

Critical Review of International Marketing Concepts and Theories

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Introduction

In the past few years, internationalization process in small and medium business has attracted the attention of many scholars and business managers. The focus is derived from their activeness and expansion of their business in the international markets. Managers in small and medium businesses have opted to internationalize their activities and apply the strategic changes to achieve their growth objective. The internationalization has been through the application of various models, such as the Uppsala Internationalization Process Model, International Entrepreneurship Theory, and Network Theory (Elango & Pattnaik, 2007).

In the past days, business internationalization was explained through the use of stage model which was a step by step process. Under this model, the firm that wishes to start any international activity later, should get involved in the international market and eventually owns subsidiaries abroad. The model resembles the Uppsala model that was proposed by Johansson, Vahlne in 1977 before it was criticized, and others were developed and adopted. New models, such as The Network Approach model brings out the significance of creating a good relationship with suppliers, customers and also the market in stimulating business internationalization (Jan 2004).

In the current business era, advancement in technology and the reduction of trade barriers have made the global economy more integrated, and such globalization has enabled managers to internationalize their business more easily and more efficiently. Over the last years, researchers have put into question the efficiency of Uppsala model in explaining the internationalization process of the SMEs, hence introducing other new models such as the Network Model and the International Entrepreneurship model to explain why and how businesses internationalize.

Various theories explain the different process of business internationalization (Amal & Rocha 2010).

The objective of this research is to enhance the understanding of the internationalization process of small and medium businesses through various models. This research seeks to analyze the available theories and their significance in internationalizing SMES and their validity in the future expansion of the SME markets.

The Uppsala Internationalization Process Model

The theoretical framework of this model was developed at first in 1975 by Johansson and Wiendersheim-Paul while studying the four Swedish firms. Through this, they realized that when firms internationalize, they move together in a series of increasing steps, which were termed as establishment chain. The model has its roots in the behavioral theory of businesses which describes internationalization of businesses as a gradual process of the firm in increasing its international awareness. It is expressed in the model through establishment chain and psychic distance.

As argued by Elango and Pattnaik (2007), the Uppsala model entails the interaction between knowledge development of foreign markets, the developing operations within it, and the increase in committing resources to such markets. The model describes the dynamic model and also the internationalization process of a firm.

Two methods attract attention in this model: the psychic distance and the learning process. The Uppsala model focuses mainly on three stages. These include market knowledge, market commitment, and the current activities. The state aspects include the committed resources to the foreign market, the market knowledge, and decisions that would affect the opportunities and risks of firms. The market knowledge helps the managers in making decisions. Uppsala

model is the only adaptive model method of the process-based models (Andrew & Rebecca, 2008).

According to Malhotra and Hinings, (2010), Uppsala model fundamental assumption is that the market knowledge and commitment influence the decisions on engagement and the later performance. The level of knowledge on foreign markets is subjective to the resource commitment in the international market and the vice versa. Most firms start an internationalization process in the markets with less psychic distance. The psychic distances are factors that affect the information flow such as language difference, political systems, and culture (Loane & Bell, 2006).

Network Theory

The theory argues that relationships are investments in assets, hence championing for a stronger consideration of network in firms. There is no longer completion of enterprises on individual levels, but network level. This includes the domestic or foreign customers and suppliers as well as their vendors and customers. Currently, the network approach has been unified into the latest Uppsala model version. It shows that the Uppsala model is more developed and generalized than other models due to its regular updates (Jan 2004).

Innovation Model

Under this model, internationalization is considered as the process of adopting a new product. Authors commonly use the approach in explaining the internationalization process. The model argues that every step is an innovative step for the firm but differs only in the phase choice, their number, and internationalization initiation mechanism (Elango, & Pattnaik, 2007).

In the first stage, the firm has no interest in exports and only responds to market commands. In the second phase, the firm is ready to respond to market dimensions, but makes no

effort in developing the possibility of the export process. In the third stage, there is a possibility of establishing export activity. In the fourth stage, the firm exports on an experimental basis to the close psychological market. The export activity is confirmed in the fifth phase, and the firm adjusts its operations to optimize market processes (Amal & Rocha 2010).

Theoretical Developments in the Area of Internationalization

For the last 20 years, there have been technological improvements in transportation, telecommunication, and production. The developed in technology has been the key factor in business globalization and has highly changed the progress of business environment. These advancements have provided the firms quick means in responding to better changes than before (Huei-Fang, 2009).

There are also changes in the international business environment with the developing economies such as Brazil, China, India, and Russia playing the main roles in the international trade (Andrew & Rebecca, 2008). The Uppsala model focused on the internationalization process as an internal capability ignoring the other external influences such as market potential, and other competitive potential forces, which are significant in the global business. In most cases, these factors may outdo the psychic distance forces in making management decisions (Huei-Fang 2009).

Foreign Market Selection by SMES

Most managers prefer foreign markets in their early stage of internalization due to the rapid globalization and high vertical integration that is happening on the international market. Managers need to keep at list the global track in their business operations for competition importance (Huei-Fang 2009).

Managers also find it the importance of monitoring the effect of globalization on the domestic clients. It's important as a manger to be aware of their key competitor's expansion in the foreign market and the way they do it. It is often vital for managers to do a follow-up of the main foreign customers to maintain an active business relationship (Huei-Fang 2009).

Access to new markets is another reason for managers to prefer foreign investments. The product or service products at some point reach a critical stage of cost and amount where the foreign production is more cost friendly compared to a domestic cost of production. In addition to exports, some other drivers facilitate internationalization that includes foreign investments, foreign companies' partnership, and cross-border business networking. Currently, technology advancement, globalization, economic and political changes are the primary key drivers to the internationalization of SMEs (Elango & Pattnaik, 2007).

The former Uppsala model argues that the order of a business entering a foreign market depends on the physical and psychic distances, starting with the closer countries to home market. With the globalization, the physical distance has not decreased, but rather made less a hindrance. As people travel far, firms continue becoming global, leading to the frequent encounter of different cultures. Psychological distance is still considered as a critical factor in determining the level of uncertainty, but managers view it being part of the good networks (Andrew & Rebecca, 2008)

The Positive contribution of Uppsala Model in Small and Middle Business Internationalization

Digitalization and convenience traveling have improved long distant relations through more participation in global networks. It has also introduced different distribution chains such as online selling and delivery of products. Firms consider psych distance as a critical factor in determining the level of uncertainty, but can also be overcome and reduced to being part of the good networks (Huei-Fang 2009).

Through this way, internationalization makes it easier for firms to join in big markets without following the Uppsala incremental steps. It has also argued that the internationalization process is speeded up, and the issue of psychic and physical distance is reduced (Huei-Fang 2009).

Challenges of the Uppsala Model in Market Selection of Born-global Firms

Despite the model effort in trying to explain internationalization process in most businesses, the model itself has some weakness in explaining the full internationalization as it is meant to be from the original side of the analysis. The changes in the business environment for the last 20 years have brought a lot of impact on the business development theories (Jan 2004).

To start with, the model does not explain the incentives in management and its effects in making decisions. When introducing the four-entry sequence in the market, the models ignore other forms of entry in the market, which are hard to fix in the scale of the model. Such forms as franchising are more favorable since they are a less risky form of market entry and can control and cover more markets (Jan 2004).

Though the psychic distance is not fixed, it decreases with the international experience and the learning on the organization. However, some managers lack the sufficient experience on foreign market expansion. This makes them lack confidence in entering the international market

with similar businesses. Enough experience widens the understanding of the international market hence managers are able to reduce the entry cost (Huei-Fang 2009).

Cultural differences and political systems also impede the learning, making managers strain in expansion option. Different customer cultures create uncertainty in choosing expansion opportunities. Political risks and government regulations on foreign markets affects the managers' decisions in entering the overseas markets (Jan 2004).

Summary of Discussion

It is evident that some of Uppsala model aspects apply to the internationalization process of SMES. Though not all firms follow the whole steps of internationalization as indicated by the model, the key significant issue is the psychic distance. Almost all the SMES chose markets in countries with small psychological distance as their global market targets in their early stages. In every firm, market knowledge is critical for managers in internationalization process and activities.

Some aspects in international entrepreneurship theory are also significant to SMES. Internationalization is easier when the managers have more experience in the internationalization process. Most SMES consider the market opportunity, growth opportunity, and the managerial motivation to be the key driving factors for internationalization process. Other factors are the risk-seeking behavior and entrepreneurial activities which help in reorganizing the opportunities to extend the market across domestic borders.

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