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Företagsekonomiska institutionen  
Department of Business Studies

# A Political View on the Internationalization Process

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Dissertation presented at Uppsala University to be publicly examined in Hörsal 1, Kyrkogårdsgatan, 10, Uppsala, Thursday, April 25, 2013 at 13:15 for the degree of Doctor of Philosophy. The examination will be conducted in English.

### **Abstract**

Figueira de Lemos, F. 2013. A Political View on the Internationalization Process. Uppsala universitet. *Doctoral thesis / Företagsekonomiska institutionen, Uppsala universitet* 158. 109 pp. Uppsala.

The role of governments in the internationalization of the firm had early recognition in prominent seminal studies in international business, such as Hymer's thesis or the Uppsala Model, though the interaction between multinationals and governments has attracted scarce attention. As such, the main stream of economics and management studies have focused on internationalization essentially as an issue of the firm, wherein the multinationals' interaction with the environment is limited to a business-industrial scope of suppliers, clients, and competitors.

In a different direction, this thesis includes the political setting and studies the beneficial side of governments in the internationalization process of the firm. With this purpose, the present dissertation proposes a conceptual framework based on Johanson and Vahlne's (1977) internationalization process model, complemented with Williamson's (1975) Transaction Costs Economics, and encompassed by conceptual insights from institutional studies related to international business. Specifically, the role of governments in the internationalization process is examined through the variances of the relation between knowledge and commitment at the micro, meso, and macro level.

The structure of the thesis reflects the multilevel approach, integrating one conceptual and three empirical papers, each of which dealing with a particular level of analysis. Through the aggregation of each paper's intrinsic contribution, the dissertation's summary offers a wide view on the internationalization phenomena, adding the political elements to the industrial-business elements of the environment. Overall, internationalization is conceptualized as a process of interaction with the business environment, whereas the public nature of political elements induces the compromise of combining activities between firms and governments. Evidence gives the ground to conclude that internationalization is not a game played just between firms, or, even, between firms and markets, but also with and within governments.

*Keywords:* Internationalization Process, Uppsala Model, Transaction Cost Economics, Institutional theory, Firm, Multinational, Government

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ISSN 1103-8454

urn:nbn:se:uu:diva-196465 (<http://urn.kb.se/resolve?urn=urn:nbn:se:uu:diva-196465>)

*to my sons Francisco and José Diogo*

# Acknowledgements

It has been a few years now since I read for the first time the 1977 article of Johanson and Vahlne. I was in shock. The article was telling my story as a manager and entrepreneur! That same article made me to withdraw a career as a manager, but, fortunately, not as an entrepreneur. If there is something truly entrepreneurial it is research. Indeed, a continuous cycle of diving and survival within uncertainty!

I express my deepest gratitude to my supervisors Professors Amjad Hadjikhani, Mats Forsgren and Jan Johanson. Thank you Amjad for your enormous generosity. It was a privilege to be able to step into your office not only when it was planned to but mainly whenever I needed to. Thanks for those several 10 minutes meetings that ended up in 2 hours of insightful discussions. Time is indeed the scarcest resource of life and the most valuable thing it can be given! Mats and Janne, your positioning perspectives and encouragement were fundamental to arrive at this point. Fortunately, I had Janne to compensate for those tough debates with Amjad and Mats. Overall, thank you all three for showing me how uncertain certainties can be. I hope we will be able to write down our discussions for many years to come!

I want also to thank Professor Martin Johanson who accepted to be the opponent for my final seminar. Your questions were essential in structuring the thesis.

As a summary of papers, this thesis was not written only by my hand; thus a special recognition goes to my co-authors, Fernando Freire de Sousa, Amjad Hadjikhani, Jan Johanson, and Jan-Erik Vahlne. I am indebted not only for what I have learned from you, but also because you made me realize how boring it is to write alone. Co-authors will always be welcome!

I am also grateful to all my colleagues at the Department of Business Studies. What an amazing research environment we have! I extend this gratitude to the faculty and classmates in the NORD-IB doctoral research school, as well as to my fellow doctoral students at the Strategy Unit of Harvard Business School. Three other academic colleagues were very important in accomplishing this journey, Professors Alberto de Castro, Freire de Sousa, and Pinto dos Santos. Thanks for backing me up whenever I needed it.

Finally, I am extremely grateful to my parents for raising me with the highest ethical values and to Cristina for being an amazing mother, bringing up alone our two wonderful sons over these years – THANKS!

# List of Papers

This thesis is based on the following papers, which are referred to in the text by their Roman numerals.

- I Figueira de Lemos, F., Johanson, J. and Vahlne, J.-E. (2011) 'Risk Management in the Internationalization Process: A note on the Uppsala Model'. *Journal of World Business*, 46(2): 143-153.
- II Figueira de Lemos, F., and Hadjikhani, A. 'Internationalization Processes in Stable and Unstable Market Conditions: Towards a model of commitment decisions in dynamic environments'. Submitted in April 2012 to the *Journal of World Business*, in review and revise process.
- III Freire de Sousa, F., and Figueira de Lemos, F. (2009) 'Complexity and interdependency in firm's internationalisation: when the state becomes the partner'. *International Journal of Business Environment*, 2(4): 485-504.
- IV Figueira de Lemos, F. 'The Control of Foreign Operations: Is it strategic, economic or politically driven?' Submitted in March 2013 to the *Journal of International Business Studies*.

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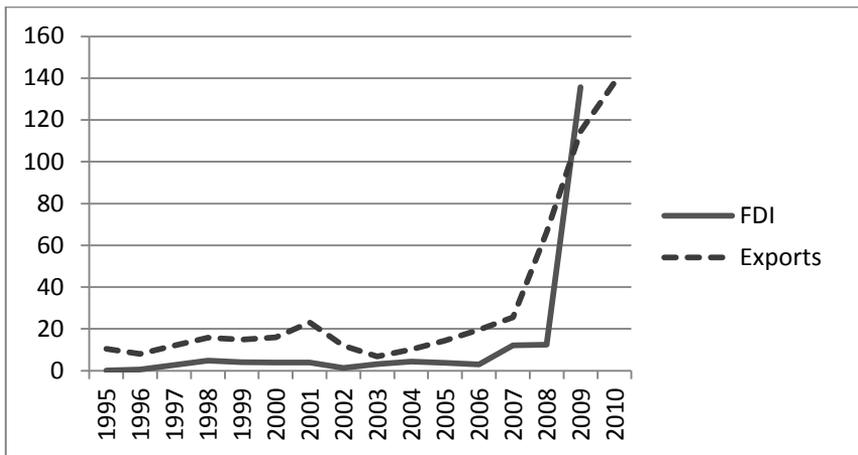
# Abbreviations

FDI – Foreign Direct Investment  
FIEP – Fundo para a Internacionalização das Empresas Portuguesas (Fund for the Internationalization of Portuguese Enterprises)  
GDP – Gross Domestic Product  
GOP – Government of Portugal  
GOV – Government of Venezuela  
IM – Internationalization Mechanism  
INE – Instituto Nacional de Estatística (National Institute of Statistics)  
INT – Internalization Theory  
INV – International New Ventures  
NPV – Net Present Value  
OECD – Organisation for Economic Co-operation and Development  
OECDstats – Statistical data of OECD  
POLCON – Political Constraints index  
SMEs – Small and Medium Enterprises  
TCE – Transaction Costs Economics  
U-m – Uppsala-model  
UNCTAD – United Nations Conference on Trade and Development  
US – The United States of America  
WB – World Bank

# Prologue

“*Por qué no te callas?*”. It was November, 10<sup>th</sup>, 2007, the last day of the 17<sup>th</sup> Ibero-American Summit in Santiago, Chile. The meeting proceedings were developing when the King Juan Carlos I of Spain shouted to the Venezuelan President Hugo Chávez: “Why don't you [just] shut up?”. Established in 1991, the first summit gathered Portugal and Spain and their ex-colonies from South America. In 2007, twenty two countries were represented at the highest level of their respective governments. Juan Carlos’ words against Chávez had an immense impact... on Portugal!

From November 2007, commercial exchanges between Portugal and Venezuela rocketed from residual amounts to unthinkable numbers. The ensuing years portrayed an average growth of almost 1000% (one thousand per cent!) of the Portuguese exports and foreign direct investment in Venezuela. In 2009 – just two years after the summit – exports were nearly 8 times the average of the exports from 1995 to 2007, while Portuguese FDI was 36 times greater than the average of the FDI stocks during that same period.



Portuguese Exports and FDI in Venezuela (Million dollars)

A coincidence? Maybe yes, if the phenomenon is analyzed just upon the economic setting. Though, when the political aspects are included, it seems that there are no coincidences.

Despite the large community of 600.000 Portuguese emigrants, at the time of the Ibero-American summit, the relationships between Venezuela and Portugal were not in their best shape. In 2005, the Venezuelan authorities detained a Portuguese pilot and condemned him in a ‘summary trial’. Institutional relations froze ever since, even leading the Portuguese government to turn down two visit requests from Hugo Chávez. At the end of November 2007, however, he was in Portugal for a dinner hosted by Prime Minister José Sócrates. The famous utterance of Juan Carlos shifted Chávez’s commercial interest towards Portugal. In 2008, Hugo Chávez visited Portugal four times, making it the country of the European Union he visited most.

The impressive sequence of bilateral treaties in trade and investments between Portugal and Venezuela is easily perceived in an extract of a secret note from the US Embassy in Portugal to the US Department of State released by the Spanish newspaper *El País*:

*“Portugal imports all of its oil and natural gas and, as part of its expanding energy diversification efforts, in May officially signed an "oil for milk" deal with Venezuela involving exchange of Portuguese dairy products for Venezuelan oil. The GOP quickly added other areas of cooperation including port infrastructure, housing, technology, law enforcement, and commercial aviation. Over the last year, the GOP and GOV have signed more than 40 agreements on new areas of cooperation. [...] Chavez's September 27 visit to Lisbon once again focused on increasing economic ties. He signed two deals with the Portuguese government and Portuguese companies – one to buy one million Portuguese-made computers and the other to build 50,000 pre-fabricated houses in Venezuela – the latter worth two billion euros. The Portuguese media gave the visit high profile coverage and ran photos of the two leaders arm in arm. [...] Sócrates and Chavez are next slated to meet at the Ibero-American Summit in El Salvador later in October.”* – ‘Cable sobre las relaciones entre Portugal y Venezuela’, *El País*, 12/12/2010.

Jose Sócrates stepped down from office in July, 2011. I was a member of cabinet in the Government of Portugal between 2009 and 2010, during his second term as prime minister. In November 15<sup>th</sup>, 2012, we met in Paris, France. It was lunch hour and I was telling him about the results of this thesis, and how they were confirming the fundamental role of governments in the internationalization of the firms. The Venezuelan case came to the discussion. José Sócrates looked at me and said: “You know, it was all about the relationship I built with Chavez...”.

# Chapter 1: Introduction

This thesis discusses governments as part of the internationalization of the firm. As so, it is argued that governments have an important effect in the foreign commitment of multinational firms, either hindering or catalyzing their internationalization process. Although recognized in the extant research in international business, the role of governments in the internationalization process has been somehow miss-specified. Whereas main stream theories confine internationalization as an issue of the firm, institutionalism studies rooted in management and economics literature disclose important components of the relation between firms and governments, though without explaining their interaction within a business-industrial perspective (Henisz and Zelner, 2003, 2004). Considering the conceptual gap, this dissertation extends and adds knowledge on the Uppsala internationalization process model (Johanson and Vahlne, 1977, 1990), conciliating it with some perspectives on new institutional economics (Williamson, 1975, 1985; Henisz and Williamson, 1999) and institutionalism views in internationalization (Hadjikhani and Ghauri, 2001; Henisz, 2000b, 2003; Henisz and Delios, 2001; Henisz and Macher, 2004).

Since Hymer's (1960) seminal insights, research in international business has been deconstructing the complexity of internationalization phenomenon into several comprehensive concepts. This analysis has led to an extraordinary evolvement of knowledge in the international business field, ranging from such discrete units as the transaction, to complicated structures like multinationals or business networks. Moreover, internationalization has captured the interest not only of economists and management scholars, but also of academics from other fields of social science like sociology, psychology, and political studies. I claim, however, that little research has been done concerning the implications of political institutions, namely governments, on the internationalization process of the firm. Although research in international business seems to have been in step with the world's economic development, it has lagged behind the world's political evolution.

The extant research in International Business often consubstantiates the common sense of a global world, 'smaller' and without borders, wherein a 'liability of outsidership' (Johanson and Vahlne, 2009) seems to take precedence over the 'liability of foreignness' (Hymer, 1960). Interestingly, however, these recent decades have shown a world with more and sharper bor-

ders. Indeed, since Hymer's thesis, ninety-nine new nations have been born. Even older borders like the Western European ones – once thought faded by economic integration – are becoming sharper with political divergences amongst the European Union governments. Maybe the 'world of markets' has become smaller and more homogenous. I do not discuss that. Instead, I discuss the fact that the 'world of countries' is undoubtedly 'larger' and politically more diverse. And this is of paramount importance to the internationalization of the firm, whilst a process that becomes more complicated with the increase of the environment's heterogeneity. The contribution of this dissertation seems therefore to be justified as it adds knowledge to the most fundamental issue of the internationalization process: to achieve the best possible configuration of resource allocation within the idiosyncrasy of foreign environments (Johanson and Vahlne, 1977).

The present summary develops a wide conceptual framework wherein the intrinsic contributions of each paper that compose this thesis are integrated. The effect of the political elements on the internationalization process of the firm is examined in three different facets and levels. The multilevel analysis provides a broad view of the internationalization phenomenon, from micro, through meso, to macro level, with important implications at conceptual, managerial, and policy scopes. A pattern of combination between public and private activities emerges, portraying whether the use of multinationals by governments as economical vehicles to proceed political interests or the legitimate capture by the multinationals of the externalities of governmental resources abroad.

## 1.1. Theoretical framework and positioning

Why a political view on the internationalization process? This was a question that I posed myself after some conceptual discussions with other colleagues. Maybe the answer is too simple, but, with the same aim of Johanson and Vahlne, this effort also considers how foreign commitment is undertaken upon the dynamics of the environment, though considering in the analysis more than just the business elements of the environment.

With this drive, a conceptual framework is built on Johanson and Vahlne's (1977) Uppsala Model (U-m), complemented with Williamson's (1975) Transaction Costs Economics (TCE), and overarched by institutionalism studies related to international business. The whole framework intends thus to demonstrate the effect of environmental changes on the U-m's fundamental relation between knowledge and commitment. Whilst environmental variations may be predictable or unpredictable, the commitment aim towards those changes is, respectively, a) to adapt to the environments when the existent knowledge is comprehended as enough and b) to learn with the

environment when a lack of knowledge is realized, or c) to control the environment when extreme uncertainty is perceived. Furthermore, political changes are added and dealt separately given the discretionary power of the political elements of the environment over business ones.

Starting with the U-m, Johanson and Vahlne (1977) depict internationalization as an exercise of uncertainty management upon the dynamics of the environment. Given that environmental changes are endless, the firm needs to keep on screening the surrounding environment in order to know how to cope with its variations. Three situations may arise. If changes are predictable and the firm's perceived uncertainty is close to zero, i.e. when it knows the environment to fit in, then the firm has merely to adapt to the environmental conditions. Some variations, however, may increase the firm's perception of uncertainty. In this case, despite the environment's predictability, the firm recognizes the knowledge it lacks and decreases the perception of uncertainty by learning. The third and final situation occurs when environmental changes are not predictable. Whilst not knowing how to adapt or learn the new environmental setting, the extreme uncertainty is decreased mainly through the ownership of the source of uncertainty<sup>1</sup>.

Although Johanson and Vahlne refer to the latter situation in their 1977 article, the essence of the U-m is not about the decrease of uncertainty by ownership but by learning. They make this point clear by emphasizing the explanation of internationalization as a learning process, and, in particular, as a 'learning by doing' process. It is a fact that ownership is a part of the U-m. Indeed, joint ventures and direct investment integrate the set of possible modes of foreign commitments. However, the reason for ownership is not to control but to gain a larger ground to identify and develop the opportunities arisen in the environment. Johanson and Vahlne clarify this ownership purpose in their 2009 article by referring Sarasvathy's (2001) dilemma between causation and effectuation models.

In turn, the matter of control, and in particular the control by ownership, belongs to the explanatory domain of transaction costs. The main assumption is not as much to decrease but to eliminate uncertainty by the integration of the sources of uncertainty into the firm's hierarchy. Williamson's (1975) TCE draws the uncertainty concept from Knight's (1921) true uncertainty. This Knightian uncertainty, whilst impossible to be reduced to probabilities, has a parallel in transaction costs, namely with everything that cannot be articulated in to the letter of a contract. In this sense, TCE advocates that internalization occurs when contracts are insufficient, or when the cost of articulation of all relevant aspects within the transaction into a contract is too disproportional to its benefits (Williamson, 1975, 1981).

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<sup>1</sup> Uncertainty is circumscribed to the unpredictability of its source's behavior, i.e. the source of uncertainty is known though its future behavior unpredictable. This implicit awareness distinguishes it from radical uncertainty or sheer ignorance (Forsgren, 2008).

In contrast from management literature, which proposes mutual learning as one means to achieve a common level of knowledge to the settlement of contractual agreements (Poppo and Zenger, 2002; Zhou and Poppo, 2010), in TCE there is no incentive to learn, that is, to acquire the sufficient knowledge to write better contracts and, thus, to avoid internalization. Instead, TCE promotes the internalization of that transaction into the firm. The underlying strategy to face uncertainty is not to learn the environment but to control the assets and activities that surround the transaction<sup>2</sup> (Williamson, 1981). Internalization consists, therefore, of a strategy in the firm's portfolio to face unpredictable environments. Within this rationale, TCE and the U-m complement each other in a theoretical framework of possible strategies to deal with the environmental dynamics. Furthermore, in a parallel to the U-m, TCE brings about commitment decisions in order to align the firm with the environmental conditions through the transaction's governance mode.

However, control by ownership may not be enough to solve all the uncertainty sources that surround the boundaries of the firm. In effect, in a joint study with Henisz, Williamson extricates the political elements from the remaining elements of the environment, excluding them from the TCE logic of control. The justification lies in the public nature of political elements. Once impossible to be internalized into the firm's hierarchy, their control by ownership is not possible to be contented (Henisz and Williamson, 1999).

Remarkably, not only are political elements beyond the TCE's explanatory limits but also of the U-m. While focusing on 'learning by doing' processes in the host market, Johanson and Vahlne target the business environment excluding, therefrom, the political elements. As they state:

*“However, increases in market uncertainty due to political changes cannot be expected to lead to the uncertainty-reducing commitments discussed here since such commitments cannot be expected to affect the political situation”*  
(Johanson and Vahlne, 1977: 30).

In my opinion, this is the fundamental limitation of the U-m. Indeed, it is not possible for firms to 'learn politics by doing politics' as they do with business. Therefore, the interaction of the firm with the environment becomes considerably different from the U-m's principles providing that the firm cannot 'be a national government' in order to 'learn politics by doing politics' as it does 'being a business firm' in order to 'learn business by doing business'. Overall, firms cannot do politics as governments do, while they cannot learn politics as they can with business.

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<sup>2</sup> Williamson (1981) explains, the transaction's integration does not end with the transaction itself, but requires the internalization of the assets, whether tangible or intangible, associated with the specific transaction.

Moreover, in what concerns the ownership subject, it is not a matter of the model's limitation but more of explanatory emphasis. These shortages are of paramount interest in the present dissertation. Therefore, on the same track as Johanson and Vahlne, my interest is to conceive a model of best allocation of foreign commitment within the environmental dynamics, still without fading the control option or excluding the political elements of the environment. Besides, the institutional views on internationalization advocate that the inclusion of political elements in the analysis should always be considered, if nothing else, because governments have a discretionary power over the other elements to alter the environment almost instantly (Henisz and Williamson, 1999; Henisz and Zelner, 2004). While political elements are difficult to learn and not possible to internalize through ownership, intuitionism scholars advocate that firms should be a part of policy change by influence through lobbying or other pressure strategies (Hadjikhani, Lee and Ghauri, 2008; Henisz and Zelner, 2005, 2006). The following table summarizes the conceptual background:

<b>Environmental Change</b>	<b>Attitude towards the environment</b>	
	<b>U-m</b>	<b>TCE</b>
Predictable	Adapt	Contract
	Learn	Internalize
Unpredictable	Control (a)	Internalize
Political	---- (b)	---- (b)

(a) by ownership, but is not the explanatory emphasis  
(b) limitation and/or out of the explanatory scope and dealt within institutional studies

Howsoever, given the use of economics-based theories such as TCE, it must be clear that this thesis is not about political economics. It is not debated here such issues as the value of labor and whether democratic or totalitarian governments better mitigate unemployment or economic recessions, as Stuart Mills or John Keynes did. Furthermore, it is not also an institutional view of the MNC in the same vein of new institutionalism studies (DiMaggio and Powell, 1983; DiMaggio and Powell, 1991). Definitely, the aim is not to study how MNCs are structured upon sociological perspectives of organizational studies (Scott, 2005) regarding the concepts of organizational field, isomorphism, decoupling, and legitimacy (Kostova, Roth and Dacin, 2008). All the more, it is not even political science applied to the MNC (Hillman and Hitt, 1999). The idea is not to study how collective decisions are made within different designs of the MNC's organizational structure, but the deci-

sions ‘per se’, and especially their alignment with the environment dynamics.

Therefore, focal to this dissertation is to understand the role of governments in the internationalization process of the firm, namely the implications of their ‘non-internalizable’ feature for the foreign commitment decisions. It concerns the overall contribution of this dissertation, once the best possible configuration of resources amongst different countries can only be complete when main catalysts of environment changes, such as governments, become considered in the commitment decisions. Intrinsic contributions to the present conceptual framework derive from the clarification and exploitation of misinterpretations on the limitations, at conceptual and scope levels, of the Uppsala model: i) a new interpretation of incremental behavior given by the model’s risk formula; ii) the conciliation of the U-m with TCE through the uncertainty variable; iii) the synthesis of internationalization as a process of interaction with the environment by adaptation, learning and control; or iv) by combining activities between firms and governments.

## 1.2. The research question

A synthesis of internationalization process as a complex phenomenon that involves adaptation, learning and control of the environment surrounding the firm emerges from the previous review. Firms adapt when the environment is predictable within their stock of knowledge (Johanson and Vahlne, 1977, 1990), learn when they perceive environmental changes, evaluate the lack of knowledge and acquire the respective knowledge to face those environmental changes (Hadjikhani, 1997; Forsgren, 2002), or control when the environment is difficult to predict or too costly to be learnable (Williamson, 1985; Henisz and Williamson, 1999). While adaptation and learning are extensively researched in management studies, the control of the environment is mainly explained in economics-based theories<sup>3</sup>.

Adaptation is defined in behavioral studies as a contingent process where firms grow or shrink with the conditions of the environment (Woodcock, Beamish and Makino, 1994). In addition, learning is viewed as the process whereby firms raise knowledge not only to predict environmental contingencies (Johanson and Vahlne, 1977, 2009), but also as a source of competitive advantage leveraged by the environment (Doz, Santos and Williamson, 2001). International economics, in turn, looks to the environment as something that may be controlled, whether by market power (Graham, 1974,

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<sup>3</sup> The control of the environment is dealt in some behavioral studies (for instance Mintzberg and McHugh, 1985), though within an organizational perspective that is different than the U-m’s commitment decisions scope of this study.

1998), by exploiting market imperfections (Hymer, 1960/76), or by avoiding internal and external uncertainty (Henisz and Williamson, 1999).

A subtle balance between predictability and controllability of the environmental changes emerges thereof. Control is the means to face unpredictable environments. In Sarasvathy's (2001: 252) words "To the extent that we can control the future, we do not need to predict it". However, when the environment is impossible to control by internalization or difficult to predict, such as the political environment, firms are forced to employ other strategies than market strategies in order to deal with the severity of political hazards (Henisz, 2009; Henisz and Delios, 2004; Henisz and Zelner, 2005, 2006). Indeed, while experience enables the firm to decrease market uncertainty (Johanson and Vahlne, 1977, 2003; Barkema and Drogendijk, 2007), learning the political environment does not endow firms with the ability to decrease political uncertainty as they do with business uncertainty (Henisz and Delios, 2004; Henisz and Zelner, 2004). Unlike in business environments where the firms are part of the changes, if the environmental variation is mainly due to policy change, it may not be learned ex-ante but only coped with by ex-post reaction (Henisz, 2009; Henisz and Zelner, 2004). In order to deal with this liability towards the political setting, some scholars suggest that firms must undertake 'coping strategies' (Hadjikhani and Ghauri, 2001; Henisz and Delios, 2004; Henisz and Zelner, 2004; Ring, Lenway and Govekar, 1990), and participate in the policy change process. The main objective is to influence and pressure the governments given their discretionary power to change the environment wherein firms find themselves (Henisz and Zelner, 2005, 2006).

Institutionalism theorists have been developing notable pieces of research and contributing to the understanding of the interplay between governments and firms (DiMaggio and Powell, 1983; Powell and DiMaggio, 1991; Henisz, 2000, 2009; Mahoney, 2005; North, 2005; Peng, 2003; Rodriguez, Siegel, Hillman and Eden, 2006; Zhou and Poppo, 2010). In particular to the International Business field, contributions from institutionalism researchers are rather eclectic. Conceptual studies range from macro level as Schnitzer's (2002) model of debt impact on FDI flows, to the transaction level such as Henisz and Williamson's (1999) econometric models comparing the hazards evolving with cross-national political environments. In an empirical stream, the institutional differences amongst countries are examined whether in economics-based studies on country profiles (Frankel and Rose, 2002) or behavioral patterns of institutions (Westney, 1993). More recent studies by Ferner, Almond and Colling (2005) compare the MNCs employment policies within the institutional differences among home and host countries. Although not purely institutional theorists, Makino and Tsang (2011) offer an interesting overview on FDI decisions and historical institutional ties among countries.

The above studies, however, remain focused on the superficial tension between the two spheres, governments and firms, and do not go deeper in explaining why and how governments can be part of the internationalization of the firm. In other words, institutional studies in economics (Henisz 2000a; Henisz and Williamson, 1999; North, 1990, 1991, 2005; Pinto and Pinto, 2008; Simonis, 2001) and strategic management (Delios and Henisz, 2003a, 2003b; Hitt, Franklin and Zhou, 2006; Henisz and Zelner, 2003; Lenway and Murtha, 1994; Boddewyn and Brewer, 1994; Welch and Wilkinson, 2004) arise as a self-explanation of the phenomenon laying in the borderline between institutions (decidedly political) and firms, though without explaining their interaction within an industrial-business perspective. The line that distinguishes whether firms are influencing governments or governments are guiding the internationalization of the firms is, thus, thin and blurred. Therefore, I claim a lack of research in the nature and scope of the interaction between firms and governments, and propose the research question:

*How do multinational firms manage the political elements of the environment and to what extent do these elements hinder or catalyze their internationalization process?*

With the internationalization process as the point of departure (Johanson and Vahlne, 1977), this thesis looks upon the elements of the environment that influence and/or become a part of the internationalization of the firms. Unlike other business and industrial entities, the public nature of governments impedes their internalization into the firm's hierarchy, and, consequently, the suppression of potential political hazards. The anticipation by prediction, though possible, does not completely eliminate the consequences of political changes, once learning processes are not effective towards political uncertainty (Henisz and Zelner, 2003). Therefore, the governments' role in the internationalization becomes the purpose of this thesis and synthesized as:

*To understand the role of governments in the internationalization of the firms whilst a 'non-internalizable' element of the home and host countries' environment.*

### 1.3. Disentangling the research question

In order to answer the above research question and accomplish its purpose, this dissertation proposes a conceptual framework that embraces different facets of the research subject. It is the result of a process that firstly aimed to refute some conventional criticisms of the U-m, but ended up in exploiting its unresearched limitations. The conceptual framework built therefrom de-

picts a dialectic between the U-m's arguments towards alleged limitations – such as its deterministic status – and the implications of the political setting as a real explanatory limitation.

On one hand, the framework emphasizes the principles of the U-m's internationalization mechanism to explain its contingent nature with the conditions of the business environment. Johanson and Vahlne (1977) propose the internationalization mechanism to depict the proportional scaling of commitment upon the knowledge accumulated by the firm in a certain foreign market. Connected with the variations of the firm's perceived uncertainty, the commitment scaling is undertaken by either increasing or decreasing the foreign commitment. Nonetheless, the conventional notion of the international mechanism persistently depicts an endless increase of commitment upon an endless accumulation of knowledge (Araújo and Rezende, 2005; Chang, 1995; Pedersen and Petersen, 1998).

This misinterpretation of the U-m emerged as nuclear issue and the reason to question why the deterministic view commonly attributed to the internationalization process has become a main stream view on the U-m. One probable reason concerns the measurability of the internationalization mechanism's state variables – knowledge and commitment. Once easier to measure than knowledge, commitment variations become the preferred mean to undertake empirical studies, validating or refuting the U-m's assumptions (Benito and Welch, 1997; Forsgren and Hagström, 2007; Pedersen and Petersen, 1998; Petersen and Pedersen, 1999; Rhee and Cheng, 2002). Furthermore, most of the studies on the U-m usually ignore the implications of the fit with the environment, while describing the commitment increase as a direct function of accumulated knowledge. Undoubtedly, if the environment remains absent from the analysis, such phenomena like divestment and leap-frogging become evidences of the mismatch between the amount of commitment and the stock of knowledge (Oviatt and McDougall, 1994; Shrader, Oviatt and McDougal, 2000).

However, the internationalization mechanism is not just about the *state variables* of knowledge and commitment. The *change variables* are also part of the internationalization mechanism. These variables, defined by Johanson and Vahlne (1977) as *current activities* and *commitment decisions*, are in truth the ones that explain the dynamic nature of the U-m. In particular, the commitment decisions, once made to align the knowledge and commitment with the changes in the environment, are a nuclear evidence of the contingent nature of the U-m. The reassessment of the discussion on internationalization as a process of best fit with the environment seems, thus, not only a rewarding research exercise, but also a necessary one to reveal the misunderstandings some criticisms have about the U-m.

On the other hand, whilst explaining the uncertainty management within the environmental changes, Johanson and Vahlne (1977) recognize the polit-

ical changes as one issue out of the explanatory boundaries of the model. This shortcoming of U-m is of major interest to this research since political elements, such as governments, have the legitimacy to change the business environment either favorably or detrimentally to the firm's commitment intentions (Boddewyn and Brewer, 1994). Hence, the present framework narrows Boddewyn's (1988) political setting just to governments, and follows Henisz and Williamson's (1999) suggestion to distinguish the political elements from the other elements of the environment. Since governments are 'non-internalizable' (Henisz and Zelner, 2004) and difficult to be learnt (Henisz and Delios, 2004), some strategies to circumvent environmental hazards – such as control by ownership – may not be possible to deploy and, in consequence, may complicate the fitting process with the environment. Not only does the public nature of political elements impede the internalization of governments in the multinational's hierarchy, but the ephemeral life of legitimate governments also constrains mutual commitments based on long term learning processes (Hadjikhani and Ghauri, 2001, 2006). Therefore, the scrutiny of commitment decisions within environmental changes provoked by governments not only helps to answer the question of how the firm manages such political elements of the environment, but also brings the explanation on the internationalization process closer to reality.

The ensuing question thus concerns the extent to which governments can hinder or catalyze the internationalization process. Since multinationals operate in differentiated political environments (Henisz, 2000a) they carry with them not only the liabilities but also the advantages of their home country (Hymer, 1960/76; Porter, 1980). The role of governments in the internationalization process must contemplate therefore similarities and differences between the host and the home environments whether at business or political levels. This exercise compels a shift from the viewpoint of the firm to that of governments. Put differently, instead of looking to the environment as something that changes and with which firms must fit in, governments should comprehend the firms' fit with the environment and realize the extent to which they are able to change it. This reversed view positions governments as moderators of the differences between institutional environments, an issue noted by Henisz (2000b), though still without any unequivocal conclusion.

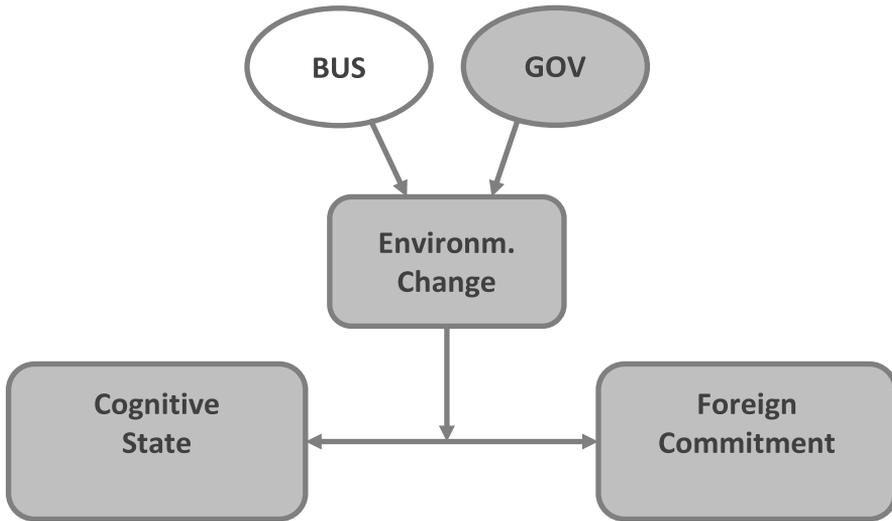
Considering the above facets of the research subject, the disentanglement of the main research question is operationalized in four papers. Their sequence reflects the research process. In the first two papers, the emphasis is given to the reassessment of the contingent nature of the U-m, refuting its conventional idea of determinism. They conceptually and empirically search the U-m as a valuable foundation for building frameworks to deal with environmental changes. Deriving from the analysis of the second paper is the importance of the political elements when negotiating the impact of environmental changes in the foreign commitment of MNCs. In consequence,

the other two papers look upon the role of governments in the internationalization process of the firm. One paper searches for the determinants of the governments' role at the home country of the firm, whereas the other seeks the moderator effect of political ties between national governments on the differences between institutional environments. Each paper's research question is as follows:

Paper	Title	Research Question
#1	<i>Risk Management in the Internationalization Process of the Firm: A note on the Uppsala model</i>	How can firms manage their foreign commitment within the host country's environment changes?
#2	<i>Internationalization Processes in Stable and Unstable Market Conditions: Towards a model of commitment decisions in dynamic environments</i>	How multinationals manage their foreign commitment in order to face political changes in the host country's environment?
#3	<i>Complexity and interdependency in firm's internationalisation: When the State becomes the partner</i>	What can governments do domestically to push outward FDI when domestic market actors lack resources and /or international knowledge?
#4	<i>The Control of Foreign Operations: is it strategic, economic or politically driven?</i>	To what extent may the political relations amongst national governments drive the foreign operations of multinational corporations?

The interplay between knowledge and commitment of the U-m is transversal to the four papers and adjusted to each of the research purposes. The basic variables of the internationalization mechanism are augmented, respectively, to cognitive state and foreign commitment variables. In view of the previous sections, the cognitive state comprehends knowledge, lack of knowledge, and uncertainty. The counterpart of this cognitive state is foreign commitment. It is distinguished through its different purposes whether to adapt to, to learn from, or to control the environment. The relation between each of the three variables of cognitive state and the ones of foreign commitment relate respectively with the adaption based on knowledge; the learning due of a lack of knowledge; and the control to face uncertainty.

The scheme of Figure 1 synthesizes the conceptual model, illustrating the adjustments made to the mechanism as conceptualized by Johanson and Vahlne (1977).



*Figure 1. The conceptual model*

The effects of changes in the environment, although implicitly held in the original model of Johanson and Vahlne, are now elicited. In this conceptual design, besides the part of business elements, the role of governments as a change catalyst is emphasized, augmenting thus the environment setting.

#### 1.4. The thesis outline

The genesis of this dissertation stems from conversations with Professor Jan Johanson about the concept of risk and how it synthesizes the internationalization process of the firm. In particular, we discussed the potential of the risk formula to disprove some major criticisms commonly addressed to the U-m, such as its alleged determinism. The first paper is the immediate result of these early conversations. The study is purely conceptual and uses the mathematical formula of risk to explain how risk can be managed in different situations which may arise in international business contexts. The second paper empirically tests the U-m's explanatory power on managing extreme environmental changes.

Without exception to the norm of long research processes, the initial plan suffered the effect of time. Therefore, the aim to reply to criticisms gave space to other interesting aspects that emerged while drafting the second paper. The abductive reasoning employed not only confirmed the U-m's

contingent nature, but also revealed side phenomena such as the influence of political elements in foreign commitment decisions. In this sense, rather than to confirm the U-m's abilities, it became more stimulating to exploit the explanatory boundaries of the U-m, and especially the limits of knowledge and the political setting as drivers of foreign commitment. As recognized by Johanson and Vahlne (1977: 29), extreme market uncertainty can only be eliminated by control through ownership, whereas political uncertainty is not possible to eliminate at all. In fact, internationalization may have explanation not only in the deployment of knowledge but also in the circumvention of uncertainty. The remaining two papers of the dissertation took this last challenge into their purposes.

The research process as described above led me to experience a discovery process which resulted in a rewarding but augmented effort when it came to elaborate the present summary of the papers. In a simple metaphor, while most of the summaries in dissertations that I have read illustrate a pile of papers aligned within a research project, this summary puts together four papers like four pieces of a puzzle. The picture from the finished puzzle reveals a wide view of internationalization wherein the firm's environment is analyzed in most of its elements. I do not want to discuss the virtues of a pile or a puzzle, but, undoubtedly, the present summary entails a self-contribution in a higher abstraction that goes beyond the mere description of the papers connection and individual contributions.

The ensuing Chapters of this summary are structured as follows. In Chapter 2 and 3 the conceptual framework of a political view on internationalization is developed within the extant literature concerning the internationalization process within an industrial-business and political view respectively. The conceptual basis of the framework is the U-m added on with TCE and Institutionalism perspectives. As such, whilst exposing the framework in its breadth, the review explains the multilevel approach, the conceptual grounds of each variable, and the respective interrelation between variables. Chapter 4 describes the research design as well as the empirical material employed in the qualitative and quantitative studies. The heterogeneity of the data is explained within the context of its sources. Chapter 5 offers an overview of the four papers, explaining each paper's position in the conceptual framework. In Chapter 6 findings are discussed in a higher level of abstraction. Three main contributions demonstrate the conceptual consistency of the overall framework. The conclusions are summarized in Chapter 7 wherein limitations are pointed out and an agenda for future research is suggested.

## Chapter 2: The Internationalization Process within an Industrial-business Environment

Since Hymer's (1960/76) seminal work, internationalization has been studied essentially as a phenomenon of the firm, within the boundaries of the firm (Buckley and Casson, 1976; Johanson and Wiedersheim-Paul, 1975; Dunning, 1981). Early definitions of internationalization reflect this viewpoint. Internationalization is introduced as the firm's attitude towards any foreign activities (Johanson and Wiedersheim-Paul; 1975) or the internalization of foreign activities (Buckley and Casson, 1976). These static descriptions soon gave way to more dynamic ones depicting internationalization as a dynamic process (Johanson and Vahlne, 1977) of "increasing evolvement" of operations abroad (Welch and Luostarinen, 1988) by which the firms acknowledge the factors that influence directly and indirectly their international transactions (Freeman, 2000). In dynamic models, the environment alters whether in time or space. While geography confers a spatial change in the environment, its stable or unstable conditions express the change magnitude with time (Hadjikhani, 1977; Johanson and Johanson, 2006; Nohria and Goshal, 1997).

Despite the main stream idea of internationalization as a strategy of growth and expansion (Autio, Sapienza and Almeida, 2000; Rhee and Cheng, 2002), some scholars point out that internationalization is also about disinvestment and market exit (Benito and Welch, 1997; Boddewyn, 1979; Dixit and Chintagunta, 2007; Freeman, 2000). Unlike the domestic operations, international operations require a differential adaptation of resources, structure, and organizational strategies towards the different settings wherein multinationals are present (Doz and Prahalad, 1984; Nohria and Goshal, 1997; Prahalad and Doz, 1987). This view of internationalization as a process of a contingent fit with the environment is also shared in this thesis. Nevertheless, here it has the additional aim of explaining the conciliation between the firm and the environmental circumstances not strictly as an adaptation exercise, but as a process of learning and control of environmental elements.

The interaction of the firm with the environment as such is analyzed through the lenses of strategic management and transaction costs studies (Johanson and Vahlne, 1977, 1990; Williamson, 1975) wherein the environment of the firm is circumscribed to a business-industrial setting of sup-

pliers, clients, and competitors. The non-business elements of the environment (Boddewyn, 1988), although excluded in this chapter, will merit appropriate analysis in Chapter 3.

## 2.1. The conventional view of the Uppsala Model

The countries' selection and the respective operations' expansion are two major questions in the internationalization phenomena which the U-m answers with two core concepts: psychic distance and internationalization mechanism (Chang and Rosenzweig, 2001; Pedersen and Petersen, 1998; Reid, 1981; Rhee and Cheng, 2002). Psychic distance concerns the perception that decision makers have about the differences between home and host markets. Despite the different levels of analysis, the difficulty to analyze managers' perceptions has compelled the operationalization of 'psychic distance' by such proxies as the differences between institutional environments (Dow and Karunaratna, 2006) or the cultural dissimilarities between countries (Kogut and Singh, 1988). In turn, the Internationalization Mechanism (IM) systematizes operational expansion through the management of the perceived uncertainty, namely through the interplay between market knowledge and commitment. This interplay is mediated by the commitment decisions, which are conceptually grounded in Cyert and March's (1963) behavioral theory of organizations and in Aharoni's (1966) decision process in international operations. Surprisingly, however, in a different direction from these behavioral foundations, the U-m has been coined as a deterministic model wherein expansion proceeds as long as the firm accumulates experience in the host market.

The longevity of the U-m has compelled its scrutiny in several confirmation studies (Ellis, 2000) as well as into diverse critical reviews (Sullivan and Bauerschmidt, 1990). In general, these critics stress the model's oversight of initial conditions (Anderson, 1993; Ellis, 2000) and time-framing (Petersen and Pedersen, 1999). Often mentioned as examples are the inadequate first two stages of the establishment chain, when firms are motivated to search abroad for technology and/or raw materials (Petersen and Pedersen, 1999; Oviatt and McDougall, 1999) and the indifference towards the firms' domestic environment (Wiedersheim-Paul, Olson and Welch, 1978; Prashantham, 2004). At the conceptual level, two other main limitations are pointed out. One is the explanatory looseness of incremental models in the face of globalization effects (Petersen and Pedersen, 1999) namely their lack of applicability towards the "International New Ventures" and "Born Global" phenomena (Oviatt and McDougall, 1994; Knight and Cavusgil, 1996). The other, pointing to the methodological scope, advocates that the Uppsala-model authors did not make any restrictions to the analysis unit and, above

all, do not link the operational level to the theoretical level<sup>4</sup> (Anderson, 1993).

A closer look at the criticisms above reveals the establishment chain as a common denominator, though the U-m is more than just the establishment chain. As Hadjikhani (1997: 43) suggests "...to study the criticisms of the internationalization process model and to distinguish it from the stage model from the point of view of commitment", i.e., the establishment chain turns out to be only a self-concretization of the U-m. It is just a stage model and comes to be a simple illustration of the U-m (Autio, 2005). The IM, on the other hand, is the core of a process model and represents the substance of the U-m.

Although the IM comprises both state and change aspects, most of the studies that followed the U-m over-emphasize the state aspects, leading to some misinterpretations about the model's essence. The most common one describes the U-m as a deterministic model (Leonidou and Katsikeas, 1996). Indeed, if the model is seen only through the lenses of the establishment chain and the state aspects, the IM comes to be a never-ending cycle between commitment and knowledge. The commitment increases as long as the firm continues to accumulate experiential knowledge.

In truth, the positivist manner in which the U-m authors posed the interplay between knowledge and commitment also contributed to its deterministic view. If knowledge is mainly dependent on the firm's experience then determinism occurs whilst no distinction is made towards the portion of experience that effectively contributes knowledge to commit. Moreover, if increments in commitment are undertaken proportionally to the increments in experience and experience continuously accumulates with time, then commitment should always increase as long as the firm operates the market.

As *Figure 2* depicts, this deterministic cycle has prevailed as the main stream interpretation in most of the research related with the Johanson and Vahlne's (1977) conceptualization of the internationalization process. It is a conventional view of the U-m that, although not defended in this dissertation, entails the point of departure of the conceptual framework while assisting the sketch of the first line between experiential knowledge and foreign commitment:



*Figure 2. The conventional view of the U-m*

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<sup>4</sup> In Anderson's (1993) view the theoretical level consists of the internationalization mechanism while "Psychic Distance" and "Establishment Chain" concern the operational level.

Foreign commitment reflects the deployment of knowledge acquired with prior experience, and, thus, commitment increases as time endows the firm with more and more experiential knowledge. Despite the logical sense, the dynamics between experiential knowledge and commitment only finds correct explanation with the two variables of change aspects – current activities and commitment decisions. As the authors define, being that current activities are “the prime source of experience,” daily activities explain the accumulation of experience over time, and, consequently, the accumulation of experiential knowledge becomes a “long-learning process in connection with current activities” (p.29). While current activities provide the firm a continuous interaction with the environment, this interaction becomes incremental as it follows the smooth changes of environment. Commitment, therefore, is undertaken within the knowledge accumulated through feedback from environment. Although some operational complexities may delay this feedback, the environmental changes are fully expected within the routines established. As long as the firm undertakes current activities, the interaction with the environment feeds the firm with the knowledge needed to further its commitments. The incremental cycle is proven and so is the determinism.

## 2.2. The risk perspective of the U-m

In the context of the determinism held in the conventional view on the U-m, disruptive commitments such as divestment (Benito and Welch, 1997) or leapfrogging (Knight and Cavusgil, 1996) are observed as situations of non-incremental commitment and reinforce the criticisms of deterministic models as predictors of internationalization. Whereas de-commitment is exposed merely on the commitment observation, the explanation of ‘leap-frogging’ and fast commitment is more complex once based on the gap between the firm’s experience and the effectuated commitment.

The joint study of experience with commitment brings more sophistication to the analysis, though it does not explain the need for commitment decisions. Actually, while leapfrogging is associated with success and high international performance (Autio *et al*, 2000; Bell, 1995), de-commitment and divestment are seen through the lenses of a hazardous internalization (Bianchi and Ostale, 2006, Henisz and Delios, 2004; Perkins, 2008). In this logic, commitment disruptions are merely considered as consequences either of resources’ potential strength (Oviatt and McDougall, 1994; Bell, 1995) or of their shortage (Bianchi and Ostale, 2006). Despite the proclaimed strategic context, all of these studies do not investigate the strategic aim of commitment towards changes in the environment.

In the present dissertation, however, besides the analysis of the resource fit with the environmental conditions, the explanation of whether commit-

ment disruptions may hold any strategic decision is also pursued. Indeed, if environmental dynamics are added to the analysis, there are likely to be strategic decisions underlying these disruptive commitments in order to achieve the best possible fit of resources towards the changes in the environment. In fact, Johanson and Vahlne (1977) discuss the environment within homogeneous and heterogeneous features among stability and instability conditions, describing the U-m's application in a much wider extent than incremental commitment. Specifically, they elaborate a risk formula that fully demonstrates the decision-making upon the dynamics of the environment (see Johanson and Vahlne, 1977: 30).

The U-m's risk formula not only determines the consequences of environmental conditions on the relationship between knowledge and commitment, but also explains how commitment decisions are affected by environmental changes. Unlike the conventional view of the U-m, the risk formula describes the decisions made whether to increase or decrease foreign commitment. In Johanson and Vahlne's (1977) words: "While current activities are held in a rather stable environment, commitment decisions are made in response to perceived problems and/or opportunities" (p.29). Distinct from current activities, commitment decisions come into play when the environmental change is disruptive. Once current activities fall short in dealing with the disruptive event, the acquisition of knowledge becomes necessary to deal with the problem/opportunity required by specific commitments<sup>5</sup>. Furthermore, these commitment decisions not only depend on former knowledge but also on former commitment. Although previous knowledge is the input of the decisions on new commitments, the previous commitment may also constrain the set of alternatives. As Johanson and Vahlne assume, commitment decisions "depend on what alternatives are raised and how they are chosen" (1977: 29). The one-way relationship between commitment and experiential knowledge as pictured in *Figure 2* becomes therefore a two-way one, i.e. knowledge shapes and is shaped by the commitment.

The inclusion of environmental disruptions in the analysis not only adds another direction to the initial relation between the commitment increases based on the experience accumulated, as it also alters its incremental determinism. On the one hand, while regarding to experiential knowledge, environmental changes can cause either erosion or overlap on the previous stock of knowledge. For instance, crisis events can alter the environmental conditions in such a radical manner that the knowledge accumulated with the previous experience may not be appropriate to be employed in the new setting (Hadjikhani, 1997). Although the experience gained remains intact, the base for employing the accumulated knowledge shortens, and an effect of

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<sup>5</sup> Similar to the learning double loop of Argyris and Schon (1974), the problem-solving process or opportunity development gives way to an organizational redesign, i.e. a new fit with the new shape of the environment.

knowledge erosion and looseness is perceived. Conversely, the knowledge gains can also be perceived through knowledge overlaps such as the recognition of a business opportunity (Johanson and Vahlne, 1977, 1990, 2009). One same environmental change may induce different perceptions in different firms. However, the differential in the perception those firms have on that change may reflect larger or smaller overlaps of the current situation relatively to their previous stock of knowledge. On the whole, while experience is always incremental and accumulates with time, knowledge is a much complex concept and more contextual with the environment (Doz *et al*, 2001) whether gaining relevance or becoming obsolete with environmental changes (Hadjikhani, 1997).

On the other hand, regarding the firm's commitment stock, it can also suffer positive and negative effects from environmental changes. Negative effects may be reflected through the obsolescence of some commitments due to technological changes (Perkins, 2008) or regulatory changes (Hadjikhani, Lee and Ghauri, 2008; Henisz and Zelner, 2005; Li, Poppo and Zhou, 2008). The erosion of foreign commitment, specifically the tangible kind, can even occur more drastically as in the nationalization of assets by host governments (Durnev, Errunza and Molchanov, 2009; Henisz and Zelner, 2005; Schnitzer, 2002). Even intangible commitments may be lost with environmental changes such as, for instance, the relationship commitments with governmental agents when they step down from office (Hadjikhani, 1997; Henisz and Zelner, 2004). While detrimental effects on commitment are mostly due to obsolescence or external hazards, beneficial effects on commitment due to environmental changes are mainly associated with an increase in efficiency. Once firms proactively seek efficiency, a positive effect of an environmental change is usually seen as a lucky outcome rather than the result of 'good' management (March and Shapira, 1987). Remarkably, risk, as originally formulated in the U-m, integrates all these variances between commitment and knowledge. Through the lenses of the risk formula, the internationalization process becomes a synthesis of risk management undertaken through the balance of knowledge and commitment upon environmental changes (Figueira de Lemos *et al*, 2011).

### The managerial view of risk in the U-m

Similarly to the differences between economics and behavioral theories, risk concepts also differ depending on whether their focus is on financial or managerial risk. The U-m's conceptualization of risk is akin to March and Shapira's (1987) managerial view of risk. Despite its behavioral ground, the managerial perspective of risk differs from, but roots in, the financial risk perspective. Both perspectives hold the assumption that either idiosyncratic or 'worldly' phenomena follow probabilistic distributions. The expected

values given by statistical probabilities portray the future as something predictable, despite its uncertainty. The classical tension between knowledge and uncertainty is surrogated by the certainty of objective knowledge and the uncertainty of the world. This duality is demonstrated by the probabilistic distribution, depicting the expected value as a statistical certainty whereas its variance as uncertainty<sup>6</sup>.

In turn, the differences between financial risk and managerial risk are essentially the role of the lack of knowledge and the subjectivity of preferences. While financial risk is calculated from an objective and complete set of knowledge, managerial risk is perceived upon an incomplete set of knowledge, either objective or subjective (Miller, 2009). Some implications derive therefrom. While in financial risk choices are made through the comparison of objective variances, in managerial risk decisions are made upon a cognizant state of incomplete information. The grounds on which those decisions are made become significantly narrowed in the managerial conception of risk. Not only is the universe of alternatives reduced to the set of knowledge available to the decision maker, but also the awareness of the lack of knowledge compels decision-making upon subjective criteria of previous experiences, logically narrowed to the successful ones (Bowman and Hurry, 1993; Fiegenbaum and Thomas, 1988; March and Shapira, 1987; 1992). Differently from the lack of knowledge, the uncertainty context is broader in the managerial risk perspective. While uncertainty in financial risk is merely temporal, i.e., only future dependent, managerial risk adds upon it the contingent uncertainty (see Figueira de Lemos *et al*, 2011) that arises from the perception of the lack of knowledge.

Learning processes, therefore, consist of major conceptual differences between financial and managerial risk. While in the former view, commitment decisions do not gain any additional knowledge with time, in the latter view the time endorses more efficiency to the decisions. In the managerial view of risk, decisions are made and renewed within updated conditions of the environment. It is even different from the real options optimization of decision-making. In real options approach, decisions are merely delayed. Despite the information gain provided by the delay, no new decisions are made upon new environmental conditions. For example, the option to buy a certain stock at a certain price can be taken with a particular timing, though the decision of the price to buy is determined ex-ante and the option only taken if the price in the stock market actually reaches the pre-determined value.

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<sup>6</sup> The stock market is a good illustration of the relationship between expected value, variance and risk. In simple terms, the expected value is the stock's average price, while the variance reflects the deviation of the stock's daily prices to the average price. Consequently, among two stocks with the same average price but different deviations, the riskier one is that which displays the larger deviations to the average price. Risk, in the financial perspective, is a matter of variance and not of knowledge.

The above implications help to clarify the connotation of internationalization as a risk process (White and Fan, 2006) as well as the taxonomies of internationalization models based on the prescribed attitudes towards risk (Autio, 2005). As the future is equally unknown whether a firm operates at home or in a foreign country, it is the firm's perception of the lack of knowledge about the host country that becomes translated into higher risk. Once cultural differences between countries prompt the firm's need to learn about the host environment, wider cultural differences provoke longer learning processes (Petersen, Pedersen and Lyles, 2008). In consequence, a longer time lag between the knowledge acquisition, the commitment decision and the commitment implementation will be translated into a perception of higher risk (Johanson and Vahlne, 1977; March and Shapira, 1987).

On the other hand, considering the acknowledgement of risk through variance, the lack of experience in the host country prompts an amplified perception of environmental changes compared to those in the home country (Perkins, 2008, 2009; Shrader *et al.*, 2000). Distinctly to the lack of knowledge, the lack of experience shortens the series of historical observations about the consequences of change. Although 'home country knowledge' may help the firm to identify the change in the environment and to react to it, the lack of 'host country experience' provokes the uncertainty about the change's consequences, leading to higher perception of risk (Zsidisin, 2003). Moreover, the process of international expansions from culturally closer to more distant countries enables an incremental deployment of previous knowledge which increasingly endows the firm with the capacity to predict the host environment (Barkema, Bell and Pennings, 1996; Henisz, 2009). Therefore, in light that both the firm's experience and the cultural closeness compete to the capacity to predict the environment, a sequential internationalization process may be classified as a low-risk model, while high-risk internationalization associated with fast and global internationalization as, for instance, International New Ventures (Autio, 2005; Oviatt and McDougall, 1994).

The notion of the U-m as an austere model of internationalization has gained some strength, whether claiming its practical application to the internationalization of resourceless SMEs (Maekelburguer, Schwens and Kabst, 2012) or grounding its conceptual roots on reactivity and risk avoidance (Autio, 2005). Still, risk management is taking risks at a minimum level, whereas risk avoidance is not taking any risk at all<sup>7</sup>. The U-m is, indeed, an austere model, however, learning and exploiting knowledge does not mean

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<sup>7</sup> March and Shapira's (1987) view on risk management is in between managerial perspectives about dealing with risk; in the manager's mind, risk is controllable with skill and information. Decisions are made upon a set of risk-controlling strategies, i.e., after designing a sort of contingency plan. Thus, risk is not avoided but accepted and managed with short-run reactions to short-run feedbacks

risk avoidance but just risk mitigation through the management of potential hazards. Besides, as originally posed by Johanson and Vahlne, firms strive to “keep risk-taking at a low level” (1977: 27) which, as they further clarified, “does not imply risk avoidance, only a need for risk management” (2009: 1418).

## Adapting to and learning from the environment

Johanson and Vahlne (1977) suggest internationalization as a process of commitment upon the environmental conditions, whether adapting when the environment is known or learning when it is perceived as unknown. With adaptation is meant a contingent adaptation, that is, the firm adjusts its set of resources within the environment, accordingly to favorable or unfavorable conditions. If the environment is not fully understood, then commitment will be undertaken as it is learned, adjusting it through the scale of operations.

The strategic alignment of commitment, knowledge, and the dynamics of the environment is also found in recent studies built on the original assumptions of the U-m’s internationalization process. For instance, based on the cultural differences between home and host countries as a proxy of environmental change, Barkema and Drogendijk (2007) use the exploitation and exploration concepts to illustrate the implications of the magnitude of environmental changes on the foreign commitment performance. The commitment attitude of the firms, exploiting or exploring, derives from the larger or smaller knowledge overlaps with the cultural differences between targeted country and previous international experiences. Exploitation is related with more intense modes of commitment undertaken when the knowledge overlap is larger, while exploration is compelled by small overlaps of knowledge with previous international experiences. They also argue that exploration is a riskier process than exploitation. Although the authors do not make it explicit, it is understood that the higher perception of risk is a consequence of wider environmental changes. Smaller overlaps of knowledge require more commitment and longer learning processes. Therefore, similarly to the U-m conceptualization, risk is not only a function of the commitment level but also of the level of uncertainty related to the lack of knowledge. Overall, while exploitation compels an exercise of adaptation to the new environmental setting through the employment of former knowledge, exploration becomes a learning process of new knowledge quantified by the differences between the new and the former environment.

Petersen *et al* (2008) make an even sharper conceptualization of internationalization as a process of both adaptation and learning. They distinguish experience from knowledge to propose that perceived uncertainty does not decrease necessarily with experience but mainly with knowledge. This distinction aligns with the previous rationale of experience as incremental and

deterministic, and knowledge as fluctuating with the environmental conditions. In a rough sense, the term 'knowledge gap' is used in symmetry to the Barkema and Drogendijk (2007) knowledge overlap, i.e. the knowledge gap becomes the amount of non-overlapping knowledge. Larger deployment of knowledge will occur when knowledge overlaps are extensive and adaptive commitment will result. In relation to the learning processes, Petersen *et al* (2008) arguments are similar to Barkema and Drogendijk (2007) in that they refer Cohen and Levinthal's (1990) work to advocate that learning processes are triggered by the recognition of knowledge gaps, i.e. the need for new knowledge. In this regard, learning processes do not result from pure uncertainty, but rather from the perception of the lack of knowledge. Therefore, adaptive processes impose over learning processes when knowledge overlap is extensive, whereas greater knowledge gaps will translate into learning process over adaptive ones.

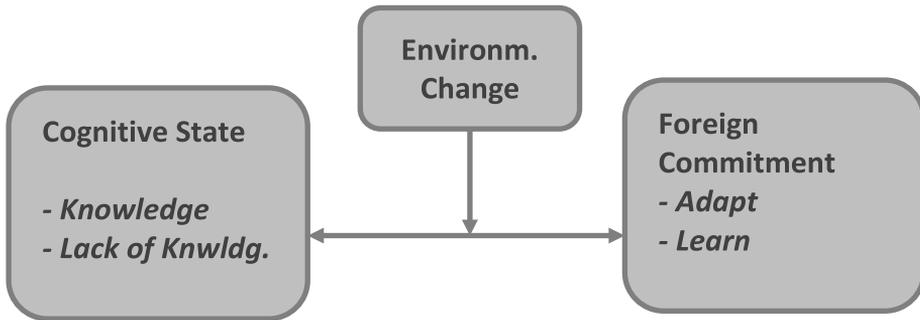
Still with the writings of Petersen *et al* (2008) and Barkema and Drogendijk (2007), learning processes are not always possible to undertake and some limitations are pointed out. While the latter only suggest the learning limits to a minimal knowledge overlap, i.e. the sufficient amount of overlap required to identify the knowledge gap, the former authors complement the lower limit by adding an upper limit defined as the "maximum tolerable risk". Interestingly, their debate on the likelihood of firms to decrease their commitment when uncertainty surpasses the "maximum tolerable risk" could pave the discussion about the non-determinism of the U-m. However, they consider risk as a linear function dependent only on the lack of knowledge and let aside the level of commitment, thereby falling short of an improved elaboration on the contingent nature of the U-m.

The above perspectives introduce some new insights to the relationship between experiential knowledge and foreign commitment, previously depicted in *Figure 2*. Firstly, the risk formula, once dependent on both knowledge and commitment (Johanson and Vahlne, 1977), transforms the one-way direction of that relationship into a two-way one. Secondly, commitment decisions do not depend only on experiential knowledge (Barkema and Drogendijk, 2007; Petersen *et al*, 2008). The disentanglement of experience and knowledge leads to more complex grounds to support commitment decisions than just experiential knowledge<sup>8</sup>. A cognitive state entailing not

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<sup>8</sup> Although a considerable amount of research uses the experience as a proxy of knowledge, the distinction of knowledge and experience was already discerned by Johanson and Vahlne and, interestingly, to describe it within unstable conditions of the environment: "*Scale-increasing commitments may, for example, be occasioned by a decline in uncertainty about the market, incidental to gaining market knowledge acquired with experience. Such a decline in market uncertainty can be expected when the market conditions are fairly stable and heterogeneous. If market conditions are very unstable, experience cannot be expected to lead to decreased uncertainty. And, if market conditions are very homogeneous, experience is probably not a necessary requirement for market knowledge.*" (Johnson and Vahlne, 1977: p.30)

only knowledge but also the lack of knowledge propels – and is propelled by – foreign commitment, through processes of adaptation and learning. Thirdly, risk management is proposed to mediate the impacts of environmental changes on the relationship between the cognitive state and foreign commitment (Figueira de Lemos *et al.*, 2011). This risk management perspective, once depicting the balance of cognitive state and foreign commitment either through their increase or decrease, differs from the determinism of risk avoidance (Johanson and Vahlne, 2009: 1418). The overall scheme of this construction is thus redesigned in *Figure 3*:



*Figure 3. The risk perspective: Adapting and Learning*

The risk management in internationalization does not end with the change of environments between different geographies. Risk in internationalization is also associated with the ability to predict dynamic changes within each different country. Indeed, the differences amongst environments and their dynamics are variables both managed in the internationalization process (Perkins, 2008, 2009). The ability to predict the changes in the environment – and hence to decide on future commitments – rests on the firm’s current stock of knowledge. In this sense, prediction becomes more accurate with the robustness of the knowledge over time (Paul and Wooster, 2008). Additionally, given the context dependency of knowledge, its robustness is also dependent on the conditions of the environment, i.e. the more stable the environment, the more valuable is such knowledge (Hadjikhani, 1997).

### The explanatory scope of the U-m

The environmental dynamics effects on the endurance of knowledge have compelled a number of researchers to circumscribe the U-m’s explanatory power only to stable environments. In truth, considering the conventional view of the U-m as dependent on experiential knowledge, the more stable the environment, the higher the likelihood of previous knowledge being employed in the ensuing settings of the environment. Some studies demonstrate the U-m’s application to internationalization under changing environ-

ments, though only when those changes are incremental (Chang, 1995; Delios and Henisz, 2003b; Pedersen and Petersen, 1998; Petersen and Pedersen, 1999; Rhee and Cheng, 2002). Indeed, if the environmental changes are smooth, the firm is able to perceive its lack of knowledge and engage in learning processes to fulfill the lack thereof (Johanson and Vahlne, 1977).

The emphasis on a step-wise process of commitment in the host environment based on intensive learning and acting upon acquired knowledge, gave to the U-m the reputation of a model more suited to exploit knowledge rather than to engage in uncertain exploration processes (Barkema and Drogendijk, 2007). Because it assumes that commitment decisions follow an incremental behavior of decision-making (Cyert and March, 1963), current decisions on future commitments depend on the knowledge accumulated in the past. Hadjikhani (1997) points out the consequences of incremental behavior in the U-m decision model, distinguishing between the tangibility and intangibility of commitment. He demonstrates that if past knowledge is proven to be sufficient and robust enough to predict the future changes in the environment, then commitment is undertaken, preferably in tangible form. Intangible commitments, in turn, are more prone to occur when a lack of knowledge is perceived, i.e. when the firm realizes that changes in the environment are not fully predictable with the extant knowledge. In this case, intangible commitment may consist of learning by interaction with other agents in the environment. Through learning with other elements of the environment, the firm commits in order to acquire the knowledge it needs to predict the future changes. He adds, however, that when a change in the environment is realized but the firm is not able to estimate the ensuing lack of knowledge, then learning processes do not take place and the firm undertakes a 'sleeping strategy'. The constraint of this choice is a consequence of incremental behavior disruption and a limitation of the U-m explanatory scope.

Indeed, although the U-m mentions the 'take-over' of customers to circumvent extreme internal uncertainty it does not prescribe any specific commitment to deal with the external uncertainty of the future. However, despite the conventional idea of associating predictive capability with the increase of commitment (Chang, 1995; Delios and Henisz, 2003b; Eriksson, Johanson, Majkgård and Sharma, 1997; Petersen, Pedersen and Sharma, 2003), the decrease of commitment does not necessarily imply a reaction to the unpredictability of changes in the environment. On the contrary, the deliberate decrease of commitment may actually be a consequence of the firm's prediction of a detrimental change in the environment. In this situation, the commitment decrease only translates the best fit possible of the firm's resources with the environmental conditions. Therefore, according to the U-m assumptions, the firm only reacts by committing or de-committing if it understands, or at least, perceives, the environmental changes and how to adapt to those changes. The prescriptive power of the U-m only falls short

when, for some reason, the environmental changes are not predictable or learnable.

Therefore, a real challenge to the U-m's application is posed when environmental changes are not incremental but erratic. Uneven changes are usually seen as a constraint to commitment, since they presuppose the inability to predict the future and therefore to commit and pursue growth (Penrose, 1959). Radical changes may turn the stock of knowledge obsolete in the face of new environment set and, therefore, the firm is compelled to de-commit, or even worse, is prevented from committing. This latter situation would mean freezing the firm's activities, and the inapplicability of the U-m in such circumstances. Some studies, however, put forward the argument that in unstable environments, the firm does not cease to commit but just commits in a different form or pace. For instance, while Hadjikhani (1997) demonstrates that the firm modifies its commitment from tangible to intangible kind, Johanson and Johanson (2006) explain the absence of visible commitments with the adoption of different activities such as search and improvisation, which require longer learning processes than the ones in routine activities. In unstable environments the risk perspective sustains the mitigation of risk through continued commitment that seems almost invisible when compared with discrete commitment. March and Shapira (1987) explain this risk mitigation process by using short-run reaction to short-run feedback over strategies of anticipation of future events. That is, commitment is undertaken but in such small increments that it becomes almost imperceptible. They add that this kind of just-in-time management provides managers with a sense of control that compensates for their inability to predict changes to the environment in the 'long run'. Despite Johanson and Vahlne's deliberated restriction of the U-m's explanatory scope to a process of 'learning by doing', the perception of control that managers pursuit, forces a search for other explanations of foreign commitment rather than adaptation driven by knowledge and learning processes.

### 2.3. The control of the environment

The risk perspective on the U-m leads to an efficient management of the environment, economizing on the deployment of resources through prediction rather than control. Even so, the above limitation of U-m merited some thoughts from Johanson and Vahlne (1977) which, interestingly, come close to Williamson's (1975) TCE. Although not extensively elaborated, the U-m's authors advanced that extreme market uncertainty may be circumvented by the "take-over of customers" (p.29). That is, if the firm's knowledge stock is not sufficient to predict the environmental changes, even if improved by learning, then the ultimate choice for the firm is to eliminate un-

certainty by internalizing the source of that uncertainty. This option is similar to the Williamson's (1975) choice between contractual and ownership modes of transactional governance. If the firm has sufficient knowledge to make a reasonable prediction of the future 'state of the world', then contractual modes are preferred over ownership modes. However, if contracts are insufficient, or when the cost of articulation of all relevant aspects within the transaction into a contract is too disproportional (Williamson, 1975, 1981), then TCE prescribes the transaction's ownership mode of governance.

The transaction's internalization, as proposed in TCE, is based on the assumption of the firm's hierarchy as a superior instrument of control when compared with the market. Williamson (1975) explains the advantages of hierarchies over markets with the mechanisms available inside the firm to respond to certain inefficient market exchanges. Making clear that his aim is not to demonstrate organizational failures but market failures, Williamson (1971) argues that firms have some distinctive properties such as incentives, control and structural advantages that allow them to substitute for markets. Despite Williamson's (1975) elaboration on organizational control as an internal instrument of performance monitoring and incentive distribution, his explanation of the external consequences of control over uncertainty are the ones that mostly concern this thesis.

The uncertainty that derives from changes in the environment is the main concept to be captured in contrast with a static environment, without ex-ante neither ex-post uncertainty. In static conditions, a once-for-all contract is enough to negotiate price and quantity and, thus, the internalization of the market transaction into the firm is unnecessary. Williamson (1971, 1975) uses the once-for-all contract figure to explain the implications of ex-ante uncertainty on market failures. If complexity and changing environmental conditions are involved, once-for-all contracts might not be doable. In conditions of non-static environment, adaptation between the parties must be settled to cope with the external changes, and a once-for-all, long-term, contract becomes, thus, impossible to be established.

A possible solution to cope with environmental changes would be to negotiate a sequence of short-term contracts. Indeed, even in changing environments, short-term contracts would be enough to cope with ex-ante uncertainty. However, the potential opportunistic behavior from each one of the parties compels the transaction's internalization, especially when some potential asymmetrical benefit may derive from environmental changes.

On the other hand, regarding ex-post uncertainty, Williamson (1975) adds that transactional problems might be associated with the misrepresentation of risk, whereas not necessarily from the incompleteness of former contracts. The consequences of misrepresentation of risk on established contracts are due to ex-post differential access to the relevant data. Once again, opportunistic behavior may be catalyzed by the differential exploitation of relevant

information in order to take benefits from eventual transaction hazards. He underlines that this ex-post difference of information is the inevitable result of an ex-ante difference between each parties' stock of information. Considering these shortfalls of contractual modes of governance, Williamson (1975) advocates that in either case the control through internalization is the only way to circumvent, effectively, the consequences of uncertainty, whether if they arise from ex-ante lack of prediction or ex-post misrepresentation of risk. The conceptual framework is, thus, extended with the uncertainty and control variables respectively to the sets of cognitive state and foreign commitment as shown in the following figure.

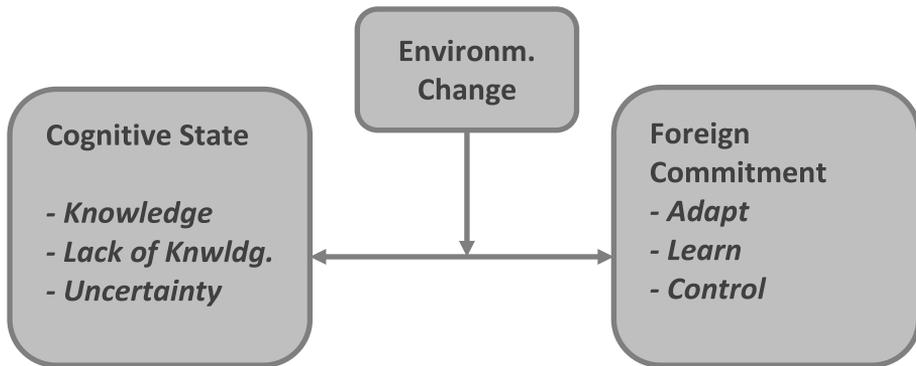


Figure 4. The conceptual framework in a business-industrial view

The TCE's complementary view of control of environmental changes juxtaposed with the U-m's predictive strategies on foreign commitment substantiates the inclusion of uncertainty and control into the previous sets of variables. Starting from the baseline of the relation between the cognitive state and foreign commitment, the risk management perspective has shown that experiential knowledge is not sufficient to explain foreign commitment and, thus, a cognitive state should be considered, namely by including the lack of knowledge. On the other hand, adaptation and learning were identified as the foreign commitment's counterparts of knowledge and the lack of knowledge. That is, foreign commitment is rescaled in order to adapt to or learn the environmental changes, respectively through the employment of knowledge or driven by the lack of knowledge. Furthermore, although the risk perspective endows the U-m with the power to prescribe not only the increase but also the decrease of foreign commitment, a shortfall arises from the predictive basis of risk management. Once prediction depends on knowledge, the U-m becomes limited when explaining commitment choices driven by uncertainty. TCE fills this explanatory shortage of the U-m prescribing control as the mean to eliminate uncertainty, i.e. the internalization

of the uncertainty sources into the firm's hierarchy. In this sense, foreign commitment may not aim either to adapt to or to learn the environment, but, mainly, to control it. The relation between TCE and U-m is developed henceforth.

## TCE and U-m as complementary models

The conjunction of U-m and TCE seems rather obvious whether suggesting an efficient fit with the environment through predictive strategies based on knowledge, or prescribing its control to circumvent uncertainty. Other studies also prescribe some strategies to deal with the environmental uncertainty, however with a different perspective than the one presented here.

For instance, Sarasvathy (2001) makes the tension between predictability and control sharp and explicit. By stating that "to the extent that we can control the future, we do not need to predict it" (Sarasvathy, 2001: 252), control is indicated as a mean to compensate the lack of prediction. She proposes two processes of action – causation and effectuation – to deal with the environmental contingencies. While causation is an exercise of prediction and planned action, causation is a process of control and action through improvisation. Planning and improvising may both be important tools as long as plans are used in more stable industries and improvisation in unstable ones.

A similar rationale is suggested by Johanson and Johanson (2006) within the specific issue of internationalization. By analyzing the entry modes of Swedish firms in the Russian market, they propose that foreign commitment may not only be driven by knowledge but by the lack of knowledge. Their perspective extends the U-m by adding to its deliberated process of learning an unintentional one triggered by unexpected discoveries. Because discoveries are more prone to happen within unstable environments, the authors propose improvisation to deal with environmental changes. The fundamental idea of Johanson and Johanson (2006), however, is not to control the environment 'ex-ante' but to overcome problems or exploit identified opportunities that derive from those changes. In truth, even Sarasvathy (2001) effectuation model does not point to 'ex-ante' control, but rather to 'ex-post' exploitation of an environmental change, or in her own words, to exploit "contingencies that arose unexpectedly over time" (p.252). Improvisation becomes therefore a kind of 'just-in-time' adjustment to variations in the environment, though pending always an 'ex-post' reaction.

In a different direction, the present framework proposes the conciliation of prediction and the 'ex-ante' control of the environment. It explores the limits of the explanation scope of uncertainty management as assumed by the U-m's authors: "*...market uncertainty is reduced through increases in interaction and integration with the market environment-steps such as increases in communication with customers, establishment of new service ac-*

*tivities or, in the extreme case, the take-over of customers.*” (Johanson and Vahlne, 1977: 29). Although not the primary aim of the U-m, the issue of control is noted by Johanson and Vahlne to eliminate the extreme uncertainty. On the same line of TCE, the uncertainty is eliminated by the internalization of the transaction and related assets (Williamson, 1981). However, as mentioned before, the explanatory aim of the U-m is not to eliminate uncertainty through internalization, but to reduce it through learning by experience, and, in particular, through the interaction with the host market elements. Following this rationale, TCE is added to the framework in order to complement the U-m within this particular negotiation of uncertainty. Once focused on the circumstances of the decision-making, the commitment drive is not to minimize hazards or exploit opportunities from environmental changes, but to eliminate the eventual consequences of those changes (Williamson, 1975).

To the best of my knowledge, no such conciliation was done before. Although TCE deals with various types of uncertainty (Williamson, 1975), its use within the internationalization process envisages more tangible concepts such as asset specificity and control of environment through the arbitrage between contractual and ownership modes of governance. For instance, the use of transaction costs analysis in entry modes (Johanson and Wierdersheim-Paul, 1975; Johanson and Vahlne, 1977) has long been a fruitful issue of research, namely as a function of the trade-off between control and cost of resources (Anderson and Gatignon, 1986; Erramilli and Rao, 1993), or a framework for entry mode decisions within the scope of transaction costs and firms’ capabilities (Madhok, 1998). Erramilli’s (1991) study covers not just the entry modes but also the initial phase of internationalization by optimizing the curve of the interplay between international knowledge, perceived lack of knowledge and control in international service firms. Petersen, Welch and Benito (2010) push the envelope further and integrate both perspectives, U-m and TCE, in the same conceptualization. More than the concept association, they explain the internalization process in the internationalization scope as an optimization exercise among internalization and externalization held in the assets’ specificity and driven by the acquired knowledge, besides, in line with Johanson and Vahlne’s (1977) mechanism of the internationalization process.

The integration of both models upon asset specificity seems reasonable, though it holds some inconsistencies which concern the role of knowledge. The concept of asset specificity which derives from small number bargaining of Williamson’s TCE (1975, 1981) supports that the intensification of interdependency among suppliers and buyers pushes for an increased internalization of assets, which tend to be more and more specific to that relation. Similarly, Johanson and Vahlne’s U-m (1977) starts to propose a wider view of this interdependency with markets, i.e. that firms increase their foreign

market commitment with assets more and more specific to that market, narrowing it further within the relationship between industrial actors (Johanson and Vahlne, 1990). The resemblances between theories are obvious, not only in the commitment/specific asset dimension but also by the knowledge catalyst role. In fact, knowledge becomes an element of efficiency whether on TCE's asset specificity (Williamson, 1981) or on U-m's commitment degree (Johanson and Vahlne, 1977). However, a disambiguation of the knowledge role in both theories is needed. Although knowledge may lend efficiency to asset specificity in TCE, it cannot be understood as a driver for internalization, but, in fact, as a driver for externalization. With the increase of knowledge articulation between suppliers and buyers, transaction costs will decrease and lead to externalization of the transaction (Hennart, 1991). In contrast, in U-m, while an efficient catalyst for the commitment degree (Johanson and Vahlne, 1977), knowledge is, indeed, a driver for internalization in view of the firm's growth in foreign markets (Johanson and Vahlne, 1977; Penrose, 1959; Petersen *et al*, 2003).

The lack of explanation about the role of knowledge in the mechanism of internalization, although it could deserve some more conceptual exploitation, does not abolish the merit effort of those integrative studies. The recognition of asset specificity is indeed an elegant concept of intersection between the two perspectives (Maekelburguer *et al*, 2012; Petersen, Welch and Benito, 2010; Williamson, 1999b). However, TCE is not only about asset specificity. Williamson's operationalization of Coase's transaction cost approach includes two other important concepts – bounded rationality and uncertainty – which also compete with the U-m's assumptions.

### Bounded rationality and uncertainty in TCE and U-M

In contrast with the previous studies, the concepts of bounded rationality and uncertainty did not merit the same integrative reflection as the asset specificity's to connect TCE and U-m conceptualizations. These two concepts, however, are well extant in TCE as in U-m. The concept of bounded rationality is referred as rooted in Cyert and March's (1963) behavior theory of the firm in both theories. In what concerns TCE, Williamson (1975) introduces bounded rationality in order to explain the market information asymmetry problem between buyer and supplier, extending it later to the hierarchy itself, specifically as the origin of dysfunctional outcomes within the organization (Williamson, 1985). Johanson and Vahlne (1977), on their part, use bounded rationality to anchor justification for the incremental nature of the decision maker's behavior, extending it further to the scope of industrial relationships (Johanson and Vahlne, 1990, 2003) and networks (Johanson and Vahlne, 2009).

Bounded rationality encloses the problem of the lack of knowledge, which differs much in essence from the uncertainty concept. Whether in TCE as in U-m, the consequences of bounded rationality lay in the lack of knowledge, which in turn leads to different perspectives on asset internalization. In Williamson's (1975) view, the information asymmetry existent between buyers and suppliers, i.e. the lack of knowledge both agents know they have about themselves, is not sufficient 'per se' to push for internalization. It rather occurs because of the likelihood of existing at least one opportunistic agent within markets. Johanson and Vahlne (1977), in turn, refer to lack of knowledge as the perceived uncertainty that compels the firm to learn what it does not know (Forsgren, 2002). Although not explicitly stated by the U-m authors, this learning process is, in truth, a process of increasing commitment on intangible assets (Hadjikhani, 1997), i.e. internalization of intangible assets. The lack of knowledge that arises from bounded rationality becomes, therefore, a sufficient condition for internalization in the U-m while remaining just as a necessary condition in TCE.

Remarkably, in both theories, the uncertainty concept runs in opposite direction as of explained for bounded rationality. In the first composition of the U-m (Johanson and Vahlne, 1977), uncertainty was implicitly dealt with in knowledge and future dependency. Further definitions from the authors explain the former as contingent uncertainty and the latter as pure uncertainty (Figueira de Lemos *et al*, 2011). Contingent uncertainty is knowledge dependent in that it circumscribes the lack of knowledge, i.e. what the firm knows that it does not know. Hence, in order to reduce contingent uncertainty, the firm engages in learning processes to acquire the knowledge it lacks. Pure uncertainty, in contrast, is impossible to reduce, even with the extreme decrease of contingent uncertainty. In other words, even if all the possible contingent plans are known today, the firm does not know which one will apply tomorrow. Where there is a future, there will always be uncertainty. Pure uncertainty, therefore, does not drive internalization in the U-m. Instead, it only gives a meaning to contingent uncertainty, i.e. to the consequences of the lack of knowledge. Interestingly, while in TCE uncertainty becomes a sufficient condition to internalize, in U-m it stands just as a necessary condition.

From the above, though it may not be easy to argue about the integration of U-m and TCE, at least the complementarity between the two conceptualizations seems obvious. While the U-m internationalization process explains internalization driven by knowledge and by the lack of knowledge, whether to adapt (Petersen and Pedersen, 1999) or to learn (Forsgren, 2002), TCE complements the U-m in explaining asset internalization driven by external uncertainty, where the target is not to predict but to have control over the sources of eventual environmental changes.

## Chapter 3: Adding the Political Elements to the Environment

In the previous chapter, internationalization is synthesized as a process of adaptation to, learning from, and control of the elements of the environment. The firm deploys its knowledge to commit with the aim of adapting to the environment (Johanson and Vahlne, 1977), undertakes intangible commitments to learn what it lacks to know from the environment (Hadjikhani, 1997), and chooses to control when the environment is not predictable or too costly to be learnable (Williamson, 1975; Williamson, 1981). This synthesis conciliates the U-m and TCE in view of uncertainty management. While the former emphasizes processes of uncertainty reduction, the latter prescribes its elimination through the internalization of the uncertainty sources. Specifically, TCE suggests the control of the environment through internalization in order to overcome the insufficiency and/or inefficiency of managing uncertainty with predictive strategies like adaptation or learning. In this situation, control is achieved through the internalization of the transaction by one or another party, or, at the extreme, by internalizing one of the parties involved (Williamson, 1981). Even so, the TCE explanatory scope has limitations, given that not all the elements of the environment are possible to control through their internalization (Henisz, 2000b; Henisz and Zelner, 2003).

Institutionalism explores the limitations of firm-level theories and positions itself between the layers of organizations and institutions. The essential question in various streams of institutionalism is to explain which entities, economic or institutional, are of superior order (North, 1991). For instance, new institutionalism diverges from old institutionalism by opposing the idea of resource allocation driven by institutions over economic organizations (North, 1990; Powel and DiMaggio, 1991; Scott, 1995). Early insights on institutionalism support that not only does the State have a role to ensure the resources that lay beyond the self-interest of organizations, but also a mediation role when those interests diverge (Commons, 1936). The dynamics underlined in this active role of the State is questioned by new institutionalism theorists positing that economic order does not depend on the dynamic abilities of institutions, but rather on their static features and constraints (North, 1990, 1991; Scott, 1995, 2005).

The resilience of institutions reduces the uncertainty of the environment and structures economic interaction (Scott, 2005). Being more stable than

economic organizations, institutions shape the environment wherein organizations interact and transactions are held. Though, stable institutions do not mean stagnant institutions. Ultimately, institutional change is compelled by organizations, specifically through the competitiveness of economic organizations (North, 1990), technological change (Scott, 1995, 2005) or cognitive-cultural forces (Powel and DiMaggio, 1991). That is, while institutions are the ‘rules of the game’, the evolution of organizations induces the change of those rules, and, consequently, the change of the institutional environment (North, 1991, 2005).

Although the dependence that MNCs have in institutions for business regulation may prompt the perception of a certain level of compliance of MNCs under governments (Lundan, 2011), it is also true that governments are immensely dependent on firms to carry out their public policies (Hadjikhani and Ghauri, 2001). Indeed, whilst firms consist of the main contributors to national wealth and employment creation, governments are expected to promote a healthy business environment in order to enhance firms’ productivity. It is unquestionable that internationalization is effectively undertaken by firms, though its study cannot be circumscribed just to the firms’ scope. From harder views of a ‘strategic State’ (Lenway and Murtha, 1994) with more ‘visible hands’ (Stiglitz, 1989) to softer perspectives of the State’s role in the economy (North, 1990), the fact is that governments can (and have interest to) behave as strong stimulators, handy facilitators, amenable regulators or permissive liberals towards the firms’ intentions. Governments and their related power branches, definitely, have a role in the internationalization process of the firms. However, as well as the logic of interaction between governments and firms is considerably different than the one amongst business firms, in this dissertation not only the particular features of their interrelation are emphasized as it is even explained the different nature of political elements towards the other elements of the environment.

### 3.1. The problem of non-internalization of political elements

At the core of institutional theory, economic organizations and institutions are two separate entities (North, 1990) that can influence and interact with each other (Commons, 1936) but cannot be internalized one into another (Henisz and Williamson, 1999; Williamson, 1999a). The option to internalize the elements of the environment is not linear, whilst it not only depends on the differences between institutions and organizations but also on the elements of the institutional environment. Scott’s (2005) distinction of environmental elements into informal and formal helps to understand both the implications and limitations of internalization. Although informal elements

of the environment are possible to internalize into the hierarchy of organizations, in practice they lose their institutional nature. For instance, a professional association, as a private entity, can eventually be internalized into the hierarchy of some firm or other economic organization, still its purpose will be lost as well as its institutional nature. The same rationale applies to the public scope. For example, non-governmental organizations can only be as so defined providing that they stay independent from the State.

Indeed, if some drawbacks may arise with the internalization of informal elements of the environment, such as the ones previously mentioned, the internalization of formal elements entails inalienable limitations. Such elements as courts, law and governments are not possible at all to internalize into the hierarchy of economic organizations. Differently from the informal, the formal elements are essential to the existence of organizations (Lundan, 2011). The formal elements of the environment are the backbone of economic transactions. Once formal institutions are the gatekeepers of private property, economic order becomes dependent on the independence of institutions (Scott, 2005). Hence, more than the implications of losing institutional nature, the limitation of internalization of formal elements by organizations is unchallengeable, given that it even defies the existence of economic organizations themselves.

The discussion on the institutional nature of the formal environment is even deepened by Williamson and Henisz (1999) who suggest the separate analysis of political elements from the formal ones. Their argument is two-fold. On the one hand, they advocate that political elements are of superior order to formal elements. Once governments have the power to reverse court decisions and change the laws, the political elements supersede the formal elements and, thus, should be distinguished from them.

On the other hand, even without undertaking any legal change, governments may induce differential mechanisms to enforce the law, distorting effective laws in *de facto* law. Interestingly, Williamson and Henisz (1999) address this claim within the context of the international arena. They propose that the mode of governance of transactions in a foreign setting may differ from the domestic. Their argument is that governments may treat domestic and foreign firms differently, namely with an opportunistic behavior against the latter.

The critical aspect in this view is that governance choice between contractual and ownership modes is not taken on the criterion of efficiency but of control. Unlike domestic operations, in the international setting the quality of the institutional environment dictates the governance mode. If the institutional environment is virtuous, the opportunistic behavior from either local partners or governments is unlikely to arise and, then, it is possible to base the choice of the governance mode merely on transactional efficiency. Conversely, poor institutional environments prompt to a trade-off between busi-

ness and political hazards. Indeed, if it is true that the internal uncertainty is circumvented by ownership modes of governance by deterring the local partner's opportunistic behavior, it is also true that the external uncertainty stemming from political hazards – which are impossible to eliminate by internalization – forces the use of contractual modes to minimize transactional risks (Henisz 2000b; Zhou, Poppo and Yang, 2008). Put it differently, the governance of foreign operations through ownership modes, although it provides control over business hazards, also exposes the firm's assets to the risk of expropriation, especially if the institutional environment does not protect and enforce property rights (Henisz and Williamson, 1999).

Moreover, not only the monopoly of asset expropriation justifies the distinction of political elements from the formal elements of the institutional environment. Formal elements such as courts and law are not subject to discretion. On legitimate grounds, the law is wide and its enforcement by courts is egalitarian (Henisz and Williamson, 1999). Therefore, despite the impossibility to internalize these formal elements, the objectivity of the letter of the law and the transversality of its enforcement by courts enables the firm to predict and transact efficiently with those elements of the environment. The same rationale, however, is not applicable to the political elements. The power that governments have to change drastically the conditions of the environment reduces the firm's ability to predict and anticipate external hazards (Henisz and Delios, 2004; Lenway and Murtha, 1994; Henisz and Zelner, 2004; Paul and Wooster, 2008).

To put it dynamically, whereas changes of the legal environment are explicit in letter, apprehended equally and anticipated by legislative processes, the mutation of the political environment is implicit and fallouts from the volatile interaction between political parties (Henisz, 2009). In fact, while legal changes can be known *ex-ante* and anticipated by firms through the acquisition of information about the formal environment, predicting the political environment is not possible since political changes may only be realized *ex-post* (Henisz and Zelner, 2004). This temporal mismatch produces different consequences on the allocation of resources, supporting therefore the distinction of political elements from the formal ones, as Henisz and Williamson (1999) propose.

### 3.2. The political setting in a multilevel outline

Governments and their related power branches render a variety of roles, wide scope of which require different levels of analysis. Indeed, phenomena associated with political behavior usually encompass individual to country level data requiring thus multi-level approaches in their research (Henisz,

2000b). For instance, contextualizing with the example of voting behavior, Steenbergen and Jones (2002) describe the multilevel analysis as a nesting exercise of the unit of analysis into subsequent levels. Its goal is “to account for variance in a dependent variable that is measured at the low level of analysis by considering information from all levels of analysis” (p.219). The fundamentals of these principles are followed in this dissertation, though with the adequate adaptation for two dependent variables. Departing from the two variables at micro level – cognitive state and foreign commitment – which express the unit of analysis, the effect of political elements on the internationalization process is examined in three different levels: micro, macro, and meso. Moreover, the three substantive motivations of multilevel approaches are also contended: the combination of different levels in a comprehensive model, the exploration of causal heterogeneity between levels, and the generalization of results by comparative research amongst the various levels.

Providentially, this methodological outline also responds to some recent demands for multi-level studies as such to understand the complexities that surround the internationalization of the firms. For instance, Buckley and Casson (2009) call for macro level research in complement to extant micro level studies by arguing that the imbalance has faded out the ‘big picture’ of international business as early brought to light by Hymer (1960/76). In fact, although Hymer’s thesis opened an enormous avenue of research at firm level, his view on the internationalization phenomena is mostly structural whilst embracing country-level determinants (Yamin, 1991). Considering the aforementioned gap, the present conceptual framework proposes a multi-level analysis and not only adds the political elements to the environment, but also segments their effects in three main levels in accordance to relevant business-government literature related with the international business field.

## The relationships at micro level

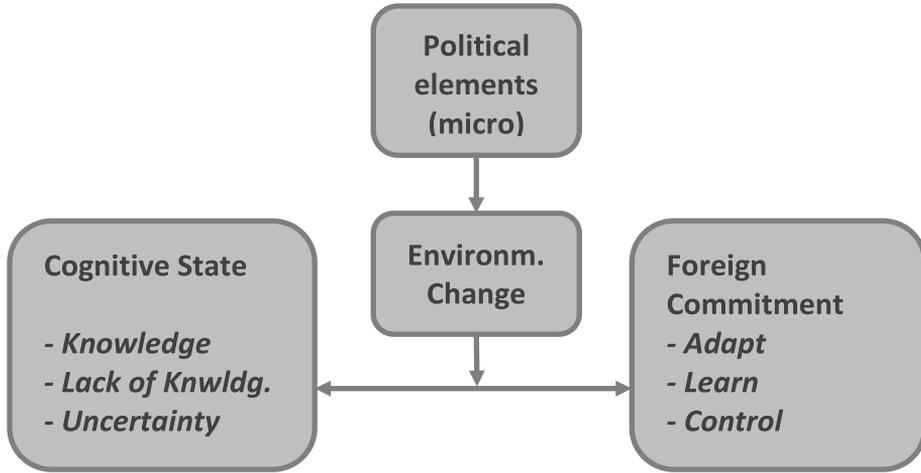
At the micro level, the business-government literature encompasses the study of the relationship between firms and political actors and the formulation of corporate strategies to manage those relationships. Specifically in the international business field, Jean Boddewyn’s (1988) definition of political behavior – positioning it beyond the logic of economic models – has far been an inspiring source of research in international business. Two main lines of thought can be identified. One is associated with his point of departure which is to understand the implications of the political environment in the commitment decisions of the MNC. The conceptual principle gains operationalization with Boddewyn and Brewer’s (1994) model to gauge forms and intensity of the MNC political behavior. The main contribution is the definition of a heterogeneous environment in which different conditions

require different reactions from the MNCs. Hillman and Hitt (1999) consolidate this theoretical view on political behavior by integrating various corporate strategies in a decision-tree model. Empirical contributions account the influence of the political environment on such different aspects as the entry mode decision (Delios and Henisz, 2003a; Henisz and Delios, 2001), country selection and pressure groups in regulated industries (Garcia-Canal and Guillén, 2008; Henisz and Zelner, 2006), in the location choice upon technological features at firm and country level (Henisz and Macher, 2004), or the decision of market-exit (Henisz and Delios, 2004).

The other stream of research is related with Boddewyn's (1988) conclusions on the use of political actors as a third party in business competition, namely to raise the transactional costs of rival firms. In this specific scope of transaction costs, Henisz and Williamson (1999) conceptualize the effects of the opportunistic use of governments by modeling the implications on the choice of the governance mode of foreign investments. In the same vein but with support on the sociological assumptions of network approach, Hadjikhani and Ghauri (2001) extend the influence of governments not merely as a third party to the transaction, but as an element of the multinational's network. The network effect makes the conceptual difference to the transaction costs view. The influence of governments over other firms may not be due to a deliberated action of one partner towards another but by the spread effect of networks.

Hadjikhani and Ghauri (2001) add to Boddewyn's work with the analytical characterization of the business-government relation itself. They argue that the relation between political and business actors is not unidirectional – from the former towards the latter – but rather a relationship of mutual influence is established between them. This mutuality shapes behavior and activities between firms and governments. Given that the interrelation comprises both conflict and common goals, firms can adapt or influence whereas governments may opt for more coercive or supportive behaviors. The expected outcome from this mutual influence is to change or keep established policies whether they are detrimental or favorable to the multinationals aims (Henisz and Zelner, 2005). The change in the institutional environment reflects thus the compromise that results from the mutual influence between firms and governments as a co-evolutionary process (Cantwell, Dunning and Lundan, 2010; Lundan, 2011). This interrelationship process resembles the interplay between commitment and knowledge as expressed in the internationalization mechanism (Johanson and Vahlne, 1977, 1990). The initial commitment of the firm towards the political actors endows the former with some sort of political awareness, which, in light of the embeddedness of the political setting with the business one (Welch and Wilkinson, 2004), decreases the firm's perceived risk and enables it to increase market commitment (Hadjikhani, 1997).

Therefore, at once difficult to predict and impossible to internalize, political elements differ from the formal and informal components of the environment. While powerful instruments of change of the environment, political elements are distinctly added to the present framework. Their effect on the relation between the cognitive state and the foreign commitment is represented in a higher order as in *Figure 5*:



*Figure 5. The conceptual framework with the political setting (micro)*

Despite the claimed interdependence between firms and governments, the definitive purpose of research at the micro level is to explain the foreign commitment of the firms, from its decisions to its outcome. The above studies portray the effect of the political environment on the firm's foreign commitment decisions whether in type or degree (Boddewyn and Brewer, 1994; Hadjikhani, 1997), however they let aside the counter effects on the political layer. These effects are better captured by research at macro level and, particularly, at meso level.

### The diplomacy networks at macro level

Governments, while an element of the institutional environment, have an essential role in shaping the investment climate for multinationals (Henisz 2000b; Henisz and Zelner, 2005) and the sustainability of national outcomes (Henisz, 2000a). Indeed, the quality of the institutional environment defines the "transaction and production costs and hence the profitability and feasibility of engaging in economic activity" (North, 1991: 97). This correlation between the quality of the institutional environment and the intensity of foreign investment finds empirical validation in a wide array of studies, including the decision between portfolio and direct investment (Ahlquist, 2006),

the influence of political hazards on the equity degree of governance (Delios and Henisz, 2003a; 2003b; Henisz and Macher, 2004), the choice of FDI location of firm's from regulated industries (Garcia-Canal and Guillén, 2008) or the entry mode of SMEs (Maekelburger *et al*, 2012). However, cross-national comparative studies concerning the political elements of the institutional environment are not very common (Henisz, 2000a).

The pressure of globalization towards a more integrated world economy gives an unprecedented relevance to comparative studies of the institutional environments among countries. While inducing the fading of cultural and legal differences, the political dimension of the institutional environment is sharper, becoming the most important determinant of investment attraction with consequences for national wealth (Click and Weiner, 2010; Henisz, 2000a; Lenway and Murtha, 1994). A few empirical studies give evidence to this trend. For instance, Henisz (2000a) demonstrates that the country's political structure is highly correlated with the national income. Moreover, through an aggregated index of political system features, he shows that the cross-national variation of this index is related with the cross-national variation of economic growth. Recent studies explain this phenomena of growth asymmetry due to diverse political factors such as the governance infrastructure (Globerman and Shapiro, 2005), structural inefficiencies (Click, 2005), protection of property rights (Durnev *et al*, 2009), creeping expropriation (Schnitzer, 2002), or nationalism (Click and Weiner, 2010). Nonetheless, the quality of political structure might not be the only predictor of success of foreign investment capture and sustainability. Perkins (2008) offers a different explanation, arguing that more important than the quality of the institutional environment of the FDI recipient are the similarities of institutional environments between home and host countries. Although not pointing solely to the political component of the institutional environment, the rationale is consistent with other studies that search for the effects of political events between home and host governments on the variation of FDI intensity (Nigh, 1985).

Interestingly, Henisz (2000b) refers to Nigh's (1985) study in order to call for deeper research into the relationship between governments, namely into their links, instead of just the cause-effect study of cooperation or conflict events between countries. In this regard, political elements at a macro level are included in the present conceptual framework. Three main objectives drive the analysis at this level. First, it is to determine the effect of dissimilar political elements between home and host environments on international operations. Second, it is to compare the significance and strength of that effect relative to the effects of formal and informal elements of the environment. Third, it is to search for any moderator effect of political links on the relation between the institutional environment and the international operation modes. The micro and macro levels become associated through the

connection between foreign commitment and international operations (Helpman, Melitz and Yeaple, 2004) as well as between the institutional distance and cognitive state (Barkema and Drogendijk, 2007; Dow and Karunaratna, 2006; Dow and Ferencikova, 2010; Eriksson *et al*, 1997).

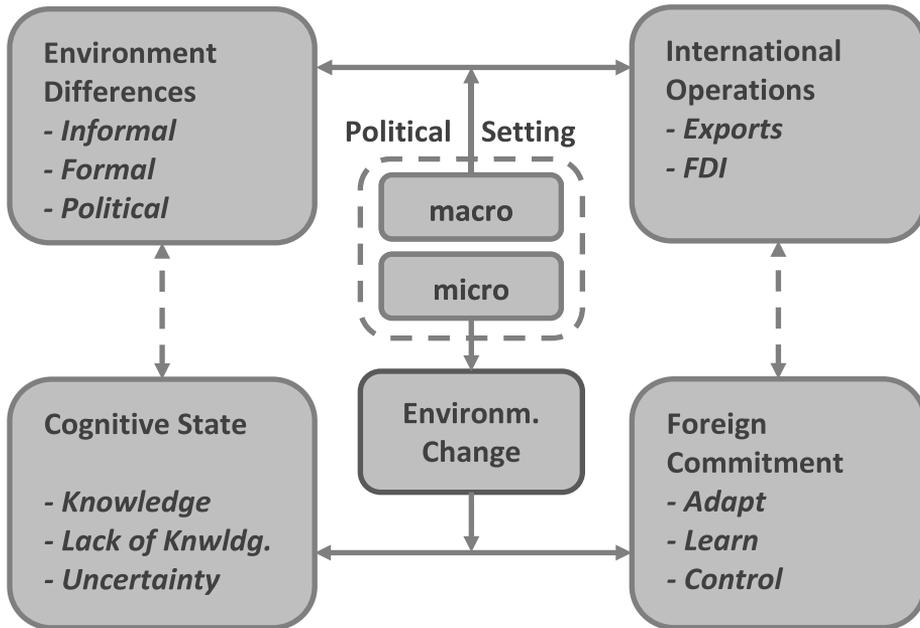


Figure 6. The conceptual framework with the political setting (micro/macro)

### The hybrid structures at meso level

Finally, some ways of political intervention and interaction at the meso level of the institutional environment are due to complete the conceptual framework of this dissertation. More recent studies augment the scope of business-governments analysis and reveal a more complex mechanism, explaining not only the firm's foreign commitment phenomenon, but also the processes underlying the relationships between non-business actors as well as their implications at the political level. Hadjikhani *et al* (2008) enhance the dyadic model of Hadjikhani and Ghauri (2001) by adding social actors as mediators between governments and firms. The public nature of governments entails a wider audience with direct interests on the outcomes from the relationship between firms and government. Therefore, the achievement of common goals not only depends on dyadic trust and commitment, but also on a process of legitimization given by the social actors of the surrounding environment.

The process of policy change implies balancing coercive and supportive strategies within the third parties' relationships established among social actors, firms and governments. Inasmuch as social actors serve as a vehicle to pressure and influence firms towards governments (and vice versa) as well as a source of legitimacy (Hadjikhani *et al*, 2008; Henisz and Zelner, 2005, 2006), the complex dynamic established among these three parties defines the demand for policy change as well as its respective life cycle. Indeed, changes in the institutional environment can be undertaken either directly by governments or triggered by firms and indirectly realized through lobbying and interest groups. Nonetheless, their sustainability is always determined by society's perception of their legitimacy (Hadjikhani *et al*, 2008); that is, by their social correctness (Henisz and Zelner, 2003) or probity (Williamson, 1999a).

In this rationale, the instruments to operationalize common goals between governments and firms may differ with the audiences wherein the relationship is established. Two perspectives arise according to different audiences. Taking the perspective of the recipient country of foreign investment, Henisz and Zelner (2005) propose a model of policy-making and institutional change to align the divergent interests between host governments and foreign investors. The process of alignment of common goals is strongly influenced by the acceptance of policy change by the local audience, which entails both the source of legitimacy and the origin of the pressure group. Thus, since coercive strategies may be expected to originate within the social context of the host country, the institutional change is triggered by the host government, given the lack of legitimacy of the foreign investor. In addition, policy is the instrument to operationalize the convergence with the investor's expectations of profit and social interests like the increase of employment.

Conversely, an opposite audience setup is illustrated by Freire de Sousa and Figueira de Lemos (2009) with the incentives of national governments to support the internationalization of the home country's firms. The 'social incorrectness' of promoting employment abroad with national budgets requires more complex instruments to operationalize the process of goals convergence (Braunerhjelm and Oxelheim, 2000; Harrison and McMillan, 2011). The strong coercive behavior of society in the home country impedes institutional change, thus narrower instruments of policy-making are to be applied. In the example in question, a hybrid vehicle formally constituted between business entities and governments was the mean to operationalize the convergence of common goals. Interestingly, a similar solution was undertaken by the Brazilian government to promote the internationalization of their home firms (Bandeira de Mello, Arreola and Marcon, 2012). These empirical studies find conceptual ground on the work of Henisz and Zelner (2004), who propose two modes of governance of the relation between private investors and governments: the creation of a specialized political gov-

ernance structure or the use of established mechanisms to influence policy-making.

The conceptualization of specialized structures of political governance are of interest to the present study since it offers a meso-level perspective that enables a clear view on the alignment of common goals, such as the aim of governments to internationalize their economies and the firm's needs to grow and profit through internationalization. In this sense, the political setting of internationalization of the framework under construction is extended with a meso-level dimension in order to capture the underlying mechanisms of international operation through outward FDI and foreign commitment correlations, i.e. to translate the alignment of interests between governments and firm.

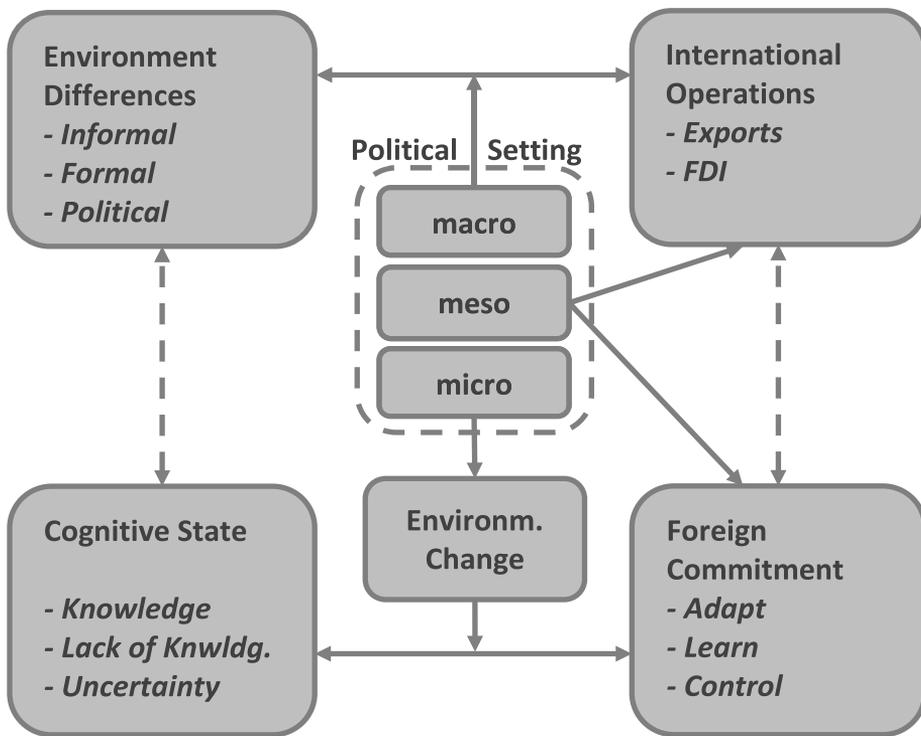


Figure 7. The multilevel conceptual framework

The conceptual framework presented as such synthesizes a political view on internationalization. It departs from the conventional notion on the incremental relation between experiential knowledge and foreign commitment (Johanson and Vahlne, 1977) and adds the environmental dynamics to extend the initial concepts of this mechanism. For this purpose, cognitive state and foreign commitment modes are defined in three categories each. Addi-

tionally, the discretionary nature of political elements over the formal and informal elements of the environment justifies a distinct examination of the effects of the political setting on the original relation. A multilevel analysis is thus undertaken at micro, meso, and macro levels in order to understand how and to what extent the political elements may be part of the internationalization of the firms.

Moreover and important to note, unlike the wide view of Boddewyn (1988) on the political environment as encompassing all the actors belonging to the non-market environment (which includes the State but also private-interest associations, public opinion or other pressure groups), in the above framework political elements are confined only to the governments and related power branches (Henisz, 2000a). This delimitation is consistent with Henisz and Williamson's (1999) distinction of political elements over the remaining elements of the institutional environment, and justified inasmuch as their conceptualization of transaction costs in internationalization comprises a fundamental part of the present dissertation.

## Chapter 4: The Research Design and Empirical Material

The conceptual scheme that connects the four papers bridges micro, meso, and macro levels. As many macro-indicators of national accounts are statistical aggregations of individuals, the combined analysis at different levels is not an impossible task (Steenbergen and Jones, 2002). For instance, the outward foreign direct investment, as the aggregated amount of the investments abroad by national firms, makes it possible to relate the firm's foreign commitment to the type and intensity of international operations between countries. Therefore, assuming the national level of outward foreign operations as an aggregation of the firms' foreign commitments and the institutional differences between countries as a stimuli of the firm's cognitive perception (Dow and Karunaratna, 2006), the unit of analysis – the effect of political elements on the internationalization process – is examined through the impact of governments on the relation between the cognitive state and foreign commitment at a micro, meso and macro levels.

Succinctly, at the micro level, the relationship between firms and host governments has a buffer effect on risk perception, which can be measured indirectly by the foreign commitment amplitude relative to the firm's knowledge (Hadjikhani, 1997). At the meso-level, the equity partnerships and joint ventures between governments and firms endow direct effects both on the foreign commitment and foreign operations while resolving a market void induced by the lack of knowledge (Lenway and Murtha, 1994; Ring *et al*, 1990; Bandeira de Mello *et al*, 2012). At the macro level, diplomatic networks are assumed to have a moderating effect on the intensity of foreign operations by reducing the uncertainty that multinationals perceive from the dissimilarities of the institutional environments between home and the host country (Ahlquist, 2006; Naray, 2011; Nigh, 1985).

The diversity of the empirical material employed follows the broad sense of the multilevel approach. It not only comprises different levels, but also different types of data. Despite the resulting heterogeneity, the data collection process entails a rationale that can be synthesized along two main lines. The first, which concerns the nature of research and data, evolves from qualitative to quantitative. Like other studies in international business (Coviello and Munro, 1997), it explores a phenomenon through qualitative research and data, evolving to quantitative research by confirmation testing with

quantitative data. The second, which comprises the level of data, develops from a micro to a macro level and is consistent with the former direction due to the quantitative nature of macro indicators (Kinal and Lahiri, 1993). The dissertation's final frame (see Figure 08) encompasses therefore both the level and the type of the analysis.

<b>Level of Analysis</b>	<b>Micro</b>			<b>Macro</b>	
<b>Paper #</b>	Paper I	Paper II	Paper III	Paper IV	
<b>Type of Analysis</b>	<b>Conceptual</b>	<b>Qualitative</b>	<b>Quantitative</b>		

*Figure 8. The thesis structure at the level and type of analysis*

In synthesis, from the four papers of this thesis, three are empirical studies combining qualitative and quantitative data, each of which tests a particular facet of the framework conceptualized in Paper I. In detail, Paper II is a qualitative multi-case study at the micro level of analysis. Paper III is a cross analysis of qualitative and quantitative data at both micro and macro level. Paper IV is purely quantitative and the empirical material includes both primary and secondary data at the country level and macro indicators. The empirical data employed differs from one paper to another, as well as its sources, though with the political element of the environment and the internationalization as the common denominators.

#### 4.1. The empirical material

Not only has the multilevel approach given heterogeneity to the empirical data employed, but the dynamics of the research process also generated new insights that provided further inputs. While developing the hypothesis set of the risk management model of Paper I, our attention was drawn to test it under different environmental conditions. Three main features were identified as essential to find in the dataset. The first was the need for longitudinal data which would include stable and unstable periods as well as extreme changes. The second regarded material that allowed us to identify commitment decisions as well as to trace the levels of knowledge and commitment

that grounded those decisions. The third entailed data about the political environment.

A study by Amjad Hadjikhani on the internationalization of nine Swedish firms in Iran contained all the ingredients needed and, thus, forms the basis of Paper II. As the impact of political actors in the internationalization process emerged sharper and sharper with the preliminary results of Paper II, we felt compelled to look for situations where this impact could be measured both at a micro and macro level. My former supervisor in Portugal helped with this and remembered the venture fund in which the Portuguese government had participated in order to foster the internationalization of the Portuguese economy. FIEP (Fundo para a Internacionalização das Empresas Portuguesas - Fund for the Internationalization of Portuguese Enterprises) became the case study, with adequate data to illustrate a deep involvement between governments and firms and its impact on both foreign commitment and outward FDI. It is longitudinal, covers knowledge and commitment, in particular the lack thereof, and is political in nature. Considering the perspectives at a micro and meso level, the fourth paper came to be an obvious close up of the other two empirical studies. The impact of governments in the internationalization at a macro level had to proxy the interplay of knowledge and commitment, though at the country level. The institutional distance between countries served as a surrogate to the cognitive state, while Exports and FDI proxied the foreign commitment of firms. In a similar vein to the micro level cases, we had yet to find a political element that should somehow distort the direct relationship between institutional distance and the intensity of international operations. The diplomatic network appeared to be the most obvious political link between countries, and namely between governments.

In the three datasets mentioned above, I only collected the primary data on the diplomatic networks. Therefore, I am indebted to my supervisor in Uppsala University and my former supervisor at the Catholic University of Portugal, not only for making the data available to this study but also for their valuable contributions to the respective papers.

## 4.2. At the micro level with qualitative data

The empirical material available in the work of Amjad Hadjikhani about the internationalization of nine Swedish multinationals in Iran is extremely rich and fitted with the risk management model (Figueira de Lemos *et al*, 2011). It describes the levels of knowledge and commitment that grounded commitment decisions, including the impact of a changing environment. As the author affirms in the context of his empirical data:

*“The aim here will be to understand the firms’ behavior before, during, and after the critical situation. The focus will be on the internationalization process and the firm’s commitment and decommitment [...]. The objective is to understand the firm’s behavior in situations where non-business actions are changing, and to study the process of increasing/decreasing commitments and the knowledge of the firms.”* (Hadjikhani, 1996: 39-40)

The multi case study includes nine cases of internationalization of Swedish companies (Alfa<sup>9</sup>, Asea Brown Boveri, Atlas Copco, Electrolux, Ericsson, PARS<sup>10</sup>, SAAB, Studsvik, and Volvo) during the time period from 1960 to 1992. The qualitative approach was mainly due to the need to distinguish tangible and intangible commitments. Indeed, while tangible commitment is easier to identify with quantitative data, intangible commitment is embedded in tacit knowledge, and thus, obtained through interviews. The empirical material includes thus primary and secondary data.

The primary data of the nine case studies were collected during 1987 to 1992 in more than 90 interviews with Swedish and Iranian managers involved in the Swedish MNCs’ operations before, during and after the critical period of the Iranian revolution (1978/79) along with the first years of the Iran/Iraq war. The information concerning the time period up to 1987 was obtained by retrospective interviews, and supplemented with secondary data from other research studies on Swedish firms operating in Iran (Kleverman, 1984), as well as thousands of documents from annual reports, through press releases to newspapers. The original data set provides a comprehensive description of the nine cases and synthesizes the information in two tables; one explains the modes of operation in six time periods, and the other describes the commitment establishment before, during and after the crisis period. Although the Iran/Iraq war persisted until 1988, the market started to stabilize already in 1984 and, therefore, the crisis time-frame considered the time from the Iranian revolution events (1978/79) to the first years of the war (1980/83). With regard to the variables of interest, commitment and knowledge, a discourse analysis was made, based on a grid distinguishing each variable type and scale

The commitment was divided between the tangible and intangible, following the original study’s criteria. Each kind of commitment was, then, scaled in three levels: low, moderate and high. The operationalization of the commitment scales charted established literature (Johanson and Wiedersheim-Paul, 1975; Hadjikhani, 1997; Woodcock *et al*, 1994; Eriksson *et al*, 1997; Elmore, 1987; Klijn, 2008; Lenway and Murtha, 1994). The knowledge variable was distinguished in ‘data’ and ‘conceptual’ and graded in the same three levels as commitment. The kinds and the scales of

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<sup>9</sup> Due to confidentiality reasons, the firm name was altered.

<sup>10</sup> Idem.

knowledge derived from various studies (Bion, 1962; Ellis, 2000; Prashantham; 2004; Wiedersheim-Paul *et al*, 1978; Forsgren, 2002; Doz and Prahalad, 1984; Doz *et al*, 2001; Jones, 2007; Malhotra and Hinings, 2010; Johanson and Vahlne, 1977).

The classification of knowledge and commitment, in kinds and levels, was systematically done to the nine cases and synthesized in tables. An analytical combination was done between the types of knowledge and the types of commitment, resulting in a certain level of commitment and knowledge for each time period. These two entries – level of commitment and level of knowledge – were plotted in each axis of the risk graphical framework. The outcome of the intersection between knowledge and commitment levels reveals the commitment decision prescribed by the model. This procedure was undertaken for each period, revealing not only a path of commitment decisions, but also their respective consequences. The cross-analysis made by comparison of the prescribed decisions and the real decisions concluded the procedure.

### 4.3. At the meso level, with cross analysis between qualitative and quantitative data

The lack of knowledge is found in the risk management model (Figueira de Lemos *et al*, 2011) as being as determinant to the internationalization as knowledge is. Indeed, Paper I provides some clues regarding the impact of the lack of knowledge, although the perspective stems from the firm's point of view and assumes that lack of knowledge can always be solved by committing more or less resources. Interestingly, Paper III presents a problem of lack of knowledge that firms and other business actors did not solve within the market, and, thus, required State intervention. More than the buffer role seen in Paper II, the political elements of the environment were determinant to overcome the risk perception of business agents. The institutional arrangement made to undertake that intervention is the subject of the case study presented in this paper. The case comprises both country and firm-level perspectives, thus the empirical material includes micro and macro data.

The micro level data was collected from the case study on FIEP, the institutional vehicle used by the government to intervene in the economy. FIEP consisted of a venture fund partnered by the government of Portugal, along with banks, with the intent to participate directly in the capital structure of the internationalizing firms. Despite the time lag between the study and FIEP's activity, most of the data collected is primary data thanks to the privileged position of one of the authors of the case study. Fernando Freire de Sousa is an academic who held functions as a member of the government

of Portugal and, after stepping down from office, as the president of FIEP. While the president of FIEP from 1998 to 2003, he had access to information with some degree of confidentiality. Thus, besides all the information publicly available like newspaper clippings and television broadcast records, an immense set of empirical material was gathered from unpublished data, such as board presentations, communications to shareholders, portfolio evaluations, and internal procedures. Moreover, once a member of the government (Secretary of State of the XIII Constitutional Government of Portugal for Competitiveness and Internationalization) he was a fundamental mentor of the public policies for internationalization and the respective instruments. This central position made it possible to trace back the information not only about the core objectives and goals drawn in 1997 — the year of FIEP's foundation — but also about the political context which compelled the fund's constitution. In this sense, official documents such as 'A New Policy to Internationalization' (April, 1997) included in the RCM 61 and approved by the Council of Ministers are included in this study as primary data.

The privileged access to primary data arose some concerns with eventual doubts of readers about interpretation bias on the qualitative data. To circumvent these legitimate reservations, quantitative data was included both from primary and secondary sources and the resulting sets compared on a longitudinal scale. The use of macro-level secondary data was meant to not only to validate the micro-level analysis but also to make the analysis unequivocal (Steenbergen and Jones, 2002). To reinforce this, the macro indicators were extracted from databases of reliable institutions like the INE (Instituto Nacional de Estatística, National Institute of Statistics) and from Banco de Portugal (Central Bank of Portugal).

The procedure consisted of an evaluation of the two longitudinal sets of micro and macro data, followed by analysis of the resulting pattern and a cross-analysis with the qualitative findings. Therefore, a longitudinal set with the annual amounts of the fund's investment and divestment, from 1998 to 2003, was compared with the respective data on outward and inward FDI, covering the period from 1966 to 2008. The longer time span of the macro data was required in order to check if any variance at national level could be associated with the FIEP's intervention in the economy. The data, plotted in longitudinal graphs, clearly shows a causal relationship between micro and macro data, reflecting the consistency between the assumptions made upon the qualitative material and the pattern that emerged from the quantitative data.

## 4.4. At the macro level with quantitative data

The empirical material of Paper IV includes only quantitative macro data. It caps the two previous empirical studies and closes this dissertation's research process. The logic of this process comprised an initial step of exploration into the risk management model of Paper I with qualitative studies which were followed by quantitative studies in order to confirm the qualitative findings. This sequence also evolves the conceptual framework from a micro to a macro perspective. Therefore, the conceptual relation between the cognitive state and foreign commitment initially framed in Paper I and explored in Paper II and Paper III, is now proxied in Paper IV through the distance between institutional environments and the modes of international operations. These variables are measured with secondary data extracted from other research and institutional sources.

The distance of the institutional environments between home and host country is featured in three components – informal, formal and political – each of which is provided by different datasets. The informal component, which concerns the cognitive-cultural and normative aspects (Scott, 2005) of the environment, derives from Dow and Karunaratna's (2006) 'psychic stimuli' dimensions. The authors justify their coined 'stimuli' on the basis that there are country level attributes that provoke the perception of the manager and, thus, are consistent with the individual level at which psychic distance is conceptualized (Johanson and Wiedersheim-Paul, 1975). The database is structured with bilateral data from 120 countries, which results in a vector of 14280 country pairs. Each country pair mirrors the distance between the countries' environments considering the dimensions of language, religion, education, industry development, and democracy. Each dimension is drawn from several country-level indicators and reduced into a single factor through confirmatory factor analysis. Similarly to Dow and Ferencikova's (2010) study, this dissertation uses a composite index of Dow and Karunaratna's (2006) dimensions that excludes the democracy dimension<sup>11</sup>.

The formal component is measured through Kaufmann, Kray and Mastruzzi (2010) World Wide Governance Indicators. The data set comprises 215 countries, in six dimensions of governance: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. The formal distance between two institutional environments was calculated by the percentile ranks of Regulatory Quality and Rule of the Law, thereby embodying the regulatory aspects of the institutional environment (Scott, 2005).

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<sup>11</sup> We exclude democracy dimension because it includes Henisz' (2000a) POLCON index which is considered separately as the political component of the institutional environment

Because the integrity of the law can be put at stake by its non-enforcement by the courts, the two elements were treated autonomously in the statistical analysis.

The political component of the institutional environment is directly extracted from Henisz's (2000a) POLCON index. This index is actually coded for 200 countries covering the period from 1960 to 2007, and portrays the political environment by the heterogeneity of the political structure. The main idea resides in the relation between the likelihood of policy change and the system of checks and balances between different branches of the government. The more branches and partisanship the political structure holds, the lower the probability is that policy may suffer change. The political distance between two countries was therefore calculated through the difference of the two POLCON values. Although the values do not vary substantially, we used the average of the annual values from 1998 to 2007.

Other secondary data, from institutional sources, was used to measure the dependent and the control variables. The international operation modes are distinguished between Exports and outward FDI. The values of these two variables are extracted from the UNCTAD and OECDstats' datasets respectively. The annual values of these databases are an aggregation at national level of the exports and direct investments abroad undertaken by national firms. For each variable, the average value of the longitudinal series from 2000 and 2009 was adopted. The control variable, the national GDP of each of the countries, was extracted from UNCTAD's database following the same method as done for Exports and FDI.

Additionally, primary data was collected about diplomatic networks to gauge the political links between countries. The inquiry sent by email to the Ministry of Foreign Affairs of 38 countries includes just three items to be filled about the other 37 counterpart missions: date of establishment, personnel affected and annual expenses. A good response rate was expected thanks to a parsimonious inquiry with just three items to be filled. However, even with the enforcement of post mail and phone calls, responses were so scarce that the initial plan of data collection had to be changed. The study was confined to the countries whose contacts proved to be more collaborative. In this regard, instead of gathering bilateral data on the diplomatic network resources of the 38 countries, we asked The Netherlands, Sweden, and The United Kingdom for information on their diplomatic network in 119 countries<sup>12</sup>. Despite the sample reduction from 1406 to just 347 potential country pairs, the set remained large enough to be tested statistically. After listwise deletion, the sample granted a total of 243 observations, i.e. circa the optimum sample size to be tested in Structural Equation Modelling (Kline, 2010). The diplomatic network mapped therefrom for The Netherlands,

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<sup>12</sup> This set of 119 countries was constrained by Douglas Dow's dataset, once the smallest when compared with Kaufman *et al's* (2010) WGI and Witold Henisz (2000a) POLCON.

Sweden, and United Kingdom accounted for 91, 62, and 90 missions respectively.

A last remark about the macro data concerns the time period of its collection. Different time frames were considered upon the series extracted from the different databases. While in Douglas Dow the data was contingent upon the periods available, from 1990 to 2000, in the remaining databases the criteria envisaged a longitudinal time series with the latest years available. The extraction from the Kaufman *et al* (2010) dataset entailed the period from 1996 to 2010, while the Witold Henisz (2000a) comprises the years from 1996 to 2007. The Exports, FDI and GDP were extracted in time series between 2000 and 2009. Despite some minor disparities amongst the several time series, the largest difference is within the Douglas Dow dimensions. This contingency, however, becomes attenuated by the fact that national culturally related attributes are the most perennial across time (Dow and Karunaratna, 2006), and, thus, comparable with the remaining datasets.

# Chapter 5: The Individual Papers

The overarching goal of this dissertation is to understand how governments can influence and take part in the internationalization of the firm. The conceptual framework developed previously operationalizes this aim through the analysis of the effect of governments on the internationalization process. Four papers address different facets of this framework.

I - Risk management in the internationalization process of the firm: A note on the Uppsala model.

II - Internationalization processes in stable and unstable market conditions: Towards a model of commitment decisions in dynamic environments.

III - Complexity and interdependency in firm's internationalisation: When the State becomes the partner.

IV - The Control of Foreign Operations: Is it strategic, economic, or politically driven?

The first paper is conceptual, while the other three are empirical. Papers I and II are closely related. Whereas Paper I proposes a conceptual model of commitment decisions toward environmental changes, Paper II tests the predictive power of that model with empirical data on several commitment decisions made by multinationals in different environmental circumstances of the host country. The micro level of the analysis in both papers gives a firm-based perspective on the role of political elements of the environment in the internationalization process. The internationalization process is described by the cognitive state and foreign commitment intensity. Conversely, in Paper IV the macro level of the analysis depicts the role of governments within a country-based perspective. It empirically tests the effect of political links within countries towards institutional environment distances between home and host countries in such dimensions as cognitive-cultural, legal and political. The change of environmental circumstances is depicted through country-profiles differences, while the internationalization process is emulated by the extremes of the establishment chain, exports and outward foreign direct investment. Paper III links the micro and macro levels through the implications of home country's environmental changes both at firm and country level. The paper has an exploratory purpose, hence qualitative and

quantitative data were used. While the qualitative data describes the expectations of governments and firms towards the environmental changes as the result of public policy change, its impact on internationalization is measured through quantitative data on foreign commitment of the firms and the macro indicators of international operations.

For an overarching view, Appendix A depicts the conceptual framework, with the paper's connections and relationships.

## 5.1. Paper I – Risk management in the internationalization process of the firm: A note on the Uppsala model

This paper emphasizes the implications of uncertainty in foreign commitment decisions. It builds on the risk formula of Johanson and Vahlne's 1977 article to demonstrate that the internationalization process is a matter knowledge accumulation and also of management of the lack of knowledge. It reveals the non-determinism of U-m demonstrating internationalization as a balance between knowledge and commitment, wherein foreign commitment not only increases but it may also be decreased to match the consequences of environmental changes in the firm's knowledge stock.

The highly contextualized nature of knowledge has inspired relevant research in the field of international business and strategic management. The cultural differences amongst countries bring additional obstacles to its acquisition (Johanson and Vahlne, 1977), articulation and transfer between subsidiaries and headquarters (Doz and Prahalad, 1984). Managing knowledge at a global scale is therefore recognized as an important competitive advantage, especially to face the uncertainties of a changing world. The last decade has been showing, however, that what used to be a problem of knowledge acquisition is turning into a problem of lack of knowledge management. The platforms of information technologies changed the paradigm of global management. Although today's managerial decisions are taken upon a wider set of knowledge than before, the perception of lack of knowledge is massive compared to the seventies, when the U-m was proposed.

Indeed, the emphasis of the 1977 U-m on the acquisition of knowledge precedes the complications of the lack of knowledge. However, it also offers an explanation of commitment decisions under different environmental conditions. In particular, the risk formula explains how commitment decisions are made towards the changes in the environment. In this regard, the original risk formula is reassessed and a mathematic-graphical analysis demonstrates its potential to explain a contingent behavior of the firm upon environmental

changes. It shows that firms balance commitment and knowledge in order to meet tolerable and acceptable levels of risk. That is, the internationalization process is not only a function of knowledge but also of commitment. The firm cannot commit without knowledge nor gain knowledge without commitment. Moreover, knowledge and commitment may not be understood merely within an incremental relation but as a balanced relation of imperfect substitution between knowledge and commitment.

The paper proposes a decision model that prescribes the behavior of the firm under different environmental circumstances. Seven hypotheses are formulated considering beneficial and detrimental environmental changes in three typical positions of a conventional process of internationalization. The implications of environmental changes in the knowledge stock compel the firms to make decisions on the level of foreign commitment. In depth, environmental changes are managed with either increases or decreases of commitment. In extreme environmental changes, firms are meant not to react through the commitment scale, but to interact. In this sense, substantiating that “commitment decisions are based on several kinds of market knowledge” (1977: 27), the model framework also distinguishes knowledge as objective and experiential, and commitment as tangible and intangible. While objective knowledge is associated with tangible commitment, experiential knowledge is associated with learning and interaction (Johanson and Vahlne, 1990, 2009). Therefore, commitment types shape and are shaped by the different kinds of knowledge.

This logical deductive exercise leads to several conclusions with implications at the conceptual and managerial levels. First, and purely conceptual, the risk formula offers a contingent perspective on the U-m that has never been researched before. To the extent that the U-m is widely accepted among academics, the implications of its misinterpretations for the international business field are large. Second, if decisions are to be made regarding commitment, then the scale of operations can be increased but also decreased and, therefore to question the conventional idea of U-m as deterministic. Third, the imperfect relation of substitutability between knowledge and commitment reflects the non-linear process and dissimilar paces of internationalization. Fourth, it places the lack of knowledge in the center of discussion about the internationalization process, framing it under the contingent uncertainty concept. Fifth, the model’s contingent nature endorses explanation of such phenomena as leapfrogging and market exiting. This not only brings the U-m up to date, but also makes it closer to reality. Sixth, it gives an analytical tool for managers to negotiate with environmental changes; namely it aligns environmental conditions, the knowledge set, the perception of the lack of knowledge, and the set of tangible and intangible commitments.

## 5.2. Paper II – Internationalization processes in stable and unstable market conditions: Towards a model of commitment decisions in dynamic environments

This study employs the risk management conceptualization of the first paper to explore the implications of extreme environmental changes due to political factors. Showing that intangible commitment is the more resilient source of knowledge upon environmental changes, it finds that relationships with the political elements of the environment have a buffer effect on the scale of the overall foreign commitment. The political elements are shown to smooth the rigid relation between the commitment scale and knowledge stock as addressed in the previous paper.

Internationalization is not only about the increase of foreign commitment (Welch and Luostarinen, 1988) but also of decrease, like divestment (Boddeyn, 1979; Delios and Beamish, 2001) or even of market exit (Alvarez and López, 2008; Benito and Welch, 1997; Henisz and Delios, 2004). However, decreasing commitment must not be seen as a failure or unsuccessful internationalization. Sometimes it is just a part of the overall foreign operation. The sleeping strategies that firms may pursue or even market exit followed by re-entry are not rare (Atkins and Anderson, 1999; Hadjikhani, 1997; Sull, 2005). But does one step back actually demonstrate internationalization as non-incremental? And what if after that step back, the firm proceeds with two steps further? Is it incremental with the initial stage? Indeed, the debate on internationalization as an incremental or contingent process seems to be fruitless (Malhotra and Hinings, 2010). More rewarding is, therefore, to elaborate on whether incremental behavior and contingent reactions can be integrated under the same conceptual model.

The paper proposes a decision framework which derives from the risk management model (Figueira de Lemos *et al*, 2011). The mathematical properties of the risk curves made it possible to draw five different areas with six different commitment decisions. In the same vein as the risk management model, commitment and knowledge are distinguished as tangible and intangible, and as objective (data) and experiential (conceptual), respectively. In addition, qualitative scales settle the degree of commitment and knowledge from low, through moderate to high. Previous writings supported the scales framing of commitment (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Hadjikhani, 1997) and knowledge (Bion, 1962; Doz and Prahalad, 1984; Doz *et al*, 2001; Johanson and Vahlne, 1977)

The decision framework is confirmed with a set of longitudinal data (1960-1992) on the internationalization process of nine Swedish multinationals in Iran. Three main features are central to this dataset. Firstly, it covers both stable and unstable environmental conditions. Not only are identified the type of commitment decisions made whether in stable or unstable

periods, but also realized their consequences in the subsequent period. Secondly, it includes an extreme change in the environment which makes it possible to examine if ‘wait and see’ (Atkins and Anderson, 1999) or ‘sleeping’ strategies (Hadjikhani, 1997; Sull, 2005) are indeed pursued by the multinationals. Thirdly, the richness of the empirical material allowed us to discern the level of commitment and knowledge that supported the commitment decisions. This exercise is of major importance since it captures the essence of the risk formula explanation of internationalization—not only dependent on knowledge, but also on the previous commitment.

By comparing commitment decisions in both stable and unstable environmental conditions, the results show that commitment decisions are made upon the existing levels of both commitment and knowledge. Successful paths of internationalization were found when commitment decisions met the prescribed balance between knowledge and commitment. Even market withdrawals were found to be an adequate decision when lined up with the models’ prescriptions. Conversely, the mismatch between the levels of knowledge and commitment with the environmental conditions resulted in market exit with heavy losses. The conclusions hold that stable environmental conditions induce incremental commitment, namely tangible, whereas unstable conditions disorder it. The extreme changes in the environment erode the stock of knowledge by turning obsolete the objective/data knowledge, which, in consequence, is reflected in losses of tangible commitment. Therefore, the intangible commitment is of major importance to face most of the critical changes. Unlike the tangible, the intangible commitment has proven to be resilient to the extreme changes in the environment. In this category, committing in relationships with political elements proved to be fundamental not only to keep the overall level of commitment, but also to recover some of the tangible commitment lost within the crisis periods.

A final remark concerns the political elements of the environment. As it can be understood from the features that led the use of the empirical dataset, the political substance was not meant to be the focus of the paper’s discussion. The preliminary purpose of the study envisaged solely the explanation of how commitment decisions are made and its consequences. However, an additional phenomenon emerged from the result’s analysis: the political elements have a buffer effect in the commitment decisions. If multinationals perceive the political elements as beneficial they tend to commit more than what should be expected through the analysis of their risk perception. Conversely, multinationals enlarge the expected amplitude of de-commitment if political actors are perceived against them. The direction of these findings is comparable to other institutional studies in international business, such as the amplification of transactional hazards by political hazards (Henisz, 2000b), the association of exit market rates with the political regime changes

(Henisz and Delios, 2004), or the coercive and supportive behavior of governments towards the firms' commitments (Hadjikhani and Ghauri, 2001; Hadjikhani *et al.*, 2008). Although these studies embrace firm- and country-level, their analyses highlight the strategic behavior of the multinationals towards the political conditions only in their host environments. Therefore it becomes pertinent to research how governments – whether in home or host country – may catalyze or hinder the scale and type of commitment of the multinationals.

### 5.3. Paper III – Complexity and interdependency in firm's internationalisation: When the State becomes the partner

This paper offers a privileged viewpoint of government's direct intervention in the internationalization of the firms. It complements the previous paper, demonstrating the relation between the foreign commitments of firms with macro indicators of international operation, like FDI. In particular, the paper gives a perspective on the potential of governments to change the 'home environment' in order to catalyze internationalization at a national scale.

Since its inception, modern economics has been debating state intervention in the economy – either defending its virtues or criticizing its shortcomings (Fligstein, 1996; Simonis, 2001; Pinto and Pinto, 2008). While in the field of economic studies the debate still endures, in international business studies it has been treated essentially as a specific issue of the firm (Hymer, 1960/76). It is a fact that firms internationalize and governments do not. However, governments are not left aside in this process. Common goals such as wealth and employment nurture the interdependence between firms and governments. The pressure that national economies suffer from globalization strengthens these common goals. For instance, the increase of exports, not only promotes the growth of the firms (Wiedersheim-Paul *et al.*, 1978; Reid, 1981; Katsikeas, Leonidou and Samiee, 2008), but also has short-run positive effects in national employment and the balance of payments with other countries (Czinkota, 1982; Ferner *et al.*, 2004; Frankel and Rose, 2002). Internationalization sustains these positive effects in the long run by strengthening national firms' global competitiveness through the control of either raw materials (Nigh, 1985; Click and Weiner, 2010) or distribution channels (Pedersen and Petersen, 1998; Petersen *et al.*, 2010).

Although the embrace between firms and governments in order to fasten internationalization seems obvious, its forms are not as obvious and complexities arise there. This paper raises the issue of internationalization as a thin compromise between knowledge and commitment, which may not be

held under the same entity. It depicts internationalization as a complex phenomenon that goes far beyond the firm boundaries. It explicates the wider setting of the internationalization of the firm, not only dependent on its clients and suppliers, but also on other non-industrial players like banks and governments. In particular the paper focuses on the dilemma that stems from the perception of internationalization as a high-risk choice to grow, though unavoidable when home markets are small (Johanson and Wiedersheim-Paul, 1975).

The case of Portugal and Portuguese firms is a good example of what governments can do in order to overcome impasses like the above. Portugal is a 'late foreign investor' compared to its European counterparts. Until 1974, the year of the Portuguese revolution, the operations of Portuguese firms abroad were mostly undertaken in its colonies. With the revolution, the independence of the colonies, and the nationalization of the biggest economic groups came, fading the internationalization of Portuguese firms to nearly zero. The first attempts to re-internationalize the Portuguese economy only occurred in the mid 90's with the Portuguese government's directives given to the biggest state-owned firms to internationalize their operations. The idea was to make private companies follow the state-owned ones, namely the domestic suppliers. However, it did not work. Most of the firms (banks included) were too comfortable with the home market, reaping the benefits of an expansion of the domestic economy. Even so, the ones that were growing fast and looking to internationalization as an obvious step to sustain their growth could not engage in international operations due to their lack of resources. The banking sector, although loaded with financial resources, was not fulfilling the firm's lack of resources. Internationalization was seen by the banks as high risk. Indeed, the lack of knowledge about international operations traversed all economic sectors, from firms to banks. The internationalization of the Portuguese economy was not happening at all due to the lack of knowledge combined with the lack of resources. Since neither firms nor banks had control on both resources and knowledge, the State had to intervene. A joint-venture with four banks and the government was formed, constituting the biggest investment fund ever in Portugal, the FIEP.

The FIEP case study illustrates a sophisticated instrument of government's intervention and involvement with firms. The fund did not remain merely as a financial partner of the internationalizing firms. It was a requirement that the fund's representatives would participate in the board meetings and have a role, even if soft, on decisions where issues of internationalization were part of the agenda. The aim was not even to examine the decisions, but to promote the knowledge transfer between the parties involved. The initial situation of lack of knowledge amongst firms, banks and governments had always an important presence during FIEP's life span. As part of the genesis of FIEP's constitution, knowledge transfer was not only

proclaimed but actually effectuated. The annual conferences that FIEP promoted about internationalization became one of the cornerstones of this unique public policy, gathering under the same roof government officials, entrepreneurs, managers, bankers, academics and even the president of the republic.

The qualitative empirical material provided in this study is particularly rich. One of the authors of the paper was a member of the government of Portugal in the mid 90's (Secretary of State for Internationalization) and, after stepping down, the president of the FIEP. His privileged position allowed access to unpublished material, not only about FIEP but also on the political context of the government's cabinets. The study is complemented with quantitative data. The option for macro data not only improves the quality of the analysis but also offers a wider perspective on the phenomenon under research. Additionally, some eventual bias concerns regarding the qualitative material are also circumvented by the empirical cross validation with country macro indicators.

The longitudinal analysis of FIEP investment and divestment with the Inward FDI and Outward FDI depicts the tremendous impact of the Portuguese government on the Portuguese firm's internationalization. The comparison between the micro and macro level demonstrates the leverage effect of FIEP in the Portuguese economy. During the period in which FIEP was active, while at a micro level the investment participations grew from 2,295 million euros in 1998 to 105,183 million euros in 2003, the macro level figures display a growth of the Portuguese outward FDI growth from nearly zero to 20 billion euros. To have an idea about the magnitude of this number, it should be noted that the outward FDI surpassed inward FDI for the first time in decades. It is indeed a remarkable achievement, given that Portugal has always been a significant recipient of FDI within the European Union (Freire de Sousa, 2000).

Some implications arise from this simple but impressive case of government intervention in the economy. First, it demonstrates that the internationalization process of the firm cannot be seen only as a process driven merely by knowledge but also by the lack of knowledge (Forsgren, 2002). Moreover, it substantiates the main assumption of the U-m's risk formula that is a process wherein knowledge and commitment must go hand-in-hand to overcome not only the constraints due to the lack of knowledge but also of lack of resources. Second, it reveals wider boundaries of internationalization than just the firms' ones. Internationalization is, undoubtedly, a process undertaken by the firms. However, its study cannot solely consider the scope of the firm or just a process of contingent fit with the environment. Internationalization is also a matter of – and interest to – some elements of the environment. In particular, non-business elements such as governments may not be seen just as obstacles that must be overcome, but as elements that have di-

rect interests which can be leveraged and integrated within the internationalization process. This tacit interdependence is fundamental to understand the complexity of the internationalization phenomenon. Its implications at both the managerial and policy levels are immense and cannot be disregarded by firms, governments, nor, ultimately, by academics.

#### 5.4. Paper IV – The Control of Foreign Operations: Is it strategic, economic, or politically driven?

This paper highlights the importance of political links between countries in the internationalization process of the firms. It complements the view of governments discussed in the previous papers by comparing the effect of cognitive-cultural, normative, regulatory and political elements of the environment on the modes of international operations like exports and outward FDI. In detail, the relation framed at a micro level between the cognitive state and level of foreign commitment is dubbed at a macro level through the effects of the distance between institutional environments and the modes of international operations.

Foreign operations can be held in various modes of governance, from purely contractual, such as exports or licensing, through hybrid modes such as joint ventures and alliances, to full ownership when foreign direct investment is undertaken. The adoption by the multinational firms of any of these modes is largely influenced by the differences of the institutional environments between home and host countries (Perkins, 2008, 2009). This underlying principle of aligning the governance mode with environmental conditions is widely accepted among researchers (Henisz and Williamson, 1999; Williamson, 1975), however the choice of ownership degree differs among perspectives. For instance, while strategic management studies recommend that high ownership modes should be adopted when environments are similar, economics-based studies such as transaction-costs economics advocate the opposite, proposing contractual modes. In fact, at the same time that similarities between countries may promote the replication of home hierarchical structures in the host countries (Doz and Prahalad, 1984; Shenkar, 2001), they also induce the decrease of transaction costs and, thus, promoting the option of contractual modes (Williamson, 1975). This contradiction is only apparent given that each perspective pertain a certain element of the environment. While strategic management looks upon the cultural aspects, the economics searches for the legal elements of the environment.

In addition, new institutionalism economists go further and propose that the political aspects of the environment should be considered separately from the legal aspects of the environment (Henisz and Williamson, 1999). Although they agree with the new Institutionalism distinction of informal

and formal elements of the institutional environment (Scott, 1995), they add that political elements have a different nature from the other formal elements, such as the legal ones. In detail, Henisz and Williamson (1999) argue that governments may actually reverse legal decisions, hence political elements should be dealt with separately when deciding which governance mode of international operations to undertake. The distinction of the elements of the institutional environment and the extent that these affect the governance mode of international operations arises, therefore, as an obvious research question.

The paper develops a set of three hypotheses in order to gauge the influence of each element of the institutional environment on the governance modes of international business. It relates the distance between environments based upon the formal, the informal, and the political settings with the two modes of governance of international operations: exports and outward foreign investment. In essence the hypothesis framework reflects the proxy at a macro level of the fundamental relation between the cognitive state and the foreign commitment earlier exposed in this thesis. In particular, the informal elements, once held in strategic-based theories, are related to knowledge (Johanson and Vahlne, 1977) and lack of knowledge (Forsgren, 2002) as driving forces of internationalization. The formal elements, given their ground in transaction costs, emphasize uncertainty and control (Henisz and Williamson, 1999) as motivations for internationalization. On the other hand, the two governance modes, Exports and outward FDI, once the extremes of the 'establishment chain' (Johanson and Wiedersheim-Paul, 1975), surrogates the involvement of international operations. A fourth hypothesis is added to the previous ones and derives from the impossibility of control of political elements by ownership modes of governance. It answers a call for research from Henisz (2000b) where he raises the issue of the need to study not only the differences of political elements between the host and home country but also the effects of respective political links on the governance modes of international operations.

The four hypotheses are statistically tested in a Structural Equation Model with path analysis. This statistical modeling allows for the assessment of the relative strength of the effects amongst and within the independent variables towards the two dependent ones. The sample comprises macro data to measure the two dependent variables, Exports and outward FDI, from institutional databases (OECD and UNCTAD). The quantitative data for measuring informal, formal and political differences is collected in several databases generated by other researchers (Dow and Karunaratna, 2006; Kaufmann *et al*, 2010; Henisz, 2000a) whereas primary data collected on diplomatic networks measures the links between countries. The sample size of 243 diplomatic missions up to 91 different countries resulted from the collection constraints of primary data.

The results do not confirm all the directions formulated in the hypothesis, thus some unexpected though interesting findings arise. Regarding the informal aspects of the environment, in the opposite direction as formulated, it was found that the differences between cognitive-cultural elements affect only contractual modes of governance, while no effect is found on ownership ones. As expected, the regulatory elements which concern the legal framework have a higher effect on contractual than on ownership modes of governance. The political differences, without any surprise, were shown to have an effect on ownership modes while no effect was found on contractual modes of governance.

The most unexpected result comes from the diplomatic network independent variable. The moderating effect on political differences substantiates the formulated direction as Henisz (2000b) preconized in his call for research. Surprisingly, it was found that the diplomatic network, more than a mere moderator factor, is actually a strong predictor of both contractual and ownership modes of governance of international operations.

The conclusions confirm the political aspects as having an important role in the internationalization phenomena. The implications at a conceptual level are relevant and sustain the political environment as a subject that should not be absent from further research on international business. Moreover, at a managerial level, the impossibility of internalizing the political elements of the environment may compel the multinationals to look to them not as elements to control but as public resources which can be beneficially combined with their private resources. The paper's conclusions reinforce the pertinence of the conceptual relation between the cognitive state and foreign commitment. It complements the knowledge and lack of knowledge roles in of internationalization, adding uncertainty as a driver for ownership modes of foreign operations.

# Chapter 6: Discussion

Each paper of this thesis has an intrinsic value and specific implications whether at conceptual, managerial or policy level. Nonetheless, these papers, together, underline a wider abstraction of the internationalization phenomena that endows a self-contribution to this comprehensive summary. In particular, a new synthesis of the internationalization process is put forward and which I define as an exercise of adaptation, learning, and control of the environment, respectively through the employ of knowledge, because of the lack of knowledge, and to circumvent the uncertainty. Combination becomes the ultimate approach to deal with the non-internalizable elements of the environment, such as the political ones. This synthesis has implications at theoretical level, which I discuss within the conventional understanding of incremental behavior in the U-m, the explanation of boundaries between U-m and transaction costs through the efficiency quest, and on the view of internationalization determined by structural and exogenous elements.

## 6.1. The incremental process of internationalization in small gaps rather than small steps

As paradoxical as it may seem, the most critical as well as the most supportive studies of the U-m share the same reasoning about its incremental behavior. Both strands of research agree that internationalization, through the U-m's lens, is an incremental process revealed by the increase of foreign commitment in small steps. However, while the latter demonstrates that foreign commitment effectively increases in a gradual fashion, the former displays observations of uneven commitments to contradict the incremental evolution. Cases of de-internationalization (Benito and Welch, 1997; Welch and Luostarinen, 1988), divestment (Boddewyn, 1979) or irregular and 'ad hoc' commitment paths (Woodcock *et al*, 1994; Mintzberg and McHugh, 1985) are obvious examples of disruptions of the ideal notion of incremental commitment. Still, even subtler variations in the commitment pace are used to question the explanatory power of the U-m. Well-known conceptualizations on fast internationalization challenge incremental behavior, not based on observations of decreases in commitment, but rather of rapid increases (Bell, 1995; Forsgren and Hagström, 2007; Loane and Bell, 2006; Oviatt and

McDougall, 1994). For instance, some authors advocate that leapfrogging depicts a disruption of the incremental pace of commitment because some established 'theoretical' stages of foreign commitment are cut short 'in practice' (Bell, 1995). That is, commitment is incremental only if it is linear. Hence, the conventional idea that firms do not follow an incremental behavior whether their internationalization paths do not depict a gradual increase in a strict linear pace. Within this rationale, the U-m's prescriptive power should lose its validity whenever incremental behavior is not reflected through linear paths of increasing commitment. However, without including the environment in the analysis, looking just to the commitment paths may not be sufficient to criticize the U-m's explanatory power.

As argued by Hadjikhani (1997) the U-m is not a 'stages model' but a model of uncertainty management. Figueira de Lemos *et al* (2011) add to Hadjikhani's work operationalizing the management of uncertainty through a balanced adjustment between commitment and knowledge. Moreover, a balance exercise that is undertaken contingently on environmental conditions. If environmental change is not included, or considered as smooth, the knowledge that the firm acquired through experience does not lose its worth, but merely follows the firm's experience path. Since experience is linear with time, commitment should also denote a linear increase with time. In the opposite way, if environmental changes are uneven, some amount of knowledge is eroded and, thus, does not follow the linear path of experience (Hadjikhani, 1997). The knowledge employed in the subsequent commitment decisions becomes only a portion of the knowledge collected by experience. Once commitment decisions portray a balance between knowledge and commitment, the effectuated commitment becomes proportional to the amount of knowledge *needed* (Petersen *et al*, 2008) within the circumstances of the environment. Therefore, even in unstable environments, firms may follow an incremental behavior of commitment considering the amount of previous knowledge, rather than the entire path of experience.

The emphasis on growth that Johanson and Vahlne (1977) expose in their model actually leads to a narrowed view of incremental behavior. Indeed, the interplay between market knowledge and market commitment – if only seen through the lenses of efficient learning (Autio *et al*, 2000; Chang, 1995; Eriksson *et al*, 1997) – depicts a story of growth based on the increase of foreign commitment. Nonetheless, the core of the U-m may hold a different story, where internationalization is not just a strategy of growth but also of survival (Autio, 2005; Delios and Beamish, 2001; Figueira de Lemos *et al*, 2011). Indeed, if the U-m is seen purely in its principles, commitment decisions may not only be about the increase of commitment but also about its decrease. As explained previously, it is just a matter of seeing commitment decisions as based upon the needed knowledge, instead of the experiential path (Hadjikhani, 1997). This contingent perspective of the U-m gives a

wider view on incremental behavior while strengthening the U-m's anchoring in Cyert and March's (1963) study on managerial decisions. Cyert and March (1963) associate incremental behavior with the cautious conduct of managers when making decisions. Unlike 'pure guesses' that do not require any substantial knowledge input, managerial decisions are described as a process which starts with the problem identification, goes through information gathering and alternative raising, and ends on preferential choices restrained within the limits of bounded rationality (see also March and Shapira, 1987). The commitment decision process in the U-m is also prescribed as a stepwise process of commitment based on previous knowledge and constrained by the bounded rationality of managers. However, this cautious process does not necessarily mean that foreign commitment must be undertaken in small steps. The implications of bounded rationality are as valid for problems as for respective solutions. As sustained by March and Shapira (1987) and other scholars (Miller, 2009), the problem not only arises within the context of the firm's activities, but also the respective solution is sought within the same vicinity (see also Argyris and Schon, 1974). Incremental behavior in managerial decisions becomes tautological (Schoemaker, 2007). To the same extent that the problem is proportional to the firm's activities, the amount of knowledge required for the solution should be equivalent to the problem and within the same scale as the firm's activities. In this rationale, the incremental behavior depicted in the U-m's internationalization process is not as much as a question of commitment taken in small steps, but of commitment taken upon small gaps with the respective stock of knowledge.

Within the internationalization phenomena, the perspective of incremental behavior as a process of matching levels of knowledge with commitment and vice versa also illustrates the dynamic nature of U-m. The decision models designed in Paper I and Paper II not only propose and demonstrate the incremental behavior through the management of knowledge and commitment, but also explain how this relation is influenced by the changes in the environment. Because the environment is both the source of knowledge and the recipient of commitment, its stability or volatility influences not only the scale but also the pace of foreign commitment. The more stable the environment, the higher the likelihood that actual knowledge can be deployed in the future state of the environment and, thus, the larger the amount of effectuated commitment. Nonetheless, a more volatile environment may not mean smaller amounts of commitment. It can happen that a larger chunk of the firm's accumulated knowledge may become useful in the face of new conditions. The firm's effort to apply old knowledge to new environments is particularly prominent in situations of market re-entry as described in paper II. Similar situations are reported in studies about entry timing in transition economies. For instance, Paul and Wooster (2007) find that firms from mar-

ket economies delay their entry in countries that are in a process of economic transition in order to fit their knowledge with the environmental evolution from a planned to market economy. This is a phenomenon with parallels in Barkema and Drogendijk's (2007) knowledge overlapping, but instead of environmental change upon cultural differences, it is change through the dynamics of the environment.

The widening of the knowledge base upon an environmental change, while not deliberate, entails a singular situation of potential increase of commitment without undertaking learning processes. For instance, if a regulatory change in the host country environment makes it more similar to the home environment; the knowledge previously accumulated in the home country becomes more meaningful and valuable to support new commitments in the host country. Once a beneficial environmental change spontaneously confers the deployment of a large portion of knowledge, the respective increment in commitment may appear to be a larger step than what it would be expected with the experience gained solely in the host market. In this particular case, the observation of the firm's involvement in a foreign country only through the side of commitment would suggest such phenomena as commitment leapfrogging or high-risk internationalization. However, when the knowledge level is included in the analysis, what actually occurs is a large commitment grounded in solid and reliable previous knowledge, conducted in a stepwise manner just as in Cyert and March's (1963) acknowledgement of incremental behavior. Therefore, while knowledge overlapping enables commitment without any learning effort, uneven changes in the environment may not provoke the erosion of the firm's usable knowledge. On the contrary, it may even offer larger scope for new and larger commitments. Hence, incremental behavior does not only occur in stable conditions of the environment, nor does environmental instability impede large steps of commitment.

Incremental models and incremental behavior are two different concepts and differentiate the U-m from stage models (Pedersen and Petersen, 1998). Unlike stage models, the U-m is neither an incremental model nor a deterministic model. Whilst without any mechanism of decisions, stage models merely describe the stages and infer the firm's growth as a consequence of their increasing complexity (Leonidou and Katsikeas, 1996). Instead, the U-m explanatory focus is on the transition between stages rather than description of those stages. The commitment decisions entangle past knowledge with future commitment within the present conditions of the environment. An iterative process is established once the changes of environment compel the constant evaluation of its conditions. It is this decision process that justifies the incremental behavior in the U-m and distinguishes it from other non-

behavioral models of decision, such as the real options models<sup>13</sup>. The decisions models of real options are based on a principle of acquisition of information with time that may resemble the learning processes of managerial decision models. However, the assumptions about the environmental change sharpen the differences between the two models. In real options, the changes in the environment are stochastic, i.e. the set of options is evaluated within certain limits of environmental change. Despite the fact that options can be taken within the course of investment, investment decisions are all made ex-ante (Miller and Waller, 2003).

Conversely, managerial decisions hold flexible strategies for investment decisions and learning processes are established continuously (Atkins and Anderson, 1999; White and Fan, 2006). Once the changes of the environment do not have any sort of limitations, the investment decisions are made within the course of the investment and provide input to both the new environmental conditions and the new information. New strategies may be implemented, even without the previous ones having been accomplished. The incremental behavior emerges by including the information gains in new decisions, which may totally reverse previous ones. Unlike real options where there is no space to reverse decisions or learning processes to input new decisions, in managerial models of decision, the learning process keeps the gap between knowledge and commitment as small as possible. With small gaps between knowledge and commitment, decisions become endowed with more predictive power about the environmental scenery wherein the subsequent commitment is deployed. Thus, in this enhanced view of incremental behavior in the U-m, the management of environmental dynamics becomes not as much to do with the magnitude of the change but mostly with the ability to predict the change.

## 6.2. Bounding theories through the efficiency quest

“Efficiency is doing things right. Effectiveness is doing the right things”. This famous quote of Peter Drucker is commonly used to illustrate the different scopes of economics and strategic management studies, as well as their opposition (Madhok, 2002; Rumelt, Schendel and Teece, 1991). In this dissertation, however, economics and strategic management studies are not seen as conflicting theories, but rather as complementary. In particular, the U-m is complemented with transactions costs to depict internationalization

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<sup>13</sup> The real options approach is a genre of decision-making model in which decisions are delayed, typically to gain more information in order to better prepare the market or, even, to improve products (Atkins and Anderson, 1999). The traditional approaches on investment evaluation like the net present value (NPV) are improved by real options decision models due to the chance of decision-making situations with the opportunity for taking an option during the investment course (McGrath, 1996).

as a process of adaptation, learning and control, and, namely, to justify this preferential order. The distinct roots of the U-m and the transactions costs do not impede their integration into the analysis of the internationalization phenomenon. On the contrary, the use of the asset specificity concept as a common denominator between the two approaches is extensively exploited whether at the firm level (Brouthers and Brouthers, 2002; Buckley and Casson, 1976, 1998; Erramilli and Rao, 1993; Gatignon and Anderson, 1988; Forlany, Parthasarathy and Keaveney, 2008) or at the country level (Maekelburger *et al*, 2012; Rugman, 1980; Henisz and Williamson, 1999). Nevertheless, some shortcomings in the consistency between models arise when another common concept – uncertainty – is entered into the analysis. Indeed, if seen through the U-m assumptions, uncertainty hinders commitment by constraining internalization (Peterson *et al*, 2010), whereas under the transactions costs lens, it is precisely uncertainty that pulls the transaction's internalization and all the related assets (Williamson, 1981).

The analysis of internationalization within the transaction costs scope is often associated either with Williamson's TCE or Buckley and Casson's (1976) Internalization Theory (INT). These perspectives, however, entail substantial differences that sustain the use of TCE over INT as a complementary model to the U-m. As Buckley and Casson (2009) clarify, while their internalization theory applies the Coasian transaction cost approach to explain the existence of the 'multinational firm', Williamson's (1975) TCE develops it to explain the existence of the 'domestic firm'. Furthermore, the differences between them not only reside in the explanation of the firm as either domestic or multinational but also reveal the firm's different attitudes on efficiency as the main criteria of internalization.

Williamson (1975) operationalizes Coase's approach by including the concept of opportunism to discern uncertainty and bounded rationality. Still, he does so by limiting the transaction internalization analysis to vertical integration. In effect, Coase (1937) defines the firm's size not only by its efficiency over the market, but also by the costs of organizing the different firms within the market. Although transaction costs give meaning to the firm's existence, the firm size not only depends on the transaction efficiency but also on the costs of organizing the market amongst firms. In Coase's (1937: 397) own words, the size of the firm results not only in 'integration' but also 'combination', i.e. vertical and lateral integration must be considered. In effect, the exclusion of lateral integration gives strength to the inclusion of opportunism, thereby shifting the analysis viewpoint towards the firm scope. However, although the conceptualization of transaction costs becomes more practicable, it loses Coase's fundamental purpose of efficiency. While Coase (1937) sees the market as the primary source of efficient allocation of resources, and the firm exists with a supplementary role, Williamson advocates the superior ability of firms to control resources over the

latent state of market failure. The ability to control, though, is not synonymous with efficiency. Rather, once the firm exists due to a failure of market coordination, per definition, the same firm cannot be a superior mechanism of coordination. This distinction between efficiency and control is essential (Yamin, 1991). Indeed, the transactional efficiency within the firm may be argued, but only when the integration of the transaction is a consequence of a market failure, exogenous to the firm. The quest for efficiency, therefore, cannot be claimed in TCE.

Distinctly from TCE, INT principles keep efficiency as a primary catalyst of internalization (Buckley and Casson, 1976). To INT theorists, internalization is driven by efficient coordination rather than by exploitation of market imperfections. Not that markets are perfect; on the contrary, small-number bargaining occurs and is a source of market imperfections. However, unlike TCE, INT looks to small numbers not as a market failure to be exploited, but as a consequence of asset specificity. Because INT does not restrict the transaction internalization merely to vertical integration, opportunism does not become an important variable in the analysis. Given that horizontal integration is considered, the transaction is always internalized by the most efficient coordination mechanism – whether market, state or even another firm. In this rationale, asset specificity only represents the best allocation of resources in the same sense as claimed by Coase (1937). In the view of INT, firms exploit their advantages, not market failures. The internalization occurs not because of the need to control uncertainty, but due to the efficiency endorsed by knowledge.

The reasons for those differences between TCE and INT lay in their varied emphasis on the roles of knowledge and uncertainty. Taking the classic buyer-supplier relation, TCE proposes integration when the buyer perceives the superior knowledge of the supplier. The knowledge asymmetry exposes the buyer to an eventual ex-post bargaining situation. To avoid this exposure, the buyer can choose to integrate the transaction, thereby controlling it. Internalization, though, tells a different story. Because the buyer perceives it knows more than the supplier, the buyer will integrate the transaction for the sake of efficiency. Notably, while internalization in INT theory is driven by knowledge, the lack thereof motivates vertical integration in TCE. Indeed, Buckley and Casson's (1976) Internalization theory comes closer to the management studies when they maintain that internationalization is driven by knowledge rather than uncertainty, though is incomplete because it lacks a structural explanation. Their argument on cultural differences to protect the knowledge of the internationalizing firm does not explain, however, why internalizing in an international setting can be different from a domestic setting. They just advocate that the multinational exists because the internalization is done across national borders (Buckley and Casson, 2009).

From the above, it emerges that different assumptions between theories require distinct approaches and usages. INT approximates the U-m as it explains that internalization is driven by knowledge. However, while in INT, knowledge is the source to control the environment, in the U-m, knowledge is the mean to predict the environmental changes. Consequently, in what concerns efficiency, while INT assumes efficiency ex-post to internalization, the U-m seeks efficiency ex-ante to the internalization. TCE, in turn, proposes internalization motivated not by knowledge but by uncertainty, whereas the aim for control overruns any efficiency purpose. In this rationale, TCE prevails on INT as a complementary theory to the U-m, and is discussed as follows.

The asset specificity concept within the efficiency quest serves to sharpen the boundaries between the TCE and U-m and, consequently, their complementarity. In TCE, the intensification of interdependency among suppliers and buyers pushes for an increased internalization of assets, which tend to be more and more specific to that relationship. Similarly, Johanson and Vahlne's (1977) model starts to propose a wider view of this interdependency with markets, i.e. that firms increase their foreign market commitment with assets more and more specific to that market, narrowing it further within the relationship between industrial actors (Johanson and Vahlne, 1990). At first sight, knowledge seems to be an element of efficiency whether in TCE's asset specificity (Williamson, 1981) or in the U-m's commitment degree (Johanson and Vahlne, 1977). However, although knowledge may lend efficiency to asset specificity in TCE, it must not be understood as a driver of internalization, but, in fact, as a driver for externalization. With the increase of knowledge articulation between suppliers and buyers, contracts become easier to write down, decreasing the transaction costs and leading to the transaction externalization (Hennart, 1991). By contrast, in the U-m, knowledge is a driver for internalization. Indeed, while giving ground for the firm's ability to predict the environmental changes, knowledge is an efficient catalyst for the increase of foreign commitment (Johanson and Vahlne, 1977; Penrose, 1959; Petersen *et al*, 2003). The employment of knowledge enables an efficient fit with the environment. If prediction is possible, that fit will be processed mainly through adaptation, whereas control is of a supplementary aim (Sarasvathy, 2001).

The primary use of prediction over control supports the sequence of adaptation, learning and control whilst exposing the complementarity between the TCE and the U-m. This preferential order between prediction and control is supported by Johanson and Vahlne not only in their 1977 article, when they propose the acquisition of the customer undertaken in extreme situations of uncertainty, but also in their 2009 article where they mention Sarasvathy's (2001) theory of causation and effectuation to suggest a parallel with prediction and control. In fact, although Sarasvathy depicts both causa-

tion and effectuation as valid strategies, a certain order is supposed between these. Her emphasis on effectuation can actually be understood as a supplementary process of causation. As she states, “when pre-existing knowledge, such as expertise in a particular new technology, forms the source of competitive advantage, causation models might be preferable” (Sarasvathy, 2001: 252). That is, before effectuation, causation should be the first process to undertake. Effectuation only comes in front when disruptive events turn the initial plans obsolete. Efficiency therefore has different roles in those two strategies. Even through effectuation, efficiency is compromised. The main difference between the two processes is based, essentially, on the use of resources. In causation, resources are selected to obtain a certain outcome, whereas in effectuation the set of resources are managed within a set of possible outcomes. Zhou and Poppo (2010) substantiate empirically this conceptual view of Sarasvathy (2001). With a conceptual model based on transaction costs economics (Williamson, 1975, 1985), they demonstrate that lack of predictability induces commitment mismatches as well as an exponential rise in transaction costs. While concluding that internalization control strategies are resource and capital-consuming and cost-inefficient, they prescribe the use of control strategies as a complement to predictive strategies like contractual agreements. Similarly, as the U-m economizes on commitment and is efficient by nature (Autio, 2005), its relation with TCE comprehends a logic of complementarity between theories rather than of integration between the two models.

### 6.3. A structural view on internationalization

The multilevel approach of this dissertation, spanning both micro and macro levels, invites the discussion on whether internationalization may be driven by structural factors of the environment and/or specific internal capabilities of the firm. Following Yamin’s (1991) arguments on Hymer’s structural reasons for control of international operations, this thesis supports that the internationalization phenomenon does not end with the exploitation of the ‘specific advantages’ of the multinational firm. Unlike the mainstream research on international business, this thesis looks to the environment beyond the boundaries of the multinational firm and proposes its elements as determinants of internationalization. As Yamin (1991) points out, besides the ‘specific advantages’, the ‘removal of conflict’, while supporting internalization driven by market power rather than by transactional efficiency (Buckley and Casson, 1976), leads to the inclusion of institutional aspects into the set of motivations for internationalization.

Departing from the question of why multinationals own and control operations abroad, Hymer discusses the options of whether to license or to con-

trol those operations. This dialogue on contractual and ownership modes of governance of international operations endorses both specific and structural advantages to explain the reasons for internationalization. Despite some exceptions, the research on these latter advantages has been absent from the international business field (Yamin, 1991; Forsgren, 2008) and even considered as a mere distraction of Hymer (Teece, 2006). Indeed, the specific advantages of the firm become more appealing when the aim is to support the existence of the multinational firm on its capabilities rather than on the environmental elements.

Howsoever, the paradoxical recognition of Hymer's thesis as a major contribution but with major limitations triggered an immense body of research. Indeed, research on firm-specific advantages, while offering a major contribution to the international business field by shifting the attention from the countries' economic scope to the firm's strategic boundaries, has fallen short in explaining the genesis of these advantages. This conceptual limitation compelled scholars to elaborate and emphasize not only on why but also on how firms own and control foreign operations (Hennart, 1993). As Buckley and Casson (2009) note, the scrutiny on the specific advantages of the firm has been deep and few doubts remain on why firms own operations abroad. These two academics add, however, that this focus has narrowed Hymer's 'big picture' of international business. Hence, they call for multi-level approaches to capture the internal and external factors that push the multinational firm to own and control operations abroad. Nonetheless, adding the influence of structural factors in the control of international operations to our previous discussion on efficiency leads to the obvious question of 'why not?', i.e. why multinationals do not own or control international operations?

Actually, contractual modes of international operations, like exports, may not be due to a lack of internal capabilities to undertake foreign direct investments but merely because they are the best combination of the firms' resources between the home and host institutional environments. If only seen within the firm boundaries, exports emerge as a minor mode to undertake international operations, mainly explained by the lack of capabilities of the firm to engage in more demanding and complex modes of internationalization (Helpman *et al*, 2004). However, the arbitrage between exports and direct investment amongst different countries may occur within the same multinational (Blonigen, 2001). It is surely not because of a lack of internal capabilities, once the multinational firm employs both exports and FDI, though in different countries. The explanation of the preference of the multinational to export rather than to conduct operations abroad in certain countries may be, thus, far beyond the firm's boundaries.

Conversely, the perspective of the environment as a structural driver of internationalization may also provide insights on ownership modes, such as

direct investment. As stressed in Paper IV, not all the elements of the environment faced by the multinational firm are controllable through ownership. Indeed, some of those elements such as the political ones cannot be owned and, consequently, controlled through their integration into the hierarchy of the firm (Henisz and Williamson, 1999; Henisz, 2000b). Moreover, political hazards do not reside merely in transactions with governments. The risk of nationalization that arises from the impossibility to internalize the political elements of the environment may spill over to other assets related to business transactions that the multinational may own in the host country (Henisz and Williamson, 1999). Nonetheless, evidence of operations' ownership in countries where this risk is high (Kwong and Reeb, 2000; Paul and Wooster, 2008; Reeb, Kwong and Baek, 1998; Reuer, Shenkar and Ragozzino, 2004) inspires a closer look into Hymer's structural view of the reasons for control of international operations.

Yamin's (1991) overview on Hymer's thesis sheds some light on the issue of international operations driven by structural rather than by transactional imperfections. Yamin's claim rests on a research paradox related to the interpretation of Hymer's theories of 'conflict removal' and 'specific advantage' within the internalization scope. Although 'conflict removal' is based on an imperfect market situation – and, therefore, upon a basic concept of transaction costs –, internalization theorists tend to overlook the 'specific advantage' theory in order to explain the existence of the multinational firm. Moreover, despite Hymer's awareness of the implications of transaction costs, the exogenous market impurities are the more important determinants of the internalization decision. To support the argument, Yamin (1991) recalls the failure of oligopolies to illustrate that even oligopolistic interdependence is uncertain and collusion may not be enough to explain the control boundaries of the multinational firm. Notably, more than showing the strength of the argument, the discussion reveals substantial differences between internalization theory and transaction costs that produce important implications. It is a fact that the firm must always be more efficient than the market; otherwise market imperfections are not possible to exploit (Williamson, 1981, 1985). This does not mean, however, that integration of foreign operations should be explained only in light of transactional efficiency, but also of structural efficiency, exogenous to firms (Coase, 1960, 1992).

Hymer's 'removal of conflict' motivation to control international operations by ownership is undoubtedly structural and can be related to Coase's 'combination' efficiency, though even his 'firm-specific' advantages are structural. In fact, from the six determinants that Hymer points out to be sources of the firm's 'specific advantage', four are not firm-level, but rather intrinsic to the multinational's home country: access to production factors at lower costs, better distribution facilities, more skilled personnel, and easier

access to capital. Hymer argues that the 'specific advantage', although within the multinational firm, must have support in the home country's industrial factors. Not only are firm capabilities but also the home country sources of advantages. The multinational firm exploits the host country markets not only by employing its superior advantages over the local firms but also by leveraging the structural differences between host and home country environments. The opposite may also be true. The differences between home and host environments may lead the multinational firm to opt for contractual modes, not due to a lack of capabilities, but because it is just the most efficient mode to exploit the differences between home and host environments (see also Porter, 1980).

The discussion therefrom stresses the combination of the multinationals' resources and the environmental elements rather than their adaptation or control. Instead of adapting to the elements of the host environment (Boddewyn, 1988; Hitt *et al*, 2006; Mintzberg and McHugh, 1985) or even to control (Williamson, 1975, 1981, 1985), the combination of resources between multinationals and institutions derives from Coase's (1937, 1960) 'combination' or 'quasi-horizontal integration', based on structural efficiency. Instead of transactional efficiency, where the criteria that supports the governance choice assumes a rigid host environment wherein the firm has to adapt or control, Hymer's structural view comes akin to Coase's (1937) 'combination' and includes the home environment's factors as variables contending with the choice between contractual and ownership modes of international operations. In this sense, the combination concept arises in this discussion as a strategy deployed to capture the positive externalities of non-internalizable elements of the environment, such as the political ones.

The internationalization of the firm, despite being a firm issue, does not only depend on the firm. Internationalization is also dependent on the institutional environment. The embrace between governments and firms is deep and unavoidable. As argued in Paper IV, the macro combination of home country and firm advantages has obvious implications at both the policy and managerial levels and should not be absent in international business research. The present study, definitely, contributes to fill this gap as it detaches from conventional conceptualizations by involving the structural elements of the environment as integrative parts of the internationalization of the firm.

## Chapter 7: Conclusions

This thesis looks upon a key feature in internationalization: the management of environmental idiosyncrasies across countries. Besides, not only the management of cross-national differences is a matter of analysis. The peculiarities of each element of the surrounding environment – informal, formal and political – are also focused and treated distinctly. Inasmuch as the political elements have discretionary power over the remaining elements of the environment, whether in home or host countries, the purpose of this thesis is to understand the role of governments in the internationalization of the firm. To fulfill this purpose, a general research question was posed: How do multinational firms manage the political elements in the environment and in what extent do these elements hinder or catalyze their internationalization process? This overarching question was disentangled into four individual ones, and addressed in four different papers. The findings of each paper have been presented in Chapter 5 as well as respective contributions, though overarching contributions emerge from the multilevel framework of the political view on the internationalization process.

I claim five main contributions, three at the conceptual level, one at managerial level, and another one at policy level. The first one, at conceptual level, concerns a novel perspective of the Uppsala model revealing old misconceptions, new limitations, and sharper boundaries between theories. This study reassesses the explanatory power of the U-m in to actual phenomena while refuting its main critics, most of them because of incomplete interpretation of the model. Nonetheless, despite the enthusiasm of rediscovering the explanation potential of the U-m in such phenomena as leapfrogging or fast internationalization, the model is not without limitations. Actually, this study depicts important limitations of the U-m, though not the limitations that are usually and inadequately addressed to the Johanson and Vahlne's model. For instance, determinism or disruptive paths of commitment do not entail, per se, limitations of the U-m's explanatory power. As mentioned before, the risk formula reveals a contingent nature that refutes these particular criticisms. Paradoxically, however, it is this same formula that demonstrates the shortages of the model. Through the U-m's lenses, the foreign commitment is undoubtedly a process of adaptation driven by knowledge or, at the most, of learning driven by the lack of knowledge. However, multinationals do not always commit to contingently adapt to or to proactively learn with the ele-

ments of its surrounding environment. Not so rarely do multinationals not even know what to learn for. This is a cognitive state of uncertainty that can only be circumvented by control through the internalization of its sources. However, risk is a predictive exercise which depends on knowledge. Therefore, at the extent that control supersedes prediction (Sarasvathy, 2001) there is no aim in the U-m to explain the commitment to control, and hence it delineates the explanatory scope of Johanson and Vahlne's model. The authors deliberately circumscribed the uncertainty management through learning rather through control by ownership. The real limitation of the model and the focus of this dissertation, are the constraints of managing – either by learning or by ownership – the uncertainty that stems from political elements. If the ownership inhibition is obvious because of the public nature of governments, learning processes are not fully effective either to empower firms against political changes. As stated before, unlike Johanson and Vahlne's (1977) internationalization process of 'learning business by doing business', firms cannot 'learn politics by doing politics'.

The second conceptual contribution regards the clarification of the incremental behavior in commitment decisions. The disentanglement between knowledge and experience allied with the examination of the impact of environmental dynamics on the relation between commitment and knowledge provides a more precise interpretation about the incremental behavior as conceptualized in the U-m. Unlike those perspectives that describe incremental behavior merely with the observation of the commitment scale progress, in this thesis, internationalization is depicted as a process wherein the firm balances knowledge and commitment. In this sense, the internationalization as conceptualized in the U-m should not be comprehended as a process of foreign commitment undertaken in small steps, but rather as a continuous effort to keep the gap between knowledge and commitment as small as possible. The rationale as here employed also assists the disambiguation between models of incremental commitment, like the stage models (Bilkey and Tesar, 1977; Cavusgil, 1980; Czinkota, 1982; Johanson and Wiedersheim-Paul, 1975), and models based on Cyert and March's (1963) fundamental notion of incremental behavior, such as the U-m.

Still at conceptual level, another important contribution is the conciliation of the U-m with transaction costs. Extant research holds the asset specificity concept to integrate both theories. Despite the suitability of transaction cost's asset specificity with the knowledge concept extensively used in behavioral studies, the integration with the U-m is not clear whilst adopting, indistinctively, either Williamson's (1975) TCE or Buckley and Casson's (1976) Internalization theory. In a different direction, this dissertation elaborates a clear distinction between those TCE and INT theories, proposing not an integrative perspective but a complementary view of the former with the U-m. The novelty in this exercise is the conciliation of both models through

the uncertainty concept rather than by asset specificity. The sharper distinction between uncertainty and knowledge gave the conceptual basis for a better understanding of the boundaries between the TCE and the U-m, generating, thereof, a more complete synthesis of the internationalization process.

At managerial level, this dissertation offers a tool for managers to screen the implications of the different elements of the environment while assisting their choices on the governance modes of international operations. The present study prescribes the primary use of predictive strategies, such as the adaptation to the environment changes based on the acquired knowledge or learning when realizing the lack of knowledge. Supplementary to these strategies, control of the environment is imposed when perceived a lack of predictability. However, internationalization is not only made of adaptation, learning, and control; the political setting of the environment has a latent uncertainty that managers perceive as difficult to solve by learning or controlling. Although the political assets should be the first to be internalized given the power that governments have to change the environment, the public nature of political assets impedes their internalization and the respective control by ownership (Henisz and Williamson, 1999; Henisz and Zelner, 2004). However, despite that it seems the end of the line to the foreign commitment, it does not mean the end of internationalization. The framework in this study proposes the combination with the non-internalizable elements of the environment as the ultimate strategy of internationalization when is not possible to efficiently adapt and learn or to control the environment. While delineating the learning and transactional constraints between firms and governments, this thesis revealed how firms can combine their resources in order to benefit from the positive externalities of their governments' activities abroad.

The fourth and final contribution is at policy level. The relationship between firms and governments does not end with mutual influence and pressure. Unlike mainstream institutional studies, this thesis demonstrates that the interaction between governments and firms is deep and designed accordingly with their audience. Whereas at home those interactions are processed through sophisticated and specialized structures, across borders the national interest and common goals support more explicit relations between governments and multinationals. The pattern of combination of public and private activities give substance both to the use of multinationals by governments as economic vehicles to pursue political interests (Nigh, 1985) and the legitimate capture by the multinationals of the externalities of diplomatic activities (Naray, 2011).

Therefore, the present political view on internationalization offers a framework with strong predictive power which can be applied to improve the efficiency of public policies at various levels. For instance, given that

business-governments relationships perform both as a buffer in the risk perception of managers and as an emulator of control of environmental uncertainty, governments should assume open channels of relationships between business and governmental actors. Besides, vehicles of strong articulation of governments and multinationals have shown to be effective to the goals convergence whether supporting the firms' needs of growth or the governments' aim to internationalize their national economies. Hence, new policies should include the potential of combination of public-private resources, namely by giving preference to structured financial participation over untargeted schemes of subsidies. Indeed, achieving efficiency in public support can be as complex as the internationalization game, while not played only in one single hand. Securing the national wealth and employment means tenuous compromises between protecting national firms without driving off inward FDI. Being a magnet or a repellent of FDI, the profile of the institutional environment has to come in to the center of government's political actions. Whereas public policies have different impacts in the different elements of the profile of the institutional environment, a more analytical approach to the process of policy making, which would include predictive models of differential change in the cognitive-cultural, normative, regulatory and political elements, is therefore suggested.

## Limitations and further research

Despite the relevant contributions, this dissertation is not without limitations. The wide perspective given by the multilevel approach emphasizes breadth instead of depth. The intention to give a 'big picture' of internationalization, has limited a deeper research at each level. For instance, at micro level, the empirical material comprehends only the viewpoint of the multinational. The perception about the supportive and coercive behavior of the host government towards the firm was only grasped through the interviews with the multinationals' managers. Despite the cross-analysis with secondary data, further research should include interviews with the government officials. The investigation done as such could demonstrate if the manager's perceptions are an adequate translation of the effective behavior of the government. At the meso-level, a case study depicts the government intervention in the home business environment in order to promote the outward FDI. The joint analysis of micro and macro level as well the use of longitudinal macro data gives reliability to the findings, still it is a single case study. Other programs of financial participations of the State in private companies with the objective to strength their firms' internationalization are now being undertaken in Brazil. Within few years, longitudinal series of data will be long enough to be compared amongst others. Through multiple case studies, it will be possi-

ble to go deeper in the analysis and understand what common mechanisms underline the causal effects between the State participation intensity and the outward FDI. At macro level, the difficulty of obtaining the replies from the Foreign Affairs Ministries, limited the initial objective of a dual-country analysis to a unidirectional one. Further research can be done to find eventual reciprocity of political links between countries and its relation with the international operations. More complete questionnaires about the resources of diplomatic missions can also give some clues about whether the economic objectives that the governments try to reach with their diplomatic network are actually understood or regarded by the multinationals.

Another limitation and opportunity for further research concerns the heterogeneity of the empirical material. The shift of the research subject during the thesis process, forced to search for existing material instead of building up a dedicated dataset. The reasonable consistency of the results achieved with such diverse empirical sources warrants the effort of further improvement. A database constructed within a same research project can provide empirical material to carry out a multilevel cross-analysis that may shed light on the implicit mechanisms of resources combination between the multinationals and governments, and open new research avenues towards the study of this interaction within a logic of value creation.

## Final remarks

By adding a political view on the internationalization process of the firms, the present dissertation exposes and devolves Hymer's 'big picture' to the internationalization phenomenon (Buckley and Casson, 2009; Dunning and Pitelis, 2009; Forsgren, 2008; Yamin, 1991). In Hymer's vision, neoclassical models based on markets and firms are incomplete explanations of the world economic order. As he states:

*“The first point to be stressed is that the neoclassical model, which includes market equations and excludes political equations is misspecified (to use econometrics terminology) and yields biased estimates and wrong predictions. The comfortable assumption that one can concentrate on economic relations and leave the analysis of power to other disciplines is not tenable when one admits the crucial role of the state in shaping the economy through its policies on infrastructure, education, production and other things.”* (Hymer, 1970b: 243)

Indeed, Hymer's words could not be more up-to-date. The intersection and interplay between political and business spheres has never been as exposed as it is today. The volatility of the worldwide stock markets provoked by the

Euro Crisis is an excellent example of the actual 'state of the world'. The morning's debt downgrade announced by any North American rating agency will compel an afternoon's political statement by any European Union leader, preferably before the time financial markets close. Conversely, any ordinary meeting of the European Commission causes an extraordinary stress on global markets during both the preceding and following days. Undoubtedly, the interaction between governments and businesses, once viewed as smooth, understated and nationally bounded, is becoming instant, sharp and global.

However, Hymer's (1970a,b) major concern about the 'new imperialistic power' of the MNCs over the political power of governments in moderating market imperfections and social inequality is, actually, heading in a reverse direction. Ironically, even, are not the MNCs from developed economies that are serving their governments to build a 'transnational political hegemony' towards the under-developed countries. On the opposite, new phenomena, such as 'reverse takeovers' (Williamson and Santos, 2010) or the rise of 'south multinationals' from emerging and/or developing countries, not only are being supported by their home economies as also being participated by their home governments (Bandeira-de-Mello *et al*, 2012). Moreover, the internationalization of 'state-owned multinationals' from emerging countries is an evidence that internationalization is not anymore a game played between firms, or, even, between firms and markets, but also with and within governments.

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