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The process of internationalization in the operating firm

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Published in International Business Review, Volume 6, Issue 6, December 1997, Pages 605-623

https://doi.org/10.1016/S0969-5931(97)00034-6

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Accepted version

Introduction

This article is concerned with the internationalization process of the firm. Firms seeking either to expand into foreign markets or to alter their existing arrangements have a choice between three general modes of foreign market servicing: exporting, foreign licensing and foreign direct investment (FDI) (Buckley, 1991; Buckley and Casson, 1976; Root, 1987; Terpstra, 1987). As Chandy and Williams (1994) show, a large proportion of the most cited articles in the international business field have sought to understand those factors which account for firms' choices between alternative modes of foreign market servicing. Despite the historical importance of the subject no common framework has emerged. Barkema et al. (1996) suggest that this is due to a range of factors which include the diversity of disciplines among researchers, the theoretical frameworks they adopt, the samples of organizations they investigate and the national origins of data they examine.

Some researchers adopt a static approach, while others focus on internationalization as an incremental and cumulative process. For example, Dunning (1981, 1988); Hennart (1982); Hill et al. (1990); Hymer (1960, 1976) and Teece (1981) generally examine a firm's foreign expansion as a series of static choices dictated by efficiency considerations and relative costs and benefits. In contrast, others view internationalization as a process of increasing involvement within and across national markets (e.g. Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 1990). This article is anchored in the process-orientated literature, in particular the Uppsala Model, since it is concerned with examining on a longitudinal basis the increasing international involvement of 25 UK-based firms.

The Uppsala Model suggests that the process of internationalization is the consequence of the acquisition of experiential knowledge, in particular, market-specific knowledge. It is the knowledge gained by operating within a particular national market that enables a firm to increase its commitment to that

market. Market-specific knowledge therefore underpins the shifts between different modes of foreign market servicing within a market.

In this article we wish to maintain that market-specific knowledge is not the only source of information available to a firm. As firms operate in foreign markets they develop in addition to networks of institutional arrangements a knowledge of the processes of internationalization. Account therefore has to be taken of the general knowledge obtained from operating internationally in understanding the management of the relationship between foreign operations. Consequently, the appropriate unit of analysis of the development of FDI is not the individual national market but the operating firm as a whole.

Background

As Andersen (1993) and Barkema et al. (1996) point out there are two approaches to examining the process by which firms' internationalize: (1) the group of Innovation-Related Internationalization Models; and, (2) the Uppsala Internationalization Model. All these models consist of a number of identifiable and distinct stages with higher level stages indicating greater involvement in a foreign market.

The first group of models are based on Rogers's stages of the adaption process (Rogers, 1962, pp. 81-86). Common to these models is the view that the internationalization process is a series of innovations for the firm. Their focus is exclusively on the export development process, in particular of small and medium sized firms (see Leonidou and Katsikeas, 1996, p. 529). This is conceived of as a number of fixed and sequential stages, although the number of stages identified varies considerably between models, ranging from as few as three to as many as six (Bilkey and Tesar, 1977; Cavusgil, 1980; Czinkota, 1982; Reid, 1981). Leonidou and Katsikeas (1996, pp. 524-525), on the basis of a comprehensive review of these models, identify three generic stages: the pre-export stage; the initial export stage; the advanced export stage.

The focus of this article is on the second model, the Uppsala Internationalization Model, since its distinctive feature is the stress on the different institutional forms that are associated with the growing dependence on foreign markets. As Reid (1983) notes, this model examines internationalization in terms of structural adjustments to foreign market servicing arrangements resulting from "the level of export sales dependence" (p. 44). Foreign market servicing modes change once a certain threshold of dependency in the host country is reached.

The Uppsala Model seeks to explain and predict two aspects of the internationalization of the firm: (1) the step-by-step pattern of institutional development within individual national markets; and, (2) the expansion of firms across national markets as they move from nations which are proximal to those which are increasingly psychically distant. The focus of this article is on examining the first rather than the second aspect of the Uppsala Model. In other words it is concerned with the sequence of development within rather than across national markets. This aspect of the model predicts that because of the considerable uncertainties associated with operating internationally (e.g. consumer habits, rules and regulations, cultural and political differences, etc.), firms increase their commitments to individual markets in small incremental steps. A firm's involvement in a specific national market develops according to the following four stages, termed the "establishment chain" (Johanson and Wiedersheim-Paul, 1975):

Stage 1: No regular export activities.

Stage 2: Export via independent representatives (agent).

Stage 3: Establishment of an overseas sales subsidiary.

Stage 4: Establishment of a foreign production/manufacturing facility.

These steps suggest that internationalization is a process of organizational learning characterized by the increasing degree of involvement of firms in specific foreign markets. Firms increase their presence in a foreign market by moving from Stage 1 through Stages 2 and 3 to Stage 4, by accumulating market-specific knowledge. This type of knowledge is experiential and refers to knowledge of the culture, customers, business and market structure, and so forth of individual markets. The establishment of a production facility is therefore dependent upon the knowledge that has been accumulated previously. Hence, prior experience of operating in a particular foreign market, in some way, is essential to the process of acquiring relevant market-specific knowledge. As Johanson and Vahlne (1990) write, "a critical assumption is that market knowledge, including perceptions of market opportunities and problems, is acquired primarily through experience from current business activities in the market. This market experience is to a large extent country-specific, i.e. it can be generalised to other country markets only with difficulty" (p. 12).

A number of empirical studies have examined this aspect of the Uppsala Model. Reid (1984) has expressed surprise at the widespread acceptance of the stages approach to internationalization since it largely rests on a limited number of empirical studies: the initial research into the overseas expansion of four Swedish companies (Johanson and Wiedersheim-Paul, 1975), a case study of Pharmacia (cited in Johanson and Vahlne, 1977), and an Australian investigation which treated interstate expansion as analogous to overseas expansion (Wiedersheim-Paul et al., 1978). In addition, Luostarinen (1980) and Larimo (1985) have reported similar evidence for Finland. Finally, Yoshihara (1978) on the basis of an examination of Japanese foreign investment in Southeast Asia concluded that "the pattern of investment seems to substantiate the evolutionary theory of foreign investment" (p. 372). In contrast, a number of other studies fail to corroborate the notion that firms increase their commitment to individual markets through the four successive stages of the establishment chain (Buckley et al., 1979; Hedlund and Kverneland, 1985; Millington and Bayliss, 1990; Turnbull, 1987; Turnbull and Valla, 1986; Young and Hood, 1976).

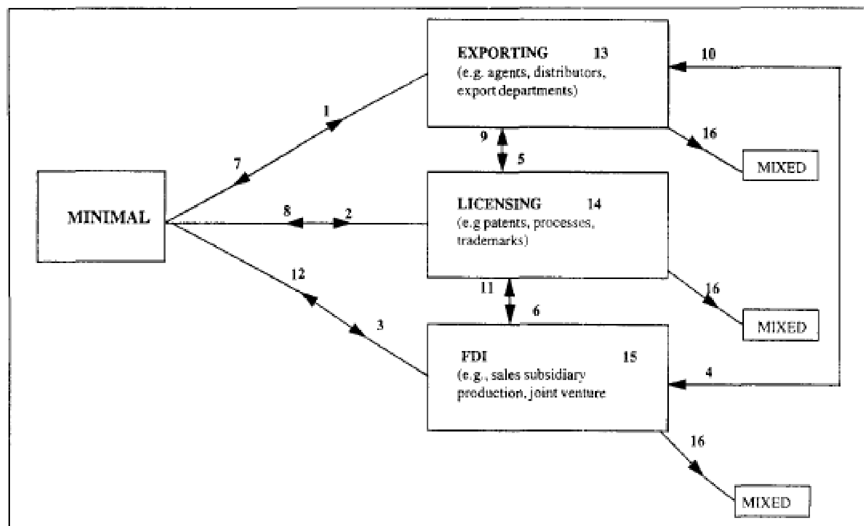
Given that there is a continuing debate concerning the predictive accuracy of the Uppsala Model in the international business literature this article makes three contributions. First, since a number of studies have presented evidence of firms diverging from the sequence of four stages posited in the Uppsala Model a logical model is presented of the full range of choices available to firms when first entering a foreign market and when subsequently altering the form of their foreign market servicing in that market. Second, the frequency with which each of these options is used is examined in relation to the international development of 25 UK-based firms. Third, in discussing the research results we suggest that the Uppsala Model places too great an emphasis on the accumulation of market-specific compared to general knowledge. The core proposition of the model is that increased market-specific knowledge will lead to increased market commitment, and vice versa. We wish to suggest that it is the general knowledge from operating internationally, plus the management of the relationship between already-established foreign operations (in conjunction with market-specific knowledge) which determines the shifts between different forms of foreign market servicing. This leads to at least two implications for the analysis of the

internationalization process: (1) the need to place greater emphasis on the process at the firm rather than market level; and (2) the importance of the active management of the interdependencies between operating units.

A Logical Model of Foreign Market Servicing

Figure 1 extends the model first proposed by Buckley et al. (1990, p. 130) and suggests 16 possible options beyond minimal involvement. The numbers indicate the actual direction and type of shifts it is logically possible for a firm to take when initially entering a foreign market and when subsequently adjusting its mode of operating in specific markets. These 16 shifts are listed in Table 1. Three general types can be distinguished: between, within and mixed. The between mode shift refers to forward (i.e. towards FDI) and backward (i.e. towards minimal involvement) movements between the three generic forms of market servicing: exporting, licensing and FDI (e.g. exporting to licensing). The within mode adjustment concerns shifts within any one of the three generic forms of market servicing (e.g. in export form, from agent to distributor). These can be simplified into four classes of moves, of which initial entry, move to FDI and retrenchment are between mode shifts, and for example, export adjustment is a within mode shift. The mixed mode shift concerns moves to operating in more than one mode simultaneously in a single foreign market. Each of these general shifts is considered in more detail below.

Figure 1. A Logical Model of Shifts in Foreign Market Servicing



Between Mode Shifts

Initial entry. This refers to the first significant attempt by a firm to penetrate a foreign market. However, as Fig. 1 shows the first move is not confined to exporting, firms may initially engage in licensing and FDI, if they so choose. Although an experienced international firm may tend towards the latter, empirical evidence suggests licensing accounts fox a small but nevertheless growing proportion of UK industry's foreign market sales (Buckley and Davies, 1981; Buckley and Prescott, 1989). Both studies indicate licensing, as a method of entry, is prevalent in markets which are difficult to penetrate by other, more common, means of market servicing, such as Italy, Japan and Spain.

Move to FDI. We use an expanded definition of FDI to include any form of market servicing which involves direct investment in the host country. This leads to a distinction between direct investment in

sales operations and direct investment in production facilities. Such a definition permits greater sensitivity to the variety of shifts involving FDI. This move may be likened to Cavusgil's (1980) "committed involvement stage" where the firm has a long-run commitment to its international activities. The term "global investment stage" (Young et al., 1989, p. 33) is perhaps more precise since this recognizes the fact that any one firm may have a broad spread of international institutional arrangements. It is important to emphasize that unlike the Uppsala Model there is no assumption in Fig. 1 that the institutional arrangements adopted are the consequence of the stage in internationalization obtained. As Johanson and Wiedersheim-Paul (1975) write, "the agency establishments, according to our view, are made primarily during the early stages of internationalization" (p. 18). Hence, exporting through agents is considered an initial stage of internationalization, whilst FDI is viewed as the final stage. In contrast, Fig. 1 suggests that firms with considerable experience and well-developed international institutional arrangements may continue to export extensively. It may be that FDI is achieved in a limited number of markets.

Retrenchment. This concerns the reduction of a firm's depth of involvement in a host country. A firm may continue to be present in the market, whether it be via export, licensing or a sales and marketing subsidiary, but its previous resource commitment, as represented by its marketing mode, is reduced. This does not imply that the market becomes less significant for the firm, rather its resource commitments within the individual market are reduced. Resources may be transferred to other more strategic markets within the firm's international network. Alternatively, a firm may choose to exit a market completely. In the original Uppsala study by Johanson and Wiedersheim-Paul (1975) only one instance of retrenchment was noted (i.e. a backward move in the "establishment chain"). This was the sale by Facit of its Canadian sales subsidiary to its former agent. As a consequence, the Uppsala Model focuses exclusively on the increasing involvement of firms in foreign markets (i.e. moves that follow the "chain" pattern). Moves that go in the opposite direction are not incorporated into the model.

Within Mode Adjustment

These can be as significant as between mode shifts. Essentially the firm retains its existing foreign market servicing mode, but adjusts the form this takes. In other words, it adjusts its institutional arrangements within one mode. Examples include changing from a distributor to an agent, exporting directly to end users instead of using distributors as intermediaries, changing agents (i.e. change in export form), and changing licence or joint venture partners (i.e. change in licensing and FDI form).

Mixed Mode Shifts

These occur when firms add additional modes to their existing marketing modes thereby adopting a mixed marketing approach. The various types of mixed marketing approaches are combinations of the modal shifts already noted. For example a firm can license a product initially then establish a manufacturing plant for other products in the same market, whilst the licensing agreement is allowed to continue. As with retrenchment above, this type of move is absent from the Uppsala Model.

Research Methods

The empirical results presented in the next section of the paper are founded upon the UK element of an international collaborative research project—the International Organization Observatory (IOO). The common purpose of this international team of researchers is to conduct research which will help in understanding the management implications occasioned by developments within the European Union. The IOO research focus and research methods have been extensively described elsewhere (Clark, 1996;

Clark and Mallory, 1992; Clark et al., 1997). However, it is necessary to briefly enumerate the methods as they apply to this particular study.

The study examined the internationalization of 25 UK-based firms. The method by which organizations were selected was developed in order to overcome a number of deficiencies which attach to previous studies of the Uppsala Model. Three main problems can be identified.

1. Studies focus on different levels within the organization. Some focus on the firm as a whole, others on the operational units which comprise the organization. This distinction is critical since with the increasing importance to national economies of large multidivisional/multiproduct firms the organizational unit being analysed may determine the extent and type of internationalization observed. Operational units may differ in their degree of international sales activity, number of foreign markets served, and institutional arrangements. Furthermore, some multiproduct firms may have distinct institutional arrangements for different product ranges. Overall, a firm may have a high percentage of export sales, but whilst some product ranges may mirror this others may be more domestic in their focus. Hence, the degree and complexity of internationalization can depend on whether the empirical focus is at the group, operational or product level.
2. The Uppsala Model is a theory of organizational learning. Learning occurs over the lifespan of an organization. Consequently, the original Uppsala study conducted by Johanson and Wiedersheim-Paul (1975) examined the internationalization of four Swedish firms (Atlas Copco, Facit, Sandvik and Volvo) from the year in which they were founded to the early 1970s. Therefore, a proper test of the Uppsala Model should examine the process by which a firm internationalizes over its lifespan. In general studies which sought to apply the Uppsala Model to the internationalization of firms have focused on particular periods in a firm's history. For example, Barkema et al. (1996) examined the internationalization of 13 large non-financial Dutch firms between 1966 and 1988. Their study, and those which adopt a similar approach (Turnbull, 1987; Turnbull and Valla, 1986), ignores the impact in this time period of accumulated knowledge which may have been built up as a result of expansion into foreign markets in earlier time periods.
3. Finally, and related to the previous point, a number of studies limit their investigation to the expansion of firms in particular markets. Hedlund and Kverneland (1985) examined the development of Swedish companies in Japan. Turnbull (1987) focused on the expansion of 24 UK-based firms into France, Germany and Sweden. Millington and Bayliss (1990) concentrated on the expansion of UK-based firms into the European Union. By contrast the original Uppsala study included the 20 nations the four Swedish firms had entered These are assumed to be all or the vast majority of their entries. If studies exclude the majority, or a proportion of markets in which a firm operates it is not possible to take full account of the impact of the transferability of learning between markets (i.e. general knowledge) which Johanson and Vahlne (1977) acknowledge may lead to jumps in the establishment chain. In other words it should be a historical study of all the national markets entered by a firm. Consequently, knowledge accumulated in other (i.e. excluded) nations may have an impact on the type of institutional arrangement found in those national markets which are the focus of the study, but its impact will be ignored.

Given these points the sample firms were selected in the following ways. We began by defining the population from which the sample is taken as the largest 1000 firms in the UK, as ranked by sales turnover, provided they manufactured in the UK. We then distinguished between two levels within these

organizations: the holding company and the operating firm. Potential participants were approached at the operating firm level (i.e. the level at which it manufactured rather than just owned). Information was collected via in-depth interviews with senior managers of the organizations, including those responsible for international marketing and the management of international operations. This was supplemented by published information on the history of each operating firm. As a result we were able to obtain information on the pattern of international expansion of each operating firm in every market which they currently service, or had at one time, serviced.

Research Results

This section analyses the form of foreign market servicing adopted by our sample of 25 UK companies when entering a foreign market and any subsequent modal shifts to these initial arrangements.

Table 1 shows which methods of operating firms adopted when first entering a foreign market and the subsequent changes to these. The numbers for each move (1-16) refer to those previously identified in Fig. 1. Four firms focused their marketing activities on their home market--the UK. However, at some time each company had responded to a foreign order. Hence, their position in these 16 markets was minimal since they had made no concerted attempt to internationalize. Each order was treated no differently to a domestic order.

The most frequent way that the companies entered a foreign market was by exporting (58% of first moves). The second most popular method was the establishment of a sales subsidiary (20% of first moves), the third was via a licensing agreement (11% of first moves) and the fourth was establishing a production facility (11% of first moves).

Of the 203 changes the firms made to their foreign market servicing arrangements, the most frequent was to move from export straight to FDI. This accounted for 63% of all subsequent shifts with 78 instances of a move from export to production, 26 cases of a move from export to establishing a sales subsidiary, and 17 moves from export to licensing.

The second most common subsequent change, accounting for 18% of cases, was the move to mixed marketing. There were a total of 36 instances in which companies combined two or more marketing modes simultaneously in a single foreign market. A number of classifications of mixed marketing approaches have been propounded (Turnbull and Valla, 1986, p. 33; Young and Hood, 1976, p. 242), the approach adopted in this study is identified in Table 2. This indicates the various mixed marketing approaches adopted by companies in the sample. Whilst 12 combinations are possible, nine were used in the sample. The most frequent of these combinations includes licensing with the other three forms of foreign market servicing (50% of cases). The second most frequent solution (28% of cases) combines the use of joint ventures with sales and manufacturing subsidiaries. The next most frequent was the combination of exporting with other market servicing modes (11% of cases). Four instances (11% of cases) of markets being serviced by more than two modes are noted in Table 2. In one case a licensing agreement was combined with a joint venture agreement and a manufacturing facility; in the other three cases a joint venture, sales subsidiary and manufacturing facility were combined.

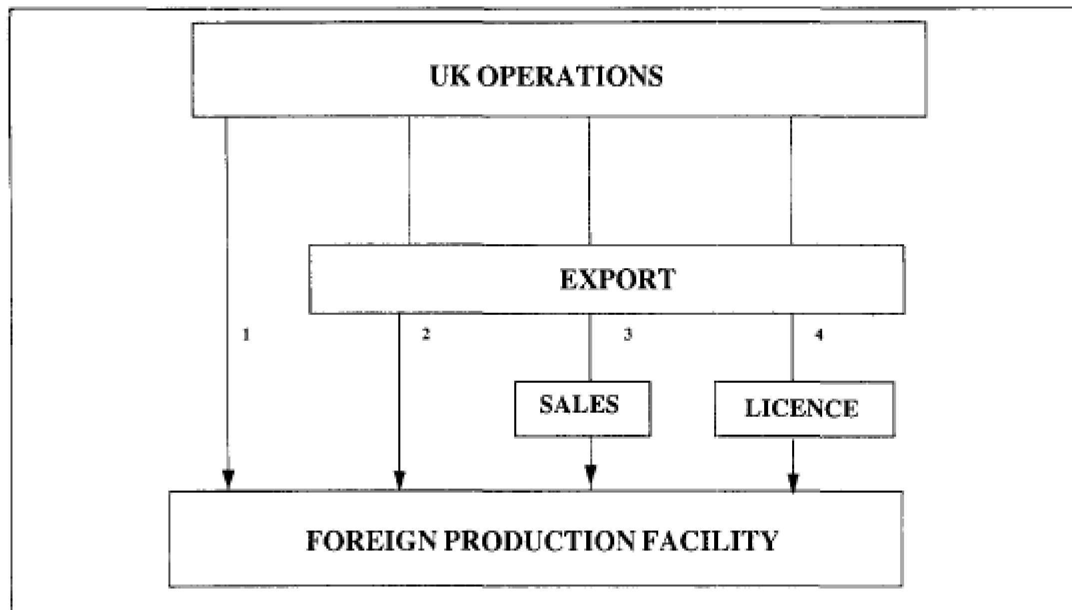
Table 1. Changes to Foreign Operations in a Particular Market

Type of change	Number of moves
No move	
Minimal	16
BETWEEN MODE SHIFTS	
First move	
1. Minimal to export	391
2. Minimal to licence	78
3. Minimal to foreign direct investment (FDI)	
(i) Sales subsidiary	134
(ii) Production facility	76
TOTAL (first moves)	679
Move to FDI	
4. Export to FDI	
(i) Sales subsidiary	78
(ii) Production	26
5. Export to licensing	17
6. Licensing to FDI	
(i) Sales subsidiary	1
(ii) Production	6
Retrenchment	
7. Export to minimal	
8. Licensing to minimal	
9. Licensing to export	
10. FDI to export	
(i) Sales subsidiary	2
(ii) Production	1
11. FDI to licence	
(i) Sales subsidiary	
(ii) Production	2
12. FDI to minimal	
WITHIN MODE ADJUSTMENTS	
13. Change in export form	4
14. Change in licensing form	9
15. Change in FDI form	
(i) Sales subsidiary to production	20
(ii) Production to sales subsidiary	1
MIXED MARKETING SHIFTS	
16. Mixed marketing	36
TOTAL (subsequent changes)	203

Two conclusions can be drawn from the above analysis: first, at some point firms in the sample found that a single mode of marketing their products was inappropriate and did not optimize their presence in the market; second, instead of changing from one mode to another (as suggested by the Uppsala Model of internationalization), firms preferred to complement existing marketing structures with additional servicing modes. Taken in isolation this finding does not support the idea of a sequential development of marketing modes in a national market. Rather a number of firms have sought to develop a more complex system by combining several forms of market servicing in a single market.

Retrenchment is defined by Buckley (1983) as a reduction of "involvement" in the host country. The data in Table 1 indicate that the depth of involvement was reduced in five instances. In three instances firms moved to export from a neighbouring country, whilst in the other two cases they adopted a licensing approach. This evidence indicates that whilst this type of move is uncommon it nevertheless does occur.

Figure 2. Routes to Establishing a Foreign Production Facility



A detailed analysis of the data presented in Table 1 indicates that the 25 firms in the study adopted four routes to establishing a production facility.

Fig. 2, following Buckley et al. (1979), diagramatically represents each of these routes. The four identified routes are:

Route l--direct to foreign production;

Route 2---export then foreign production;

Route 3--export then sales subsidiary then foreign production; and

Route 4--export then licence then foreign production.

The shortest and most direct path, Route 1, was followed most frequently accounting for 53% of cases. Route 2, the next most common route, was followed in 26 markets and accounted for 18% of cases. Route 3 was followed in 20 markets accounting for 14% of cases. Route 4 was the least popular occurring in 6 markets accounting for 5% of cases. For our sample of firms the shortest routes to FDI were therefore the most common. These results do not support the idea of a single incremental view of the process of internationalization since the stepwise path was the exception rather than rule.

When discussing the routes to production it should be remembered that this was the third most frequent way of operating in foreign markets. A greater number of markets were serviced via export and sales subsidiaries (see Table 1). In terms of the Uppsala Model, the sample made a greater number of moves from minimal to export to sales subsidiaries (58) than to production (20). Production was not a widespread form of operating. Two conclusions follow from this analysis. First, there is no single route to production. This contradicts the evolutionary stepwise development propounded by the Uppsala Model. Instead firms have a number of routes from which to choose. Second, even firms with considerable international experience continue to export to the majority of their foreign markets. A production facility is only established in a select number of markets.

Discussion

The results of this study have confirmed previous research that the process of internationalization, when examined in relation to each individual market, is frequently not as the Uppsala Model predicts--a smooth and immutable series of small steps. The "establishment chain" is one amongst several paths to FDI taken since firms often bypass the intermediate stages to FDI. Indeed, in our sample of firms the shortest and most direct paths were the most common.

A number of explanations for the failure of the Uppsala Model to consistently predict the pattern of internationalization have been offered. One suggestion is that the strongest and most consistent evidence for the "establishment chain" has been found amongst Scandinavian firms, particularly Swedish and Finnish firms (Sullivan and Bauerschmidt, 1990). It may be that patterns of internationalization vary from country to country. In this respect the Uppsala Model may be a peculiarly Scandinavian model of internationalization. Yoshihara's (1978) study of Japanese foreign investment in Southeast Asia is the only non-Scandinavian evidence which supports the Uppsala Model.

A second, and related explanation is that the Uppsala Model represents a description of a particular period in the development of Swedish, or more generally Scandinavian, industry overseas. Hedlund and Kverneland (1985, p. 56) concluded on the basis of a study of Swedish firms operating in Japan that "entry and growth strategies are changing toward more direct and rapid entry modes than those implied by theories of gradual and slow internationalization processes". More than half the firms examined in their study went directly from a sales agent to FDI, rather than taking the route via a sales subsidiary.

We wish to develop a further explanation as to why the paths of internationalization in individual markets for our sample of firms diverge from the Uppsala Model. A critical assumption in the Uppsala Model is the notion that for every entrant, and each foreign market entered, there is an identical sequential development. The internationalization process is primarily treated as a step-by-step, country-by-country, repetition of an identical sequence of stages (agent then sales subsidiary then production facility). To explain the incremental character of internationalization, Johanson and Vahlne (1977, 1990) formulated a dynamic model in which the outputs of one set of decisions provide the inputs for the next. Briefly, the basic argument is that the process of internationalization is the consequence of the acquisition of experiential knowledge, in particular market-specific knowledge (i.e. knowledge of local demand and supply conditions, customers, culture, political and institutional systems, etc.). Incremental participation in a market increases the stock of this knowledge. Firms begin by exporting in neighbouring markets using simple, indirect methods such as agents. As knowledge and experience are accumulated they adopt more direct and resource demanding forms of foreign market servicing, such as sales subsidiaries or production facilities. This suggests that market-specific knowledge primarily underpins the development of foreign market servicing arrangements in a country. There is therefore a direct relationship between market-specific knowledge and market commitment. As Johanson and Vahlne (1977, p. 28) conclude, "the better the knowledge about a market, the more valuable are the resources and the stronger is the commitment to the market". The underlying assumption is that each entry decision and subsequent modal shift in a market is made in isolation of the decisions in other markets. Hence, decisions relating to market servicing are considered to be driven by market-specific factors. As a consequence the impact of general knowledge (i.e. of operating internationally) on the decision to increase market commitment is viewed as negligible. Even Johanson and Wiedersheim-Paul (1975) recognize that their model does not apply in every situation. They intimate the importance of general knowledge when they write "We could expect jumps in the establishment chain in firms with extensive experience from other foreign markets" (p. 18).

However, we wish to make this more explicit by arguing that experiential knowledge from within a specific national market represents only one source of information for a firm. As Millington and Bayliss (1990, p. 153) argue, "international experience, irrespective of the specific foreign market, represents transferable benefits". This is an argument which has been most clearly articulated in the literature relating to international strategy. Agarwal and Ramaswami (1992) and Kim and Hwang (1992), for example, have argued that it is the knowledge of operating internationally, rather than in specific markets, which is of greater importance. Put differently, a firm's "global strategic posture has a major impact on its entry mode choice" (Kim and Hwang, 1992, p. 30).

This approach has two important implications for the study of the internationalization process. First, the unit of analysis becomes the operating firm rather than the servicing units in individual countries. Second, the emphasis is on the active management of the interdependencies within the operating firms and between servicing units in each country.

The first point implies that the strategic relationship between foreign operations has an impact on the entry mode decision and subsequent modal shifts. Past experiences, resulting from entry into other markets, feeds into current decisions relating to the form of foreign market servicing adopted in individual markets. Hence, general knowledge of operating internationally has a critical impact on market servicing decisions in individual countries. As a consequence, firms do not necessarily develop incrementally along an identical continuum in each market they enter. This idea is further developed by Welch and Luostarinen (1988) who argue that any leapfrogging within individual markets should be viewed within the historical context of a firm's whole foreign market servicing development. If a firm initially enters different foreign markets via export, and subsequently enters other nations via sales subsidiaries, a move direct to FDI is not a fundamental deviation from an evolutionary model of internationalization. Rather, the sequential development has occurred at the firm level rather than within individual markets. Further reinforcing this point, Welch and Luostarinen (1988) write "As skills, experience and knowledge in the use of a more advanced form of operations are developed in some foreign markets we might expect that this will eventually allow a company to leapfrog some intermediate steps in others" (p. 163). Thus, they implicitly recognize the importance of general knowledge to market servicing decisions. This suggests that direct moves to FDI within individual markets (i.e. Route 1 in Fig. 2) should not be considered in isolation to the development of operations in other markets. Two case studies from our research can be presented to illustrate this point.

Fig. 3 illustrates how one company in the study developed its international operations between 1928 and 1992. In 1928 it entered its first foreign market by establishing a production facility in Ireland. In the 1940s it began exporting to a number of other European countries. Over the next 40 years resource commitments to each of these countries were gradually increased as the company established either a joint venture or sales subsidiary prior to installing a wholly owned production facility. Thus the direct moves to production (Foreign Markets 7 and 8) and sales subsidiaries (Foreign Markets 9 and 10) in the latter part of the 1980s cannot be regarded as a shift away from the sequentialist pattern internationalization. The pattern within individual markets may not be as neat and evolutionary as that indicated by the Nordic case studies, but nevertheless at the level of the operating firm, when account is taken of the institutional developments in all foreign markets, a stepwise pattern is observed.

Figure 3. FMS Development in Company A

Figure 4. FMS Development in Company B

Fig. 4 shows a further example of sequential development at the operating firm level rather than within each market for an organization which is part of a large international group. In this instance the firm tended to enter foreign markets using modes of foreign market servicing which the stages model would regard as advanced operational forms, namely variants of FDI. This is possibly due to the ability of the unit of analysis to utilize knowledge and experience of operating internationally from the group of which it is a part. The firm began its international development with the purchase of a German company which owned production facilities in two further countries. In the 1970s the product technology acquired with the German company was licensed in a further eight foreign markets. In the 1980s these were translated into joint ventures in seven instances, and a wholly owned production facility in one case, as the company sought greater control over its product technology. During the mid to late 1980s the company also directly established three joint ventures (Foreign Markets 13, 14 and 15) and two wholly owned production facilities (Foreign Markets 16 and 17). As with the previous example, these latter four cases of initial entry occurred within a context of a move to modes of foreign market servicing which supported greater control. As Welch and Luostarinen (1988, p. 164) write, "leapfrogging moves in given markets should be examined as part of the overall operational pattern of the company before any definitive conclusions can be drawn about a 'shift' from the evolutionary pattern". This is clear support for the earlier suggestion that the focus of analysis should be on the unfolding of the foreign marketing strategy at the operating firm level rather than the servicing units within individual markets.

The second implication arising from the international strategy literature is that interdependencies between foreign operations mean actions taken in one country have repercussions for units located elsewhere (Hamel and Prahalad, 1985; Kim and Mauborgne, 1988; Watson, 1982). In such instances the collection of institutional arrangements which characterizes a firm's foreign operations is continually assessed in terms of the situation within individual countries and the relationship between countries. There is thus an interplay between market-specific and general knowledge. Consequently, it is feasible that a shift in the mode of foreign market servicing within one country may be due to factors external to that country. Thus, varying the location of one activity has repercussions for activities in other national markets. For example, one firm in our study having already established its own production subsidiary in Spain then acquired a manufacturing company in France. The resulting overcapacity lead to the closure of the Spanish facility since the larger French facility was in a better position to supply both markets.

A related point is that when entering a foreign market firms may have "motivations which go beyond the narrow calculus of choosing the most efficient entry mode; that is, they may have global strategic motivations" (Kim and Hwang, 1992, p. 35). These motivations range from establishing a competitive scanning post in an otherwise unprofitable market, to sacrificing the revenues of a subsidiary thereby limiting the cash flow of a global competitor and forestalling entry into the firm's domestic market (Hout et al., 1982). The interdependencies between foreign operations mean the losses in one country are cross-subsidized by the profits generated in domestic or protected markets (Bartlett and Ghoshal, 1987).

An example from our research is the case of a UK-based horticultural products firm and its main French competitor. The French firm decided to expand into the UK by marketing its products at a lower price. Given the importance of the UK market to the UK-based firm's revenues, the French firm surmised that it would be unlikely to match its price reductions. Indeed, the UK firm did not react by reducing its prices in the UK. Rather, to use Hout et al.'s (1982) terminology, it "parried" the French firm's attack by using its French sales subsidiary to conduct a massive sales push in the French market. Since the revenues from the French firm's home market were being used to subsidize its activities in the UK it was forced to turn its attention from the UK back to its domestic market and at the same time retract its UK pricing policy rendering its marketing tactic futile and costly.

Following from the previous discussion in seeking to explain the different paths firms take towards FDI, we wish to place greater emphasis on the operating firm level rather than country-specific factors. We suggest that in order to gain a more detailed understanding of the factors which determine the shifts between modes of foreign marketing, account has to be taken of general knowledge obtained from operating internationally, in addition to market-specific knowledge. Firms are repositories of various types of knowledge which assist them to learn about the nature of internationalization. Consequently they are able to pursue a range of options which are not conceivable within the limits of the Uppsala Model's establishment chain. Therefore, progress from exporting to FDI is neither inevitable nor unidirectional since decision making is at a firm rather than at a country-by-country level.

Conclusion

These results support the conception that two factors influence the understanding of the choice of, and subsequent shifts between, modes of foreign market servicing: (1) market-specific knowledge; and (2) the generalized knowledge from operating internationally. In the past the main emphasis has been placed on the first factor. In this article we have highlighted the importance of general knowledge which in, conjunction with market-specific knowledge, accounts for the choices and shifts between modes of foreign market servicing. In pursuing this argument we suggest an approach to understanding the process of internationalization which is at the level of the operating firm rather than that of the individual market. The decision of which mode of market servicing to adopt in a particular market is taken within the context of that market but more importantly also relates to the factors enumerated above. It is not the market per se which determines the institutional form adopted. Rather, as firms operate in foreign markets they develop both knowledge of the process of internationalization in addition to networks of institutional arrangements. Conducting business in foreign markets is a learning process in which a firm increases its capabilities. This accumulated experience enables firms to bypass the incremental development posited by the Uppsala Model. In fact firms can take a number of routes to internationalization drawing upon their learned experience. In summary, the evidence suggests that understanding the process of internationalization requires an additional focus on the learning processes within the firm rather than a limited focus on the development of market-specific knowledge.

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