The Drive to Internationalize

“Why should my firm internationalize?” almost begs the question. It might be better phrased, “What should I do when we get an international order?” Because if your firm has a Web site, it will eventually and inevitably get a nondomestic order. Analogous to the observation of the old-time politician who commented that all politics is local, it can be said that all business is global. The important consideration is what to do when the world beats a path to your door—because it will.

This chapter will describe some of the forces and motivations that lead a company to proactively take its business international and will outline the process that many firms go through as they turn themselves into full-fledged “citizens of the world.”

The Process of Internationalizing

The decision to “go global” is dynamic, and it is not susceptible to a “one size fits all” approach. Nevertheless, companies tend to follow certain patterns as they move beyond their own borders, and Exhibit 1.1 presents a reliable model of the typical process of internationalization. It illustrates the interaction between and among components of an organization and shows how a company typically grows into becoming a full participant in the global arena. Using this model as a touchstone, managers can get their bearings when assessing their firm’s position and development, and have a tool for planning and plotting future directions and performance.

As a firm expands its activities into the international marketplace, its managers are usually faced with increasing risk and decreasing profits. As with any new venture or initiative, there is a learning curve that every company follows, even with the best planning. Expertise is developed gradually, and during that process there is a high degree of uncertainty. At the same time, the need for upfront investment saps short-term profits. Over the longer term, these factors
stabilize as the firm becomes more knowledgeable and experienced, but for the short term the ride can become very difficult. Successful performance can be achieved in three ways: effectiveness, efficiency, and competitive strength. Effectiveness is characterized by acquisition of market share abroad and by increased sales. Efficiency is manifest by rising profitability. Competitive strength is reflected by increased market share.

**International Stages**

In small-market countries, firms may very well be born global, founded for the explicit purpose of marketing abroad because the domestic economy is too small to support their activities. It appears that in some countries more than a third of exporting firms commenced their export activities within two years of establishment. Such *innate*, or start-up, *exporters* may have a distinct role to play in an economy’s international trade involvement.

In addition, firms with a strong e-commerce focus may also be gaining rapid global exposure due to the ease of outreach and access. Such rapid exposure, however, should not be confused with internationalization, since it may often take a substantial amount of time to translate exposure into international business activities. In most instances today, firms begin their operations in the domestic market. From their home location, they gradually expand, and, over time, some of them become interested in the international market.
The development of this interest typically appears to proceed in several stages. In each one of these stages, firms are measurably different in their capabilities, problems, and needs. Initially the vast majority of firms are not at all interested in the international marketplace. Frequently, management will not even fill an unsolicited export order if one is received. Should unsolicited orders or other international market stimuli continue over time, however, a firm may gradually become a partially interested exporter. Management will then fill unsolicited export orders.

Prime candidates among firms to make this transition from uninterested to partially interested are those companies that have a track record of domestic market expansion. In the next stage, the firm begins to explore international markets gradually, and management is willing to consider the feasibility of exporting. After this exploratory stage, the firm becomes an experimental exporter, usually to psychologically close countries. However, management is still far from being committed to exporting activities.

At the next stage, the firm evaluates the impact that exporting has had on its general activities. Here, of course, the possibility exists that a firm will be disappointed with its international market performance and will withdraw from these activities. On the other hand, frequently, it will continue to exist as an experienced small exporter. The final stage of this process is that of export adaptation. Here a firm is an experienced exporter to a particular country and adjusts its activities to changing exchange rates, tariffs, and other variables. Management is ready to explore the feasibility of exporting to additional countries that are psychologically further away. Frequently, this level of adaptation is reached once export transactions comprise 15 percent or more of sales volume. Just as parking ticket income, originally seen as unexpected revenue, gradually became incorporated into city budgets, the income from export marketing becomes incorporated into the budget and plans of the firm. Already when new product plans are made the question is raised: “How will this play in Osaka, Japan?” In these instances, the firm can be considered a strategic participant in the international market.

Business skills must be developed, relationships cultivated, and resources measured and managed intelligently. But equally important is motivation and the direction and vision that motivation provides.

Motivations to Internationalize

Why does a firm’s management decide to go international? The first, maybe obvious, factor in going international is the same as it is for any business decision: determination and commitment to succeed. Management must want to go international and make a serious, determined commitment to identifying
potential and to making the commitments and preparation necessary to succeed.
In short, they must want to do it. This commitment must be more than mere
statements in corporate press releases or at stockholders’ meetings. It must be
able to endure stagnation and sometimes even setbacks and failure that often ac-
company any new venture or initiative. Obtaining that level of commitment
means involving all levels of management early in the export planning process
and encouraging their active support and commitment.

A good indication of the degree of corporate commitment is the nature of
organizational structure. Someone must have a primary responsibility for export-
ing. Responsibility means focus. Even if, at the outset, just one person is assigned
part time, it is crucial to make that responsibility an important part of a specific
person’s job description and reward structure.

In addition to wanting to do it, the firm must have the ability—the skill sets
and other support—necessary to succeed. At the outset of a program the majority
of those resources might not be in-house, but they must be available to the
firm in some form.

Of course, motivations are often mixed and usually multiple. One factor
alone rarely accounts for any given business activity. Exhibit 1.2 provides an
overview of the typical proactive and reactive motivations to go international.
Proactive motivations represent stimuli to attempt strategic change. Reactive mo-
tivations influence firms that are responsive to environmental changes and adjust
to them by changing their activities over time. In other words, proactive firms go
international because they want to, while reactive ones go international because
they have to.

**Proactive Motivations**
Profitability is the strongest motivator. Management may perceive international
sales as a potential source of higher profit margins or of more added-on profits.
Of course, the perception and the reality can differ significantly. High start-up
costs often drain initial profitability, especially when the firm has not previously engaged in international market activities. Despite thorough planning, imponderable influences often shift the profit picture substantially. For example, a sudden shift in exchange rates may drastically alter profit forecasts even though they were based on careful market evaluations.

The second major motivator results from distinctiveness of the firm’s products or from a unique technological advantage. The firm’s offerings might face little competition in international markets or its proprietary technology may be one of a kind in a specialized field. Again, perception and reality should be compared. That means using research as a form of “reality therapy.” And if the perception and reality match, it can certainly provide a competitive edge and establish the basis for success. The intensity of marketing’s interaction with the research and development function, as well as the level of investment into R&D, has been shown to have a major effect on the success of exported products.

The key question here is how long will such a competitive advantage last. In the past firms could count on dominating international markets for many years. However, the life of such advantages has shrunk dramatically with the rapid increase in the pace of innovation (in both products and technologies) and because of a lack of intellectual property rights protection.

Exclusive market information is another proactive stimulus. This includes knowledge about foreign customers, marketplaces, or market situations that are not widely known by other firms. Such special knowledge may be based on a firm’s international research, special contacts, or simply being in the right place at the right time. Although such exclusivity can serve well as an initial stimulus for exporting activities, it will rarely provide prolonged motivation because competitors—at least in the medium run—can be expected to catch up with the information advantage of the firm, particularly in light of the growing ease of global information access.

Tax benefits have historically also played a major motivating role. Many countries offer tax concessions to their firms in order to encourage export activities. In The United States, a tax mechanism called the Exterritorial Income (ETI) Tax Exclusion provides exporting firms with certain tax deferrals, thus making international marketing activities potentially more profitable. However, the rules of the World Trade Organization prohibit the subsidy of exports by all but the poorest countries. For example, the ETI mechanism of the United States was found to be violation of WTO regulations, and the United States was advised to terminate such benefits. It can, therefore, be expected that tax benefits will play a decreasing role in future motivations to export.

A final major proactive motivation is economies of scale. Becoming a participant in exporting activities may enable the firm to increase its output and
therefore slide down more rapidly on the learning curve. Ever since the Boston Consulting Group showed that a doubling of output could reduce production costs up to 30 percent, firms have sought this growth. Increased production for the international market can therefore also help in reducing the cost of production for domestic sales and make the firm more competitive domestically as well. Thus, a company’s primary motivation with respect to this effect is stated as seeking increased market share. At an initial level of internationalization this may mean an increased search for export markets; later on, it can result in the opening of foreign subsidiaries and foreign production facilities.

**Reactive Motivations**

Firms act reactively as well as proactively, especially in the face of changes and pressures in the business environment. A prime form of such motivation is the reaction to competitive pressures. A firm may fear losing domestic market share to competing firms that have benefited from the effect of the economies of scale gained by exporting activities. Further, it may fear losing foreign markets permanently to domestic competitors that decide to focus on these markets. Observing that domestic competitors are beginning to internationalize, and knowing that the firm that obtains market share initially most easily retains it, firms frequently enter exporting head over heels. Quick entry may result in similarly quick withdrawal once the firm recognizes that its preparation has been insufficient.

Similarly, overproduction can serve as a major motivation. Historically, during downturns in the domestic business cycle, foreign markets provided an ideal outlet for bloated inventories. Frequently, this kind of *safety-valve activity* was designed for short-term activities only. Instead of developing an exporting perspective by adjusting the marketing mix to needs abroad, firms would simply cut prices, sell their excess inventory, and then leave the market when the domestic market rebounded. In its most egregious form this has been called dumping. Firms that have used such a strategy find it much more difficult to execute it the second time, after they have walked away from business relationships. This reaction from foreign markets and the fact that the major industrial economies appear to be increasingly synchronized may well lead to a decrease in the importance of this motivation over time.

Stable or declining domestic sales of products that are in the declining stage of the product life cycle have a similar motivating effect. Instead of attempting a pushback of the life cycle process at home by adding a cosmetic innovation or, sometimes, in addition to such an effort, the firm may opt to prolong the life of the product by expanding the market. In the past, such efforts often met with success because of the lag times of many product innovations. In particular, markets in many underdeveloped countries did only slowly reach the same level of
need and sophistication of markets in more developed nations. Increasingly, however, these lag times, if they still exist at all, are much shorter than they used to be. Nevertheless, this motivation is still particularly valid in less developed countries with respect to high-technology products that have become outdated by the latest innovations in developed markets. Such “just-dated” technology can be highly useful in economic development and offer vast progress in the manufacturing or services sector.

Excess capacity, like overproduction, can also be a powerful motivation. If equipment for production is not fully utilized, firms may see expansion into the international market as an ideal possibility for achieving broader distribution of fixed costs. Alternatively, if all fixed costs are assigned to domestic production, the firm can penetrate international markets with a pricing scheme that focuses mainly on variable costs. Although such a strategy may be useful in the short term, it may result in the offering of products abroad at a cost lower than at home, which in turn may trigger dumping charges. In the long run, fixed costs have to be recovered to ensure replacement of production equipment that growing exporting activities may overtax. Market penetration strategy based on variable cost alone is therefore not feasible over the long term.

The reactive motivation of a saturated domestic market is similar in results to that of declining domestic sales. Again, firms in this situation can use the international market to prolong the life cycle of their product and of their organization.

A final major reactive motivation is proximity to customers and ports. Physical closeness to the international market can often play a major role in the export activities of a firm. For example, Canadian firms established near the U.S. border may not even perceive of their market activities in the United States as exporting. Rather, they are simply an extension of domestic activities, without any particular attention being paid to the fact that some of the products go abroad. Except for some firms close to the Canadian or Mexican border, however, this factor is much less prevalent in North America than in many other parts of the world. Europe, Asia, and South America contain many more countries located much more closely to each other. For example, a European company operating in the heart of Belgium needs to go only fifty miles to be in multiple foreign markets. Companies in such physical circumstances are almost forced to be international.

Then there is the concept of psychic or psychological proximity. Geographic closeness to foreign markets may not necessarily translate into real or perceived closeness to the foreign customer. Sometimes cultural variables, legal factors, and other societal norms make a foreign market that is geographically close seem psychologically distant. For example, research has shown that many U.S. firms perceive Canada to be much closer psychologically than Mexico. Even England,
mainly because of the similarity in language, is perceived by many U.S. firms to be much closer than Mexico or other Latin American countries, despite the geographic distances. However, in light of the reduction of trade barriers as a result of the North American Free Trade Agreement (NAFTA), and a growing proportion of the U.S. population with Hispanic background, this long-standing perception is changing. Two major issues are at the heart of psychological proximity. First, some of the distance seen by firms is based on perception rather than reality. For example, German firms may view the Austrian market simply as an extension of their home market due to so many superficial similarities, just as many U.S. firms may see the United Kingdom as psychologically very close due to the language similarity. However, the attitudes and values of managers and customers may vary substantially between markets. Too much of a focus on the similarities may let the firm lose sight of the differences. Many Canadian firms have incurred high costs in learning this lesson when entering the United States. Second, closer psychological proximity does make it easier for firms to enter markets. Therefore, for firms new to exporting it may be advantageous to begin this new activity by entering the psychologically closer markets first in order to gather experience before venturing into markets that are farther away.

For the firm that seeks partners for involvement in international markets or managers who search for firms most likely to provide good opportunities, an important consideration should be whether a firm is internationally proactive or reactive. The clearest difference between proactive and reactive firms centers around how they originally entered international markets. Proactive firms are more likely to have solicited their first export order, while reactive firms only began exporting activities after having received an unsolicited order from abroad. And the difference provides an important gauge of the potential for success. The most successful exporters tend to be motivated by proactive factors in their general business operations as well as their international activities. They are more likely to be service-oriented than reactive firms and typically are more marketing and strategy-oriented than reactive firms, which place more emphasis on operational issues. Also, the motivations of firms do not seem to shift dramatically over the short term but are rather stable. Initial motivation for entry into international markets seems to be a good barometer of how the firm’s management runs its business otherwise.

**Change Agents**

For change to take place, someone or something within the firm must initiate it and shepherd it through to implementation. This intervening individual or vari-
able is here called a **change agent**. Change agents in the internationalization process are shown in Exhibit 1.3.

**Internal Change Agents**

A primary change agent internal to the firm is enlightened management. The key factor leading to such performance-enhancing enlightenment is the international experience and exposure of management. Examples are when the current management of a firm discovers and understands the value of international markets and decides to pursue exporting opportunities. Such insights are frequently triggered by foreign travel, during which new business opportunities are discovered, or by information that leads management to believe that such opportunities exist. Managers who have lived abroad, have learned foreign languages, or are particularly interested in foreign cultures are likely, sooner rather than later, to investigate whether exporting opportunities would be appropriate for their firm so there is a key business benefit to international travel!

A second set of major internal change agents consists of new management or new employees. Often, managers enter a firm having already had some exporting experience in previous positions and try to use this experience to further the business activities of their new firm. Also, in developing their goals in the new job, managers frequently consider an entirely new set of options for growth and expansion, one of which may be exporting activities.

A significant internal event can be another major change agent. A new employee who firmly believes that the firm should undertake exporting may find ways to motivate management. The development of a new product useful abroad can serve as such an event, as can the receipt of new information about current product uses. As an example, a manufacturer of hospital beds learned that beds it was selling domestically were being resold in a foreign country. Further, the beds it sold for $600 each were resold overseas for approximately $1,300. This new

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**EXHIBIT 1.3. Change Agents in the Internationalization Process**

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piece of information served to trigger a strong interest on the part of the company’s management in entering international markets.

In small and medium-sized firms (firms with fewer than 250 employees), the initial decision to export is usually made by the president, with substantial input provided by the marketing department. The carrying out of the decision—that is, the initiation of actual exporting activities and the implementation of these activities—is then primarily the responsibility of marketing personnel. Only in the final decision stage of evaluating exporting activities does the major emphasis rest again with the president of the firm. In order to influence a firm internally, it therefore appears that the major emphasis should be placed first on convincing the president to enter the international marketplace and then on convincing the marketing department that exporting is an important activity. Conversely, the marketing department is a good place to be if one wants to become active in international business.

**External Change Agents**

The primary outside influence on a firm’s decision to become international is foreign demand. Expressions of such demand through, for example, inquiries from abroad have a powerful effect on initial interest in entering the international marketplace. Unsolicited orders from abroad are a major factor that encourages firms to begin exporting. In the United States, for example, such unsolicited orders have been found to account for more than half of all cases of export initiation by small and medium-sized firms. Due to the growth of corporate Web sites, firms can become unplanned participants in the international market even more often. For example, customers from abroad can visit a Web site and place an international order, even though a firm’s plans may have been strictly domestic. Of course, a firm can choose to ignore foreign interest and lose out on new markets. Alternatively, it can find itself unexpectedly an exporter. Such firms can be called accidental exporters. While good fortune may have initiated the export activity, over the longer term the firm must start planning how to systematically increase its international expansion or, at least, how to make more of these accidents happen.

Other major outside influences are the statements and actions of other firms in the same industry. Information that an executive in a competing firm considers international markets to be valuable and worthwhile to develop easily captures the attention of management. Such statements not only have source credibility but also are viewed with a certain amount of fear because a successful competitor may eventually infringe on the firm’s business. Formal and informal meetings among managers from different firms at trade association meetings, conventions, or business roundtables therefore often serve as a major change agent.
A third, quite influential, change agent consists of domestic distributors. Often, such distributors are engaged, through some of their other business activities, in exporting. To increase their international distribution volume, they encourage purely domestic firms also to participate in the international market. This is true not only for exports but also for imports. For example, a major customer of a manufacturing firm may find that materials available from abroad, if used in the domestic production process, would make the product available at lower cost. In such instances, the customer may approach the supplier and strongly encourage foreign sourcing.

Banks and other service firms, such as accountants, can serve as major change agents by alerting domestic clients to international opportunities. Although these service providers historically follow their major multinational clients abroad, increasingly they are establishing a foreign presence of their own. They frequently work with domestic clients on expanding their market reach in the hope that their services will be used for any international transactions that result. Chambers of commerce and other business associations that interact with firms locally can frequently heighten exporting interests. In most instances, these organizations function only as secondary intermediaries, because true change is brought about by the presence and encouragement of other managers.

Governmental efforts on the national or local level can also serve as a major change agent. In light of the contributions exports make to growth, employment, and tax revenue, governments increasingly are becoming active in encouraging and supporting exports. In the United States, the Department of Commerce is particularly involved in encouraging exports. Its district offices are charged with increasing the exporting activities of U.S. firms. Frequently, district officers, with the help of voluntary groups such as district export councils, visit firms and attempt to analyze their exporting opportunities.

Increasingly, state and local governments are also actively encouraging firms to participate in the international market. Many states have formed economic development agencies that assist companies by providing information, displaying products abroad, and even helping with financing. Trade missions and similar activities are also being carried out by some of the larger cities. Although it is difficult to measure the effects of these efforts, it appears that due to their closeness to firms, such state and local government authorities can become major factors in influencing firms to go international.

Summary
Firms do not become experienced exporters overnight but rather progress gradually through an international development process. This process is the result of
different motivations to internationalize, varying managerial and corporate characteristics of the firm, the influence of change agents, and the capability of the firm to overcome barriers.

The motivations can be either proactive or reactive. Proactive motivations are initiated by the firm’s management and can consist of a perceived profit advantage, technological advantage, product advantage, exclusive market information, or managerial urge. Reactive motivations are the responses of management to environmental changes and pressures. Typical are competitive pressures, overproduction, declining domestic sales, or excess capacity. Firms that are primarily stimulated by proactive motivations are more likely to enter international markets aggressively and successfully.

Change agents, both external and internal to the firm, can bring on an international orientation. Typically, these are individuals and institutions that, due to their activities or goals, highlight the benefits of international activities. They can be managers who have traveled abroad or have carried out successful international marketing ventures, banks, or government agencies. Over time, firms will progress through stages of international expertise and activity. In each one of these stages, firms are likely to have a distinct level of interest in the international market and require different types of information and help. Their outlook toward international markets is likely to progress gradually from purely operational concerns to a strategic international orientation. Only at that level will the firm have become a truly committed exporter.