerial attitudes	Andersson (2001); Burpitt & Rondinelli (2000); Manolova *et al.*, (2002); Zahra *et al.*, (2000)
		lack of international experience and skills	Chandler & Janson (1992) Karagozoglu & Lindell (1998) Manolova *et al.*, (2002); Rhee (2002)
		commitment	Lamb & Liesch (2002)
		partnership difficulties	Karagozoglu & Lindell (1998)
3	Market-based barriers	liability of foreignness	Chen & Martin (2001); Lu & Beamish (2001); Rhee (2002)
		environmental perception	Andersson (2001); Manolova *et al.*, (2002)
		government regulations including tariff and non-tariff barriers	Campbell (1996); Karagozoglu & Lindell (1998); McDougall (1989)
		economic conditions	Burpitt & Rondinelli (2000)
		lack of market knowledge	Karagozoglu & Lindell (1998); Lamb & Liesch (2002)
		cultural differences/psychic distance	Bell (1995); Karagozoglu & Lindell (1998)
		access to distribution	Karagozoglu & Lindell (1998)
		strong domestic market position	Autio *et al.*, (2000)
4	Industry specific barriers	competition	Karagozoglu & Lindell (1998)
		technology	Chetty & Hamilton (1996); Fontes & Coombs (1997); Karagozoglu & Lindell (1998)
5	Firm specific Barriers	liability of newness	Lu & Beamish (2001); Rhee (2002)
		limited resources	Fillis (2001)
		size	Ali & Camp (1993); Calof (1993); Campbell (1996); Chetty & Hamilton (1996)

Source: Shaw and Darroch (2004, p. 330).

Wach describes that the path chosen for internationalisation depends on both internal and external factors (Figure 2) and they can be classified as (i) exporting modes like indirect, direct and cooperative export, (ii) contractual modes like contract manufacturing, assembly operations and licensing and (iii) investment modes like foreign branch, joint venture subsidiary and wholly owned subsidiary (Wach, 2014).

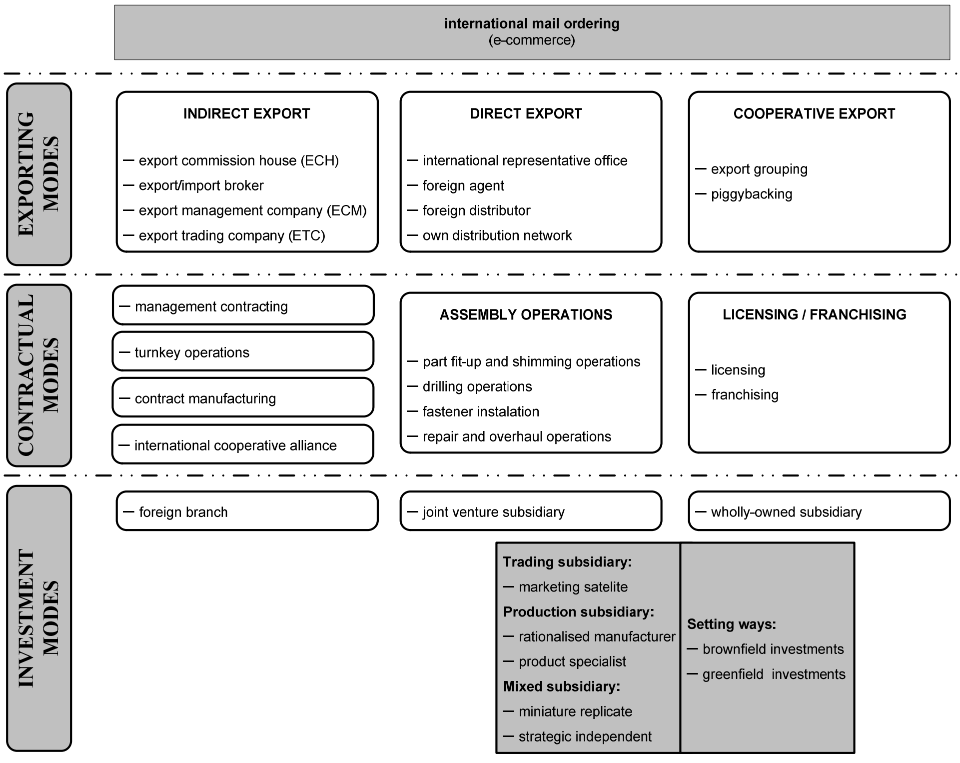

Figure 2. Classification of market entry modes
Source: Wach (2014, p. 23).

5.2. ENTRY SCOPE

The general entry and expansion scope of firms depends on the distance of these markets from their home turfs. The initial target markets tend to be limited to neighbouring countries. Many other factors like language, culture, business practices and industrial development also play an important role in identifying and expanding into new markets (Johanson & Vahlne, 1977; Anderson, 1993; Liesch & Knight, 1999). The expansion in scope of firms is discussed along two dimensions of:

1. Geographic scope which is measured by number, spread and diversity of the foreign markets within the scope of the firm and (Jones & Coviello, 2005; Oviatt & McDougall, 1994; Stray, Bridgewater, & Murray, 2001; (Hashai, 2011).

2. Extent of foreign operations that can be seen by the commitment in resources that adds to the value chain (Jones & Coviello, 2005; Oviatt & McDougall, 1994; Stray, Bridgewater, & Murray, 2001; (Hashai, 2011).

Other scope factors that contribute to the internationalisation process includes addition of export markets (Thomas & Eden 2004; Pangarkar 2008), level of international production (Thomas & Eden, 2004; Jones & Coviello, 2005) and product diversification (Chang, 2007) are discussed in the literature (Cieślik, Kaciak & Welsh, 2012).

5.3. ENTRY PACE

The speed or pace of internationalisation are stimulated by many factors. Johanson and Vahlne (1977, 1990) showed that internationalisation is done in gradual steps as explained in their Uppsala model and initially firms target markets to close proximity. Over a period of time they target distant markets. Other models like Knight and Cavusgil (1996) and Oviatt and McDougall (1999) emphasis on development of technology like improvements in communication and transportation that enable entrepreneurs to internationalize rapidly. Many more factors like environmental influences, industry conditions, and the thinking capability of the entrepreneurs are also considered as primary drivers by Oviatt, Shrader, and McDougall (2004). Zahra and George (2002) highlighted the organisational influences like characteristics of the entrepreneurs as drivers for speed in internationalisation (Oviatt & McDougall, 2005).

The pace of internationalisation in classical literature has been studied as the delay between the initiation of the firm and the start of the international venture. Not much has been focussed on the speed (pace) of the internationalisation process itself after initiation. The former deals with the per-internationalisation period and the later focuses on the speed of the international growth (Casillas & Acedo, 2013).

Oviatt and McDougall (2005) discuss factors influencing internationalisation and explain three dimensions to be studied in the speed of internationalisation namely (Oviatt & McDougall, 2005):

1. The time delay between identification of the foreign opportunity and internationalisation of the firm,
2. How rapidly does the business grow in foreign markets and how far are they from the home turf and
3. The speed of commitment to the international business.

5.4. ENTRY STRATEGY

The time line on the study of various entry strategies in internationalisation started in the 1960s with the focus on exporting versus FDI. In the 1970s the focus shifted towards other strategic approaches like licensing, franchising and subcontracting. The 1980s saw the revival of mergers and acquisitions as a rapid way to globalise.

This period saw the choice of selection between green field ventures versus acquisitions. In the 1990s, the role of FDI was on an increasing trend in emerging economies like East and Central Europe, China, Vietnam etc. Buckley and Casson (1998) further classified twelve basic entry strategies based on entry mode types and their variants (Table 3).

Table 3. Twelve entry strategies and their variants according to Buckley & Casson

No.	Type	Description	Variants
1	Normal FDI	Entrant owns foreign production and distribution facilities.	1.1. Both facilities are green field. 1.2. Both facilities are acquired. 1.3. Production in green field and distribution acquired. 1.4. Distribution in green field and production acquired.
2	FDI in production	Entrant owns foreign production, but uses independent distribution facilities.	2.1. Production is green field. 2.2. Production is acquired.
3	Subcontracting	Entrant owns foreign distribution, but uses independent production facilities.	3.1. Distribution is green field. 3.2. Distribution is acquired.
4	FDI in distribution	Entrant exports to own distribution facility.	4.1. Distribution is green field. 4.2. Distribution is acquired.
5	Exporting/ Franchising	Entrant exports to independent distribution facility.	–
6	Licensing	Entrant transfers technology to independent integrated firm.	–
7	Integrated JV	Entrant jointly owns an integrated set of production and distribution facilities.	–
8	JV in production	Entrant jointly owns foreign production, but uses an independent distribution facility.	–
9	JV in distribution	Entrant jointly owns foreign distribution, but subcontracts production to an independent facility.	–
10	JV exporting	Entrant exports to a jointly owned distribution facility.	–
11	FDI / JV Combination	Entrant owns foreign production and jointly owns foreign distribution	11.1 Production is green field. 11.2 Production is acquired.
12	JV/ FDI combination	Entrant owns foreign distribution and jointly owns foreign production.	12.1. Distribution is green field. 12.2. Distribution is acquired.

Source: Buckley & Casson (1998, p. 548).

6. MEASURES OF INTERNATIONALISATION

To measure the level of internationalisation, a wide variety of variables are used in the literature starting from macro-economic variables like FDI, trade and firm level variables like the number of foreign subsidiaries or sales value of the foreign subsidiaries (Ietto-Gillies, 2009). There are abundant examples of the usage of single or composite indicators in measurement of firm level internationalisation. There are limitations in using these indicators. Single indicators are not able to completely explain the complex internationalisation process and composite indictors on the other hand are a too compromise measures as they try to cover multiple dimensions of internationalisation (Cerrato, Crosato, & Depperu, 2016). Dunning and Lundan (2008) proposed seven criteria from research on the existing studies on internationalisation and they are (Dunning & Lundan, 2008, Gubik & Bartha, 2014):

1. The number and size of the overseas subsidiaries,
2. The total number of different countries the firm operates in,
3. The ratio of foreign assets to total assets, ratio of foreign sales to total sales, ratio of foreign income to total income and ratio of foreign employment to total employment,
4. Internationalisation of the firm's management,
5. The intensity of the activities done in foreign locations like the value of R&D done abroad etc.,
6. Involvement in the control of international networks in foreign lands, and
7. The extent of financial and marketing decisions made with respect to the foreign locations.

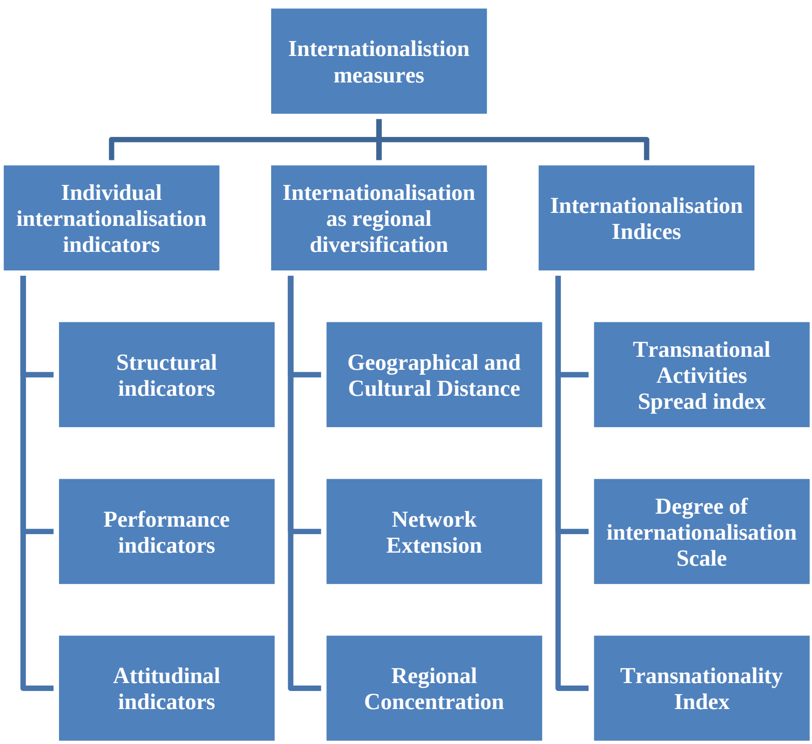

Figure 3. Measures of internationalisation according to Dörrenbächer
Source: Dörrenbächer (2000, pp. 2-9).

Majority of the indicators that can be found in the literature are at the level of the firm as firm specific data is easily available. Also, indicators and indices are mostly related to larger companies are for the same reason than that for smaller companies. Some authors prefer macro and firm level indicators whereas organisations like OCED advocate for a more global indicator like FDI activities, international spread of technology and trade (Ietto-Gillies, 2009). Dörrenbächer (2000) in his work on the various measures of internationalisation classified the measures of internationalisation as shown in Figure 3 (Dörrenbächer, 2000).

6.1. INDIVIDUAL INTERNATIONALISATION INDICATORS

Aharoni (1971) used three dimensions to define the internationalisation of multinational enterprises namely structural, performance and behavioural. Dörrenbächer (2000) also classified three dimensions as i) structural, ii) performance and iii) attitudinal. Each of these individual indicators has a host of contributors as shown in Table 4.

Table 4. Individual internationalisation indicators

Structural Indicators	Performance Indicators	Attitudinal Indicators
1. Relating to foreign activities a) Number of countries a company is active in b) Number or proportion of foreign affiliates c) Number or proportion of non-capital involvements abroad (e.g. strategic alliances, franchised operations) d) Amount or proportion of foreign assets e) Amount or proportion of value added abroad f) Amount or proportion of sourcing abroad g) Number or proportion of foreign employees	**1. Foreign sales** a) Demand: Amount of foreign sales by customer location which is Exports from the home country + Revenues of foreign affiliates – their revenues from exports to the home country. b) Supply : Amount of sales of foreign affiliates which is Sum of revenues of foreign affiliates	**1. ‘Soft’ indicators** a) Ethno-, poly-, regio- or geocentric management style according to: organisational complexity, authority, decision making, communication flows, recruiting, staffing, control
2. Relating to governance structures Number of stock markets on which a company is listed a) Amount or proportion of shares owned by foreigners. b) Number or proportion of nonnationals in the board of directors.	**2. Operating income abroad** Sum of operating income of foreign affiliates	**2. ‘Hard’ indicators** International experience of top managers cumulative duration of the years top managers spent working abroad weighted by the total years of their working experience

Source: Dörrenbächer (2000, p. 4).

6.2. INTERNATIONALISATION AS REGIONAL DIVERSIFICATION

As per Dörrenbächer (2000), internationalisation can be expressed as the level of regional diversification a firm has (Table 5). It can be explained as i) regional concentration – which explains how homogenous or heterogeneous the foreign activities are distributed as well as regional indicator of the firm versus the total distribution of the same indicator in the rest of the world, ii) network spread index which is the ratio of the network affiliates to FDI minus the home country and iii) geographical and cultural distance which is explained by the geographic and cultural diversity the foreign locations have with respect to the home country and psychic dispersion index given by the different zones the company is active in out of the 10 zones identified worldwide (Dörrenbächer, 2000).

Some structural indicators do shed light over geographical issues but they do not differentiate between far away affiliates or firms operating in different countries or cultures. Schmidt (1981) developed the Herfindahl index to measure the homogeneity and heterogeneity of firms international activities followed by Perriard (1995) who developed the GINI index to measure regional distribution to global distribution of selected indicators (Gubik & Bartha, 2014).

Table 5. The measurement of regional diversification

Regional Concentration	Network Extension	Geographical and Cultural Distance
1. Homogeneous vs. heterogeneous distribution of foreign activities (Schmidt 1981). 2. Extent to which the regional distribution of a certain indicator at a given company complies with the total distribution of this indicator in the world (Perriard 1995).	Network spread index: (Ietto-Gillies 1998) Number of foreign countries in which a company owns affiliates as a proportion of total number of countries in which foreign direct investment has occurred – One country (home country of the company.	1. Countries are weighted according to their geographic and cultural distance to the home country (Kutschker 1993). 2. Psychic dispersion index: (Sullivan 1994) Number of zones with different cognitive maps relating to management principles in which a company is active (out of a total of 10 zones worldwide).

Source: Dörrenbächer (2000, p. 6).

6.3. INTERNATIONALISATION INDICES

Many studies have been done in the past using individual indicators. Individual indicators can be combined to form indices or composite indicators. It is evident that internationalisation is multidimensional and measuring it using a single indicator only partially represents the whole picture. Also due to the multidimensionality effect, studies done in the past have resulted in contradictory conclusions in case to case basis because of the indicator used. Last but not the least, the effects of systematic measurement errors, contingent influences and effects of transfer pricing are not effectively captured. From the literature only three composite indicators have been identified namely i) transnationality index, ii) transnational activities spread index and iii) degree of internationalisation scale as given in Table 6 (Dörrenbächer, 2000).

According to Ietto-Gillies (2009), from the various available indicators required indices can be developed by applying suitable mathematical and statistical methods. Depending on the technique applied, the indices can be simple or complex (Ietto-Gillies, 2009).

Table 6. Composite indicators used to measure corporate internationalisation

Transnationality Index (UNCTAD 1995)	Transnational Activities Spread Index (Ietto-Gillies 1998)	Degree of Internationalisation Scale (Sullivan 1994)
(Ratio of foreign sales to total sales + Ratio of foreign assets to total assets + Ratio of foreign employment to total employment) / 3	(Ratio of foreign sales to total sales + Ratio of foreign assets to total assets + Ratio of foreign employment to total employment) / 3) x Number of foreign countries in which a company owns affiliates as a proportion of total number of countries where foreign direct investment has occurred – One country (=home country of the company).	Ratio of foreign sales to total sales + Ratio of foreign assets to total assets + Ratio of foreign affiliates to total affiliates + „International experience of top management„ + „Psychic dispersion„ of international operations.

Source: Dörrenbächer (2000, p. 9).

7. CONCLUSIONS

Firm level internationalisation is a complex ongoing process that is still in the stage of evolution and has no one concrete definition for it. The widely acknowledged definition of internationalisation is Dunning's definition "an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value added activities in more than one country". Various models can be found in the literature explaining the process of internationalisation which includes traditional models like Uppsala model to modern concepts like international new ventures and born globals. The literature identifies several facilitators (stimuli) and deterrents (barriers) for internationalisation that are applicable to both MNCs and SMEs. Examples of stimuli and barriers include removal of trade barriers, development of global key account customers, network organisation, standardisation of worldwide technologies etc. Barriers include cultural differences, regional protectionism, deglobalisaton trend etc. The internationalisation patterns include entry mode, entry scope, entry pace and entry strategy. Internationalisation can be measured using individual indicators, regional diversification indicators and internationalisation indices.

This study attempts to provide an overview to firm level internationalisation in business studies by bring in a complete frame work based on prior studies done on isolated topics in this field. In this context, this study helps in establishing the fundamentals of firm level internationalisation.

As with any study, this study has its limitations. In the attempt to provide a comprehensive overview, the study covers all major topics. In depth analysis of each topic is beyond the scope of this study as well as empirical analysis in the concerned areas. It is important that the theoretical research continues in this direction so that the fundamentals are clarified and a strong foundation is laid for future research. Suggestions for future research include conducting empirical studies to link the different concepts discussed to internationalisation as well as empirically link internationalisation to firm level outputs like performance, regional diversification etc. It will be interesting to see how large scale enterprises and SMEs differ in their internationalisation attempts as well as how SMEs fare within their segment (small, medium and micro enterprises).

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