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Theoretical milestones in international business: The journey to international entrepreneurship theory

Bruce Mtigwe

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Abstract For many decades global business was considered the preserve of large multinationals and traditional international business theory was developed to explain the behaviour of these firms. However, increasingly there is a realization that the small entrepreneurial firm has an important role to play in international business especially given that there are strong globalization pressures that both pull and push the small firm into international markets to ensure its very survival. On the questions of how and why international business takes place, several theoretical approaches have been developed that appear to run parallel to each other. However, this paper posits that the point of convergence is international entrepreneurship.

Keywords International business · Foreign investment theories · Entrepreneurship

Introduction

The practice of international business has thrived since its early forms outlined in the biblical record, however formal research enquiry into the possible causes and effects of international business have been credited to Adam Smith (1776), who expounded his theory of absolute advantage, in his seminal work: *The wealth of nations*. This classical work viewed the nation as the unit of analysis and it was not until the 1950s after the rise of the post-war multinational corporation, that this classical theoretical framework began to lose its appeal and emphasis shifted to the firm as a unit of analysis. However, for over 50 years, international business has been the subject of extensive research enquiry and yet to date there appears to be no universally accepted model of international business, let alone the same theory of international business (Bilkey, 1978; Toyne, 1989; Leonidou and Katsikeas, 1996; Chandra and Newbury, 1997). The problem has been narrowed down to two things:

B. Mtigwe (✉)
University of Cape Town, Leslie Commerce Building,
Private Bag, Rondebosch 7701, Cape Town, South Africa
e-mail: bmtigwe@yahoo.com

- The simplistic and static nature of the theoretical models that do not have enough variables to explain such a complex and dynamic phenomenon (Ford and Leonidou, 1991; Dalli, 1994; Ramaswamy et al., 1996).
- The defectiveness of the methodological and conceptual frameworks that have led to: "*disjointed and inconclusive .... partially tested or untested propositions and a segregation of the theory-building process from the hypothesis testing phase of research. Consequently we are unable to create a cumulative structure of theoretical, derived and empirical concepts that provide purpose to subsequent studies*" (Sullivan, 1994, p. 325).

These shortcomings notwithstanding, progress toward the development of core internationalization theory has been given new impetus by the realization that any sound theory of international business has to take into account the behaviour of the small entrepreneurial firm, which for decades was not considered to possess sufficient resources to effectively compete on the global stage. However, small businesses account for between 75–99% of all businesses in most modern economies and therefore the role that they play in both the domestic economy and in international business is much greater than was previously recognized (Prefontaine and Bourgault, 2002).

The purpose of this paper is to review international business theoretical foundations with the view to gaining better insight into the motivations of international business activities. Secondly, the paper addresses the question of where international entrepreneurship fits into our conceptualization of international business and puts forward the case for a re-evaluation of definitions and a re-conceptualization of international entrepreneurship. Figure 1 introduces the various scholarly works that have culminated in international entrepreneurship.

The international business theory consolidation agenda has not moved forward as rapidly as might have been possible owing to the emphasis placed on 'confounding' differences in the theoretical approaches rather than on the commonalities that can be extracted from those approaches and further used as the basis for grounded theory. This paper seeks to make a contribution to the relatively new but growing efforts aimed at integrating the disparate parts of international business research and the development of conceptual models that can themselves be integrated and tested.

Classical theories

The theory of absolute advantage

This is the oldest known and most commonly accepted theory of international business that is rooted in classical economic thought. According to this theory, the nation was the unit of analysis and the rationale for trade was simply to take maximum advantage of an absolute advantage (national profit maximization). The theory of absolute advantage argued that an opportunity for trade arose if a country had an absolute advantage in the production of a particular set of goods and services, while at the same time having an absolute disadvantage in the production of a different set of goods and services that it needed (Smith, 1776). From this perspective, the internationalization process was initiated at the national level. The firm's internationalization behaviour was to be interpreted in the context of how best such behaviour served the national interest. For over 40 years this was the accepted theoretical wisdom on internationalization theory until the continued lack of congruency between the theoretical and the practical levels led to dissatisfaction with its explanatory power culminating in the

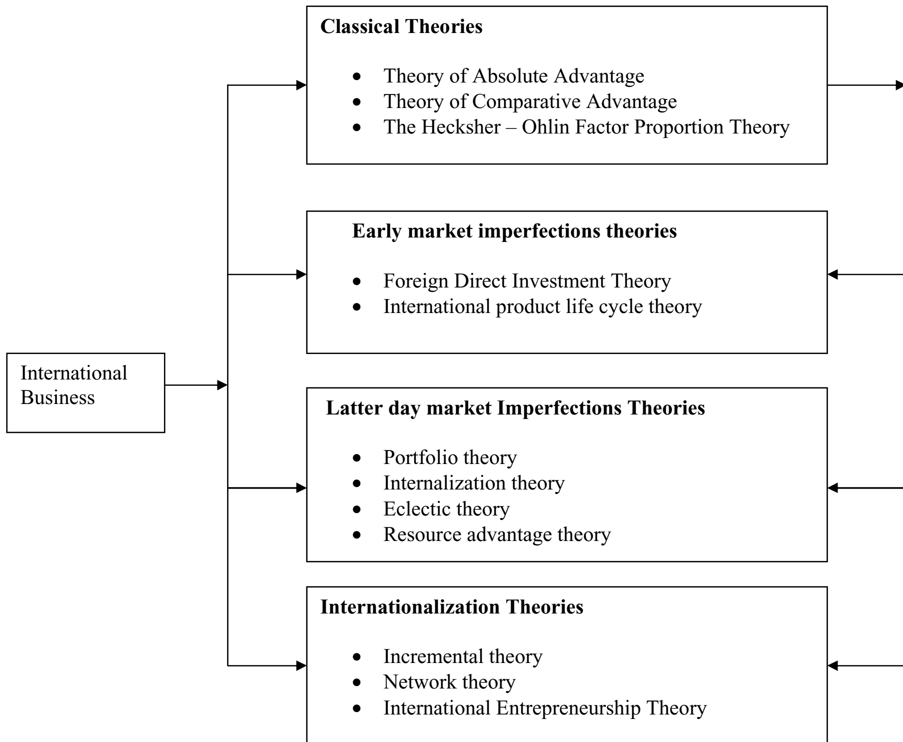

Fig. 1 Conceptual model of the international business schools of thought. • The model assumes that there is a level of cross-influence among the different theoretical frameworks

search for a new theory of international trade. The new theoretical framework was found in David Ricardo's (1817) theory of comparative advantage.

The theory of comparative advantage

Ricardo's (1817) theory of comparative advantage modified Smith's (1776) theory of absolute advantage. Ricardo's (1817) theory was premised on the idea that "*if our country can produce some set of goods at lower cost than a foreign country, and if the foreign country can produce some other set of goods at a lower cost than we can produce them, then clearly it would be best for us to trade our relatively cheaper goods for their relatively cheaper goods. In this way, both countries may gain from trade*" (Suranovic, 2004, p. 1). An essential difference between Smith's (1776) theory of absolute advantage and Ricardo's (1817) theory of comparative advantage, is that the Ricardian model recognized that country (A) could still supply a product that it made efficiently, even though it was less efficient than country (B) in making that same product. Smith's (1776) theory of absolute advantage on the other hand, advocated specialization in the goods and services in which a country had an absolute advantage, to the exclusion of any product that it did not have an absolute advantage. The products, in which a country had no absolute advantage, were to be imported from those countries that had an absolute advantage in the supply of those goods.

The central idea of the Ricardian model was that if a country had a relative advantage in the production of one product over another, then it should produce and export that good in which it had a relative advantage and import the product in which it had a relative disadvantage (Punnett and Ricks, 1997). However, Buckley and Brooke (1992) noted that the major limitations of this theory were that it was limited to focusing on land, capital, natural resources, and labour being the key factors of production. However, in practice, these are not the only factors of production and further more, some of these factors are transferable across countries. The cost side of the equation is held constant or ignored altogether, as is the level of demand and the income distribution effects. Additionally, the theory failed to explain why nations continued to barricade themselves with ever increasing trade barriers if their welfare was best served through trade efficiency and specialization in those goods that they had the greatest comparative advantage while importing those goods in which they had a comparative disadvantage.

The Hecksher-Ohlin factor proportion theory

A refinement of the theory of comparative advantage is found in the Hecksher and Ohlin (1933) model, also known as the factor proportion theory. Each nation's endowment of the factors of production such as land, labour and capital were varied to the extent that the abundance of each of these factors in an economy influenced the production cost structure in an economy. The more abundant the factor of production, the lower the cost of producing those products that make intensive use of that factor. Therefore, trade occurs as countries specialize in the production of goods in which they have a price advantage and exchange them for goods in which they have a price disadvantage.

The differences in the production cost structures and therefore the prices of individual goods were brought about by differences in national production factor endowments. This price differential arising from different factor endowments formed the basis of trade among nations (Hill, 2004). Therefore, unlike the Ricardian model of comparative advantage, that viewed efficiency in production as the basis of national advantage, the Hecksher-Ohlin model viewed national factor endowments as the basis of advantage, which in turn provided the rationale for trade. However, the factor proportion theory like its predecessors was severely limited in practical applicability as it rested on the same fundamental assumptions of product and consumer homogeneity, perfect competition, static costs and national advantage (Buckley and Brooke, 1992).

The Hecksher-Ohlin model was tested by Leontief (1953), and found that contrary to his expectations the United States (the most industrialized country in the early post-war period) was an importer of more capital-intensive products than it exported. Leontief's paradox, as it became known, underscored the challenges presented by the classical group of theories in trying to explain observed practice in the real world (Hill, 2004). The gap between theory and practice was simply too wide, and therefore the search for more plausible theoretical explanations of international business gathered momentum. From about the late 1950s the research agenda shifted away from the classical economic thinking that had been so influential for over a century and a half to new theoretical approaches in the form of foreign direct investment theory, the product life cycle theory and other theories that emanated from them. However, the enduring contribution of the classical trade theories is their recognition that the search for a competitive advantage, whether immediate or delayed, is the primary motivator of most internationalization activity anywhere in the world.

Early market imperfections theories

Foreign direct investment theory and international product life cycle theory

World War II ushered in a new era in international trade theory building that could be termed the modern era. For the first time the firm became the unit of analysis in the 1950s with the growth of post-war multinational enterprise. Two seemingly parallel approaches to international trade theory began to emerge. That is, economic theory, here loosely referred to as foreign direct investment (FDI) theory and international product life cycle theory. These two theories are in fact linked in descending order. The work of Leontif (1953) and Penrose (1956) greatly influenced new thinking on international business, particularly in the FDI school of thought. Early in the new decade, Hymer (1960) completed his pioneering doctoral work on the foreign direct investment behaviour of multinational firms, and this work would serve as a firm foundation for future FDI research (Calvet, 1981). Hymer (1960) and the rest of the FDI theorists after him, recognized the existence of market imperfections in the form of: exchange rate disequilibria, unsatisfied foreign demand for a firm's offering, home or host government incentives to internationalize, and market failures in the form of a foreign market's failure to transfer critical technical and market knowledge, as providing the rationale for the internationalization of firms (Calvet, 1981).

Again in the early 1960s product life cycle theories began to take root, for example, Posner (1961) found evidence of a time lag between the introduction of an innovation and the duplication of the same by foreign competitors (Buckley and Brooke, 1992). This avenue of research culminated in Vernon's (1966) influential work on the international product life cycle that attempted to explain how international trade takes place. For Vernon (1966) and later Wells (1968), international trade patterns were similar to the product life cycle patterns in the domestic firm. The search for low labour costs and a cost advantage were the motivating factors of international production. According to the product life cycle perspective of international business, firms will move endlessly between different locations to secure and maintain their cost advantage. According to the international product life cycle theory the original country has a comparative advantage in the production of a particular good, but this advantage is subsequently lost to lower cost producers as the product becomes standardized (Sundaram and Black, 1995). Like other models and theories before it, it was of very limited applicability in a by-gone era. After the period of the life cycle stages in the 1960s the stage was set for new theoretical approaches in the early 1970's. However, the major contribution of both the early FDI and international product life cycle theoretical frameworks was to bring internationalization focus on the firm and to highlight the important role-played by market imperfection in motivating the internationalization decision.

Latter day market imperfection theories

International portfolio theory

This theory along with other latter day market imperfections theories, is in fact an amplification of the original FDI theories of the 1950s and early 1960s in particular. The international portfolio theory is variously referred to as diversification theory and financial theory. According to the theory, international business investment decisions occur as a result of firms seeking to maximize their flow of profits while minimizing their risk exposure to the economic shocks arising from the domestic market and this they do by investing in different foreign markets

(Rugman, 1971; Rugman and Verbeke, 1992). This strategic view of risk management has been supported by numerous studies subsequent to the early works, if not in essence then certainly in principle, for example (Simpson and Kujawa, 1974; Cavusgil and Naor, 1987; Porter, 1990; Ogbuehi and Longfellow, 1994; Shrader et al., 2000). An interesting aspect of the strategy view of international business comes from Porter (1990) and Ohmae (1995) who take us back to using the nation as a unit of analysis and to regional economies, respectively. The superstructures of: the industry, the nation and the region are seen as providing the source of a firm's international competitive advantage.

However, there is contradictory evidence coming from studies on international portfolio diversification regarding the gains of diversification to individual firms (Calvet, 1981). Secondly, changes in currency values and foreign market taxes on dividends have the effect of cutting or even erasing foreign diversification gains. Further to that fixed assets located in foreign countries can impose certain risks on the international firm that were not present in the domestic market, so much so that the gains of diversification may be non-existent or even negative (Globerman, 1986). The international portfolio theory, while perhaps not able by itself to explain internationalization, has nonetheless made a valuable contribution to our understanding of international business by highlighting the fact that there are certain underlying strategic motives that are taken into consideration by firms engaged in internationalization. Therefore firm internationalization behaviour must be understood in the context of those underlying strategic motives.

Internalization theory

Internalization theory is best viewed as an extension of the international product life cycle theory rather than a parallel of it. The major criticism of the product life cycle theory is that it is vague in terms of the trade-offs between the different foreign market entry methods of licensing, joint venturing and foreign direct investment as well as on the timing of mode switches. Not only that, but there is also abundant evidence of firms that do not neatly progress through the defined life cycle process of introduction/growth, maturity, standardization and dematuring or decline, but rather exhibit haphazard progression between stages (Globerman, 1986; Malhotra et al., 2003). According to Buckley and Casson (1976) the choice international market entry mode is a function of the cost associated with each entry mode, given the volume of business that a firm plans to undertake in a market. Each market entry mode has the following costs:

- Mode set-up costs. A one-off cost incurred when the mode is first used.
- Recurrent fixed cost associated with mode usage.
- Recurrent variable cost.

A given mode may have high fixed and variable costs at the planned volumes of business so that the cost of using that mode may not be recoverable. Therefore a firm internationalizes via the most cost-efficient mode at all times. Consequently a firm will graduate from the lowest fixed cost mode to the highest fixed cost depending on the volumes of international business conducted (Globerman, 1986). Internalization theory is derived from appropriability theory that views multinational enterprises (MNEs) as developers of sophisticated technologies and information from which they benefit by appropriating. MNEs profit from the monopolization of certain knowledge (Calvet, 1981). A second tributary of internalization theory is the transaction cost theory that was developed by Coase (1937) and popularized by Williamson (1975). The basic premise of the transaction cost theory is that business activities conducted on behalf of the firm by external parties (the market) are costly and inefficient and therefore a

firm stands to benefit by internalizing (doing the work by itself) as many activities as possible. Transaction/exchange costs have three attributes:

- *Asset specificity.* That is, an asset used in a transaction cannot be used in another transaction without loss of revenue.
- *Ambiguity.* That is, there is a certain level of uncertainty in an arms-length transaction because of the tendency toward opportunistic behaviour such as cheating, delaying or misrepresentation on the part of either party to an international transaction, with the view to improving their advantage.
- *Frequency of interaction.* That is, parties to a transaction are likely to interact frequently resulting in greater policing costs.

The greater the asset specificity, the higher the frequency or the greater the uncertainty, the greater the transaction cost and therefore the greater the incentive for the firm to internalize that transaction/market (Sundaram and Black, 1995). Thus, a firm will continue to internalize transactions until it reaches a point where the marginal cost of internalization exceeds the marginal revenue of internalization (Jones, 1996). A firm internalizes or brings under its control both upstream and down stream industries that provide inputs into its production process in one way or another when the cost of continuing to do arms-length business in them exceeds the cost of owning them out right. The argument is that a firm can do business more efficiently if it owns all the suppliers of inputs that have to do with its production process, because dealing with disparate entities is far more costly for the firm in terms of the frequency of transactions, the opportunistic behaviour of suppliers and the firm's own overheads associated with dealing with these external suppliers. Thus market imperfection is at the centre of a firm's decision to internationalize.

Therefore, from the perspective of internalization theory, a firm internationalizes or expands extra-territorially because the transaction costs associated with international intermediate product markets (goods and services required within the production process) can be reduced by bringing these markets within the firm. Therefore, firm internationalization is a natural result of acquisitive self-interest. A complex vertical and horizontal web of cross-border transactions and value-adding activities are brought under the administration and co-ordination of a single multinational enterprise. The idea is that the firm must have a distinct comparative advantage or compensating advantage so that it is able to overcome the cost of foreignness (Buckley and Casson, 1998). For example, a firm can invest in a foreign subsidiary rather than licensing its product and by so doing spread its products abroad while maintaining control over the product in the firm, resulting in better returns to the firm (Ball et al., 2002). At the heart of this theory are the location effect, that is concerned with where the value- adding activities will take place, and the ownership effect, that is concerned with who owns and controls the said value-adding activities (Ghauri, 2000). Internalization theory in essence, is concerned with market entry choice modes, essentially: Why does an international firm choose one internationalization mode over another?

Internalization theory suffers from a number of shortcomings that limit its usefulness in explaining international business behaviour. To start with, the theory is based on market failure as being the reason for internationalization of the firm when in reality market success plays a great role in a firm's decision to internationalize. Secondly, to suggest that cost minimization is the principal reason for internationalization is a gross oversimplification and even a misrepresentation of real world dynamics of international business behaviour (Jones, 1996). The theory is inward looking, in other words, it focuses on the firm's production process only and ignores the power of the final product market in internationalization because this market cannot be internalized within an organization's hierarchy. Internalization recreates the

very imperfection it initially sets out to overcome by establishing a monopolistic organization that reduces market efficiency and increases social costs (Itaki, 1991). Therefore, a refinement and an enlargement of internalization theory are found in the eclectic theory of international production. Internalization theory has contributed to international business by bringing to the fore, issues related to a firm's cost of foreign activity and value of knowledge as an enabler of internationalization and a trading commodity.

Eclectic theory of international production

According to Dunning's (1977) eclectic theory, international production will occur if a firm has three kinds of advantages:

- *Ownership-specific advantages.* This refers to an organization's access to tangible and intangible assets that foreign competitors do not possess or do not have in the same measure.
- *Internalization advantages.* These are advantages that accrue to the firm from the internal use of its ownership-specific advantages rather than renting them out to external parties in the form of licensing agreements or franchising or even simply exporting their product from their home base.
- *Location specific advantages.* This refers to advantages that a firm gains by locating its production or part thereof to foreign locations. Favourable government incentives or regulations in different locations and the desire to reduce transaction costs are a strong incentive for relocating production to particular offshore locations.

The rationale for firm internationalization in Dunning's (1981, p. 1) words is that *"the more a country's enterprises possess ownership-specific advantages, the greater the incentive to internalize them; and the more these enterprises find it profitable to exploit the advantages outside their national boundaries, the more likely they are to engage in foreign direct investment .... A country's involvement in international direct investment then becomes a function of the ownership and internalization advantages of its enterprises relative to those of other nationalities and its location-specific endowments relative to those of other countries."*

The eclectic framework is supported by a number of researchers, at least in principle, namely: Hennart (1982), Anderson and Gatignon (1986), Kogut and Zander (1993), Woodcock et al. (1994) and Banerji and Sambharya (1996). However, there are some detractors, most notably Itaki (1991) who argues that the ownership advantage in the model excludes the cost of acquiring that advantage, such that the net gain of possessing that advantage may in fact be negative. Furthermore, ownership specific advantages and location specific advantages are inseparable and to separate them amounts to double counting. From a methodological perspective, he warns of the danger of multifactor analysis under just three headings.

It has also been criticised for its limited predictive power and overstating the overall cost of conducting international business, hence the underlying view that international business is the preserve of large multinational corporations that have enormous ownership-specific advantages (Jones, 1996). However, there is an increasingly large volume of international business activities that are conducted by small firms that may or may not possess the enormous ownership-specific advantages of their larger counterparts, and yet they are not given serious consideration in the eclectic theory. The major contribution of the eclectic theory is to raise awareness of a firm's need to build and mainatain sustainable competitive advantages if it is to succeed in foreign market exploitation (Porter, 1990; Prahalad and Hamel, 1990).

Resource-advantage theory

From a strategy theory point of view, the firm's internationalization is an adaptive response to environmental complexity and chaos through the marshalling of resources, skills and routines, designed to achieve congruency with the environment and therefore secure a competitive advantage and superior financial performance (Lawrence and Lorsch, 1967; Stone and Brush, 1996; Teece et al., 1997). For Hunt and Morgan (2002), the resource-advantage theory is the basis for understanding domestic and international firm behaviour. The resource-advantage theory posits that: "*. . .resources are crucial in determining the nature of competition*; *tangible and intangible resources that enable the firm to efficiently/effectively provide a market offering of value to a market segment (s)*. . .[*therefore*] *advantaged firms will remain as such provided they*: *develop proactive innovation practices* [*and*] *sustain investment in the resources producing a competitive advantage*. . ." (Hunt and Morgan, 2002, p. 451). Thus, an organisation actively pursues self-preservation by trying to bring certainty to complex and chaotic situations by marshalling organisational capital in a way that creates an advantageous market posture.

Several authors, for example, Porter (1990), Ohmae (1995), and Banerji and Sambharya (1996) have credited the phenomenal success of Japanese international enterprise to strategy choice and resouce-advantage. Therefore the resource-advantage theory has merit in explaining why international business takes place. However, the contribution of the resource-advantage theory should be understood in the general context of the contribution of strategic management theory, which includes many strands among which is portfolio theory that has already been discussed above. The main contribution of the resource-advantage theory to this discussion is introduce the concepts of chaos, innovation, scenario planning and adaptation as conditions that a firm tries to negotiate through international business, with the view to maintaining its competitive advantage.

Internationalization theories

Incremental theory

Andersson's (2000) classification of international business research identifies two basic approaches, which are: the economic and the process view. That is, the economic context in which internationalization takes place and the specific issues surrounding process development. This view of international business is broader than that envisaged under traditional firm internationalization theoretical models that focus specifically on the process aspects of international business development. Research on the firm internationalization process centres on the "*establishment chain*" school of thought also referred to as the Uppsala-model, (U-model), the Nordic school, the incremental school or the stages model. Incremental internationalization theory has also borrowed some ideas from the FDI research stream, and mainstream economic theory. The incremental internationalization theoretical framework was first developed by Johanson and Wiedersheim-Paul (1975) in their study of four Swedish firms, in which they observed that when firms internationalize, they move along a series of incremental steps which they termed an "establishment chain." Their work was a culmination of separate research activities dating back to the 1960s such as for example, Aharoni (1966), Perlmutter (1969), and Pinney (1970). Johanson and Wiedersheim-Paul (1975) identified four stages through which an internationalizing firm passes, and these are:

- No regular export activities.
- Export via independent agents.
- Establishment of a foreign sales subsidiary.
- Establishment of a foreign manufacturing plant.

They did however concede that it was possible that some stages could be skipped, a fact often missed in literature which is critical of the establishment chain. Internationalization was expected to be a series of incremental decisions. Market entry was expected to begin with physically close and geographically close markets and then "*fanning out*" (Vernon, 1966). Johanson and Vahlne (1977) refined this model to make it more dynamic and went on to suggest that internationalization is a function of the relationship between market knowledge, commitment decisions and current activities. The firm is assumed to increase commitment (both the amount of resources and the degree of resource specificity) to a market owing to a reduction in perceived risk that comes about through increased experiential knowledge as distinguished from objective knowledge, which is less critical to the internationalization decision.

Internationalization then, is a gradual unidirectional learning process along a continuum. The process is assumed to be gradual because of a lack of resources, lack of information and a lack of experience. In fact, so influential has the incremental model been that the vast majority of international business literature since 1977 presuppose it when dealing with different aspects of the subject, for example, Crick (1995) observes that even government export assistance programmes are based on this model of business internationalization behaviour, which may explain why government export assistance programmes sometimes fail to correctly target the firms that are most likely to export yet do not exhibit the traditional internationalization behavioural patterns.

However, the incremental theory has been widely criticized on both theoretical and practical grounds. The theoretical and methodological robustness of the U-models of internationalization have been questioned most notably by Anderson (1993), who argued that their intuitive appeal is not matched by their scientific appeal. Reid (1984), Anderson (1993), and Crick (1995) observed that given their lack of explanatory power as well as the incongruence between the theoretical and operational levels, it is surprising that these models have received such enthusiastic acceptance in the vast majority of received literature. Sullivan and Bauerschmidt (1990) tested the incremental internationalization hypothesis and their conclusion was that the empirical evidence did not support this hypothesis. Other studies provide confirmatory evidence of incremental internationalization hypothesis after presupposing its validity (Wiedersheim-Paul et al., 1978; Buckley et al., 1979; Loustarinen, 1980; Denis and Depelteau, 1985; Crick, 1995). Some have accepted the incremental hypothesis but with modifications (Lamb and Liesch, 2002). However, others have found evidence that contradicts the incremental internationalization hypothesis altogether (Turnbull and Valla, 1986; Turnbull, 1987; Ayal and Raben, 1987; Hedlund and Kvernerland, 1983; Sharma and Johanson, 1987; Millington and Bayliss, 1990).

In recent years, a major challenge to the incremental theory has come from network theorists whose fundamental argument is that modern high-technology firms do not exhibit the tortuous developmental process envisaged by the incremental theorists but rather that the process is short-circuited owing to the experience and resources of network partners who piggyback an infant internationalist to high levels of international development than would otherwise have been expected for a firm at that age (Oviatt and McDougall, 1994; Bell, 1995; Madsen and Servais, 1997). However, in spite of the shortcomings of the U-models of internationalization, they have nonetheless made an important contribution to

the general understanding of how firms internationalize. Early starter firms (that is, firms with a low degree of internationalization and operating in a market with a low degree of internationalization) identified by Johanson and Mattson (1988), typically exhibit the Uppsala development process. The incremental development principle therefore has some merit even if it is not empirically supported in every case. The major contribution of this theory has been to show that international market growth is step-wise or happens in phases owing to limited resources and market knowledge.

Network theory

Network theory takes a different, if not a somewhat extreme, view of the internationalization process. While the network approach is not new to business, its application to firm internationalization is. The network approach views market exchange as the result of interaction between discreet exchange relationships among market actors (Tikkanen, 1998). Firm internationalization therefore is the natural development from network relationships with foreign individuals and firms (Johanson and Mattson, 1988). A firm's network has great value as a source of market information and knowledge that would take a firm a long time to acquire and at great cost (Chetty and Campbell-Hunt, 2003). Networks therefore are a bridging mechanism that allow for rapid internationalization.

By virtue of a firm's position in a network relationship, it can be "*chaperoned*" into the international arena by partners that have international operations and experience, even though the firm itself may not have formally and consciously decided to internationalize. It becomes an "*instant global*" by-passing the establishment chain evolutionary steps through a revolutionary process. This "*big bang*" approach as Buckley and Chapman (1997) term it, is evidenced in subcontractor firms following their main contractor partners (Andersen et al., 1995; Banerji and Sambharya, 1996), technical consultancy firms following their partners Sharma and Johanson (1987), small computer software firms (Oviatt and McDougall, 1994; Bell, 1995; Coviello and Munro, 1995, 1997), imitation of industrial district neighbours Bonaccorsi (1992) and born global companies owing to management's international orientation (Madsen and Servais, 1997; Reuber and Fischer, 1997).

In view of the evidence of a radically different approach to internationalization under a network perspective, Madsen and Servais (1997), suggest that it is only proper to use a firm's network as the unit of analysis rather than the firm itself when attempting to explain the process internationalization. The most interesting work on network theory and its relation to internationalization is provided by Johanson and Mattsson (1988). In their view, firm internationalization is a process by which a firm using its foreign network partners establishes and develops foreign market positions. This it achieves through:

- *International extension.* That is, entering new foreign markets by virtue of its relationship to new foreign network partners.
- *Penetration.* That is, expanding its resource commitments in those markets that it already has a presence.
- *International integration.* That is, co-coordinating its international network activities spread around a number of countries.

The general assumption is that the beneficiaries of network arrangements are small firms or at least dependent firms. However, it would appear that the theoretical appeal of the network approach is not universally matched by its practical appeal implying that network structures are culturally bound. There is also the cost of membership in terms of the resources required by each firm to join the network and indeed the cost of opportunism within the

network, all of which are not given the attention they deserve in the network perspective of internationalization (Chetty and Campbell-Hunt, 2003). Nevertheless, the major contribution of this theoretical perspective to international business has been to bring a recognition that firm internationalization is never a "solo" effort, but that it is a product of network relationships that are both formal and informal. There is always a third party contribution to an internationalization effort be it in the form of governmental assistance programs, foreign distribution and marketing agents, local or foreign partners and therefore it is important for a firm to organize these third parties in a manner that maximizes the advantage of the network and that the firm's network is the more appropriate unit of analysis.

International entrepreneurship theory

International entrepreneurship theory together with network theory represents the state-of-the-art in international business thought. International entrepreneurship theory also represents a compromise between the two extremes of incremental theory whose primary focus is on the large multinational firm that has slow progression to international markets and network theory whose focus is on a very rapidly internationalized but dependent small firm. International entrepreneurship theory argues that individual and firm entrepreneurial behaviour is the basis of foreign market entry. While for some authors, network theory and international entrepreneurship theory are synonymous terms; there is an important difference. International entrepreneurship can and does exist outside formalized networks. In some parts of the world, for example, Southern Africa, most small firms develop international business without the aid of partners in a formalized network (Mtigwe, 2004). Thus there are two ways through which an entrepreneurial firm can internationalize: through a formal network or without the aid of a formal network. In fact, internationalization through networks, may be the exception rather that the rule, or may at least be industry-specific. Therefore, international entrepreneurship theory and network theory should be viewed as complementary theories rather than synonymous theories.

The character of small firm international entrepreneurship, regardless of how it comes about, seems sufficiently different from large firm international entrepreneurship or at the very least more fluid, so as to elicit more discerning research enquiry. For one thing, there are interesting firm age and foreign entry speed dynamics. New international entrepreneurs tend to be more innovative, opportunity seeking and are more heavily influenced by the owner/founder in their international involvement (Brush, 1995; Karagozoglu and Martin, 2002). Autio et al. (2000) contribute to these observations about small firm international entrepreneurship by adding some advantages that accrue to early internationalizers. These are:

- Freedom from constraining managerial routines that have been developed over long periods of time.
- Freedom to assume an international identity from the outset.
- Motivation to repeat international expansion in future because of the momentum created early for international business.
- Fast learning that will translate into fast international growth.

Smaller international firms have emerged as serious competitors against large firms in certain niche markets (Fillis, 2001). Increasingly small entrepreneurial firms are able to acquire foreign market knowledge, financial, marketing and managerial resources and competitive advantages through collaboration with domestic and foreign network partners (Johanson and Mattsson, 1988; Coviello and Munro, 1997). There is also evidence suggesting that small international firms have a high awareness of foreign market risks and are able to manage these

risks effectively (Shrader et al., 2000). The export-only/single-stage form is still the most preferred method of foreign market engagement among many international entrepreneurial firms even though there are also many exceptions within industries and across industries (Bell, 1995; Brush, 1995; Chetty, 1999; Burgel and Murray, 2000; De Chiara and Minguzzi, 2002). Some new international entrepreneurial firms are born international contrary to received wisdom from MNE (multinational enterprise) internationalization theory that suggests a gradual and stepwise progression (Oviatt and McDougall, 1994; Bell, 1995; Madsen and Servais, 1997).

However, some scholars have argued that international entrepreneurship is a far more inclusive phenomenon that cannot rightly be understood in the context small firm behaviour alone, and even less so from the context of the 'Born-global' variety of small firm alone, from whose perspective the bulk of current international entrepreneurship literature is based. Thus, Zahra and George (2005) have suggested that this has led to the exclusion of relevant theoretical contributions and indeed proper articulation of what international entrepreneurship is and what it is not. Furthermore, they argue that this limited focus of international entrepreneurship is not warranted because large corporates often exhibit entrepreneurial behaviours that are identical to those of small firms.

Consequently, as the need arises for clearer articulation of international entrepreneurship, considerable efforts have been made at defining this phenomenon. However, in spite of these noble efforts a considerable degree of uncertainty in published literature about the precise definition of international entrepreneurship remains. In light of the need to find a more inclusive definition of international entrepreneurship, the weight of opinion is shifting to the view that the original definitions of international entrepreneurship offered by Oviatt and McDougall (1994), and McDougall and Oviatt (1996, 2000) are too restrictive. Thus to the end of finding a firm size-neutral definition of international entrepreneurship, Zahra and George (2005, p. 11) contend that it is "*the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in the persuit of competitive advantage*."

However, while this definition captures the notion of creativity and competitive advantage, it is itself somewhat limited in that it ignores some important aspects that define the essence of entrepreneurship, namely, the exploitation of opportunities without regard to the resources under the individual's or the firm's control, the profound impact of the risk element on the entire business, missionary zeal and the outcomes of entrepreneurial activities (Stevenson and Jarillo, 1990). Therefore, a more inclusive definition of international entrepreneurship would be that of: "*a courageous managerial value creation process through which an individual engages in innovative, proactive, calculated risk-taking behaviour designed to prosecute foreign business opportunities presented by multinational market successes and imperfections for financial and non-financial rewards*." This definition is a modification of the definitions of McDougall and Oviatt (2000), Ibeh and Young (2001), and Yeung (2002).

Definitional issues aside, substantial progress has been made in identifying the character of international entrepreneurship, its motivation, its processes and its outcomes. Grounded theory summarised in Figure 1 and Table 1, enables us to answer the question of why international business takes place, while emerging international entrepreneurship theory helps us answer the question of how international business occurs.

Theoretical integration

Thus far, different theoretical frameworks on firm internationalization have been reviewed and the lessons that can be drawn from them have been presented. Table 1 summarizes

Table 1 International business theoretical values and strategy implications

Theoretical base	Core value	Strategy implication
Theory of absolute advantage	National advantage	Achieve sustainable
Theory of comparative advantage The Hecksher-Ohlin factor Proportion Theory	Possession and seeking is the basis for trade	Competitive advantage through specialization based on unique national advantages
Foreign direct investment theory International product life cycle theory	Firm advantage possession and seeking is the basis for trade	Information on global market imperfections is the key to effective international competition
Portfolio theory Internalization theory Eclectic theory Resource-advantage theory	Firm-level risk minimization and advantage seeking is the basis for trade	Strategic offence through international business is the best form of self-defence
Incremental theory Network theory International entrepreneurship theory	Understanding firm-level process dynamics	Isolating variables that set internationalization in motion key to getting the process in started

the values and patterns of actions that result from all the international business theoretical approaches considered. The point of intersection for this rich mosaic of international business theory seems to be that: international business is a process of market imperfection exploitation for comparative advantage maximization via specialization, strategic self-defence and incremental entrepreneurial networking, leading to firm and/or national success as well as the creation of competitors via deliberate or vicarious knowledge and resource transfer. The essence of these ideas is captured in a single phrase, namely: international entrepreneurship.

Embodied in the collective values and patterns of actions expressed in international business theory, are on the first level the essential character of entrepreneurship such as risk taking, innovation, proactiveness, opportunism and value-creation. On the second level, they offer the rationale, the conditions and specific motivations for which firms seek to enter foreign markets in the way that they do. While it is recognized that these two levels are mutually dependent, the motivational domain supports and gives impetus to the process of venturing to international markets, nevertheless for purposes of simplicity and building workable conceptualizations, they have traditionally been decoupled and therefore the term international entrepreneurship has come to be an exclusive designation for the methodology of international engagement. This rendering of international entrepreneurship is not entirely accurate in relation to the real-world dynamics of entrepreneurial behaviour and firm behaviour in internationalization, however, in order to demonstrate the fit between international business theory and entrepreneurship we reluctantly retain this terminological inexactitude.

International entrepreneurship cuts through the traditional theoretical limitations based on firm size. Entrepreneurship is the common currency of all international business activity. Therefore, the contention by Toyne (1989), Leonidou and Katsikeas (1996), and Chandra and Newbury (1997) that there is no common theory of international business may not be entirely accurate. International entrepreneurship may be just such a theory. Figure 2 amplifies

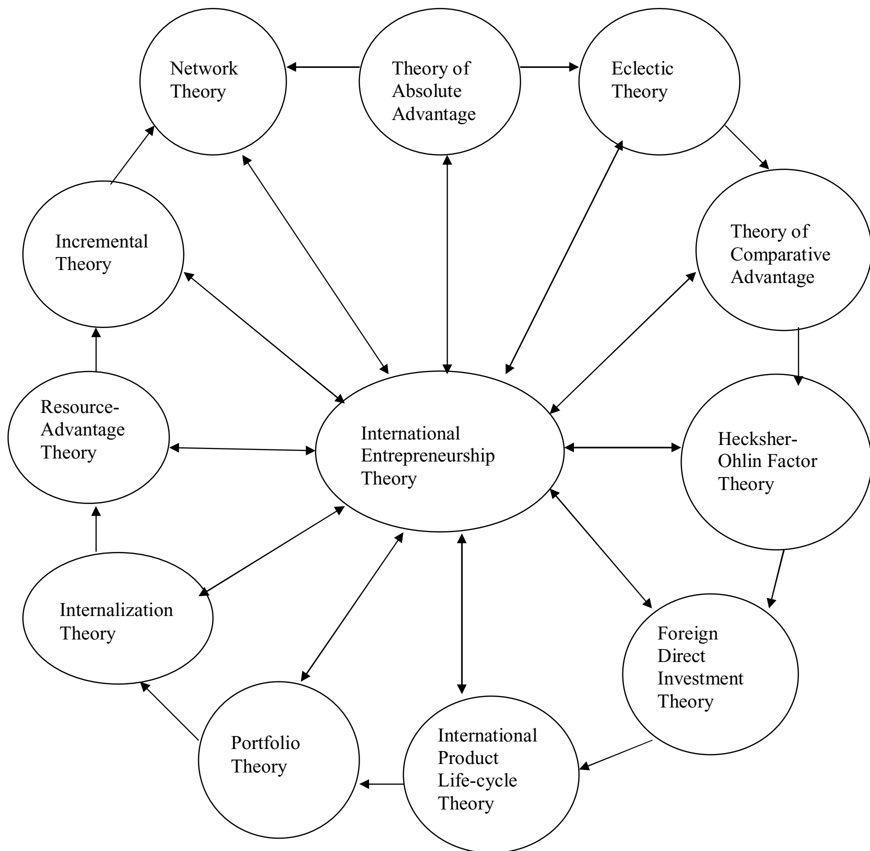

Fig. 2 The international entrepreneurship (IE) hub and spoke model

the relationships between the theoretical approaches outlined in Figure 1 and international entrepreneurship. On the other hand, Figure 2 and Table 1 represent an attempt to consolidate available international business theory and international entrepreneurship theory into a single theory with the two theoretical bodies forming just part of the whole. The theoretical integration envisages 5 levels namely: the motivations, the environmental and organizational context, the process, the market outcomes and the feedback mechanisms (Mtigwe, 2004; Zahra and George, 2005). However, only two levels are within the scope of this paper namely: the motivations and the process.

Since the concept of entrepreneurship is a fundamental tenet underpinning all international business activity, and grounded theory focuses on explaining the logic and motivational aspects of international entrepreneurship as well as the contextual setting within which such exchanges flourish, then it follows that existing international business theoretical frameworks should not be seen as competing or parallel views to international entrepreneurship. Rather, international entrepreneurship is the full expression of the business logic and objectives outlined in earlier international business theory. International entrepreneurship therefore is centered on the executional elements, the outcomes and the feedback processes into the motivational and executional subsystems. This feedback mechanism in turn modifies the nature of future international entrepreneurship.

The present challenge toward a better understanding of international entrepreneurship is first to re-conceptualize it not as a new and unique theory that applies to networked and 'Born global' small firms alone or as a competitor of traditional international business theory but as an extension of it and to integrate into a whole the sum of the disparate pieces of motivational research, internationalization process-based research and outcomes-based research. Toward this end, some models with varying amounts of detail have already begun to take root. However, a great deal more work in this regard needs to be undertaken. One such integrative framework by Etemad (2004) proposes integration around three layers, namely, the entrepreneur, the firm and the markets. Other proposed models by Bell et al. (2003), Mtigwe (2004), and Zahra and George (2005) embrace similar notions albeit in different formats and terminology.

However, the contention that international entrepreneurship is the practical expression of the motivations and business logic of traditional international business theory raises a number of additional questions such as: whether or not the international business–international entrepreneurship dichotomy is in fact valid? Secondly, is there a difference between the international entrepreneurial behaviour of a small firm's management vis-à-vis that of a large firm? And thirdly, can a harmonized international entrepreneurial process and outcomes be identified for all firms regardless of their size? These questions point to the lack of clarity concerning the terminology in use and the precise nature of the relationship between international business and international entrepreneurship. These basic issues need to be addressed first if we hope to arrive at clearer conceptualizations of international entrepreneurship.

Contribution of international entrepreneurship

From a theoretical standpoint, international entrepreneurship is still in the early developmental phases. It is a crucible of entrepreneurship theory, FDI theory, internationalization theory and network theory. Some theoretical models have begun to emerge that focus on: the antecedent factors (Czinkota, 1982; Burns, 2001; Ibeh and Young, 2001; Fillis, 2002), the triggers (Ellis and Williams, 1995), the decision process (Root, 1987; Miller, 1993; Bell, 1997), networks (Oviatt and McDougall, 1994; Coviello and Munro, 1997; Chetty and Campbell-Hunt, 2004) and more integrative models (Bell et al., 2003; Mtigwe, 2004; Zahra and George, 2005).

The credentials of a host international entrepreneurial research seem to rest on how well they prove the incremental internationalization process obsolete or at least inapplicable to the fast paced high-technology environment in which many knowledge-based small firms operate, with less regard to the contribution towards defining relationships with other models in order to facilitate the building of integrative theoretical conceptualizations. Malhotra et al. (2003) also point out that the qualitative nature of international entrepreneurship studies, most of which are based on the network perspective, suffer from the weakness that they render further testing of theory on non-networked firms difficult.

These weaknesses notwithstanding, international entrepreneurship theory has made a significant contribution towards a better understanding of the entire domain of international business and how it will be perceived in future. The most significant contribution of international entrepreneurship theory thus far, has been to highlight the significant role of the entrepreneur in the internationalization process, the character of entrepreneurship and the growing influence of the small firm in international business activity, as well as serving as a basis for the integration of international business theory.

Conclusion

International business theory has come a long way since the days of Adam Smith and classical economic thought. The different theoretical frameworks outlined above have long been considered parallel, however, the different international business research paths have been shown to have a meeting point in entrepreneurship which is the defining characteristic of all international business activity. Grounded international business theory offers the rationale, the conditions and specific motivations for internationalization, while emerging international entrepreneurship theory helps us answer the question of how international business occurs.

The difficulty relating to the narrow conceptualization international entrepreneurship has arisen from the narrow definition of this phenomenon in the past. Consequently, this paper has made a contribution toward a more inclusive definition of international entrepreneurship that will help inform future discourse on international entrepreneurial behaviour without the limitations of firm size. The focus on entrepreneurial behaviours seems to be the more productive way forward than the predominantly held view that considers international entrepreneurship as the preserve small high technology start-up firms.

Furthermore, the paper has not only demonstrated the transcendence of international entrepreneurship over the perceived confounding differences embodied in the different theoretical approaches that make up international business literature, but has also argued for a re-conceptualization of international entrepreneurship. The reconfigured concept of international entrepreneurship should address the questions of: whether or not the international business–international entrepreneurship dichotomy is in fact valid? Whether or not there are differences in the entrepreneurial behaviours of firm management in small firm and large firms and if so, what impact these differences have on the pattern of international entrepreneurship in both cases. Finally, it is important for future international entrepreneurship research to examine the possibility of developing firm size-neutral models of entrepreneurial internationalization, since it has been established that entrepreneurship is a firm size-neutral concept. While it is recognized that initiatives aimed at doing just that have started, however, they are not only few but also lack the strength that would come from a co-ordinate multinational effort toward this end.

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