

Review 1

Internationalization: evolution of a concept

The article “Internationalization: evolution of a concept” is about the process for companies when expanding their business on international markets. A more thorough definition of internationalization can be described as “the process of increasing involvement in international operations”. To increase the involvement, the article mentions three dimensions of company decisions on how, what and where the company should internationalize.

The first dimension is *how* the company should internationalize. The article describes different approaches/foreign operation methods for companies to choose from when internationalizing. The companies can choose to export via agents, franchising, license and/or developing a sales subsidiary or production subsidiary. What decision the company choose is depending on other dimensions like sales objects, markets and what capacity the organization have.

The second dimension is *what* the company should internationalize, which is the company’s sales objects. The article describes two levels of product offerings when companies are more involved in the international market. The first level is expanding product lines, within an already existing product line or into a new one. The second level is changing the idea of the product by including service, technology or other software components.

The third dimension is *where* the company should internationalize, which market the company should target. In the earlier stages of internationalization, recommendations from the article is that the target market should be in close distance of the home country. In the article, distance is mentioned in different ways. One way of distance is geographic distance, it could be countries lying next to each other, for example Sweden and Norway. The other way of distance that is described in the article is the psychic distance, which could be close in culture and/or language, for example Spain and Chile.

After the above mentioned three dimensions, the article states the importance of the capacity of the organization. Within the area of organizational capacity there are three dimensions; organizational structure, finance and personnel. The organizational capacity is described as knowing what the organization have to offer and then being able to exploit that into other countries. For example, one of the dimensions is personnel, the article is describing how the personnel is important for internationalizing because they initiate “the various steps in the process” and come well prepared to the foreign country with education and language training.

In the internationalization process of companies there are some patterns, according to the article. There are mostly patterns that show how the process of internationalization is moving forward step by step over time. The article presented a Finnish research that showed that the majority of Finnish industrial companies had non-investment marketing operations abroad, 33 percent had production abroad but still non-investment and only two percent had total investment operations abroad. The pattern is that the companies start with non-investment operations abroad and slowly evolve to full investment.

Although most companies have this, above mentioned, general pattern of sequential internationalization process, some companies skip a few steps and goes directly to full investment operations abroad. The article describes how the sequential process is step after step and over time. During these steps the companies have been collecting skills, knowledge and understanding of customers, culture and history of the foreign market. Even though step by step is a good way of evolving the business, the article states that knowledge collection is the main important step before internationalizing. In a model from the article you can see how Company X is evolving from A to B to C in the first five foreign markets over time. For the foreign market number six, Company X skipped to step C right away. The reason why Company X did that was probably, considering the timeline, that they already gained the right amount of knowledge for the company to invest in that foreign market.

Why firms internationalize in these gradual developments are, according to the article, stated into dynamic factors; *resources availability, knowledge development, communication networks, risk and uncertainty, control and commitment*. These factors explain why some companies prefer sequential path. Risk and uncertainty, for example, is one factor that is described as “experimentation without high risk”. Therefor the sequential path is preferred in the internationalization process of companies.

Discussion questions for Seminar:

- What is best, close geographic distance or close psychic distance? Why?
- What could be beneficial for companies wanting to expand internationally?
- How can companies be challenged by political decisions (both in home country and in foreign market)?