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

Francisco Figueira-de-Lemos *, Amjad Hadjikhani [1]

Department of Business Studies, Uppsala University, Box 526, SE-751 05 Uppsala, Sweden

A R T I C L E I N F O

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A B S T R A C T

This article proposes a managerial decision framework to deal with internationalization whether in stable or dynamic environments. While displaying the effects of unstable and stable environmental settings on commitment decisions, the framework is the result of an inferential abductive approach that merges the risk management model with empirical data collected from a 32-year longitudinal case study on nine Swedish MNCs. The longitudinal analysis shows that when environmental changes are perceived as detrimental, firms tend to decrease their tangible assets and commit in a more intangible way. On the opposite, when changes to the environment are perceived as beneficial, firms follow an incremental path of commitment, preferably in tangible kind. The findings contribute new knowledge to understand such diversities in commitment decisions as divestment, wait-and-see, market-exit and re-entry.

1. Introduction

Despite its longevity, the Uppsala-model's (U-model) outline of internationalization as a 'learning by doing' process still provokes researchers either to support or criticize its incremental logic of gradual commitments (Johanson & Vahlne, 2009). While some uphold the view of internationalization as incremental commitments and path dependent (Araújo & Rezende, 2003; Eriksson, Majkgård, & Sharma, 2000), others question the incremental validity of the U-model by evoking empirical observations of non-incremental commitment, such as divestment (Benito & Welch, 1997), market exit (Wang & Bansal, 2005; Welch & Luostarinen, 1988) or disruptive commitment (Bonaccorsi, 1992; Forsgren & Hagström, 2007; Knight & Cavusgil, 1996; Loane & Bell, 2006). Nonetheless, the discussion on whether the international process is incremental or not may no longer consists of a fruitful theoretical debate. In fact, recent studies maintain the sterile sense of this discussion whenever the environmental dynamics is not included in the analysis suggesting alternative research (Barkema & Drogendijk, 2007; Malhotra & Hinings, 2010; Petersen, Pedersen, & Lyles, 2008).

The present study comes closer to the latest stream of research, though without seeking alternative conceptualizations to the U-model. Instead, we reassess Johanson and Vahlne's (1977) internationalization mechanism by emphasizing its change variables – current activities and commitment decisions – and include environmental dynamics to debate the alleged determinism of the U-model. It is a fact that current activities may bring about a deterministic idea of gradual commitment supported by knowledge acquisition. When coping with environmental dynamics however, commitment decisions entail choices and risk whose contingent nature may explain types of firm behaviour other than just the increase of commitment. Hence, we steer towards an obvious but un-researched direction: to what extent can the U-model explain both incremental and disruptive commitments in the internationalization process?

Despite the conventional view of internationalization as a process of "increasing involvement in international operations" (Welch & Luostarinen, 1988, p. 36), some scholars describe it as a non-linear process. They claim that the U-model is not sufficient to explain irregular paths of foreign commitment (Mintzberg & McHugh, 1985; Woodcock, Beamish, & Makino, 1994) or the different pace of firms' foreign market commitment (Forsgren, 2002; Oviatt & McDougall, 1994; Petersen & Pedersen, 1999). Aligned with these critics, studies target the implicit assumption of environment stability and point out that environmental conditions can lead to reversed internationalization associated with de-commitment (Benito & Welch, 1997; Bianchi & Ostale, 2006) and exit (Dixit & Chintagunta, 2007; Hadjikhani, 2000) or the loss of

* Corresponding author. Tel.: +46 18 471 1387; fax: +46 18 471 6810.
E-mail addresses: Francisco.Lemos@fek.uu.se (F. Figueira-de-Lemos), Amjad.Hadjikhani@fek.uu.se (A. Hadjikhani).
[1] Tel.: +46 18 471 0000; fax: +46 18 471 6810.

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knowledge (Hadjikhani, 1997). The argument of internationalization as a process contingent on environmental-external and organizational-internal variables has triggered scholars like Malhotra and Hinings (2010) and Forsgren and Hagström (2007) to call for further research. Admitting the insufficiency, Johanson and Vahlne (2009) call for the integration of other views from different research streams and stimulate a deeper explanation of environmental dynamics, where commitment and knowledge are acquired, used, or even lost.

The purpose of this study goes beyond simply filling this gap. Not only do we recognize the need to understand the rationale of foreign commitment decisions under unstable environmental conditions, but we also claim the need for an overarching framework that brings together the analysis of commitment decisions both in stable and unstable environmental conditions and their consequent effects on firms' stock of knowledge and commitment risk. Akin to this lack of research, Figueira de Lemos, Johanson, and Vahlne (2011) enhanced the explanation of the risk formula of the U-model whilst proposing a conceptual model of commitment decisions made upon environmental variations. The argument rests on the fact that firms do not avoid risk (Autio, 2005), but rather they manage risk by balancing the levels of commitment and knowledge. The main contribution to the original model of Johanson and Vahlne (1977) consists of demonstrating the contingent nature of the model with the analytical mechanism of commitment decisions. Being a conceptual exercise, no empirical effort is made to verify the hypotheses formulated.

Inspired by the work of Figueira de Lemos et al. (2011), this study merges its conceptual model of risk management with the empirical material of Hadjikhani's (1996, 1997) multi-case study on the internationalization paths of nine Swedish MNCs, developing, there from, a framework of commitment decisions under both stable and unstable environmental conditions. The data collected from the Swedish MNCs, a 32-year longitudinal series, proved to be long enough to back up the analysis of the firms' decisions under unstable – as well as stable – market conditions, namely in the periods before, during and after a critical event. In detail, it reveals the consequences of commitment decisions made during a period of extreme changes on the subsequent period of stability in the environment, thereby contributing new knowledge to understand diversities in commitment decisions such as divestment, wait-and-see, market-exit and re-entry. An additional contribution of the present study emerges from the inferential abductive approach (Alvesson & Kärreman, 2007; Dubois and Gadde, 2002; Van Maanen, Sørensen, & Mitchel, 2007) which concerns the disclosure of MNC's different attitudes towards the environment, namely whether interacting with business or non-business elements of the environment. Regarding interaction with business or non-business elements of the environment, the political elements are of particular interest due to their potential influence in catalyzing or hindering the internationalization processes of MNCs.

A review of the internationalization process and related literature, including a comprehensive explanation of the U-model risk formula, is provided in the next section. In Section 3, the framework of commitment decisions is developed and the empirical facts about the internationalization of nine MNCs are introduced in Section 4. The results and analysis of the empirical facts are presented in Section 5. Conclusions and managerial implications close the paper.

2. The risk perspective on the internationalization process

The internationalization mechanism of the U-model (Johanson & Vahlne, 1977, 1990; Johanson & Wiedersheim-Paul, 1975) had early consolidation in exports-led theories (Bilkey & Tesar, 1977; Cavusgil, 1980; Czinkota, 1982; Rao & Naidu, 1992; Reid, 1981; Wortzel & Wortzel, 1983). Empirical validation on the logic of incremental commitment (Engwall & Wallenstål, 1988; Hedlund and Kverneland, 1985) as well as of psychic distance disturbances (Baum, Li, & Usher, 2000; Levinthal & March, 1993; Ronen & Shenkar, 1985) has been reported. Despite the fine-grain scrutiny and the model's wide acceptance, some international business scholars have challenged the U-model's basic assumptions, especially the generalization of incremental behaviour into the internationalization process.

The criticisms range from the more conceptual, such as the absent link between its empirical and theoretical foundation (Andersen, 1993), weak generalizability (Sullivan & Bauerschmidt, 1990), lack of explanation of the learning process (Forsgren, 2002) and the nature and character of international evolvement (Grùnhaug & Vitastein, 1993; Sharma & Johanson, 1987; Turnbull, 1987); to more operational research issues like the problem of measuring the degree of internationalization (Sullivan, 1994) or capturing intra-stage or micro internationalization (Dalli, 1994) and contractual modes (Root, 1987; Sharma & Erramilli, 2004). Except some few studies (Hadjikhani & Johanson, 2001; Hadjikhani, Hadjikhani, & Thilenius, 2013), those critics merely contradict the U-model, without providing any theoretical contribution that could effectively explain the non-incremental phenomena. Conversely, the most pertinent ones concern the application of the incremental logic to the real world, namely to irregular and fast-pace internationalization. Conventional examples of divestment (Boddewyn, 1979; Casson, 1987), market exit (Benito & Welch, 1997; Welch & Luostarinen, 1988) or just irregular paths of operations evolvement (Bell, 1995; Millington & Bayliss, 1990; Mintzberg & McHugh, 1985; Woodcock et al., 1994) show that accumulated experience may not induce a direct relation with the size of foreign investment. In addition, the dawn of IT business and their intense and rapid internationalization gave rise to some radical criticism about the applicability of the U-model (Oviatt & McDougall, 1994).

The idea of experience and prior knowledge as hindrances to fast internationalization is substantiated by Autio, Sapienza, and Almeida (2000), who look upon previous experience not just as insufficient driver of internationalization but even as a liability to international operations. They argue that new business requires new and different knowledge. Because previous experience is contextual and holds routines and knowledge that cannot be deployed in new situations, multinationals with extensive experience face the effort of 'de-learning', which is more difficult and costly than learning for the first time. In consequence, this extra effort becomes reflected in underperformance when compared to inexperienced firms.

Despite the extensive debate about the incremental grounds of internationalization, the discussion is far from being closed. Recent studies reassess some basic assumptions of the U-model to review incremental behaviour amongst the different implications of knowledge, learning and experience. The learning process is triggered by the perception of knowledge gaps, which consist of the lack of knowledge that the firm recognizes it needs in order to learn and proceed to the sequent commitment (Barkema & Drogendijk, 2007). While learning is not a process without limitations, commitment does not necessarily equate to the accumulated experience (Hadjikhani et al., 2013). Once the recognition of knowledge gaps requires previous knowledge (Petersen et al., 2008), at least some knowledge is needed to realize the lack thereof. Therefore, some overlaps of knowledge from one environment to another must be granted, otherwise it is not possible to recognize the consequent lack of knowledge. In this sense, new commitments are undertaken not only upon the pieces of new knowledge gained by learning the new environment, but also on part of the previous knowledge acquired from previous