ON THE INTERNATIONALIZATION OF THE FIRMS – FROM THEORY TO PRACTICE

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ABSTRACT: The internationalization process is a complex type of process and, although many specialists in this field tried to create o model for this process that can be applicable to all the firms, the practice proves that establishing a matrix for the process is completely wrong because there are many determinants that influence the process. For this to be more obvious we used the contrast description of the theoretic approach of the internationalization process and the descriptions of the determinants of the process, the factors that make the process so complex and different from one enterprise to another.

Key words: internationalization, firms, market

JEL codes: F31, F23, D21, L10

Introduction

The present article is intended to represent an overview of the main aspects of the various ways in which the firm internationalization is addressed in the specialty literature. The article starts with the presentation of the firms' internationalization theoretic framework, the stress being laid on the determinants of the internationalization process and the main ways through which this process is developed, and last but not least, the differences in the perception and the risks of this process.

The specialty literature uses different criteria for the identification and definition of international enterprises. Thus, the internationalization is defined as the process through which enterprises are more and more concerned with the international market and start to have direct contacts with it through different types of transactions.

From the working space point of view French researchers classify these enterprises into four categories: within the first category of firms, the resources supplying and use is made at local, regional or national level. The second category incorporates companies that trade their products in an indoor market and take all or part of their supplies from the international market. The third category includes those companies that can supply and sell their products both at national and international level. The fourth category covers the firms which develop part of their production abroad and which also carry out international research-development activities.

The aim of this article is to try to post all contributions of these approaches around the concept of resources and skills, given the characteristics of enterprises. It emphasized the identification and recognition of the three approaches describing the process of firms' internationalization.

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The theoretic approach of the internationalization process

Over the last three decades, researchers have presented various descriptions and analyses of the firms' internationalization as a result of their interest on how the company enters a foreign market. By their grouping according to the dominant theoretical approach, in the specialty literature can be found the existence of three types of explanations: through stages, economy and networks.

<u>The internationalization through stages</u>

These different models have in common the fact that they perceive the internationalization as a linear and sequential process consisting of an ensemble of stages called establishment chain (Coviello, 1999). The nature and number of stages of the internationalization process varies depending on the authors and their way of perception. French specialty authors identify two analytical models of the internationalization process that are considered as being major: the Uppsala (Johanson et Vahlne, 1977) and the innovation models (Bilkey et Tesar, 1977).

The Uppsala model has its roots in the behavioral theory of the firm and has been influenced in its emergence period by the theory of the firm's growth. The behavioral theory describes the firm's internationalization as a process in which the firm gradually increases its international involvement which is expressed in the Uppsala model through psychic distance and through establishment chain. The process evolves in interplay between the development of knowledge about the foreign markets and operations which are developed within it and an increasing commitment of resources to those markets. The main ideas of the model are centered on the way in which the organizations learn about the market and the direct way in which this knowledge affects the investment behavior. Another important aspect of the Uppsala model is that it represents a dynamic model and it describes the firms' internationalization as a process.

Within this model, two processes attract the attention: the learning process and the psychic distance one. Therefore, when perceiving the internationalization as a gradual learning process, the emphasis is laid on the gradual experience acquisition on foreign markets, this thing being the key to internationalization. The internationalization is seen as a product of a series of incremental decisions. In order to integrate on foreign markets, the enterprises learn from these experiences and use their knowledge to improve decision making and increasing foreign commitments. In other words, depending on what the enterprise learns gradually entering on the foreign markets, it will take future decisions about the level of the investment to be made and the commitment to the international market. The stress is on how the company learns from experience and how this knowledge affects their investment behavior.

Based on research conducted by this Swedish school on the firms from the region, it was ascertained that the internationalization follows a sequential process divided into four stages: the first stage is represented by irregular and opportunistic export activities, the second stage is represented by the achievement of the intermediary export; the third is represented by the implantation of a subsidiary/sales branch abroad, and the last stage is represented by production achieevement in the foreign country.

The basic assumption of this model is represented by the psychological distance. Hence, the latter is defined as the sum of cultural and linguistic differences influencing the flow of information and decision making within international transactions. Consequently, the less a firm understands a market, greater the psychic distance and the perceived uncertainty are. Thus, the firms choose to enter only on markets which they understand, where they can see opportunities and where the perceived uncertainty is low. As postulated in the model, the best way to minimize the perceived uncertainty and to see opportunities is through experiential knowledge. That is mainly acquired through personal experience in the specific market. Hence, this is the reason for the incremental steps and the sequential engagement in foreign markets.

As for the distance between the exporter and his foreign client, some authors (LeGrand et Martini, 2007) claim that there are three types of distances: the physical or geographical distance represented by the transportation costs; institutional distance that usually results from the economic policy of each state and which is translated through: barrier customs, norms and regulations differences, monetary differences; cultural or psychic distance which would explain the spatial rigidity of the new exporters (their preference for the cultural close markets) and which is measured by: the differences in the economic development, the differences in trade flows between the buyer and seller country, linguistic and educational differences, different mentalities.

The innovation model considers the internationalization as being a process similar to the stages of adopting a new product. This is an approach used by many authors in their effort to explain the internationalization process. The best known model is that of Bilkey and Tesar (Bilkey et Tesar 1977). This model considers that each step of the process is an innovative step for the company, the only difference being the choice of phases, their number, and initiation mechanism of internationalization. Thus, in the first phase, the company is not interested in export and responds only to commands; the second phase, the company is ready to respond to a command, but makes no effort to explore the possibility of developing an export activity; in the third phase the possibility of developing an export business is actively explored; in the fourth phase, the firm exports on experimental basis to the closest psychological markets; in the fifth phase is confirmed the export activity and the company adjusts its export in an optimum manner; at its last stage the company explores the possibilities of exporting to more distant psychological markets.

It should be mentioned the fact that it is almost impossible to be able to create an internationalization model applicable to all companies, as there can be a variety of situations when a business is more complex and unique and the solutions can vary widely from one firm to another. That is why one must accept the fact that although there are some models globally accepted (for example the Uppsala model), there are also exceptions from these models, those exceptions that strengthen the rule (the research carried out by three master students through which they try to prove the fact that there are companies which enter on the external market without respecting the Uppsala model) (Hansson et al, 2004).

The economic approach

In order to explain the international development of the firms, many specialty authors based their suppositions on the theories borrowed from the economic sciences. Some authors (Penrose, 1959) claim that the indivisibility of the production resources explains their chronic utilization and the fact that their existence represents the powerful reason for which the firms are determined to extend their markets abroad. The reason is even stronger when the resources are specific and can not be used but for certain activities.

Contrariwise, some resources that the firm must have may be critical and can influence its economic growth and the market it can penetrate; as an example, the lack of the financial and material resources, the lack of opportunities, and the poor managerial capacity, all these can limit the international activity of a firm, regardless of its size.

Other authors (Dunning, 2000) have been tempted to explain the internationalization process through the contribution of the transaction costs theory. This is the reason why, including the ways of market penetration, the internationalization process is considered the result of the firm's choice between internalizing and externalizing its activity. However, a limitation of this theory is represented by the fact that it ignores the influential role of social relations in the international transactions. Also, the empiric studies show that the decisions of the managers are not systematically based on the arbitrary costs.

The network approach

This approach too has its foundations within the Uppsala school. In the construction of this approach the authors have started from the primary importance of the firm's network for explaining the reasons and methods of the internationalization. Taking over the concepts used in the original models (commitment, knowledge, current activities and decisions making), they examine them in a multilateral manner rather than in terms of a single company's point of view: internationalization is seen as a both intra- and inter- organizational process.

Therefore, the internationalization is defined as a network which develops itself through trade with other countries conducted over three phases: extension, penetration and integration (Johanson et Mattson, 1988). The extension is considered to be the first step taken by the enterprise in order to integrate the network and is accompanied by new investments for the enterprise. The penetration is directly related to resource development and business position in the network. Integration represents the extension and coordination of national networks.

There are authors who insist on the importance of formal or informal network of contacts within the internationalization (Etemad, 2005). Thus, the latter is defined and facilitated by networks because they allow or promote the company's penetration in the international flow. Consequently, the network approach provides a new perspective for the interpretation of the firms' internationalization process, especially for small firms, whose development can not be understood without taking into account their belonging to a network.

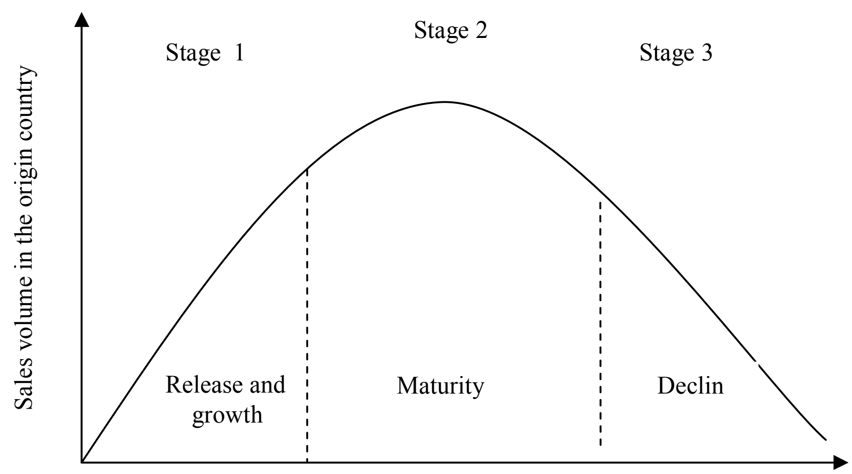
The choise of internalization

When it comes to the choice of internationalization, the first issue to be approached is that of the internalization determinants. They are divided into four large groups: commercial, industrial, and environmental and opportunity determinants.

The commercial determinants refer to:

- *A national overcrowded or congested market*, the small size of the internal market, the fierce competition in the domestic market, the increasingly scarce opportunities or their insignificant growth, they all determine the firms to prospect other markets too. A relevant example for this case is the one of Nestlé Company that rapidly extended its activity when it realized that the domestic market is overcrowded, knowing the fact that 10% of the Finnish companies manufacture their products abroad.
- *The profile of the enterprise* because for specific activities that have a small number of potential buyers, the market can not be limited to the domestic market. For example, the Pombié stationery, a paper producer since 1880, continues to manufacture its products by means of paper craft art, using cotton, textiles, hemp, flax and only natural pigments. The paper sorts they produce are sought for artistic design, for framing, tablecloths, in bibliophile, or as stationery article. The company's products are so rare and elitist that in order to survive, the artisan must find markets abroad. Therefore they agreed to make labels for clothing produced by an Italian stylist or for a U.S. producer of perfume bottles. Also, for SMEs the internationalization is often a natural extension of a specialization strategy, which allows avoiding the risks of specialization and offers development perspectives without leaving the original craft. The most relevant example: Mécatherm sells abroad its machines for kneading and baking bread using the French recipe because every year the number of bakeries from France is decreasing.
- *The enterprise sales' adjustment*. Slowing the economic growth of a country may be compensated, even if just partially, by orders from abroad, from countries with stock split in a given product, the export allowing them to avoid cyclical risks. For the regulation of the activity, companies can exploit the geographical and climatic disparities through certain seasonal activities. This sales' adjustment allows a better use of the production device and a more closely control of the production costs.
- *The product and its international life cycle* (fig. no.1). It is well known the fact that the company's international development stages coincide with the life cycle of the product. The new products are developed in companies from countries which are technologically advanced, for consumers with high purchasing power. Then, in order to absorb the costs for research, development and the commercial costs, the companies export the product. When products reach maturity, their technology becomes commonplace and new competitors appear on foreign markets. The enterprise creates

production subsidiaries abroad in order to supply local markets. The growth of the price competition determines the enterprise to delocalize the production in areas with low costs (labor, logistics, and supplies) and re-import products home. On the other hand, the export allows the product's life extension. The stages of economic development, the economic structures, and the buying habits are different from one country to another.



The strong point in the marketing mix	The novelty of the product	Distribution Advertising Promotion	Price
Explanatory factor for the stage of internationalization	Technological advance as a result of the R&D effort	The emergence of foreign competitors	Identifying the cheapest supplying sources
International development stage	The export from the origin country	Production abroad	Production in countries with low wages and re-export in the origin countries

Fig. no. 1 – The life cycle of the product

Source: Usunier, Management internaţional, PUF, 1988.

As for the industrial determinants, they are represented as it follows:

- *The search for scale economies*. Widening its disposal allows the company to produce a greater quantity and decrease the price per unit and improve the competitiveness – price report, which may induce new markets. International activity also allows the absorption of R&D costs, a greater number of units and so decreasing the launch prices.
- *The decrease of the production costs*. Investing abroad allows: the exploitation of the opportunities offered by discounted costs at production factors (raw materials, labor); easier access to financial resources, both on the domestic and implant market; to avoid tax-related, social and environmental protection regulations etc.

A world-class enterprise has industrial but also financial power. It distributes its economic and political risks between different countries, ensuring a greater flexibility and it is subject to a logic efficiency which leads to a geographical openness and to the rationalization of the global resources and power management.

Considering the environmental determinants, it can be mentioned that the openness of the markets, which was possible after 1945 when the International Monetary System and GATT agreements ware founded, was materialized in a strong development of international trade. The large number of free trade agreements, the disappearance of the Iron Curtain in Central and Eastern Europe, the mutual understanding through borders' opening and a certain globalization of tastes, all these contribute to accelerating the internationalization.

This favorable environment for the internationalization strategies allows the companies which adopt them to increase the business volume (effect - volume) and to practice differentiated margins policies according to the report of elasticity - price from market to market (effect - incomes). In the wake of large international groups, a number of SMEs have internationalized themselves, too.

As an example: U.V. Encres Dubuit, a screen printing ink specialist has internationalized its activity in order to be at the customers' disposal. Globalization has led to relocate and to implant in all continents in order to ensure that these clients will not turn to other suppliers of this kind. Having secured an efficient distribution network, the company has implanted production subsidiaries close to the requesting companies.

The opportunity factors represent the last category of the internationalization process and they refer to the fact that the trade events, the mail information request, the chance of meeting with delegates from other companies represents a good opportunity for the enterprise to realize that its products are required abroad. This kind of request should stimulate the enterprise to adopt a more rational approach for establishing a sustainable relation with its foreign customers. Among these factors are:

- *The spontaneous demand*. As an example, Dr. Marten's, a shoes manufacturer, managed to create his well known distribution network because of such spontaneous demands. In 1973, the Japanese came into contact with Hédiard in order to implant its activity in their country because at that time, they wanted prestigious brands in all luxury domains.
- *The surplus production.* At first, the export can be approached as a way to get rid of the stocks designed for the domestic market, but which it can no longer absorb. In this case, the export can only be punctual, as it can represent the first step to internationalization.
- *The motivated manager.* The decision to launch its products on the international market depends mostly on the manager's behaviour, especially when it comes to SMEs, where is a strong link between the personality of the leader and the business's objectives. For example: Patrice Dillies, PDG al Tissages d'Art de Lys, the manager of a SME in northern France, declared he wanted to export right from the beginning of his business. Researching all the areas, especially at in saloons, he succeeded in establishing contacts and identifying importers. The training of the manager, the fact that he lived abroad and he is speaking foreign languages, the level of knowledge in the export domain, the wish for innovation, the risk taking and the opened mind characterizes the profile and the behavior needed in the export activity.

The risks of internationalization

As any other economic process, the internationalization process involves certain risks. These can be grouped into two main categories: *the underestimation of the costs* and *the uncontrollable international environment*.

Concerning the first category, it is known the fact that the decision to place itself on international market is determined by the perspective of obtaining profit. However, on an international level, the information is often more difficult to obtain and control. Sometimes it may happen that the networks discounted on a new market are overestimated and the costs understated. Thus, errors often come from: the existence of some hidden costs for having access to that market; the underestimation of the market operating costs due to the unrealistic assessment of the competitors competitive advantages, the alliance concluded in these foreign countries between local or foreign partners, public or private etc.; the incorrect assessment of the physical distance incidence (transport and communication costs) and cultural distance (the difference in language, culture, economic development etc.); the variable and sometimes questionable quality of local information; the heterogeneous local situations.

Representative for this situation is the case of the Riviera Company, an enterprise that faced an unexpected restraint at the implant on the American market. The product conquered the consumers, but the tanks for the transportation could not be stacked and this was a major obstacle for the product's distributors in that country. A special tank had to be conceived for the stacking to be possible. A year and 300.000 euros were needed to realize the tank because this meant a new patent and a new method.

The uncontrollable international environment requires certain developments which are unexpected, unpredictable, and very likely to put the company at risk. Among these we can call: the regulatory and legislative changes, especially the custom ones; the variable exchange rate; the tax risk - issues of agreement between the two countries, the origin and destination countries; political instability generating country risk and other unpleasant phenomena such as war, political crises, nationalization etc. An investor will never be tempted to invest in a country where there is political instability generating country risk unless there is a substantial profit worth the exposure to these risks and the losses are not substantial. This is the reason why the firms' interest usually turns mostly to the countries that have a higher level of stability.

Besides these two main categories, may appear other risks such as: limited market potential; an inadequate infrastructure for the needs of the exporting company or even climate risks.

International strategy formulas

Once the decision of internationalization has been taken, the choice of the strategic formulas is made considering two main types of decisions: choosing the number of implant markets; defining the roles that the domestic market and international market play in the firm's internationalization strategy.

Thus, for the first decision there are two options: concentration or dispersion.

We can distinguish the following types of enterprises: the "leaflets" enterprises that apply a geographical dispersion strategy characterized by the exploiting the international market opportunities that is sharing marketing effort on a large number of markets. They act rapidly, but they are not stabile because they abandon the markets that do not seem profitable for them. The "rooted" enterprises apply a market concentration strategy and assign their resources to a selected number of markets. The major objective of these companies is to take hold of an important and sustainable part of the target markets.

For this case, we present the situation of the Tricotage des Vosges enterprise, a SME from the textile sector specialized in luxury socks, which choose to progressively implant the brand "Bleu Forêt" in Western Europe. Its strategy consists in expanding in one or two countries per year and establishing itself in a sustainable manner through commercial subsidiaries, or through an agent with good practice.

Practice shows that in time both strategies can lead to the same number of served markets. After an implantation all across the world, dispersal strategy leads to the abandon of the market, while the strategy of concentration is characterized by a less spectacular progression at first, but more regular afterwards.

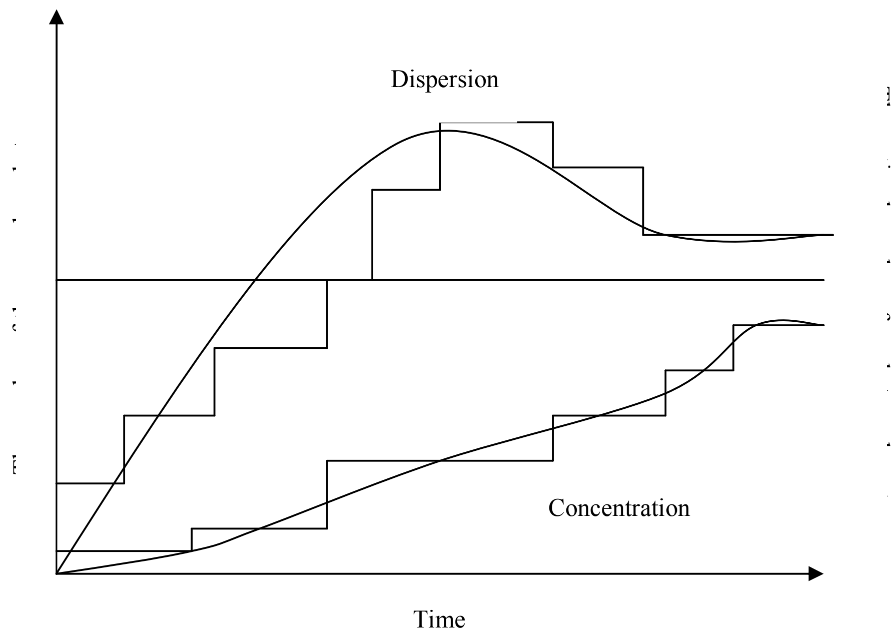


Fig. no. 2 – The internationalization rate

For the domestic market, the duality dispersion/concentration applies to defining the customer's segments to be served. This is why, considering the alternative dispersion/concentration in country and market segmentation terms, four types of strategies are possible: 1. double concentration (specific market segments in few countries) implies that the retained segments are sufficiently large and stable; 2. At the opposite pole, double diversification (segments and countries) requires significant resources to establish itself in a large number of countries. It can be conceived only as large international groups; 3. Geocentric strategy means the implantation in a small number of countries. It often corresponds to the first stages of international development, and involves a wide range of products to serve different segments of clients. This strategy is more effective through distribution and communication large scale economies; 4. Transnational segmentation strategy applies to powerful specialized enterprises with potential clients in many countries.

Choosing the concentration and dispersion strategy depends on the characteristics of the product, market and firm. However, one can say that the strategy of concentration requires less investment and brings significant benefit and experience. It is recommended when it is necessary to adapt the trade device to foreign market.

As for the second decision, this refers to the choice between domestic, international and global market. The enterprise must determine the role of the domestic and foreign market in defining its own strategy. Therefore, the classification of enterprises regarding their international markets' conception is presented as follows:

1. Domestic market. One single market (the unique market);
2. International market. The foreign markets are satellite – markets; the domestic market is essential;
3. Multinational market. The domestic market is just one of the national markets, with variable size;
4. The global market. The domestic market is just a geographic space defined as a base unit from a world unified market.

These choices have very important consequences for the international marketing strategy establishment of the firm and for the international activities structure.

Conclusions

With this paper we tried to underline the fact that, by reading the bibliography from the internationalization domain, regardless of the authors' country of origin or the study cases, we can conclude the following: although specialists and researchers in this field tried to establish the lines of internationalization, to develop a pattern of this process, although they tried to analyze the process in terms of its stages, of the economy, there can not be a model of this process that can be applied to all companies which decide to internationalize their activity. There are a lot of reasons for this, but the main are: the context, the factors that influence the decision and the company itself. Basically, there are some models established by the specialists but those can not be applied to all companies, and this is proved by the practical study of the internationalization process.

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