

A QUANTITATIVE MEASURE OF THE GRADUALIST APPROACH TO INTERNATIONALIZATION

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ABSTRACT

The goal of this research is to create a holistic global model which integrates the main theories and approaches used in researching company internationalization. The resource-based view of export strategy has shown the greatest capability of explaining deciding exports. The gradualist model of the Scandinavian school of thought has been widely utilized as an explanation of the appropriate methods and momentum for gradual export abroad. The second goal of this research is to demonstrate implementation of the gradualist models. The way of entering each international market by the companies, though being an easily-understood intuitive concept, nevertheless generates confusion from an operating point of view. Currently, there is no quantitative variable that can tell if a specific company, or sector, adheres to the guidelines of the gradualist model. For this purpose, we generate an easily-measured quantitative, continuous variable, which indicates the extent that companies adapt the thesis proposed by the Scandinavian school of thought.

JEL: M16

KEYWORDS: International priority index, Internationalization models

INTRODUCTION

Internationalization is an economic phenomenon that has awakened the interest of a great number of researchers. By internationalization we mean “a set of operations that facilitate the establishment of more stable relationships between a firm and the international markets, throughout a learning process of growing international involvement and patterns of development.” Rialp et al. (2005).

The goal of this research is the creation of a holistic global model that integrates the main theories and approaches for researching company internationalization. The operations of companies abroad have been widely studied according to the strategy of entry into foreign markets. Regarding the export strategy, the resource-based view has demonstrated more ability to explain the determining factors of this strategy. On one hand, the gradualist model of the Scandinavian School has been widely used as an adequate measure of the appropriate ways and moments to perform a step-by-step entry into foreign markets.

The network model, which is of the no gradualist approaches, on the other hand, gives rise to the possibility of further studying and deepening our understanding of cooperative approaches to operating abroad. Without a doubt, other approaches such as the monopolistic advantage theory, the transaction cost approach, also contribute other points of view which help globally explain internationalization. However, given the literature examined here we consider the three approaches presented as the most relevant for discerning the decisive and determining factors of the internationalization strategy of companies. As a second research goal, we study the implementation of the gradualist models. The way companies enter each of the different international markets, while easily understood in an intuitive manner, still generates a great deal of confusion from the operating standpoint. There is no quantitative variable which discerns whether a company, or a sector, follows the guidelines of gradualist models or not. For this reason, based on the research developed by Davidson (1980, 1983) and Clark and Pugh (2001), we generate a variable

that is continuous, quantitative and easily-measured in order to indicate to what extent companies follow the theses proposed by the Scandinavian School.

The paper is structured as follows, in the second section a review and analysis of the literature of the subject matter and the theoretic model proposed is presented, and in the third section the methodology for the creation a quantitative measure of the gradualist versus non-gradualist.

LITERATURE REVIEW

Throughout history, there have been numerous conceptual frameworks classified under the phenomenon of entry into foreign markets. Table 1 presents a summary.

Table 1: Conceptual Frameworks Which Explain the Phenomenon of Internationalization of Companies

Economic Approach	
Monopolistic advantage theory	Kindleberger (1969) Hymer (1976)
Internationalization theory	Buckley and Casson (1976, 1985)
Transaction cost theory	Anderson and Gatignon (1986)
Eclectic paradigm	Dunning (1979) (1980) (1988)
Gradualist Approach	
Uppsala model	Johanson and Vahlne (1975) (1977) (1990) Bilkey and Tesar (1977)
I-Model	Cavusgil (1980) Luostarinen (1980) Davidson (1980) Welch and Luostarinen (1988)
No Gradualist Approach	
International Network Approach	Johanson and Mattson (1988) Madsen and Servais (1997) Holmlund and Hock (1998) Hadley and Wilson (2003) Blomstermo et al. (2004) Johanson and Vahlne (2009)
International New Venture/Born global	Oviatt and McDougall (1994) Knight and Cavusgil (1996) Madsen and Servais (1997) Coviello and Munro (1997) Chetty and Blankenburg Holm (2000) Coviello (2006)
International Entrepreneurship	McDougall and Oviatt (2000) Kuemmerle (2002) McDougall et al. (2003) Rialp et al. (2005)

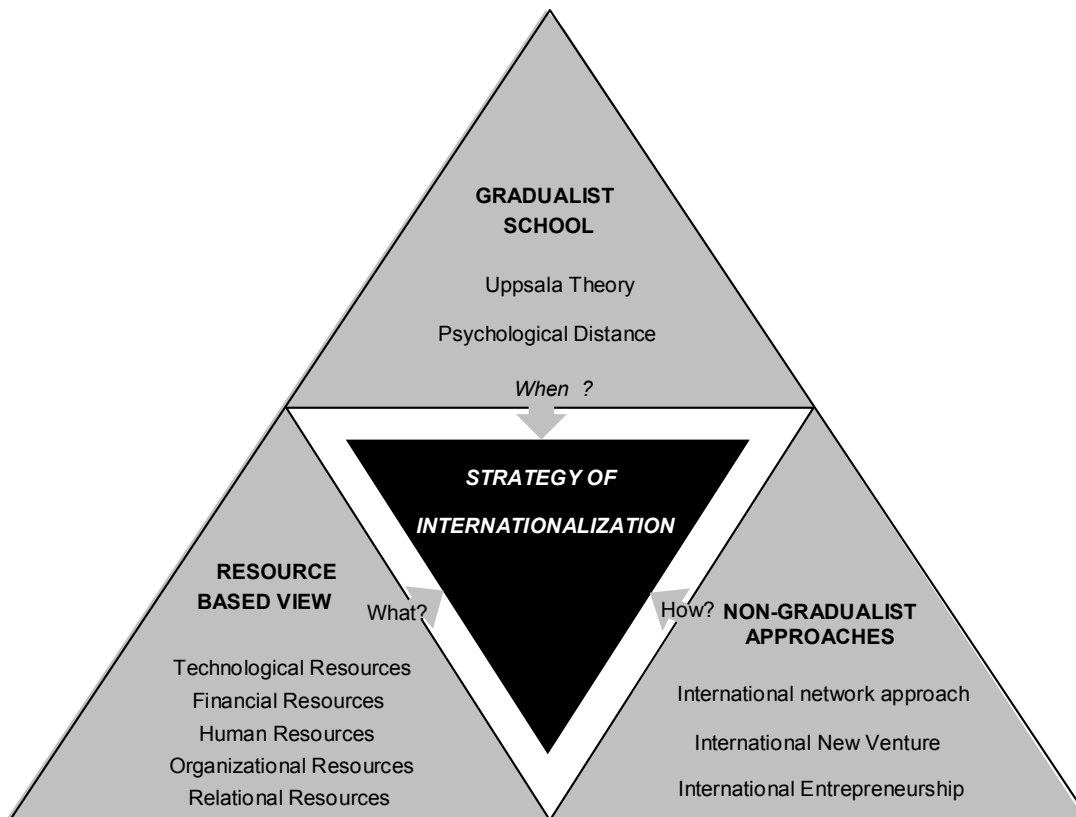
This figure shows the different conceptual frameworks which have been used to explain the phenomenon of internationalization of companies from different approach. This approach has been classified in Economic, Gradualist and No gradualist approach and inside of them have been identified different theories with his different work of research.

The theoretical model proposed can be observed in Figure 1. Contrary to what other research has shown, the fact that different theoretical approaches have contributed to the study of central aspects in the internationalization strategy of companies, does not mean that these approaches are contradictory or opposite. Rather, the frame of mind presented is the necessary complementarity of each approach. Next we explain the main contributions of each theory presented.

Resources and Capabilities Approach

The study of the factors that exercise a determining influence on business competitiveness and the companies' results has been discussed throughout the years from different approaches and theories in the field of strategic management.

Figure 1: Holistic Model of the Study of the Phenomenon of Internationalization



This figure shows the general model of analysis, which explains the main objective of research.

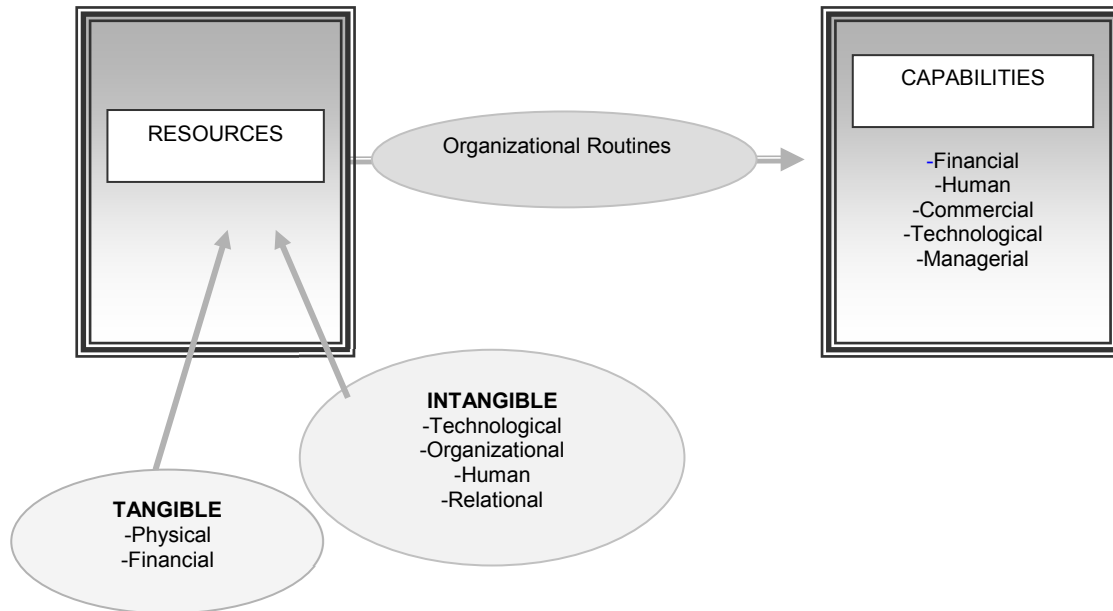
The Resource-Based View originated with the goal of “identifying the potential of a company to establish competitive advantages through the strategic identification and valuation of the resources and capabilities that it possesses or could attain.” and is sustained by two key suppositions. On one hand, heterogeneity involves companies that are different due to the inequalities in possession of heterogeneous resources and capabilities in a given moment of time. Imperfect mobility occurs when resources and capabilities are not available for all companies in the same conditions (Barney, 1991).

As Claver et al. (2006) established, there have been numerous studies with the goal of determining the internal composition of company resources and determining the superiority of certain types of resources and capabilities for achievement and maintenance of a competitive advantage. Research such as that by Lippman and Rumelt (1982), who contribute the concept of casual ambiguity; Dierickx and Cool (1989), who argue there are assets that can only be created through a process of internal accumulation in the company and are not marketable, Grant (1991), who differentiates between resources, capabilities and organizational routines (taking the concept developed by Nelson and Winter, 1982) and adds the necessity for imperfections in the market for resources to be considered strategic; Amit and Schoemaker (1993), who contribute the concept of complementarity among resources; Hall (1993), Chi (1994), Lei *et al.* (1996), Teece (1998), Rouse and Dellenbach (1999), Sánchez (2001) or Winter (2003), who define the dynamic capabilities, the hierarchy of the capabilities and their relationship with the company routines, among others, have tried to analyze which characteristics of the resources and capabilities of the company provoke them to be more difficult or impossible to put on the market (Figure 2).

Among the set of resources of a company are the intangible resources. These are the ones that most easily meet these requirements that they are difficult to formalize and reproduce by competitors, they are

exclusive to a company (at least for a certain period of time) and provide it with superiority over competitors (Ramírez, 2004).

Figure 2: Resources and Capabilities Approach



This figure shows from the resource based view a classification of different resources and capabilities which have been divided in two approaches. In the one hand we can see a classification of firm resources into tangible and intangible resources and on the other hand organizational routines have been classified into different firm capabilities. Source: Adapted from Barney (1991)

The resources and capabilities approach provides us with an insurmountable opportunity to study the influence that these resources can have on the pattern of export behavior of the company. Therefore, we consider that these factors are defining independent variables in the configuration and definition of the process of internationalization. This process, from the perspective of the gradualist model, is gradual and incremental. However, at a certain point and in a global market, not the exclusive use of its own resources, but the use and recourse of cooperation agreements and alliances can provide added value to foreign strategies.

Uppsala Approach: Gradualist Approach

During the seventies, researchers belonging to the Uppsala or Scandinavian School carried out several empirical studies, whose main goal focused on obtaining empirical evidence on the process developed by the companies to carry out their internationalization strategy. They observed the gradual character in which operations were carried out as a main characteristic. It was determined by the psychological distance that the companies had to the foreign countries. That is, the companies directed their activity toward countries in which there was less psychological distance. We define psychological distance as the set of factors that impede or alter the flow of information between the company and the market: i.e., not only the physical or geographical distance, but also all characteristics related to differences in language, education, business practices, culture and industrial development (Johanson and Wiedersheim-Paul, 1975)

In relation to the aforementioned, there have been numerous studies (Klein and Roth (1990), Nordström (1991), Kogut and Singh (1988), Benito and Gripsrud (1992), Barkema *et al.* (1996) and Padmanabhan and Cho (1999); among others) that have examined the concept of psychological distance when identifying the process used by companies to selecting the destination country for their

internationalization operations, using different objective indicators that measure of this concept. Authors such as Kogut and Singh (1988); Benito and Gripsrud (1992), Barkema *et al.* (1996) and Padmanabhan and Cho (1999) approximate the concept of psychological distance through the concept of cultural distance, based on research developed by Hofstede in 1980. He developed an index for a set of countries that identifies cultural similarities and differences.

Other authors like Clark and Pugh (2001) measured the psychological distance through a construct made up of four independent variables. These were defined as “market size”, “market affluence”, “geographic distance” and “cultural distance.” The authors establish the measurement of the variable based on research done by Ronen and Shenkar (1985) where different cultural groups of countries are identified based on reviewing empirical research that uses Hofstede's index. They took the difference between the index of the cultural group of the country of origin of the companies and the different foreign cultural groups, obtaining a measurement of the cultural distance with the different groups of countries or zones.

In view of the research done in this regard and given the subjectivity that underlies in the concept itself, we conclude that there is a theoretical uncertainty in the literature that impedes the development of a consistent model which permits measurement and implementation of the concept of psychological distance.

Therefore, when a company proposes an internationalization strategy, given that it lacks experience and regular information, it will begin with sporadic or irregular export activity, where the resources committed are limited. As the company acquires experience and knowledge, it will go through successive stages with more international involvement, which require more commitment of resources, also coinciding with a greater knowledge of the market through the experience acquired previously, and represents a different way of entry (see Figure 4).

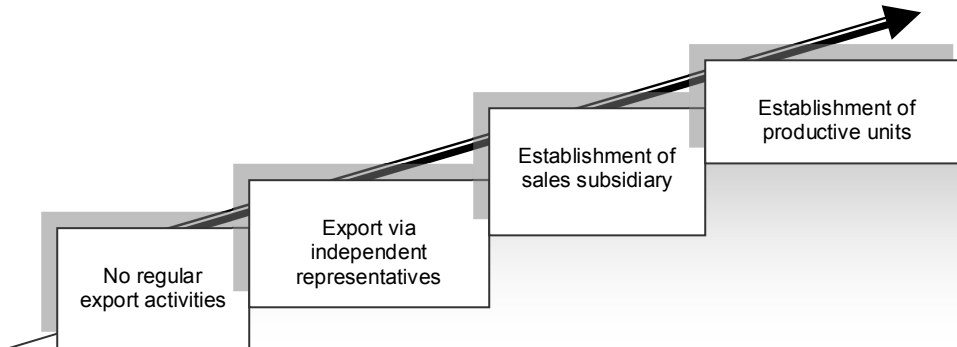
Figure 4 shows the international development approach. Different stages were classified under the name of “chain of establishment,” which is made up of the following four stages: 1. No regular export activities: A company does not commit foreign resources while there is no channel of regular information between the company and the given markets. 2. Exportation through representatives or independent agents: A company has a regular channel for getting information of the foreign markets, and the commitment of resources is greater than in the previous stage. 3. Establishment of sales subsidiary: This involves having a controlled channel of information to allow the company to get its own experience from its foreign activity. The commitment increases as the decisions take on an irreversible character and 4. Establishment of productive units in the foreign country: The international commitment reaches its highest point, and with it, the possibility of acquiring experience from the activities in the corresponding nation.

Based on the empirical study described, two years later a dynamic model of the process of company internationalization was developed, focusing on the development of the company and particularly on the acquisition, integration and use of knowledge of foreign markets and gradual operations, and on the successive increment of the commitment with the foreign market (Johanson and Vahlne, 1977). In summary, we should emphasize the dynamic character of the model developed by Johanson and Vahlne (1977) where internationalization is not associated exclusively with the possession of specific advantages at a certain moment of time, but takes into consideration its evolution over time (Alonso, 1994). Therefore it is a model which responds to “*how*” companies carry out the process of internationalization.

Under this gradualist approach, the process of internationalization is established as a sequence of permanent interactions between the development of knowledge of markets and foreign operations on one hand, and a growing commitment of resources, through a dynamic model which expresses that the result of a decision will constitute the *input* of the next. The two pillars on which the dynamic model of foreign

development are supported are the knowledge of the markets interacting with the level of commitment of resources and capabilities of companies. Both aspects equally reflect the aforementioned under the “intangible assets” resource-based view.

Figure 4: Chain of Establishment



This figure shows the chain of establishment defined by Johanson y Vahlne, in 1975 who identified four stages in the internationalization process. Source: Adapted from Johanson and Wiedersheim-Paul (1975)

As we have discussed, a company's possession of certain intangible assets is one factor, which along with macroeconomic aspects, conditions its mechanism of entry into foreign markets. The increase of these intangible factors means a significant advance in the study of internationalization of companies. Because of this, the resource-based view (Barney, 1991; Mahoney and Pandian, 1992) studied the development and implementation of this corporate strategy.

From the Uppsala Model to the Network Model: Natural Evolution? No gradualist Approaches

At the end of the eighties, coinciding with the process of economic globalization, researchers began to question the internationalization process model developed by the Uppsala School. The main basis that was the appearance of a new type of organizations called “born global” (Knight and Cavusgil, 1996) or “global start-up” (Oviatt and McDougall, 1994). They begin their process of internationalization right from the moment of creation, thus avoiding the chain establishment defined by Johanson and Vahlne in 1975. This led the way to other types of theories including the *International New Venture Theory* or the *International Entrepreneurship Theory* (Oviatt and McDougall, 1994; Bell, 1995; Madsen and Servais, 1997; and Coviello and Munro, 1997).

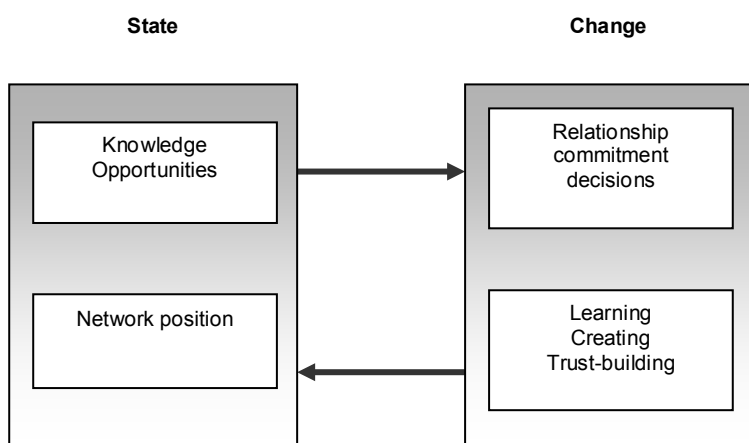
The appearance of these new international companies challenges one of the basic suppositions on which the gradualist approach is sustained. When these companies begin their international activity, they are companies that have been created recently and lack this concept of experience, and therefore we cannot consider knowledge gained from experience as a main determining variable of the international success of the companies (Oviatt and McDougall, 1994). However, in line with Huber (1991) and Forsgren (2001), we cannot restrict the concept of learning as is obtained necessarily through experience, but instead there are other complementary ways of obtaining knowledge. These other ways of obtaining knowledge explain the speed of the internationalization process and even the exclusion of some stages defined in the Uppsala gradual model.

The concept of “network” appears in the latter eighties through the research of Johanson and Mattson (1988). Network is defined as the set of interconnected business relationships, in which each exchange relationship is between companies conceptualized as collective actors (Anderson *et al.*, 1994). These authors used the theory of social networks to explain the internationalization of companies, stating that as companies become internationalized, the number of actors with which they must interact through network

increments and relationships become closer. In this perspective of business networks, entry problems are not associated with the market-country, but with clients or specific supplier companies. All the relevant business information is channelled through the network relationships, with each relationship being unique, due to the characteristics of the participants in the relationship and the history of the relationship.

Under this approach, internationalization must be understood not only in the company's own area but also in its near environment. Based on the model developed by Johanson and Vahlne, the authors themselves make this relationship explicit in their later research (Johanson and Vahlne, 1990, 2003, 2006) professing a strong influence from the industrial network approach. Thus, the internationalization trajectory of companies does not only become the result of the companies' own effort, but also reflects the relationship with other companies around it. Under this approach, a company will direct its operations to foreign markets based on relationships with partners or commit itself to developing the business through internationalization. In this way the probability of finding interesting business opportunities increases and the desire for internationalization increments.

Figure 5: Network Model of Process of Internationalization



This figure shows the network model of process of internationalization defined by Johanson y Vahlne, in 2009. The main structure of the model is y the distinction between static aspects and dynamic aspects of the variables of internationalization. On the left we can see the variables defined as static aspects and on the right we can see the dynamic variables. Source: Johanson and Vahlne (2009)

Therefore, in order to continue operating strategically and detect new potential opportunities, a company will need to encourage new relationships and increase the effectiveness of the current operations in the “host” market to build this degree of intangible commitment with the market. Each deliberate effort assures this continuous presence, but also increases the degree of presence in a given market. This aspect of the internationalization process is separate from the more tangible resources and the institutional commitment demonstrated in the modal form (Malhotra and Hinings, 2010).

The literature underlines the modal form as a tangible indicator of different levels of resource commitments and degrees of control of the internationalized company. When a company internationalizes, it faces complex choices among a variety of institutional agreements, such as, sole proprietorships, joint ventures and non-equity agreements, such as licenses and franchises. Each of these forms corresponds to different levels of investment in tangible or intangible assets in the foreign market.

IMPLEMENTATION OF THE GRADUALIST VS. NO GRADUALIST APPROACH: CREATION OF THE UPPSALA VARIABLE

As discussed earlier, one of the two goals of this research is to generate a quantitative and comparable index in order to study to the degree that companies follow the guidelines of export behavior dictated by the gradualist methodology. For this, we have generated an index supported by the previous research of Davidson (1980, 1983) and Clark and Pugh. (2001). Based on Davidson (1980, 1983) a comparison by pairs of zones allows us to establish an order of international priority among the sample considered.

For each pair of zones ($Zone_i$ and $Zone_j$) all the companies that have carried out international operations in these two zones simultaneously are considered, assigning the value 1 if the company directed its activity first to the zone whose index we are calculating ($Zone_i$) and 0 in the opposite case. Next, in the same way, the same zone ($Zone_i$) is compared with the next subject of study zone ($Zone_k$) and so on. In this way, we obtain the number of companies that have entered $Zone_j$ before entering the rest of the zones considered in a dual way. This information is used for comparing the total number of companies that have entered in a parallel way in each one of these pairs of zones. This provides an International Priority Index for that $Zone_j$. This procedure would be carried out for each zone considered so that we obtain an International Priority Index (IPI) for each destination zone. Once the different priority indexes are obtained, we will observe the zone that establishes a greater priority. Thus, if we order the IPI obtained for the different zones, we can establish the order of international priority (sectorial order) in the destination of activities abroad.

Calculation of the Uppsala-Company Variable

Based on the theory of internationalization as an incremental process developed under the Uppsala model established by Johanson and Vahlne (1977), it is established that companies develop their international activity in incremental steps. For this reason we analyze each company in an individual way based on the established order.

We take companies that have carried out internationalization operations from our database and have directed their activity to different zones than those considered in this study, and temporarily in an unequal manner in regards to other companies. Once we have established the individual order for each company, this is compared with the order obtained globally for all the companies, and identified as sectorial order, so that it allows us to compare the evolution of the different international stages of each company with the sectorial order thereby providing the Company International Priority Index. The IPI is given by the following formula:

$$IPI_{company.i} = \sum_{z=1}^{z=n} \left[\left(1 - \frac{Company\ Order_{i,z} - Sectorial\ Order_z}{n-1} \right) * IPI_z \right] \quad (1)$$

Where:

Z = zones where international operations are carried out

i = 1,2,n

CONCLUSION

The goal of this research has been to create a holistic and global model, integrating the main theories and approaches of company internationalization. In view of the export strategy, the resource and capacity approach has shown the greatest ability to explain the factors associated with internationalization. In turn, the gradualist model of the Scandinavian school of thought has been widely utilized as a satisfactory explanation of the appropriate methods and momentum for gradual export abroad.

As result of the second goal of the research, we demonstrate implementation of the gradualist models. The manner of entering each of the different international markets on the part of the companies, though being an easily understood intuitive concept, nevertheless generates, confusion from the operating point of view. There is no quantitative variable that can identify if a specific company, or sector, adheres to the guidelines of the gradualist model. For this purpose, we have created an easily measured quantitative, continuous variable, which indicates the extent that companies are adapting the thesis proposed by the Scandinavian school of thought.

The methodology used allows us to obtain a quantitative basis of the gradualist versus non-gradualist methodology. The measure indicates the distance a company IPI is from the sectorial IPI. Those with higher difference have not developed a pattern of foreign entry based on the principles of the Gradualist School. Empirical research is needed to verify the accuracy of predictions made by the model developed here.

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