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First steps in internationalisation Concepts and evidence from a sample of small high-technology firms

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Abstract

There has been widespread dissatisfaction with step-stage development models of small firm internationalisation, and difficulties in applying comprehensive theories or explanations to the decisions and processes involved, resulting in calls for a return to exploratory research, and for a series of connected submodels covering different stages and dimensions of internationalisation. This paper attempts to address, at least partially, these demands. Empirical evidence from a sample of 213 small high-technology firms, consisting of quantitative data on their first steps in internationalisation, is presented and discussed. Descriptive statistics illustrate the frequency with which each type of cross-border activity is indicated across the sample, the time elapsed before each activity is established, and the combination in which they occur. The results indicate that, as expected from previous empirical evidence, trade-related activities, i.e., importing and exporting, are the modes of activity most frequently reported. Further examination reveals, however, that at least half of the firms in the sample include value chain activities other than trade in their first steps in internationalisation. These results raise questions relating to the conventional categorisations of foreign market entry modes and the design and interpretation of survey research relating to internationalisation.

Keywords: International entrepreneurship; Internationalisation; Contacts and links; Internationalisation behaviour

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1. Introduction

The first major steps in a firm's internationalisation process are generally held to be trade related, and while import activity is considered to play a role, it is export activity that is most often recognised as being the first real step in the internationalisation process. The definition of exporting is the sale of goods or services in country markets other than that of the exporting firm. Exporting usually involves the physical shipment of goods across national borders. Production takes place in the domestic market and the goods are sold, at arm's length, overseas. Services, in which delivery to the customers may be inseparable from the production process, has never fitted this definition well. Similarly, the business activities of many small firms, where the central activity of the firm is not the manufacture of goods, do not fit neatly into any export-based explanation of the internationalisation process. Conventional wisdom, however, and a plethora of empirical evidence, suggests that many small firms internationalise initially, through some form of exporting activity (Bilkey and Tesar, 1977; Cavusgil, 1984; Johanson and Vahlne, 1977).

The globalisation of business, and in particular, the globalisation of technology markets, has meant that small firms in industry sectors subject to globalisation forces may become involved in any number of different types of cross-border business activities (Luostarinen and Welch, 1990). Some of this activity may amount to no more than one-off arrangements or deals with foreign partners, while some will become part of an ongoing process of international growth and development of the firm. All play a role in the learning and development process of the firm (Johanson and Vahlne, 1977, 1990, 1992; Reuber and Fischer, 1997; Coviello and Martin, 1999). Recent studies have suggested that the international activity of firms is influenced by the extent to which their industry is internationalised, or the level of international activity that exists in a geographically distinct cluster of firms (Brown and Bell, 2000). Other reports indicate that industries have undergone an internationalisation process during which member firms pass through similar stages of international development at the same time (Kirpalani, 1999).

Literature on the internationalisation of the firm has been divided into studies that focus on the decisions involved, often relating to entry mode choice and strategy, and those that focus on the process (Benito and Welch, 1997). This division may have emerged as a result of pragmatism in research design and differences in disciplinary approaches rather than for any reasons specific to the firms themselves. Certainly, in reality, firms make or take decisions that result in development processes that together form individual patterns of internationalisation decisions and behaviour (Jones, 1999; Jones and Tagg, 1999).

The cross-border business activities that form the building blocks of internationalisation, most commonly referred to as foreign market entry modes, or foreign market servicing modes, are often examined in the literature as static, and often alternative decision choices (Young et al., 1989, p. 267). Alternatively, entry modes, or cross-border business links or connections are viewed as components in a more evolutionary process of international growth and development (Johanson and Vahlne, 1977, 1990, 1992). From either perspective, an intuitively sensible and widely supported view of the cross-border activity of small firms is that they commence internationalisation through low-risk, low-involvement modes such as indirect exporting.