2

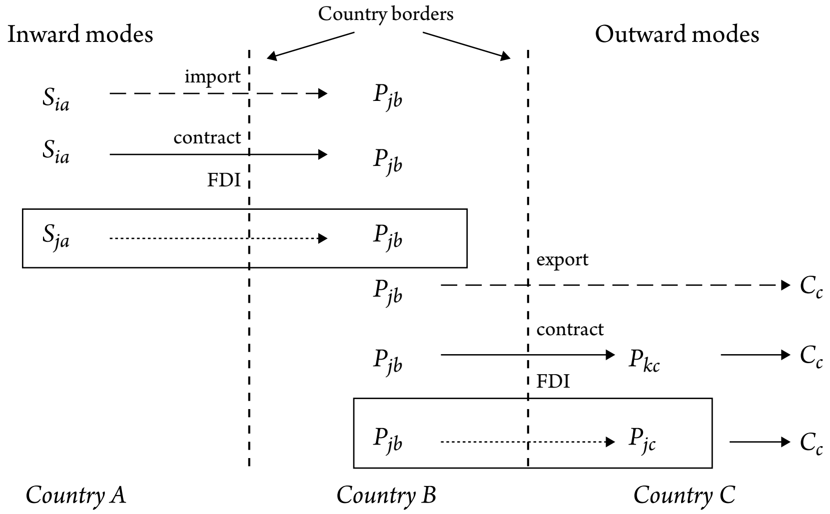
Theoretical approaches

Introduction

Whenever a company ventures abroad, it must make decisions regarding how to conduct its business activities in a foreign market and/or how to organise its linkages to a foreign actor. Foreign operation methods can be defined as the institutional/organisational arrangements that are used in order to conduct an international business activity, such as the manufacturing of goods, servicing customers, sourcing various inputs – in fact, undertake any business function (e.g. as depicted in a value chain). In principle, the alternatives are plentiful, ranging from various types of trade arrangements, often in some form of exporting organisation, to investments in manufacturing operations in wholly owned subsidiaries.

While the theoretical number of foreign operation methods can be very large (Petersen et al., 2008), as a starting point the decision can usefully be broken down to two main dimensions: (i) location, i.e. where a certain activity takes place, and (ii) governance, i.e. how that activity is organised.

Based on these two dimensions, a simple exposition of the range of alternatives is given in Figure 2.1, which for simplicity assumes a set of three countries: A, B, and C. Also, following much of the literature, a distinction is made between the three main ways of organising interdependencies across value activities – via market transactions, through various contracts, or performing activities in-house (see chapter 1). Finally, the scheme depicted in Figure 2.1 takes into account inward as well as outward internationalisation options. In all, this gives six main internationalisation alternatives, of which three describe various ways of organising inward internationalisation, and an additional three describe outward internationalisation alternatives. For example, inward internationalisation encompasses sourcing though arm's-length import transactions, sourcing through a long-term supply relationship, or internal transfers within a vertically integrated multinational enterprise. Similarly, outward internationalisation could involve either direct exporting to the end customer, or licensing to a foreign manufacturer that served its



Legend: S = supplier, P = producer, C = customer; i, j and k denote companies; a, b and c denote countries

Figure 2.1 A simple scheme of foreign operation methods

local market, or internal transfers of technology, capital, and inputs to a subsidiary unit in the foreign location. For simplicity, we are here treating the various modes as discrete and independent alternatives. As pointed out by Benito, Petersen and Welch (2009) reality is often messier, with increasing evidence suggesting that many companies combine modes in their international operations (Benito, Petersen and Welch, 2011; Hashai et al., 2010). We return to mode combinations in Part III of this book.

Decisions about how to operate abroad are important. In the short run, how a company chooses to operate in a given foreign market is likely to have considerable impact on the revenues from and costs of being involved in that market, and the company's exposure to the risks and uncertainties of operating there. Equally important is that such decisions have effects on the more long-term considerations regarding the degree of various types of risk, the degree of strategic and operative control, the level of resource commitment, and the opportunities for development of a firm's capabilities and network connections. Foreign operation mode choices have therefore, rightly, long been considered as strategic decisions of utmost importance (Anderson and Gatignon, 1986; Hill, Hwang and Kim, 1990).

Several theoretical perspectives have been used to explain companies' choice of foreign operation methods. Since such decisions can be fairly complex in their very nature and because researchers with quite different theoretical and methodological backgrounds have examined them, the literature on foreign operation methods is rather heterogeneous.

Broadly speaking, one can make a distinction between three main approaches; a so-called "economics-strategic" stream, a behavioural (or process-oriented) stream that could be loosely termed the "internationalisation process", and an institutional approach, which focus especially on the external factors that influence companies, choices and behaviours. Numerous theories and models can be placed within each of these three broad streams, some of which are at odds with each other, but most are not. In practice, many researchers draw from several literature streams in their research. Nevertheless, although the various strands in the literature are perhaps better considered as being complementary rather than competing, a unifying all-encompassing framework of the factors that may have an impact on such decisions has yet to be presented (Benito and Welch, 1994; Datta, Herrmann and Rasheed, 2002; Malhotra, Agarwal and Ulgado, 2003). In the following, we present the best-known theories and frameworks within these three streams in some detail.

Economic approaches

The "economics-strategic" stream of literature is usefully summarised in the works of Anderson and Gatignon (1986), Brouthers and Hennart (2007), Hill et al. (1990) and Hennart (2000). The principal line of reasoning in this approach is that choice of foreign operation method is essentially a question of finding the appropriate (or, as argued, the "optimal") degree of control – which again has a bearing on risk exposure and firms' degree of strategic flexibility – over foreign operations, given internal and external contingencies. Although economic approaches to choice of foreign operation method are rooted in economic theory, they differ from traditional international trade theory reasoning in international economics. The theory of international trade (i) takes countries as the unit of analysis, (ii) assumes immobile production factors, but mobile goods, (iii) predicts that trade patterns based on comparative advantage would suggest that there should be more trade (or investment) the more dissimilar the countries, (iv) assumes competitive markets, and (v) takes resource endowments largely as given. Instead, economic international business theories posit that (a) firms and people trade, not countries, (b) production factors move, e.g. capital and technology, but also people, (c) there are cross-flows of goods (intra-industry trade) as well capital between countries, and similar countries tend to trade most between themselves, (d) many industries/markets are imperfectly competitive, and

(e) many critical resources are created, not given. The economics-based international business stream of literature includes principally market imperfections theory, organisational economics theories such as internalisation and transaction cost theories, strategic behaviour theory, resource-based theory, and the eclectic framework.

Market imperfections

The market imperfections theory first proposed by Hymer (1960), and later developed and tested by, among others, Kindleberger (1969), Gruber, Mehta and Vernon (1967) and Horst (1972), was one of the first attempts at explaining the international operations of companies at the firm level. The then dominant view of international trade, the Hecksher-Ohlin theory, was based on the assumption of competitive markets and did not really consider the micro-level actors actually carrying out trade transactions across national borders. Firms' internationalisation, if at all looked at, had simply been seen as derived from country-level comparative advantages. In contrast, Hymer (1960) took the firm as the centrepiece of attention when trying to explain why foreign firms, which *ceteris paribus* would have been at a competitive disadvantage (e.g. due to lack of knowledge about the foreign environment) vis-à-vis indigenous firms, nevertheless, could successfully compete in their local markets. He observed that foreign firms were even frequently able to drive indigenous firms out of their home markets. According to Hymer, the existence of multinational companies demonstrated that competition often was imperfect, as a firm, to become multinational, had to possess an advantage (or a set thereof) that at least cancelled out its initial handicap when competing against local firms. In other words, firms had to have some sort of monopolistic advantages in order to venture abroad, especially when they chose to be physically present in a foreign location such as when setting up a manufacturing unit there.

Market imperfections that lead firms to make foreign direct investments (FDI) could be (i) imperfections in product markets, such as brand names and marketing skills, (ii) imperfections in factor markets, such as proprietary technology and exclusive access to resources, (iii) economies of scale and learning, which lead to cost declines that essentially affected firms' ability to survive, and (iv) politically created imperfect competition, for example subsidies, concessions, and other policy instruments that attract and/or positively discriminate against certain firms.

Given that firms have the benefit of advantages like those just mentioned, they can obviously use them when entering foreign markets. Moreover, such proprietary advantages may become key drivers of internationalisation since firms have an incentive to exploit them as much as possible for further expansion abroad. From the perspective of this theory, the choice of foreign operation method is driven by the nature of the proprietary advantage of the company. However, the range of foreign operations methods considered is constricted. The theory essentially looks at this choice as a question of outlining under what conditions companies would choose to operate in a foreign location through an equity mode, i.e. foreign direct investment, instead of producing at home and then export the good to customers elsewhere.

A modern-day variant of market imperfections theory is the resource-based view, which posits that when valuable firm resources and capabilities are heterogeneous and relatively immobile, firms gain a competitive advantage that result in superior performance (Barney, 1991; Peteraf, 1993; Wernerfeldt, 1984). Firms may acquire and/or develop a wide variety of valuable resources, including financial, physical, technological, human, organisational, informational, legal and relational, which can subsequently be put into use when developing, producing and marketing their product offer domestically as well as abroad. Several international business scholars have taken a resource-based perspective on the choice of operation mode and argue that the best way for a given firm to operate in a foreign market should depend on the characteristics of its key resources (e.g. Andersen, 1997; Madhok, 1997; Madhok and Phene, 2003). For example, if the specific advantage of a company is its superior knowledge, which in turn is often based on tacit information, the company is likely to prefer operating abroad through a hierarchical governance structure such as a wholly owned subsidiary. That arrangement not only gives the company a satisfactory level of control over the use of a key resource, it also provides an organisational set up that facilitates the transfer of tacit knowledge, which normally requires a supportive, long-term and close relationship between the individuals involved (Kogut and Zander, 1993; see also Box 2.1).

Shared control modes, such as a joint venture, are typically associated with a higher risk of unwanted dissemination of valuable knowledge, whereby the other partner might access, and then exploit, the knowledge for its own business purposes without sharing the resulting proceeds. Conversely, firms moving into unknown areas, new types of technology, and/or new lines of business, need to improve their resource or capability bases. While the need to protect existing firm-specific advantages remains important, it needs to be counterbalanced by the call for new capabilities and, sometimes drastic, transformation of firms' resource base (Madhok, 1997). Collaboration with other firms may then make sense both in terms of accessing the required

BOX 2.1

MODE CHOICE IN THE HOTEL INDUSTRY

For many service firms that want to enter foreign markets, a key question is not really one of choosing between equity and non-equity modes, but how to choose between different non-equity modes – e.g. licensing, franchising, and management service contracts (MSC) – for organising their operations in foreign markets. Non-equity modes in particular are widely used in service sectors such as hotels and restaurants. Even though contractually based, various non-equity modes can differ substantially in many respects. For example, in the hotel industry franchising involves primarily the leasing of a brand name and some marketing support and training, whereas a MSC gives substantial strategic and managerial control over the hotel operations. Based on a resource and capability based perspective, Erramilli, Agarwal and Dev (2002) argue that selecting a MSC would be more likely the better the availability of potential partners in the host country, the greater the competitive advantage generated by "imperfectly imitable" capabilities, and the greater the cultural distance to the host country, but that franchising should be the expected choice the greater the availability of qualified managerial staff and the more developed the host country (and hence its institutional and legislative support for franchising contracts). They then tested the propositions on data collected through a survey among managers of 139 hotel operations in 49 different countries. Using logistic regression models the propositions were generally supported by the data. The study demonstrates that there are noteworthy differences across modes, even within one broad category of operation modes. Moreover, the findings are generally consistent with the idea that tacit knowledge, which is difficult-to-codify, is more likely to be transferred internally (see e.g. Kogut and Zander, 1993), or as in the study by Erramilli et al. (2002), in the manner that most closely emulates an internal transfer.

complementary assets and resources and in order to reduce the risks associated with moving into unfamiliar areas, activities and businesses.

Transaction cost and internalisation theories

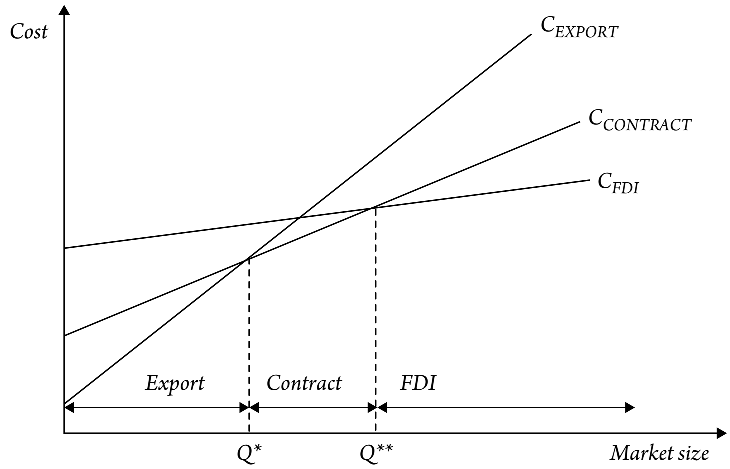
Transaction cost reasoning has been a leading perspective on foreign operation mode choice for more than three decades, either in its general Williamsonian version (Teece, 1986; Williamson, 1979, 1985) or in versions that were developed by international business scholars who explicitly attempted to explain the existence, organisation and behaviour of multinational firms (Buckley and Casson, 1976; Hennart, 1982; McManus, 1972; Rugman, 1986; see also Verbeke and Kano (2013) for an overview). The central tenet of transaction cost theory is that firms choose governance structures in order to promote asset utilisation while safeguarding against hazards

(Williamson, 1985). In the context of international business, the key proposition of transaction cost theory is that multinational firms evolve as a response to market imperfections for various types of cross-border transactions (see, e.g., Buckley and Casson, 1976). The starting point taken is that markets, by means of the price mechanism, provide efficient outcomes if competition is strong. Yet, in a complex and uncertain world populated by economic actors, who have incomplete information, are only rational in a limited way, and may have opportunistic tendencies, positive transaction costs are likely to exist. These costs are the costs of drafting, negotiating, monitoring, and enforcing an agreement between economic actors (Williamson, 1985). The presence of positive transaction costs in the market provides an incentive to organise transactions within hierarchical structures – given, of course, that bureaucratic costs are less than the costs resulting from deficiencies in the market. Essentially, the multinational enterprise is a firm that finds it efficient to integrate business functions across national boundaries.

In what circumstances are firms likely to integrate activities, or in other words; when and why are markets likely to fail? According to transaction cost theory, one key issue is whether the cross-border transactions involve specific assets, i.e. sunk investments that make it difficult to switch from one party to another. Typical cases of asset specificity include location specificity (locating an unit nearby another, e.g. in order to reduce transportation costs) and physical asset specificity (for example, specially designed production machinery, for which great costs would be incurred if modified for other uses than the one it was originally designed for). In such instances, arm's-length (market) transactions and/or contracts with independent actors may not provide sufficient protection and/or incentives to comply with the original agreement, and consequently firms choose to perform the activities in-house.

Uncertainty is another key issue. If all future eventualities and contingencies were known beforehand, it would be possible for parties to plan ahead and handle their interdependencies through comprehensive contracts. Uncertainty, i.e. the inability to know about and predetermine all future eventualities, increases the costs and risks of relying on contracts, both because contracts may have to be more detailed and because contracts, even highly detailed ones, remain incomplete and hence open to interpretations, renegotiations and haggling between the parties. Uncertainty points on the one hand to the need for being flexible, and on the other hand to the need for coordination. In both instances, performing activities in-house may be the preferred option.

A third important matter is the frequency of transactions. Specialised governance forms such as the foreign organisation of a given firm often carry



Source: Adapted from Buckley and Casson (1981).

Figure 2.2 A cost-based view of mode choice

relatively high fixed costs due to setting it up and administering it, and such costs would to a large extent be independent of the volume of transactions involved. However, once the administrative set-up (for example, the hiring of personnel, the development of appropriate routines, etc.) is in place to handle an activity, the subsequent variable costs tend to be rather low. In contrast, a market transaction usually has minimal fixed costs attached to it, but transacting parties have to take on its costs (for example in terms of searching for relevant transaction parties, negotiating a deal, and ensuring that the elements of the deal are fulfilled) each time a transaction is carried out. Setting up a contract will also incur costs, but because contracts usually involve repeated transactions over an agreed period of time, there are likely to be some scale effects to contracting, and hence the ratio of variable-to-fixed costs can be assumed to lie between the extremes of market transactions and in-house operations. Based on such considerations, Buckley and Casson (1981) developed a simple model for the choice between using the market (exporting), contracting (licensing), or performing an activity within the firm (hierarchy). The focal variables in the model are (i) the costs (C_i) of exporting, contracting, and FDI, respectively, and (ii) the size of the market and the resultant scale of operations, Q. Given the cost conditions depicted in Figure 2.2, exporting is the lowest-cost alternative up to scale Q^*. Contracting gives the lowest costs if volume is in the range Q^*-Q^{**}, and FDI represents the lowest-cost option for volumes beyond Q^{**}. In extension, the model is useful in terms of suggesting when it would be rational for a firm to switch from one way of operating in a market to another as a function of growth in the market. Obviously, integration in the form of setting up its own subsidiary in a foreign country makes sense only if the market is rather large from the outset, or if the market develops positively over time thereby accommodating a volume that supports a subsidiary operation.

Integration, however, is a matter of degree; the question is not simply whether to integrate or not, but to what extent one should integrate a foreign operation (Anderson and Gatignon, 1986; Benito, 1996; Gatignon and Anderson, 1988; Gomes-Casseres, 1989; Hennart, 1991; Sanchez-Peinado and Pla-Barber, 2006). While many companies without doubt may have incentives to keep some degree of control over certain assets and activities, they may recognise that very tight control by means of complete ownership is not really required, and/or that insisting on full control entails its own problems in the sense that one foregoes the potential benefits of teaming up with others. The hallmark of an equity joint venture is that it combines the services of assets held by two or more separate firms (Buckley and Casson, 1988; Hennart, 1988).

From a transaction cost perspective, a necessary condition for a joint venture to exist is that markets for intermediate goods (such as know-how, raw materials, parts and components) held by both potential partners simultaneously fail. If not, the parties would simply coordinate their interdependence through market exchange or through a contract. Making the parties co-owners of the venture reduces the incentives for opportunistic behaviour such as charging inflated prices or supplying inferior goods (Hennart, 1991). Both parties should have an interest in maximising the profits of the venture because they are paid for their contribution in the form of a share of the profit actually made by the venture. However, as noted by Hennart (1988, 1991), the presence of failing markets for intermediate goods is not sufficient for joint ventures to emerge. Opportunism can also be lowered if one of the parties takes full control, e.g. through acquisition of or merger with the other party. In fact, one basic problem with partial ownership is that the incentives for a firm to contribute to the venture are not as strong as when it has full ownership (Gomes-Casseres, 1989).

Because complete integration comes at a cost, joint ventures are sometimes an efficient way of organising. This seems to be the case in two instances (Buckley and Casson, 1988; Hennart, 1988). First, a joint venture is likely to be the preferred choice when the non-marketable assets are a small and inseparable part of the total assets held by both potential partners. Second, a joint venture may also be the preferred alternative if a merger or complete acquisition increases management costs to unacceptable levels, which is particularly likely to happen if cultural differences between parties are very large. A joint venture may then provide an avenue for bridging cultural gaps (Gatignon and Anderson, 1988; Hennart, 1988). The bottom line in transaction cost theory is nevertheless that a high level of control is crucial if valuable specific assets are present. Thus, when a multinational enterprise (MNE) exploits types of knowledge and goodwill, which are difficult to protect, it is less likely to accept partial ownership of a foreign subsidiary. Likewise, when the link to a subsidiary involves sourcing from (or supplying to) the subsidiary intermediate goods that otherwise would be transferred through channels prone to market failure, an MNE is likely to insist on full ownership.

A theory that is closely related to transaction cost theory is agency theory, which focuses on the information asymmetries that exist between principals (chiefly the owners of a company) and agents (those acting on the principal's behalf such as managers, employees, and/or external actors such as intermediaries); for a review, see Thompson (1988). Information asymmetries, which are particularly pronounced in international business contexts, cause both pre-contractual and post-contractual problems. The pre-contractual problems concern the principal's problems in knowing the true qualifications and shortcomings of prospective agents. Post-contractual problems are those related to controlling the actions of agents in order to mitigate shirking. These are classic problems in economics (Jensen and Meckling, 1976), and the international business literature has dealt with a range of applications of agency theory, in particular exporter–intermediary relations (Petersen, Benito and Pedersen, 2000).

Monitoring the performance of foreign sales agents is difficult, both because agents are at a distance and because they are likely to have information (e.g. about the market) which they do not necessarily share with the principal (Nicholas, 1983). Thus, agency problems are often seen as a strong motivator for internalising foreign sales activities (Anderson and Coughlan, 1987; Casson 1987), although such greater commitment is often only taken after some time as sales volumes become sufficiently large to support a local subsidiary (see Buckley and Casson, 1981), and the exporting company develops necessary knowledge about a given market and how to conduct operations there. Without such knowledge it is difficult to evaluate the competence and commitment by which the intermediary performs a given task. If the intermediary assigns poor sales results to non-controllable, adverse exogenous factors, the exporting company will find it hard to prove that explanation wrong. Also, the company will not know with any degree of certainty whether more capable intermediaries in fact are available, which could replace the current ones. However, as an exporting firm accumulates knowledge about foreign markets and develops skills in managing and dealing with foreign intermediaries, its ability to detect an intermediary's actual shortcomings and shirking proclivities should increase accordingly. Stated differently: as the control capability of the exporter improves, an intermediary should as a result become more exposed to the risk of replacement. Moreover, the accumulation of market knowledge implies discovering and learning about other local intermediaries that are believed to be superior – along a range of characteristics, including capabilities, enthusiasm and trustworthiness – to the current intermediary. Unless such superior intermediaries are contractually bonded to competing firms, current intermediaries will be at some risk of being replaced.

Rivalistic and strategic behaviour

Industry characteristics shape firm strategies and constrain the strategic options open to firms (Ghoshal, 1987; Porter, 1986). Knickerbocker (1973) observed that in oligopolistic industries firms tend to move in tandem to preserve industry stability and if one competitor internationalises, others are prone to follow. Oligopolies typically exist in industries that have reached a mature phase in the industry life cycle, and in which competition commonly is regarded as a zero-sum game. Firms attempt to minimise the risks and uncertainties associated with their businesses and generally dislike actions that disrupt the status quo. Because sales and market shares lost to competitors often have direct effects on the bottom-line, firms try to match the behaviour and activities of their rivals. The initiation of cross-border activities represents a potentially important change in the competition arena and whereas firms operating in industries with large numbers of incumbents would not necessarily feel compelled to react, firms in oligopolistic industries tend to respond vigorously to a competitor's moves. Internationalisation can then be a direct countermove to competitors internationalising, thereby creating a chain of interdependent moves and countermoves (Yu and Ito, 1988). Sometimes the entry of one of the industry incumbents into a foreign market unleashes a chain of subsequent entries by other incumbents, thereby establishing a follow-the-leader pattern of foreign market entries (Knickerbocker, 1973). Sometimes the initiating move is undertaken by foreign firms entering a market previously dominated by domestic firms, which in turn lead these firms to launch counterattacks on the national markets of the entrants (Graham, 1978).

The international strategy literature also addresses industry-related characteristics in the global integration/local responsiveness framework in terms of various pressures in the firms' competitive environment (Prahalad and Doz, 1987; Bartlett and Ghoshal, 1989). This approach regards the issue of foreign operation methods primarily as a question of the level of control that is needed in order to coordinate global strategic action (Hill et al., 1990). In contrast to a so-called multi-domestic strategy, where all or most of the value chain takes place in every country, a key feature of a global strategy is that the value chain of the firm is configured in such a way that value added at each stage is maximised (Hout, Porter and Rudden, 1982; Porter and Fuller, 1986; Yip, 1989). In the presence of location-specific scale economies this leads to the breaking up of the value chain so that the various activities are conducted in different countries (Yip, 1989).

As pointed out by Hill et al. (1990), achieving coordination of an interdependent global manufacturing system seems to require a high degree of control over the operations of subsidiaries located in different countries. The various foreign units must accept centrally determined decisions as to what, how much, and at what price they should produce. Such terms do not constitute a suitable basis for cooperation and are hardly likely to be accepted by any alliance partner.

In a similar vein, when an industry is highly concentrated globally, competitive moves may be taken on the basis of strategic objectives that go beyond the narrow calculus of choosing the most efficient mode of operation in a particular market (Doz, 1986; Hill et al., 1990). For example, a company may undertake an aggressive entry into the home market of a competitor in order to induce the latter into a fervent defence of its home market position. The rationale behind such an entry is not profitability in a strict sense (as it often involves fierce price competition), but it may nevertheless be consistent with maximisation of global profits. The loss taken on operating in the home market of the competitor is simply part of the cost of deterring the competitor from entry elsewhere. To the extent that firms in industries with a limited number of players actually engage in such games, it follows that firms will prefer to have a high degree of control over the behaviour of their subsidiaries, partly because competitive moves have to be coordinated but also because certain subsidiaries are likely to run at a loss (which probably will not be acceptable to a venture partner). In sum, companies are likely to have a pronounced preference for wholly owned subsidiaries if they pursue global strategy and/or the configuration of an industry is one of global oligopoly.

Combining strategic and internalisation approaches, Hill et al. (1990) argue that the decision can be seen as driven by a set of three main groups of variables; strategic factors, environmental factors and transaction cost factors. First, strategic variables – such as the extent of scale economies and global concentration – have an impact on the appropriate level of control. For example, firms that pursue global strategies are more likely to insist on high-control modes – such as fully owned subsidiaries – due to their need to tightly coordinate operations in dispersed locations. Second, environmental variables influence the resource commitment (and hence the strategic flexibility) aspect of foreign operation modes. For instance, when country risk is high and/or cultural distance is large, firms are expected to select low-resource commitment modes so that resources may be re-allocated at a low cost. Finally, the value and nature of firm-specific assets have implications for how much dissemination-risk (i.e. the extent to which contract partners may appropriate valuable assets without consent) the firm can accept. The more valuable the assets (say, know-how) the greater the probability that the firm will take extra precautions safeguarding them, and hence choose an operation mode involving low dissemination risk, such as a fully owned subsidiary.

The eclectic framework

Although all the foregoing theories provide significant insights into companies' choice of foreign operation methods, each one really gives only a partial view of such choices. Dunning (2001) argues that they are individually incomplete and that they cannot satisfactorily explain either the choice of FDI over exporting or licensing or some other type of inter-organisational set-up, or the choice of where to locate the various value activities. As an alternative, John Dunning has over the years developed the so-called eclectic framework (Dunning, 1981, 1988, 2001), which usefully synthesises the various strands of the other theories. Dunning's framework is based on three main sets of factors that are regarded as necessary in order to explain the choice of foreign operation method, ranging from export operations to foreign direct investment. The three factors are ownership (O) factors, location (L) factors, and internalisation (I) factors, hence the often used OLI acronym for the framework. The framework encompasses market imperfections and resource based theory (the ownership factor), international trade and location theory (the location factor), and transaction cost theory (the internalisation factor). Box 2.2 presents an empirical study based on the framework.

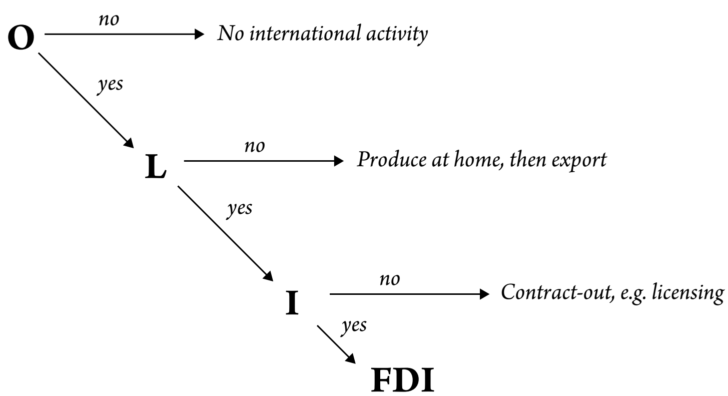
As shown is Figure 2.3, the basic reasoning proposed by the framework is as follows: First, the ownership factor is about whether the firm controls certain assets that give it a competitive advantage over indigenous firms. Given the additional costs of operating in a foreign environment, such an advantage is necessary in order for the firm to compete on a par with local firms. Without it, the firm would simply not be able to survive in a competitive foreign context. Second, the location factor brings up whether certain assets

BOX 2.2

EXAMINING THE OLI FRAMEWORK

To what extent and how do location, ownership and internalisation factors influence the choice of foreign operation method? To examine the soundness of the so-called OLI framework, Agarwal and Ramaswami (1992) investigated the entries of 97 US-based equipment leasing companies into three countries: the UK, Japan and Brazil. The study covered a variety of entry modes, ranging from "no involvement", via exporting, licensing and joint venture, to a wholly owned venture in a given host country. Based on the OLI framework, the explanatory variables were categorised into the three main groups: (i) ownership advantages including firms' ability to develop differentiated products, firm size and experience, (ii) location advantages, such as market potential and investment risk, and (iii) contractual risk, dealing with internalisation advantages. The study was conducted as a mailed questionnaire survey where all variables were measured by multiple items, which were then combined into scales. The results, which were generally supportive of the OLI framework, suggest *inter alia* that internationalisation of any kind hinges on firms' ability to develop differentiated products, but that equity modes are preferred over exporting or licensing in high potential markets. Also, while wholly owned subsidiaries are the preferred choice of large, multinational firms, especially in markets with higher potential, firms tend to stay away from wholly owned subsidiaries when the risks (contractual as well as investment risks) are high.

Figure 2.3 A decision-tree for FDI based on the OLI framework



controlled by the firm are best put into use in parts of the world beyond the firm's "country of origin". This issue here is whether a necessary condition for foreign production is met. If there were no foreign location advantages, the activity (for example, manufacturing) would be carried out in the home country of the firm and the product then exported to customers elsewhere. The location factor is hence not crucial for whether or not the firm would internationalise, but decisive for whether the servicing of a foreign market is carried out via exports or through local production. Third, the internalisation factor points to the organisation of an activity: does the best use of assets involved in performing a given activity require that these assets be internally transferred? A positive answer to this question is a necessary condition for conducting activities in-house.

A simple formalisation of the choice of foreign operation method

The reasoning of economics approaches to choice of foreign operation methods are straightforward to formalise. We take as a starting point that the firm has three main strategic options when deciding how to service a foreign market: (i) it can export to the market on an arm's-length basis, (ii) it can contract another firm to carry out a certain set of activities in that market, or (iii) it can directly invest in the market by setting up its own subsidiary and hence conduct the activities in-house. The strategic options (S_i) of exporting versus contracts versus foreign direct investment can be denoted S_{export}, $S_{contract}$, and S_{FDI}, respectively. The goal of the firm is to maximise its expected profits, max $E[(S)]$. Profits are given as the net result of operations after costs have been subtracted from revenues, and if production (or activity) costs as well as governance costs are taken into account, the firm will seek to maximise:

$$(S) = R(S) - [c(S) + g(S)]$$

where, $R(S)$ = revenue of option S_i, $c(S)$ = production cost of option S_i, and $g(S)$ = governance cost of option S_i.

Obviously, FDI would be preferred only if $(S_{FDI}) > [(S_{export}),(S_{contract})]$. This may happen if the revenues generated by the focal firm are greater if the market in question is serviced by a subsidiary operated by the firm than if the firm exports to that market or lets a contractor conduct the operations there. Formally, this means that the following condition is met:

$$R(S_{FDI}) > [R(S_{export}), R(S_{contract})]$$

As suggested by the notions of market imperfections and ownership advantages, superior revenues can be due to the competitive conditions, for example that the focal firm enjoys some degree of market power, which can be sustained over some time due to entry barriers. The basis of such market power can be prior investments in brands, design, technology, product development capabilities etc. Revenues can also be higher for the FDI option because the firm operates on its own and therefore does not have to share profits with an external party.

The FDI option may also be preferred on the grounds of lower production costs, for example due to lower input costs or lower wages in the foreign location. This entails the following condition:

$$c(S_{\mathrm{FDI}}) < [c(S_{\mathrm{export}}), c(S_{\mathrm{contract}})]$$

Finally, as pointed out by internalisation and transaction costs theories the options may differ in terms of their governance cost outcomes. Making a FDI is certainly not without costs. Nevertheless, setting up a subsidiary controlled by the firm may enhance the coordination of actions across markets, facilitate the monitoring of operations, and because the interests of the parties involved are more aligned with each other, also help in reducing the bargaining costs that often arise between parties. The third possible condition for making a FDI is hence:

$$g(S_{\mathrm{FDI}}) < [g(S_{\mathrm{export}}), g(S_{\mathrm{contract}})]$$

Behavioural approaches

In contrast to the "economics-strategic" stream with its strong emphasis on rational decision-making, the internationalisation process approach to foreign operation mode decisions takes as a starting point that a framework of unconstrained rationality performed as if by unitary entities, provides limited understanding of how firms actually make decisions. Instead, the internationalisation process approaches view such decisions through the lenses of limited rationality and organisational learning processes (Cyert and March, 1963; Simon, 1955, 1979). Process perspectives also tend to take a more holistic approach in which the operation mode dimension is only one of several aspects of internationalisation (Welch and Luostarinen, 1988).

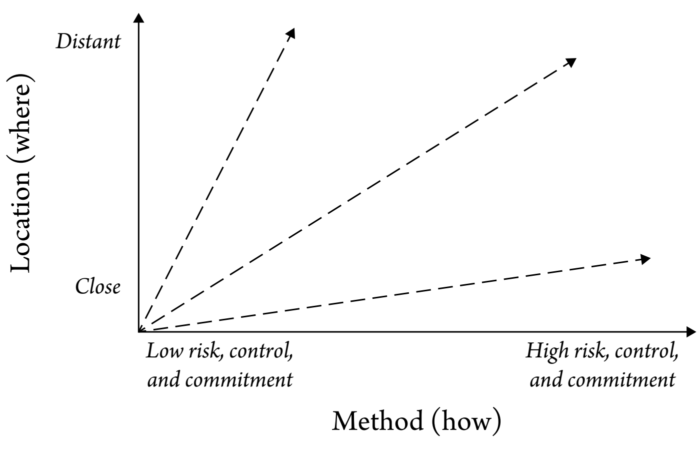
As pointed out by Carlson (1975), firms' expansion beyond the borders of their home countries is in many ways "unnatural", and is not likely to happen in the absence of driving forces such as a saturated home market or unsolicited orders from abroad. International expansion represents a voyage into unknown territory. Such decisions are for most firms, but particularly for those with limited international experience, characterised by considerable perceived uncertainty. This uncertainty stems from general lack of knowledge about the workings of particular foreign markets (customer behaviour, institutional and legal frameworks, etc.), as well as lack of knowledge about how to run specific business operations in unfamiliar contexts. Typically, such knowledge is "fuzzy", and acquiring such knowledge is often a lengthy process since it involves developing it by "learning-by-doing", and institutionalising it in a company.

The internationalisation process perspective

Based upon the behavioural theory of the firm, models of a gradual internationalisation process were proposed by Johanson and Vahlne (1977, 1990), Johanson and Wiedersheim-Paul (1975) and Luostarinen (1979), and further developed by Hedlund (1994), and Vermeulen and Barkema (2002), among others. Their research underlines the importance of experiential knowledge and suggests an expansion pattern where the firm is gradually moving along the governance or organisational dimension as well as the location dimension. Specifically, as depicted in Figure 2.4 firms move over time towards (1) higher commitment operation modes and (2) more distant countries in cultural or psychic distance terms.

In the initial phases of their internationalisation, few firms are prepared and willing to commit resources to foreign operations. Without appropriate experience and knowledge, decision-makers will inevitably have a strong sense of risk and uncertainty, which again is likely to constrain the range of operation modes that are considered. Conversely, the greater the depth of knowledge and experience in foreign markets, the more confident a firm tends to be about making commitments, and about its judgement of the degree of exposure to risk.

Figure 2.4
Dimensions of international expansion



In their influential article on firms' internationalisation, Johanson and Vahlne (1977) suggested that there is an interplay between accumulation of knowledge on the one hand, and firms' actions on the other. Commitment decisions are based on the knowledge that already firms have. Knowledge is crucial in order to identify and assess problems and opportunities, which in turn drive the decisions that are made. In the decision-making process, the identification of appropriate alternative courses of actions and their evaluation hinges on the knowledge that is available about relevant parts of the market environment, such as customers, competitors and suppliers, and about the performance of the various activities undertaken by the firm. Much of the knowledge on hand is so-called objective knowledge (or rather, information) of a fairly general kind, which can be treated more or less like a commodity and which can be taught and or bought. Nevertheless, the most important and relevant type of knowledge is so-called experiential knowledge that is foremost learned through personal experience with actual operations in foreign markets, hence providing an important feedback loop in the process.

The seminal study by Johanson and Wiedersheim-Paul (1975), who examined the internationalisation moves of four major Swedish firms since their foundation – Sandvik, Atlas Copco, Facit and Volvo – provided evidence that suggested a distinctive pattern of internationalisation. First, they reported that there was, generally, a high correlation between the sequence of (initial) entry into a market and the "psychic" distance to the home country (Sweden) and that market. However, "psychic" distance was somewhat less important for establishment of manufacturing subsidiaries, possibly because such establishments usually came quite late in firms' internationalisation, after they already had operated abroad for some time. Also, their findings indicated that "psychic" distance was a stronger factor than market size in explaining companies' choice of location. Finally, Johanson and Wiedersheim-Paul (1975) reported that the speed of internationalisation increased over time.

Since Johanson and Wiedersheim-Paul's (1975) study, a considerable number of empirical studies have provided additional support for the notion of internationalisation as a gradual learning process; Leonidou and Katsikeas (1996) provide a fine overview. It appears that many firms follow distinct stages of development in their internationalisation. In terms of their choice of location, firms tend to enter countries successively according to how similar (or, conversely, how psychic or culturally distant) they are to their own home countries. In terms of foreign operation modes, firms tend to increase their commitment step by step, a common pattern for manufacturing firms regarding modes of operation being: (1) no regular export or other types of international activities, (2) export via a foreign intermediary (e.g. agents or distributors), (3) establishment of a sales subsidiary, and (4) production in a foreign country.

Despite the intuitive and commonsensical appeal of the basic ideas in the process perspective on firms' internationalisation, the empirical support for the theory is far from conclusive. For example, empirical tests have not uniformly supported the gradual move into culturally more distant countries (Benito and Gripsrud, 1992; Cuervo-Cazurra, 2011; Mitra and Golder, 2002). A possible explanation is that some companies internationalise in order to lower their production costs, to get closer to suppliers, and/or to obtain agglomeration benefits, and such locations simply are in distant countries. The economic motivation behind an internationalisation decision may hence sometimes override concerns about lack of knowledge about given locations (Benito, 2015). Studies have also shown that firms may leapfrog stages in the establishment chain, for a variety of reasons including competitive motives (Petersen and Pedersen, 1997), avoidance of costs involved in switching between modes of operation (Benito, Pedersen and Petersen, 2005), and entrepreneurial action (Andersson, 2000).

Some critics argue that the internationalisation process approach has been overly deterministic, and emphasise that firms have options for strategic choice both regarding the countries and markets they want to enter and when selecting the modes of operation; see also Box 2.3. Critics also point out that several studies over the past two decades have reported an increasing number of firms internationalising much more rapidly and in more adventurous ways than what seems to have been common in the past. A significant number of firms did not slowly build their internationalisation, which could appear to contradict earlier studies of firms' internationalisation (Johanson and Vahlne, 1977, 1990; Johanson and Wiedersheim-Paul, 1975). Instead, these firms turned international shortly after their inception (see, for example, Andersson and Wictor, 2003; Madsen and Servais, 1997). A variety of labels have been applied to characterise these firms, including: Born Globals (e.g. Andersson and Wictor, 2003; Knight and Cavusgil, 1996; Madsen and Servais, 1997; Moen, 2002), International New Ventures (McDougall et al., 1994), Instant Exporters (McAuley, 1999), and Rapid Internationalisers (Hurmerinta-Peltomäki, 2004; see also e.g. Jantunen et al., 2008).

In what was one of the first studies about Born Globals (Rennie, 1993), the McKinsey consultancy company reported that Born Globals in Australia typically shared the following features: they were small, usually established by active entrepreneurs, often as a result of significant breakthroughs in process or product technology, which were put into use to develop a unique product idea or a new way of doing business. The management of the companies tended to regard the world as its marketplace right from the outset, with exports beginning only a couple of years after the establishment of the firm. Importantly, for many companies the increased speed of internationalisation has not hurt the long-term performance of their international activities (García-García, García-Canal and Guillén, 2017).

Several factors have contributed to quicker internationalisation and more diverse internationalisation patterns (Gabrielsson et al., 2008). Among external factors, the following should be mentioned:

- The emergence of world-wide market niches;
- Rapid technological change, which requires going beyond local markets in order to reap scale economies;
- Developments in communication and transportation technologies have made it easier for firms to stretch their boundaries;
- Psychic distance has been reduced through increased globalisation.

Internal factors are also important, in particular:

- Some owners and/or managers have extensive international experience. Having prior knowledge and experience helps in reducing psychic distance to specific markets. It also increases absorptive capacity (i.e. the ability to appropriate and use new knowledge), which in turn makes the actors more able to accumulate and use new knowledge about internationalisation;
- Increased competition requires more proactive and strategic internationalisation behaviours.

According to Hennart (2014), a characteristic of Born Globals is that they sell niche products and services to customers scattered around the world, and they do so using methods of reaching, communicating, and transacting with them that are comparatively low cost. Hennart (2014) mentions the Australian software firm Atlassian as a quintessential Born Global. Established in 2002 and using an internet-based business model, it rapidly grew into a global business; it had 3500 customers in 50 countries just two years after establishment. It is now a multinational company, with 1400 employees working in offices in five different countries to service more than 50,000 customers worldwide (www.atlassian.com/company). Regarding foreign operation modes, Hennart (2014) argues that Born Globals tend to use standardised approaches that are easy and inexpensive to scale up as demand increases. Hence, such companies typically abstain from making large and potentially irreversible investments in foreign markets.

Alongside the focus on Born Globals, there is an increasing awareness of the potential importance of entrepreneurs in firms' internationalisation (Coviello, 2015). A number of studies have found entrepreneurs' attitudes towards international activities, and their motivation, orientation, experience and networks have a positive impact on the international operations of firms (Andersson, 2000; Andersson and Wictor, 2003; Bloodgood, Sapienza and Almeida, 1996; Ibeh and Young, 2001; Kuemmerle, 2002; Madsen and Servais, 1997; McDougall et al., 1994; Moen, 2002; Oviatt and McDougall, 1994, 1997; Preece, Miles and Baetz, 1999; Welch and Welch, 2004).

A focal issue for international entrepreneurship and internationalisation researchers alike is how perceived risk affects the way individuals and companies approach international activities (Welch and Luostarinen, 1988), but according to Welch and Welch (2004) there are noteworthy differences between the two. Companies unavoidably take on risk as they enter a foreign market and develop international operations, but at the same time they seek various ways to minimise their exposure to risk. Among entrepreneurship researchers, the focus has tended to be on how different actors act when facing risk. For example, risk-taking can be regarded as an important aspect of an entrepreneurial orientation, especially in the context of the internationalisation of small and medium-sized companies that are often expected to behave cautiously when venturing abroad. Some companies take steps that others do not simply due to audacious and influential actors in them. The centre of attention for internationalisation researchers has not so much been attitudes towards risk *per se*, but more how risk is related to other factors that also influence internationalisation behaviours. For example, perceived risk is likely to change as a result of experience in a particular country and/or with a particular mode of operation and/or relationships with certain actors, and such changed perceptions of risk provide an impetus and/or hinder subsequent commitment to foreign operations.

The network approach

Although the views on the importance of various factors as well as their assumptions regarding the degree of rationality involved in decision-making clearly vary, both the "economics-strategic" approach and the "process" (or "behavioural") approach take primarily into account factors internal to the firm – given, of course, environmental contingencies such as legal and political issues in the countries of interest. In recent years, increasing attention has been given to the view that "no firm is an island" (Håkansson and Snehota, 1989), but that its past, its existing activities, and its future potential for strategic manoeuvres are largely a reflection of its links to other actors. The network approach maintains that an integral part of the internationalisation process is the establishment, nurturing and expansion of relationships – and thereby networks – in foreign markets. It is almost inconceivable that foreign market penetration can in fact take place without building relationships with a wide range of organisations and individuals – in particular, customers, intermediaries, financial institutions and government officials. From a network perspective, the knowledge a firm has about foreign markets and the opportunities open to the firm in these markets, extend beyond the boundaries of the firm itself; it is principally contained in the network that the firm has been and will be able to develop, and anchored by key actors within them (Benito and Welch, 1994). The internationalisation process model has recently been extended to include the importance of networks in the internationalisation of firms (Johanson and Vahlne, 2009).

Formal as well as informal contacts between people provide the basic mechanism through which relationships are created and maintained. Naturally, relationships vary in kind and quality. Of particular importance are those that, over time, create a sense of trust and mutual dependence between the actors. Especially in cases where a foreign market is perceived as being complex, different and very "distant", without trustworthy connections to "insiders" in the market, decision-makers are not likely to be willing to operate in the market with any high degree of commitment. Of course, even though it may reduce the risk exposure in the short term, becoming too entangled with other actors may also restrict the opportunities open to the firms in the future.

The network perspective is pertinent in order to explain the phenomenon of rapid and adventurous internationalisation. Born Globals are usually more specialised and niche-oriented than other exporters, and their products tend to be either more customised or more standardised (Knight and Cavusgil, 1996; Madsen and Servais, 1997). The seemingly less predictable location patterns often observed in their expansion patterns, suggest that the activities of Born Globals are strongly influenced by the past experience of the founders and partners, i.e. the entrepreneurs, and by customer-related and supplier-related factors, either directly or through interaction. Compared to other firms, Born Globals often rely on complementary resources and competencies, which are sourced from other firms, and their distribution channels frequently depend on mixed structures, or hybrids, that involve network partners, strategic alliances and joint ventures (Madsen and Servais, 1997; Crick and Jones, 2000). The risk of entering foreign markets is managed

BOX 2.3

INTERNATIONALISATION WITHOUT CHANGE OF FOREIGN OPERATION MODE

According to internationalisation process models, firms typically change the ways they operate in foreign markets as they gain experience from operations abroad. In particular, if their foreign operations are reasonably successful it is expected that firms over time deepen their commitments abroad, normally by changing from export-oriented operations – which are undertaken from the firms' home base – to carrying out activities in foreign locations, either in a wholly owned venture or in cooperation with a local partner. However, exceptions to this notion of incremental internationalisation can be found and some companies internationalise without ever changing their foreign operation method. In a study of the Australian conglomerate CSR, Welch and Welch (2004) describe how that company's sugar division held on to exporting as their mode of operation for a period of more than 75 years. CSR's allegiance to exporting did not imply stagnant internationalisation. Despite sticking to the same operation method, CSR enjoyed considerable success in their internationalisation in terms of trade volume as well as the number of markets served. According to Welch and Welch (2004) the development of relationships and networks at home as well as abroad – not only with customers but also with actors in the political and regulatory spheres – were crucial factors behind the success of CSR's internationalisation. Furthermore, their study demonstrates that understanding modes of operation may require going beyond traditional labels: considerable variation can be found within one type of foreign operation mode, even for the same company, as time passes. In the case of CSR, the company followed a strategy of network investments and relationship commitment that effectively "stretched" its foreign operation method, but without changing it.

by exploiting simultaneous trade-offs between entry mode commitment, country risk and foreign revenue exposure in each country (Shrader, Oviatt and McDougall, 2000).

The Born Global concept and associated terms like Rapid Internationalisers and International New Ventures are based on the presumption that firms have a clear and distinct 'starting point', i.e. a date of inception or establishment. Otherwise, it is hard to assess how quickly they internationalise and hence to determine whether or not they classify as a Born Global. While any particular firm, as a legal entity, obviously has a date of establishment, recent research has questioned the universal validity of using such a date. Hewerdine and Welch (2013) suggest replacing the concept of company inception with that of organisational emergence, which may include processes that pre-date the legal registration of a company. In particular, acquiring and developing assets, resources and competences are lengthy processes that often start long before a company is formally established. In their study of six Australian companies that were widely regarded as International New Ventures, Hewerdine and Welch (2013) report the companies' average pre-establishment period to be 7.1 years on average, hence putting into question the supposition of quick internationalisation after inception.

Similarly, Welch and Welch (2009) point to the phenomenon of re-internationalisation, where companies may withdraw from international operations at some point (typically due to lack of success), only to re-enter international markets later. Re-entries can be triggered by external factors such as significantly changed market access opportunities (for example, the lifting of various trade barriers, favourable developments in foreign exchange, etc.), as well as internal developments such as the hiring of internationally minded managers who are capable and willing to initiate strategic change aimed at new foreign market activities. Part of the international heritage that may assist re-entry would be mode knowledge and experience, although feasibly generating mode bias. While some companies that re-internationalise have a lot in common with other exporters – just that they exhibit a more intermittent pattern in their internationalisation – other companies are more similar to International New Ventures because their re-internationalisation is perceived as being a totally new endeavour.

Inward-outward connections

As pointed out earlier in this chapter, firms' internationalisation comprises inward operations as well as outward operations (see Figure 2.1). Internationalisation research has so far had a strong bias towards outward operations, such as exporting and the establishment of foreign sales and manufacturing subsidiaries, whereas the reverse side of these activities, such as importing and sourcing activities has received considerably less attention. Even less is known about the potential linkages between activities that are outward oriented and those that are inward oriented. In a study of a large number of Finnish small and medium-sized companies, Korhonen, Luostarinen and Welch (1996) found that a majority of the studied companies began their international activities on the inward side rather than on the outward side, thus pointing to the potential importance of inward activities as a springboard to outward activities. Typical inward operations were imports of physical products like raw materials, machinery and component. Imported services, like installation, testing, servicing and maintenance, were also common although at a lower level compared to physical products.

The connection between inward and outward activities and how it affects the internationalisation process of the firm has been identified primarily through research on specific business operations such as licensing, subcontracting, and counter trade. Welch and Luostarinen (1993) provide several examples of such instances and argue that the inward-outward connections may be important even at the very early stages of international development for many companies. They also suggest that the connections often are broad, go across operation modes, and may develop from either inward or outward sides at different stages of international development for many companies. The evidence, while limited, indicates that inward activities may provide a good opportunity to learn about foreign trade techniques, foreign operation characteristics and ways of using different operation modes. By active use of this knowledge, the firm should be in a better position to undertake outward operations in a foreign market. However, as pointed by Karlsen et al. (2003), a real challenge is to deal with the barriers that exist within firms regarding effectively transferring and using the knowledge that has been generated by inward activities. In their study of the evolution of Norwegian timber company Moelven's operations in Russia, Karlsen et al. (2003) report that Moelven was relatively successful in using knowledge and personal and network relations developed through inward activities (e.g. import of timber) when it subsequently ventured into outward-oriented activities in Russia, including a turn-key project and the setting up of a jointly owned production facility there for exports to other European markets. An important reason why so many connections between inward and outward activities were identified in Moelven was the perceived strategic importance of Moelven's purchasing function. However, Korhonen (1999) argues that inward and outward processes are frequently poorly linked, particularly because the purchasing function typically has tended to be viewed as a clerical function of modest strategic importance, which therefore has limited authority in many companies.

The research on inward-outward linkages connects well with recent avenues in studies of firms' internationalisation. First, it goes some way to answer why some companies seemingly internationalise very rapidly: due to previous inward activities companies may already have developed the knowledge and relations needed to swiftly move on with outward operations. Second, it answers another intriguing question that has been raised by recent research on firms' internationalisation: why is the level of unsolicited orders so high in the initiation of international operations? The fact that many firms develop international operations via various forms of importing activities opens up a wide range of potential links through which information relevant to outward operations might be transferred. Third, the interaction between inward and outward internationalisation is related to, and possibly dependent on, the concurrent evolution of formal and informal business networks. The network approach provides a useful framework for understanding the way in which inward-outward connections emerge and develop. Obviously, the focal linkages are not just with external actors. Also important are intra-company relations, where cross-functional communication and personal relationships are necessary in order to build a strong internal network within which inward-outward connections may emerge.

Institutional approaches

Institutional approaches to foreign operation mode choice differ from economics and behavioural approaches by their emphasis on factors that are largely external to individual firms, i.e. home and host country characteristics such as culture, and political and legal systems. As international business has become ever-more global, especially in terms of the greater number and increasing diversity of countries actively taking part in international business activities, the external environment of businesses has received growing attention from international business researchers (Morschett, Schramm-Klein and Swoboda, 2010). The increased involvement and significance of emerging countries for international business has been pivotal in bringing attention to institutional factors (Hoskisson et al., 2000).

The essence of institutional theory is that countries' institutional context affect operation mode choices because they reflect the "rules of the game" in the countries in which firms operate. Early research about institutional factors influence on operation mode choice seldom applied an institutional perspective as such. Institutional factors were either treated as contextual "background" or included (perhaps as country-level controls) within analyses building on economics and/or behavioural approaches. An example is the inclusion of "environmental variables" in Hill et al.'s (1990) framework, which was covered earlier in this chapter. However, as Brouthers and Hennart (2007, 405) point out, the application of institutional theory to operation mode choice decisions "has developed from relatively simple models of host country risk and uncertainty perceptions to more theoretically based research driven by concepts derived from new institutional theory". North's (1990) distinction between formal and informal institutions and Scott's (1995) trichotomy of the cognitive, normative and regulative dimensions of institutions are prime contributions to new institutional theory, which have been brought to the study of multinational enterprise (e.g. Kostova, Roth and Dacin, 2008).

Institutions can be defined as "systems of established and prevalent social rules that structure social interactions" (Hodgson, 2006, 2). According to

North (1990), it is useful to distinguish between formal and informal institutions. Key formal institutions are laws and regulations, especially those that pertain to property rights, markets and businesses. Informal institutions comprise those that Scott (1995) calls normative, i.e. norms of behaviour based on appropriateness and social obligation, and cognitive, which guide behaviour through habits, customs and tradition, or put differently, culture. The importance of culture and cultural differences was early noted by researchers taking internationalisation process and network perspectives, which have already been dealt with in some detail in this chapter. Nonetheless, recent research done on the use of joint ventures as ways of bridging large cultural differences is often based on an institutional perspective (e.g. Lo, Chiao and Yu, 2016). In a study of MNEs from the Middle East, Cuervo-Cazurra (2011) shows that by allying with foreign firms at home, companies develop knowledge about how to manage differences in cultures and institutional environments, which increases the probability that they seek out more distant and challenging foreign countries in their subsequent internationalisation.

Formal institutions may significantly influence companies' mode of operation (see Box 2.4. for details about an empirical study of the effect of institutional factors). For example, local authorities in a host country may prefer certain modes of entry (such as joint ventures or greenfield entries), and promote or regulate accordingly, perhaps by imposing additional burdens on unwanted alternatives such as more cumbersome approval procedures, or more radically, by illegalising them. Emerging countries such as China and India have purposefully used joint venture regulations as ways to make inward direct investment attractive for foreign companies, yet simultaneously ensure that local companies benefitted from such investments through transfer and development of superior technology and business knowledge (Peng, Wang and Jiang, 2008).

Conversely, home countries occasionally also place restrictions on – or promote – indigenous companies' internationalisation. While outright bans on international business are increasingly rare (cf. the recent restoration of economic relations between Cuba and the USA), export and investment licenses still abound, and promoting companies' internationalisation is prevalent among emerging countries. For example, several scholars have noted the active role of the Chinese government in enabling local companies' international expansion entry into foreign countries (Buckley et al., 2008; Peng, 2012), for instance by entering into bilateral treaties and agreements.

Companies may also take into account local institutional factors in a potential host country, and consider whether factors such as property rights regime or

BOX 2.4

HOW INSTITUTIONS MATTER FOR FOREIGN MARKET ENTRY

The 'rules of the game' in a host economy may significantly shape how firms choose to entry a country. For example, certain modes of entry may be preferred by local authorities (e.g. greenfields and/or joint ventures). Local institutional factors such as property rights regime and political stability may also encourage choosing certain modes and disfavour others; for example, commitment through high control modes such as FDI may be less favoured for entry into unstable and unpredictable markets. Differences between home and host countries may also be important because they create uncertainty and take time and resources to overcome. This could be especially important in emerging economies where institutional frameworks differ substantially from those in developed economies. How do (Western) foreign firms adapt entry strategies when entering emerging economies? Meyer, Estrin, Bhaumik, and Peng (2009) examine this question empirically in a study of foreign entries into Egypt, India, South Africa, and Vietnam; four countries that vary considerably in size and development, and importantly, display substantial variation in formal and informal institutions. Meyer et al. (2009) combine questionnaire data (firm level, especially on resources) with archival data (especially for country level) to test a model where they combine institutional and resource based perspectives to analyse forms' choice among three modes of FDI entry: (1) greenfield, (2) acquisition and (3) joint venture (JV). Focusing on market-supporting institutions (various aspects of economic freedom), their analysis suggests, as hypothesised, that that stronger institutions reduce the propensity to JV, i.e. make greenfield and acquisition the preferred modes of entry. Meyer et al. (2009) also find that institutions moderate resource-based considerations. When institutional frameworks are weak, JVs are frequently used to access many resources. However, where institutions are stronger and better protect market effectiveness, JVs become less important while acquisitions become more prevalent to access resources, especially those that are intangible.

political stability encourages choosing certain modes and disfavour others. For instance, committing resources through high control modes such as FDI may be less favoured for operations in unstable and unpredictable markets. Similarly, the attractiveness of using contractual modes is contingent on the quality and effectiveness of a country's legal system on matters pertaining to commercial and contract law, and in particular, the enforcement of intellectual property rights.

In addition to formal institutional factors that are specific to a given country, differences between home and host countries may also be important because they create uncertainty and take time and resources to overcome. This could be especially important in emerging economies where institutional frameworks differ substantially from those in developed economies. However, even differences between developed countries are sometimes sufficiently large to significantly impact foreign operation mode decisions. One such example is the distinction between common law (e.g. Australia, Canada, New Zealand, UK and USA) and civil law countries (e.g. most Continental European countries). Since legal competence and expertise is typically local, additional costs of entry (e.g. drafting, negotiating and concluding a contract) and operation (e.g. interpretation, arbitration and recourse to course) are incurred when companies move beyond national borders, and such costs are likely considerably higher across legal systems.

Summary

Given the importance of foreign operation mode decisions, it is not surprising that the extant literature on the subject is large and multifaceted. Despite the numerous theoretical and empirical contributions, three main approaches can readily be identified; one that is rooted in an economics and strategic approach to business behaviour, one that builds on a learning and decision-making perspective of organisations, and one that emphasises the role that external institutions play in shaping business.

There are noteworthy differences between the approaches. First, while economics assumes that decision-makers are rational at least in a semi-strong sense, the behavioural approach takes as its starting point that bounded rationality is a more accurate description of economic actors' decision-making capabilities. Second, whereas economics-based approaches focus on discrete decisions (e.g. an entry into a given country at a certain point) and as a result tend to be static, researchers taking a behavioural approach emphasise that internationalisation is an evolutionary organisational process and are more apt to take a longitudinal and holistic view of the processes involved. Third, the approaches differ in their views of what are relevant units of analysis. Transactions, resources/assets and firms (i.e. their boundaries) are at the core of economics based analyses. Conversely, individuals (entrepreneurs), actions, organisations and linkages between actors are considered as focal in behavioural approaches. Institutional approaches differ both from economics and behavioural perspectives by enlarging the set of relevant actors, the societal forces that shape behaviour, and the levels of analysis (which include national and even transnational levels).

REFERENCES

Agarwal, S. and S.N. Ramaswami (1992), 'Choice of foreign market entry mode: Impact of ownership, location and internalization factors', *Journal of International Business Studies*, **23** (1), 1-27.

Andersen, O. (1997), 'Internationalization and entry mode choice: A review of theories and conceptual frameworks', *Management International Review*, **37** (Special Issue 2), 27-42.

Anderson, E. and A.T. Coughlan (1987), 'International market entry and expansion via independent or integrated channels of distribution', *Journal of Marketing*, **51** (1), 71-82.

Anderson, E. and H.A. Gatignon (1986), 'Modes of foreign entry: A transaction cost analysis and propositions', *Journal of International Business Studies*, **17** (3), 1-26.

Andersson, S. (2000), 'Internationalization of the firm from an entrepreneurial perspective', *International Studies of Management and Organization*, **30** (1), 63-92.

Andersson, S. and I. Wictor (2003), 'Innovative internationalisation in new firms: Born Globals – the Swedish case', *Journal of International Entrepreneurship*, **1** (3), 249-276.

Barney, J. B. (1991), 'Firm resources and sustained competitive advantage', *Journal of Management*, **17** (1), 99-120.

Bartlett C.A. and S. Ghoshal (1989), *Managing Across Borders: The Transnational Solution*, Boston: Harvard Business School Press.

Benito, G.R.G. (1996), 'Ownership structures of Norwegian foreign subsidiaries in manufacturing', *International Trade Journal*, **10** (2), 157-198.

Benito, G.R.G. (2015), 'Why and how motives (still) matter', *Multinational Business Review*, **23** (1), 15-24.

Benito, G.R.G. and G. Gripsrud (1992), 'The expansion of foreign direct investments: Discrete rational location choices or a cultural learning process?', *Journal of International Business Studies*, **23** (3), 461-476.

Benito, G.R.G., T. Pedersen and B. Petersen (2005), 'Export channel dynamics: An empirical investigation', *Managerial and Decision Economics*, **26** (3), 159-173.

Benito, G.R.G., B. Petersen and L.S. Welch (2009), 'Towards more realistic conceptualisations of foreign operation modes', *Journal of International Business Studies*, **40** (9), 1455-1470.

Benito, G.R.G., B. Petersen and L.S. Welch (2011), 'Mode combinations and international operations: Theoretical issues and an empirical investigation', *Management International Review*, **51** (6), 803-820.

Benito, G.R.G. and L.S. Welch (1994), 'Foreign market servicing: Beyond choice of entry mode', *Journal of International Marketing*, **2** (2), 7-27.

Bloodgood, J.M., H.J. Sapienza and J.G. Almeida (1996), 'The internationalization of new high-potential U.S. ventures: Antecedents and outcomes', *Entrepreneurship Theory and Practice*, **20** (4), 61-76.

Brouthers, K.D. and J.-F. Hennart (2007), 'Boundaries of the firm: Insights from international entry mode research', *Journal of Management*, **33** (3), 395-425.

Buckley, P.J. and M.C. Casson (1976), *The Future of the Multinational Enterprise*, London: Macmillan.

Buckley, P.J. and M.C. Casson (1981), 'The optimal timing of a foreign direct investment', *Economic Journal*, **91** (361), 75-87.

Buckley, P.J. and M.C. Casson (1988), 'A theory of cooperation in international business', in F. Contractor and P. Lorange (eds.), *Cooperative Strategies in International Business*, Lexington: Lexington Books.

Buckley, P.J., J. Clegg, A.R. Cross, H. Voss, M. Rhodes and P. Zheng (2008), 'Explaining China's outward FDI: An institutional perspective', in K. Sauvant (ed.), *The Rise of Transnational*

Corporations from Emerging Markets: Threat or Opportunity? Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing.

Carlson, S. (1975), *How Foreign is Foreign Trade*? Acta Universitatis Upsaliensis, Studia Oeconomicae Negotiorum 11, Uppsala.

Casson, M.C. (1987), 'Multinational firms', in R. Clarke, and T. McGuinness (eds.) *The Economics of the Firm*, Oxford: Basil Blackwell.

Coviello, N. (2015), 'Re-thinking research on Born Globals', *Journal of International Business Studies*, **46** (81), 17-26.

Crick, D. and M.V. Jones (2000), 'Small high-technology firms and international high-technology markets', *Journal of International Marketing*, **8** (2), 63-85.

Cuervo-Cazurra, A. (2011), 'Selecting the country in which to start internationalization: The non-sequential internationalization model', *Journal of World Business*, **46** (4), 426-437.

Cyert, R. and J.G. March (1963), *A Behavioral Theory of the Firm*, Englewood Cliffs, NJ: Prentice-Hall.

Datta, D.K., P. Herrmann and A.A. Rasheed (2002), 'Choice of foreign market entry modes: Critical review and future directions', *Advances in International Management*, **14**, 85-153.

Doz, Y. (2006), *Strategic Management in Multinational Companies*, Oxford: Pergamon Press.

Dunning, J.H. (1981), *International Production and the Multinational Enterprise*, London: George Allen and Unwin.

Dunning, J.H. (1988), 'The eclectic paradigm of international production: A re-statement and some possible extensions', *Journal of International Business Studies*, **19** (1), 1-31.

Dunning, J.H. (2001), 'The key literature on IB activities: 1960-2000', in A.M. Rugman and T.L. Brewer (eds.), *The Oxford Handbook of International Business*, Oxford: Oxford University Press.

Erramilli, M.K., S. Agarwal and C.S. Dev (2002), 'Choice between non-equity entry modes: An organizational capability perspective', *Journal of International Business Studies*, **33** (2), 223-242.

Gabrielsson, M., V.H. Kirpalani, P. Dimitratos, C.A. Solberg and A. Zucchella (2008), 'Born globals: Propositions to advance the theory', *International Business Review*, **17** (4), 385-401.

García-García, R., E. García-Canal and M.F. Guillén (2017), 'Rapid internationalization and long-term performance: The knowledge link', *Journal of World Business*, **52** (1), 97-110.

Gatignon, H. and E. Anderson (1988), 'The multinational corporation's degree of control over foreign subsidiaries: An empirical test of a transaction cost explanation', *Journal of Law, Economics and Organization*, **4** (2), 305-336.

Ghoshal, S. (1987), 'Global strategy: An organizing framework', *Strategic Management Journal*, **8** (5), 425-440

Gomes-Casseres, B. (1989), 'Ownership structures of foreign subsidiaries: Theory and evidence', *Journal of Economic Behavior and Organization*, **11**(1), 1-25.

Graham, E. (1978), 'Transatlantic investment by multinational firms: A rivalistic phenomenon?', *Journal of Post-Keynesian Economics*, **1** (1), 82-104.

Gruber, W., D. Mehta and R. Vernon (1967), 'The R&D factor in international trade and investment of United States industries', *Journal of Political Economy*, **75** (1), 20-37.

Håkansson, H. and I. Snehota (1989), 'No business is an island: The network concept of business strategy', *Scandinavian Journal of Management*, **4** (3), 187-200.

Hashai, N., C.G. Asmussen, G.R.G. Benito and B. Petersen (2010), 'Technological knowledge intensity and entry mode diversity', *Management International Review*, **50** (6), 659-681.

Hedlund G. (1994), 'A model of knowledge management and the N-form corporation', *Strategic Management Journal*, **15** (5), 3-90.

Hennart, J.F. (1982), *A Theory of Multinational Enterprise*, Ann Arbor: University of Michigan Press.

Hennart, J.-F. (1988),'A transaction cost theory of equity joint ventures', *Strategic Management Journal*, **9** (4), 361-374.

Hennart, J.-F. (1991),'The transaction costs theory of joint ventures: An empirical study of Japanese subsidiaries in the United States', *Management Science*, **37** (4), 483-497.

Hennart, J.-F. (2000),'Transaction cost theory and the multinational enterprise', in Pitelis, C. N. and R. Sugden (eds.), *The Nature of the Transnational Firm*, 2nd edn, London: Routledge.

Hennart, J.-F. (2014), 'The accidental internationalists: A theory of Born Globals', *Entrepreneurship Theory & Practice*, **38** (1), 117-135.

Hewerdine, L. and C. Welch (2013), 'Are International New Ventures really new? A process study of organizational emergence and internationalization', *Journal of World Business*, **48** (4), 466-477.

Hill, C.W.L., P. Hwang and W.C. Kim, (1990), 'An eclectic theory of the choice of international entry mode', *Strategic Management Journal*, **11** (2), 117-128.

Hodgson, G.M. (2006), 'What are institutions?', *Journal of Economic Issues*, **40** (1), 1-25.

Horst, T. (1972), 'Firm and industry determinants of the decision to invest abroad: An empirical study', *Review of Economics and Statistics*, **54** (3), 258-266.

Hoskisson, R.E., L. Eden, C.M. Lau and M. Wright (2000), 'Strategy in emerging economies', *Academy of Management Journal*, **43** (3), 249-267.

Hout, T., M.E. Porter and E. Rudden (1982), 'How global companies win out?', *Harvard Business Review*, **60** (5), 98-108.

Hurmerinta-Peltomäki, L. (2004), 'Conceptual and methodological underpinnings in the study of Rapid Internationalizers', in M.V. Jones and P. Dimitratos (eds.), *Emerging Paradigms in International Entrepreneurship*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing.

Hymer, S. H. (1976/1960), *The International Operations of National Firms: A study of Direct Foreign Investment*, Cambridge, MA: MIT Press. (Originally presented as the author's thesis, Massachusetts Institute of Technology, 1960.)

Ibeh, K.I.N. and S. Young (2001), Exporting as entrepreneurial act: An empirical study of Nigerian firms, *European Journal of Marketing*, **35** (5/6), 566-586.

Jantunen, A., N. Nummela, K. Puumalainen and S. Saarenketo (2008), 'Strategic orientations of Born Globals: Do they really matter?', *Journal of World Business*, **43** (2), 158-170.

Jensen, M.C. and W.H. Meckling (1976), 'Theory of the firm: Managerial behavior, agency costs and ownership structure', *Journal of Financial Economics*, **3** (4), 305-360.

Johanson, J. and J.-E. Vahlne (1977), 'The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments', *Journal of International Business Studies*, **8** (1), 23-32.

Johanson, J. and J.-E. Vahlne (1990), The mechanism of internationalization', *International Marketing Review*, **7** (4), 11-24.

Johanson, J. and J.-E. Vahlne (2009), 'The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership', *Journal of International Business Studies*, **40** (9), 1411-1431.

Johanson, J. and F. Wiedersheim-Paul (1975), 'The internationalization of the firm: Four Swedish cases', *Journal of Management Studies*, **12** (3), 305-322.

Karlsen, T., P. Silseth, G.R.G. Benito and L.S. Welch (2003), 'Knowledge, internationalization of the firm and inward-outward connections', *Industrial Marketing Management*, **32** (5), 385-396.

Kindleberger, C. P. (1969), *American Business Abroad: Six Lectures on Direct Investment*, New Haven: Yale University Press.

Knickerbocker, F.T. (1973), *Oligopolistic Reaction and Multinational Enterprise*, Boston, MA: Harvard Business School.

Knight, G.A. and S.T. Cavusgil (1996), 'The Born Global firm: A challenge to traditional internationalization theory', *Advances in International Marketing*, **8**, 11-26.

Kogut, B. and U. Zander (1993), 'Knowledge of the firm and the evolutionary theory of the multinational corporation', *Journal of International Business Studies*, **24** (4), 625-645.

Korhonen, H. (1999), *Inward-Outward Internationalization of Small and Medium Enterprises*, Helsinki: Helsinki School of Economics and Business Administration.

Korhonen, H., R. Luostarinen and L.S. Welch (1996), 'Internationalization of SMEs: Inward–outward patterns and government policy', *Management International Review*, **36** (4), 315-329.

Kostova, T., Roth, K. and M.T. Dacin (2008), 'Institutional theory in the study of multinational corporations: A critique and new directions', *Academy of Management Review*, **33** (4), 994-1006.

Kuemmerle, W. (2002), 'Home base and knowledge management in international ventures', *Journal of Business Venturing*, **17** (2), 99-122.

Leonidou, L. C. and C.S. Katsikeas (1996), 'The export development process: An integrative review of empirical models', *Journal of International Business Studies*, **27** (3), 517-551.

Lo, F.-Y., Y.-C. Chiao and C.-M.J. Yu (2016), 'Network and institutional effects on SMEs' entry strategies', *Management International Review*, **56** (5), 531-563.

Luostarinen, R.K. (1979), *Internationalization of the Firm*, doctoral dissertation, Helsinki: Helsinki School of Economics.

Madhok, A. (1997), 'Cost, value and foreign market entry mode: The transaction and the firm', *Strategic Management Journal*, **18** (1), 39-61.

Madhok, A. and A. Phene (2001), 'The co-evolutional advantage: Strategic management theory and the eclectic paradigm', *International Journal of the Economics of Business*, **8** (2), 243-256.

Madsen, T.K. and P. Servais (1997), 'The internationalization of Born Globals: An evolutionary process?', *International Business Review*, **6** (6), 561-583.

Malhotra, N.K., J. Agarwal and F.M. Ulgado (2003), 'Internationalization and entry modes: A multitheoretical framework and research propositions', *Journal of International Marketing*, **11** (4), 1-31.

McAuley, A. (1999), 'Entrepreneurial Instant Exporters in the Scottish arts and crafts sector', *Journal of International Marketing*, **7** (4), 67-82.

McDougall, P.P., S. Shane and B.M. Oviatt (1994), 'Explaining the formation of International New Ventures', *Journal of Business Venturing*, **9** (6), 469-487.

McManus, J. (1972), 'The theory of the international firm', in G. Paquet (ed.), *The International Firm and the Nation State*, Don Mills: Collier Macmillan Canada.

Meyer, K.E., S. Estrin, S.K. Bhaumik and M.W. Peng (2009), 'Institutions, resources and entry strategies in emerging economies', *Strategic Management Journal*, **30** (1), 61-80.

Mitra, D. and P.N. Golder (2002),'Whose culture matters? Near-market knowledge and its impact on foreign market entry', *Journal of Marketing Research*, **39** (3), 350-365.

Moen, O. (2002), 'The Born Globals: A new generation of small European exporters', *International Marketing Review*, **19** (2), 156-175.

Morschett, D., H. Schramm-Klein and B. Swoboda (2010), 'Decades of research on market entry modes: What do we really know about external antecedents of entry mode choice?' *Journal of International Management*, **16** (1), 60-77.

Nicholas, S. (1983), 'Agency contracts, institutional modes, and the transition to foreign direct investment by British manufacturing multinationals before 1939', *Journal of Economic History*, **43** (3), 675-686.

North, D.C. (1990), *Institutions, Institutional Change, and Economic Performance*, New York: Norton.

Oviatt, B.M. and P.P. McDougall (1994), 'Toward a theory of International New Ventures', *Journal of International Business Studies*, **24** (1), 45-64.

Oviatt, B.M. and P.P. McDougall (1997), 'Challenges for internationalization process theory: The case of International New Ventures', *Management International Review*, **37** (Special Issue 2), 85-99.

Peng, M.W. (2012), 'The global strategy of emerging multinationals from China', *Global Strategy Journal*, **2** (2), 97-107.

Peng, M.W., D.Y.L. Wang and Y. Jiang (2008), 'An institution-based view of international business strategy: A focus on emerging economies', *Journal of International Business Studies*, **39** (5), 920-936.

Peteraf, M.A. (1993), 'The cornerstones of competitive advantage: A resource-based view', *Strategic Management Journal*, **14** (3), 179-191.

Petersen, B. and T. Pedersen (1997), 'Twenty years after – support and critique of the Uppsala internationalization model', in I. Björkman and M. Forsgren (eds.), *The Nature of the International Firm*, Copenhagen: Copenhagen Business School Press.

Petersen, B., G.R.G. Benito and T. Pedersen (2000), 'Replacing the foreign intermediary: Motivators and deterrents', *International Studies of Management and Organization*, **30** (1), 45-62.

Petersen, B., G.R.G. Benito, L.S. Welch and C.G. Asmussen (2008), 'Mode configuration diversity: a new perspective on foreign entry mode choice', in A.Y. Lewin, D. Griffith, S.T. Cavusgil and G.T.M. Hult (eds.), *Thought Leadership in Advancing International Business Research*, London: Palgrave.

Porter, M.E. (1986), *Competition in Global Industries*, Boston, MA: Harvard Business School Press.

Porter, M.E. and M.B. Fuller (1986), 'Coalitions and global strategies', in M.E. Porter (ed.), *Competition in Global Industries*, Boston, MA: Harvard Business School Press.

Prahalad, C.K. and Y. Doz (1987), *The Multinational Mission: Balancing Local Demands and Global Vision*, New York: Free Press.

Preece, S.B., G. Miles and M.C. Baetz (1999), 'Explaining the international intensity and global diversity of early stage technology-based firms', *Journal of Business Venturing*, **14** (3), 259-281.

Rennie, M.W. (1993), 'Born Global', *The McKinsey Quarterly*, **4**, 45-52.

Rugman, A.M. (1986), 'New theories of the multinational enterprise: An assessment of internalization theory', *Bulletin of Economic Research*, **38** (2), 101-118.

Sanchez-Peinado, E. and J. Pla-Barber (2006), 'A multidimensional concept of uncertainty and its influence on entry mode choice: An empirical analysis in the service sector', *International Business Review*, **15** (3), 215-235.

Scott, R.W. (1995), *Institutions and Organizations: Ideas, Interests and Identities*, London: Sage.

Shrader, R.C., B.M. Oviatt and P.P. McDougall (2000), 'How new ventures exploit trade-offs among international risk factors: Lessons for the accelerated internationalization of the 21st century', *Academy of Management Journal*, **43** (6), 1227-1247.

Simon, H.A. (1955), 'A behavioral model of rational choice', *Quarterly Journal of Economics*, **69** (1), 99-118.

Simon, H.A. (1979), 'Rational decision making in business organizations', *American Economic Review*, **69** (4), 493-513.

Teece, D. (1986), 'Transaction cost economics and the multinational enterprise: An assessment', *Journal of Economic Behavior and Organization*, **7** (1), 21-45.

Thompson, S. (1988), 'Agency costs of internal organisation', in S. Thompson and M. Wright (eds.), *Internal Organisation, Efficiency and Profit*, Oxford: Philip Allan.

Verbeke, A. and L. Kano (2013), 'Internalization theory as the general theory of international strategic management', in C.R. Thomas and W. Shughart (eds.), *The Oxford Handbook of Managerial Economics*, Oxford: Oxford University Press.

Vermeulen F. and H.G. Barkema (2002), 'Pace, rhythm and scope: Process dependence in building a profitable multinational enterprise', *Strategic Management Journal*, **23** (7), 637-653.

Welch, C.L. and L.S. Welch (2004), 'Broadening the concept for international entrepreneurship: Internationalisation, networks and politics', *Journal of International Entrepreneurship*, **2** (3), 217-237.

Welch, C.L. and L.S. Welch (2009), 'Re-internationalisation: Exploration and conceptualisation', *International Business Review*, **18** (6), 567-577.

Welch, L.S. and R.K. Luostarinen (1988), 'Internationalization: Evolution of a concept', *Journal of General Management*, **14** (2), 34-55.

Welch, L.S and R.K. Luostarinen (1993), 'Inward-outward connections in internationalization', *Journal of International Marketing*, **1** (1), 44-56.

Wernerfelt, B. (1984), 'A resource-based view of the firm', *Strategic Management Journal*, **5** (2), 171-180.

Williamson, O.E. (1979), 'Transaction-cost economics: The governance of contractual Relations', *Journal of Law and Economics*, **22** (2), 233-261.

Williamson, O.E. (1985), *The Economic Institutions of Capitalism*, New York: Free Press.

Yip, G.S. (1989), 'Global strategy. . . in a world of nations?', *Sloan Management Review*, **30**, 29-41.

Yu, C.M. and K. Ito (1988), 'Oligopolistic reaction and foreign direct investment: The case of the U.S. tire and textiles industries', *Journal of International Business Studies*, **19**, 449-460.