EVOLVING DYNAMICS IN THE PROCESS OF BUSINESS INTERNATIONALIZATION

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ABSTRACT

Over the past century the global economic scene has undergone numerous rapid and ongoing transformations. The consequences of these changes are reflected in problems linked to organizational and qualitative adaption that companies must carry out in order to compete successfully. The goal is to achieve strong economic growth and obtain accurate and timely information regarding emerging markets. In this context it has become a priority for dynamic companies to take their business overseas in order to grasp opportunities offered by foreign markets for their goods and services.

JEL: F0; F13; F23

KEYWORDS: internationalization, economic development, competitive ability

INTRODUCTION

Globalization places markets in ever closer contact, reduces physical and cultural differences and intensifies international competition. All this puts the survival of various types of companies at risk. Yet, at the same time, it offers a growing range of business opportunities for enterprising companies, provided they are able to create a distinctive image for their products and services on the world market. Technological innovations that have reduced cognitive differences allow companies easier and more rapid access to information making them better able to compete offering opportunities for expanding business. Given the ease with which a business can become global, few sectors can consider themselves safe. Thus, the only means of defense is an offensive strategy, in other words to accept the challenge. Perhaps the best ways for companies to do this is enter the international market themselves.

The expansion into foreign markets, business internationalization, represents a basic means for creating value, guaranteeing returns on investment, increasing competitive edge, and gaining new opportunities and means for growth. Nevertheless, the decision involved in going global is complex since the factors to be considered are numerous and unpredictable. Moreover, one can never have all the relevant information on foreign markets or their environmental conditions. This is obviously the case for large companies but also, and especially, for small and medium ones. In the past internationalization was a course taken nearly exclusively by large scale companies. They were the only firms in a position to overcome trade barriers and other obstacles and establish themselves on major overseas markets. Only in recent years that smaller sized businesses have become a presence on the international scene. One of the most interesting characteristics of the current global economic situation is the birth of a new phase of internationalization, in which no company of whatsoever size or sector is unaffected.

The summary of the paperr is as follows: Section 2 describes the literature review. Research, methodology and empirical models are described in the Section 3. Section 4 presents the findings of the research. Section 5 concludes the paper, highlighting the limits and the future research perspectives.

LITERATURE REVIEW

Market globalization involves companies of all sizes competing against each other on the international market where it is increasingly difficult to assess external threats or opportunities and evaluate strong points or areas for improvement within the company. Generally globalization is seen as a recent phenomenon, beginning around the late 1980s and early 1990s. Several factors can be cited to explain its emergence: the marked expansion of the private sector both on the domestic and international scene; the crisis and collapse of Communist block, especially in the Soviet Union; and the growth and spread of new information science technologies, both in the business sphere and in every day life. All of these have reduced the time, cost and technical difficulty of long distance communication. (Pepe, 2006)

At one time globalization implied the simple exportation of goods and services or, at most, the transportation of a plant used for production overseas. Today it involves much more, and consequently management decision making, rather than being circumscribed by consideration of a single region or nation, must operate on a global level. Globalization imposes new behaviours on companies, which must aim towards the creation of a sustainable competitive advantage. The levers required to face this new situation, in a successful way, are innovation, knowledge, information, creativity and the integration of skills and expertise with global networks.

The most importance consequences of globalization, therefore, can be summarized as follows: 1) the reduction of costs and time required to cross national frontiers reduces the obstacles linked to operating in foreign markets, and thus facilitates the international expansion; 2) the abolition of trade barriers facilitates technological transfers; 3) the geographical growth of trade increases demand on global markets; this, in turn, leads to the adoption of considerable economies of scale.

The first author to write about the internazionalization markets was Coase (1937). He noted that in the late 30's the concept of the efficient firm, that under certain conditions, can substitute the market in organizing economic exchanges. Later on, Buckley and Casson (1976) developed these concepts on the contrary, repositioned of internazionalization within the more general theory of transactional costs.

Bernard and Jensen, (Bernard and Jensen 1995), Melitz (Melitz, 2003) Helpman, Melitz and Yeaple, (Helpman et al., 2004) Helpman et al. (Helpman et al 2007) and Bernard et al. (Bernard et al 2007) analyzed the behavior of of a firm in a single industry in terms of productivity, capital intensity, degree of specialization of the workforce and environmental factors (Bernard and Jensen, 1995; Melitz, 2003; Helpman, Melitz and Yeaple, 2004; Yeaple, 2005; Helpman et al. 2007; Bernard et al. 2007). These authors believed that, under competitive pressure, firms behave diferently and have different performance. Import and export flows and the foreign direct investments (IDE) impact not only on the results, but also on the productivity trend and employment within a sector.

Recent studies on international commerce explain the exiguous number of export firms with the high level of fixed costs (sunk costs) that firms have to bear to penetrate foreign markets. These costs determine a selfselection effect and a reallocation of market shares towards highly productive firms (Tybout and Roberts, 1995; Bernard and Jensen, 1999). For this reason a high number of firms export a few products to a limited number of other countries (Helpman et al., 2007; Chaney, 2008).

This self-selection effect is defined by Melitz (Melitz, 2003) as a pre-entrance effect. On the other side there is the post-entrance efect, defined as the "learning by exporting" effect (Wagner, 2007). This effect explains the growth of productivity as the consequence of the export activity or, generally, of an internazionalization process.

If we turn our attention to the historical background of this phenomenon it is necessary to return to the days of ancient Rome. There are still records describing the commercial relations between Greece and Rome in this period. The Romans undertook the construction of ports, roads and other infrastructure in order to guarantee the continuity and safety of commerce. This was a time when everyone spoke the same language (or languages the Greco-Roman world was bilingual) and followed a similar life style (Falcone, 2007).

After the fall of the Roman Empire, trade declined drastically and new models for living together slowly emerged in the Medieval period. By the 18th century new liberal policies once again encouraged international trade, especially after the 1789 French Revolution. After the French revolution different countries began to form closer relationships; each nation started to emerge from its former isolation and become increasingly dependent on other nations. In these years the international market is dominated by Great Britain that assumed the role of economic world leader. With time other European countries started to catch up and acquire their own colonial empires, but Britain still remained the leader until outbreak of the First World War.

A key development in the global economic history of the 20th century is the Breton Woods conference in 1944, which established the economic and financial relationships between the world's major industrialised states. At the conference a decision was made to set up key international institutions: the International Monetary Fund (IMF), and the International Bank for Reconstruction and Development (IBRD) which today is part of the World Bank. These organizations based on the principal of free trade, were established with a clear aim to oversee international payments, trade and movements of capital. In 1945, after the Second World War, 50 countries came together to form the United Nations Organization (the 51st country Poland was not present and had to sign later). The aim of this organization was to further peaceful cooperation between nations across the world (Nifo, 2010). Subsequently, in 1947, twenty three countries signed the General Agreement on Tariffs and Trade (GATT), an international agreement that laid the ground rules for a multilateral of commercial relationships, with the overall aim of reducing customs barriers and encouraging international trade.

In 1961 a group of important industrialized nations, including the USA, Australia, Canada and Japan set up the Organization for Cooperation and Economic Development (OCED) in Paris. This organization was founded with a clear goal to intensify economic development and promote trade links between member countries. In 1995 the World Trade Organization (WTO) was set up to substitute the GATT. The role of this organization is to adjudicate in international trade disputes, and encourage trade between nations in general as well as monitoring the numerous existing economic accords between member states

DATA AND METHODOLOGY

In each of the aforementioned periods we find a different form of international expansion. At the beginning, companies adopted a mercantile approach to international trade. Later, internationalization moved on to a translational scale. The key player in this transformation was the US multinational company whose aim was to extent its branches across the globe. In these years, companies privilege an organizational structure on a large scale and use Foreign Direct Investments (FDI) as the means of market expansion. FDI favor and multiply movements of capital from countries where the rate of profit is low (developed countries) to those countries with a much higher rates of profit (developing countries). It is through studying the interest rates in different countries that one can begin to understand how the phenomenon of business internationalization originated and developed (Spiegarelli, 2003).

Even today the favored form of internationalization adopted by companies is the decentralization of various phases of transformation and production. In recent years, however, there has been a further change in this process; companies are now looking at new forms of collaboration and cooperative agreements at the global level. The reason for this is the continuous evolution of markets, products and technologies that require less hierarchical, more flexible and decentralized structures that are capable of responding and adapting to the ongoing changes in the environment.

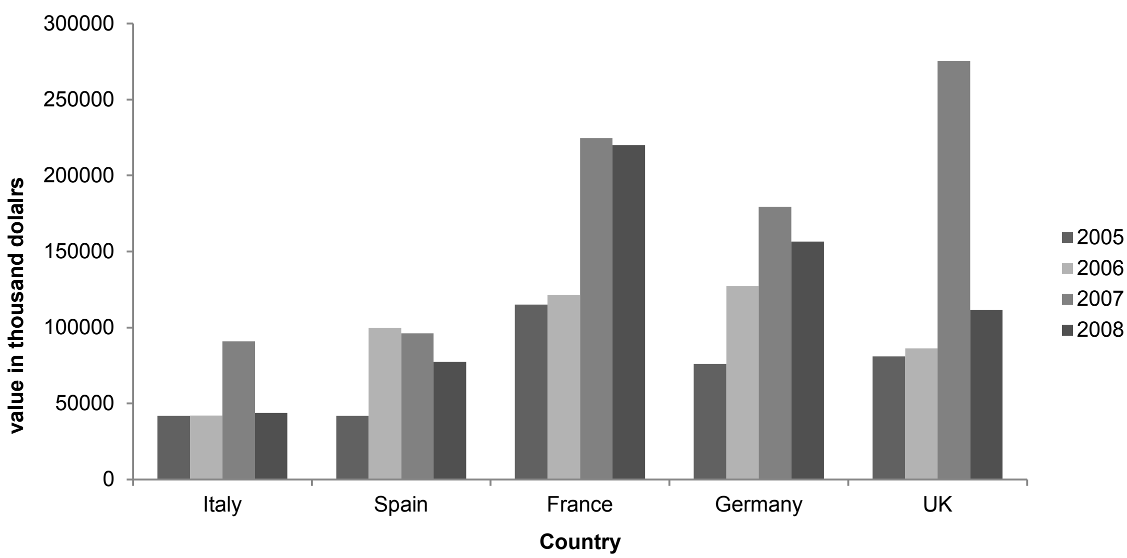
We can also see a rapid increase in the number of small and medium firms entering the international scene. Currently it is common to find a small firm with a small workforce and a minimal management structure involved in commercial relationships with overseas partners. In such a context, therefore, internationalization appears so much an option but a necessity for many businesses. The choice of one means of internationalization over another normally depends on the company size. Greater company size tends to coincide with a greater propensity to overseas trade.

Internationalization can take one of two basic directions: overseas investment and the off shoring of the production of both goods and services or the ability to attract foreign investment. It is clear that these two aspects are closely linked. They are aspects of the same process of the international relocation of productive activity seen from two different perspectives. They require different, albeit closely linked, policies. One cannot utilize foreign investment effectively, without being equally effective in attracting foreign investment in the opposite direction (Vaccà, Rullani, 1983).

Table 1- Outward FDI

	Italy	Spain	France	Germany	UK
2005	41826	41829	114978	75895	80883
2006	42068	99646	121370	127223	86271
2007	90781	96062	224650	179547	275482
2008	43839	77317	220046	156457	111411

Figure 1 - Otward FDI

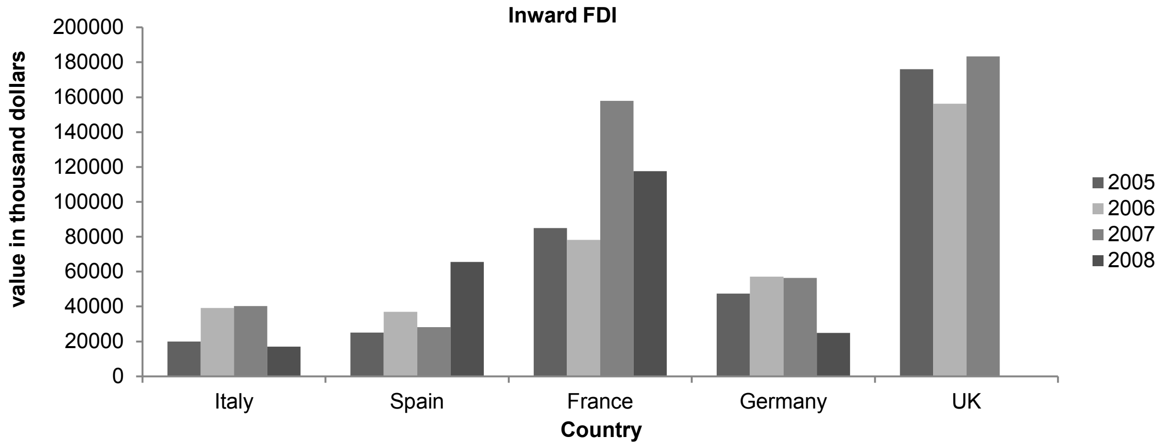


Source: our calculations on Ice-Istat data 2009

Table 2- Inward FDI

	Italy	Spain	France	Germany	UK
2005	19975	25020	84951	47440	176008
2006	39239	36949	78154	57147	156183
2007	40202	28179	157973	56407	183386
2008	17032	65539	117510	24939	96039

Figure 2 - Inward FDI



Source: our calculations on Ice-Istat data 200

From the above tables, if we compare Italy with that of the other major industrialized countries by looking at both inward and outward FDI (figure 1 and figure 2), we immediately see a gap that can be attributed to the characteristics of size and sector that constitute the strength, but also the main weakness of the Italian system of production.

RESULTS

There are numerous factors that can help explain processes of internationalization and the decision companies about to embark on global markets face regarding the choice of horizontal or vertical integration. Among such factors we should mention technological innovation, and exploitation of the new means of communication and information, such as E-commerce, internet and so on. These technological developments have, in recent years, accelerated the pace and reduced the costs of global communication. Nevertheless, certain authors assert that technological changes alone, notwithstanding their fundamental importance, are not sufficient to explain the phenomena of business globalization (Bertali, Rangene, 2006).

For a company whose aim is to grow and expand, innovation represents a crucial step, because it is through innovation that new solutions are created and added to the company's treasury of knowledge and skills. In brief, we define it as a continuous process directed, on the one hand, towards modifying the ground rules of current practices, products and services and, on the other, towards developing knowledge and specific skills to be used also outside the local context. (Diuresi, Lisi, 2005). It has become indispensable for every company to reconvert their productive systems along the lines of a model that privileges the qualities, technologies and immaterial resources of their product. As such, it is essential to invest in information technology and telecommunications as well as life long learning.

Innovation helps make businesses more competitive both by increasing the value of the service/product in terms of design, and by reducing overall production and marketing costs through the optimization of productive activities. Innovation is also important for mature technologies and can be introduced, not only in the company's very own productive processes, but also in the phases of research and design that come before the realization of a service or a good.

The spread of new technologies (communication, information and the internet) supports processes of internationalization and promotes new forms of collaboration, not so much within companies, but externally through companies connecting with other businesses (trade, production and technology agreements with external partners, alliances, joint ventures and so on). Moreover, the aforementioned reduction of technological and cognitive distance, in terms of time and cost, has enabled small and medium companies to benefit from easier access to the information they need to expand.

Information, therefore, has become a fundamental resource for the growth of world trade. Possession of exact, reliable and timely information is the source of company success. The ability to have, at one's disposal, the right information in real time, at an affordable cost, constitutes one of the key ingredients for operating successfully on global markets. Digital information that is concise, transparent and immediately accessible allows companies to acquire and increase the trust of clients and partners and establish stable economic relations at international level (Zucchella, 2004).

To put all this in more concrete terms, it is necessary to utilize new information and telecommunications technologies correctly. The internet plays a particularly important and incisive role. The use of the net enables companies to become information intensive, i.e. it facilitates the exchange of information, at one and the same time, between business partners, companies and clients, companies and their competitors and within each individual company. Information technology allows us to elaborate, memorize, store and communicate information regardless of format, distance, time or volume.

Besides the globalization of distribution and commerce, companies have started to expand into international markets in search of a low cost workforce in countries having a profile that includes a large pool of cheap labor and limited costs. With regard to finding the right location for productive activity abroad and placing products on foreign markets, one of the variables to be considered is undoubtedly the choice of the most suitable market on which to launch your products. To make this choice companies use their previous experiences in similar markets, or they aspire to imitate and follow the moves made by competitors with similar products, dimensions and resources. In order to minimize the financial and economic risks involved, the company must carefully select the right markets, seeking out those characterized by a high potential demand, and where the competition is not too fierce (Comba, 2009),

Companies need to coordinate and manage their activities in different geographical locations. They should take into consideration the diverse conditions found in each area with regard to the availability of raw materials, specialized labor, cheap labour, advanced technology and so on. These aspects lie at the basis of strategic company planning.

To this end, the availability of a series of different kinds of precise and timely information enables the company to make rational decisions geared to repeating on the global scale the successes already achieved on the national level. At the same time they wish to identify and develop the specific new skills and abilities required to achieve desired results in the international arena. (Freeman, Perez, 1986). Companies able to deal with the complexities encountered in the new and wider competitive global environment must measure themselves against the constant need for innovation and specific lasting expertise. The real sources of competitive advantage can be found in the ability of each company to consolidate technologies and productive skills in practices that ensure the company's capacity to adapt rapidly to the changing opportunities and demands that arise in the global context.

CLOSING REMARKS

Thanks to these new information and communication tools, and to the reduction of distance between counties, in terms of both space and time, companies have access, in ever shorter times and at ever lower costs, to markets that were previously out of reach. This enables companies, on the one hand, to exploit, to the full and with greater efficiency, the market potential of their products in different areas spread across the globe. It also allows them to access resources and produce goods or components in places that are more fruitful strategically and economically. Information, thus, becomes a productive factor of fundamental importance in the process of internationalization. The concept of information is often used as a synonym of communication, but it is important to specify how communication on one side and information on the other represent two different realities, even if they are intertwined in the relationships a company shapes with the sales or supplies market.

The main limitation of the paper is that company success on new markets depends basically on the ability to innovate. Small companies cannot afford a high level of scientific and technological skills in order to compete successfully on international markets. Becasuse of this they must adopt different strategies, in particular those geared towards the differentiation and personalization of their products. Moreover, companies should be able to develop evolved organizational forms based on synergy and collaboration with suppliers, clients and, where necessary, with competitors, in order to overcome limitations strictly linked to their small size.

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