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Internationalization of the forest products industry: A synthesis of literature and implications for future research

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ABSTRACT

Forest industry has undergone profound changes since the 1990s. Industry-level consolidation and the rise in international investments are the most noticeable features of this process. Based on reviewing internationalization from internalization and transaction cost, resource based, industrial organization and managerial incentives theories, we apply the systematic review method to go through the literature concerning internationalization processes in the forest products industry during the 2000s. By linking the theories with empirical indicators in the forest products industry, we identify research gaps and formulate propositions for future research. We conclude that macro-level studies concerning policy and economic issues are relatively well represented in the literature, whereas only limited attention has been paid to micro-level studies. Based on the literature review, we argue that future internationalization research inter alia in the forest products industry should focus more on the role of corporate culture, the importance of corporate managerial capability, the multidimensional construct of sustainability, and conducting analysis within broader geographic scope than has been done so far.

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1. Introduction

Internationalization has rapidly proceeded over the last two decades accompanied by consolidation and relocation of the forest products industry (e.g. Toppinen et al., 2010).¹ Based on available statistics from the wood and wood products sector as an example, the global inward foreign direct investments (FDI) stock had accumulated approximately six folds from 1990 to 2010, and reached the peak of 142 billion US dollars in 2007 (Fig. 1). The global export value of forest products has also maintained an upward trend during the same period (Fig. 2); however, the growth rate is comparatively lower than for FDI.

The drivers behind the internationalization process have varied over time and place, but generally fall into categories of institutional, cultural, political, organizational and managerial realms (Elango, 1998; Morten et al., 2008). The internationalization of industry and the economic liberalization have facilitated capital, labor and technology to be transferred easily to regions where they are expected to be optimally used. In the forest products industry, the reallocation of production capacity has been shifted to developing and transition economies through a mass of FDI and merger & acquisition projects. Comparing time periods of 1989–1991 to 2008–2010, the dominant

role of developed economies as the host of FDI in the wood and wood products sector had radically decreased from a share of 89% of the world total FDI stock to a share of 10% (WIR, 2008, 2012). Reduction of capital and transaction costs, enrichment of marketing channels, and mitigation of regional overcapacity have driven the expansion of forest products industry. The rises of consumption and production capacities in emerging countries (e.g. Brazil and China) constitute specific motivation for this dynamic process.

The growing international expansion of forest products industry has inspired research interest in empirical studies since 1990s (see e.g. pioneering paper by Pearse et al., 1995). However, as an integrated and multi-dimensional process, internationalization has only been fragmentally studied on the forest products industry. Thus, it is worthwhile to fill gaps in the research on particularly what motivates this process and how to maintain the efficiency of the internationalization. The two-fold motivation of this paper is thus to build a full picture of the internationalization process of forest products industry and to explore relevant drivers and aims in this process.

This review paper first provides a synthesis of relevant economic and managerial theories that explain the internationalization process of multinational companies from diverse angles. Second, we combine these theories with existing empirical findings regarding the forest products industry. Third, we identify gaps in the knowledge of internationalization mechanisms of the forest products industry and themes for future research. We argue that more research attention needs to be paid to corporate level drivers, in which the role of corporate culture, corporate managerial capability and multidimensional construct of

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¹ The forest products industry encompasses round wood, sawn wood, wood-based panels, fiber furnish and paper & paperboard production.

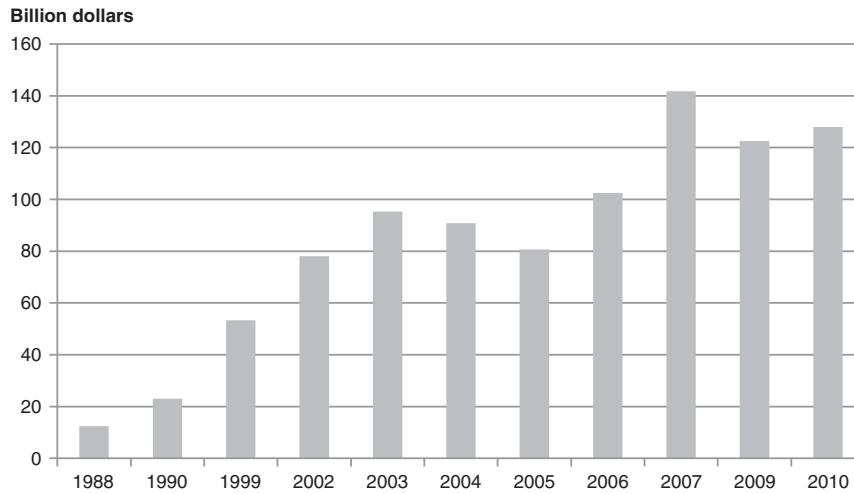


Fig. 1. World inward FDI stock (billions of dollars) in wood and wood products sector from 1988 to 2010. Data source: WIR, 2001, 2004, 2005, 2006, 2007, 2008, 2009, 2011, 2012.

corporate sustainability could be addressed. Moreover, broader geographic scope of research is needed due to the relocation of forest products industry than what has been done so far.

2. Theoretical background

2.1. Concept of internationalization

Internationalization has been assumed to be an orderly outward increase of international activities (Johanson and Wiedersheim, 1975). Welch and Luostarinen (1988) expanded the concept as “the process of increasing involvement in international operations” (p.36) that both inward (e.g. imports of goods and services, finance and technology) and outward (e.g. sales and production in foreign markets) international activities should be included in international operations. Calof and Beamish (1995) further described internationalization as “the process of adapting firms’ operations (strategy, structure, resources, etc.) to international environments” (p.116). Thus the internationalization is not only a forward progress but also involves the process of de-internationalization. In this paper, we use the definition of internationalization by Calof and Beamish (1995) by taking both inward–outward

internationalization and de-internationalization processes into consideration.

2.2. Review of internationalization theories

Internationalization theories that originate in economics, international business and management sciences have been developed for more than 70 years aiming to explain motivations and incentives behind corporate international expansion behaviors. A categorization of four internationalization theories can be identified, and these are: internalization and transaction cost theory, resource-based view, industrial organization theory and theory of managerial incentives (see Table 1).

Initiated from a study entitled “The nature of the firm” by Coase (1937), *internalization and transaction cost theory* began to demonstrate the corporate expansion from an economic point of view. In this stream of research, transaction cost induced by market imperfection works as an incentive for a firm’s expansion. According to Coase (1937), based on the traditional economic theory, efficient markets provide the lowest price for products; however, in the real world, the imperfection of intermediate product markets including asymmetric information, bargaining

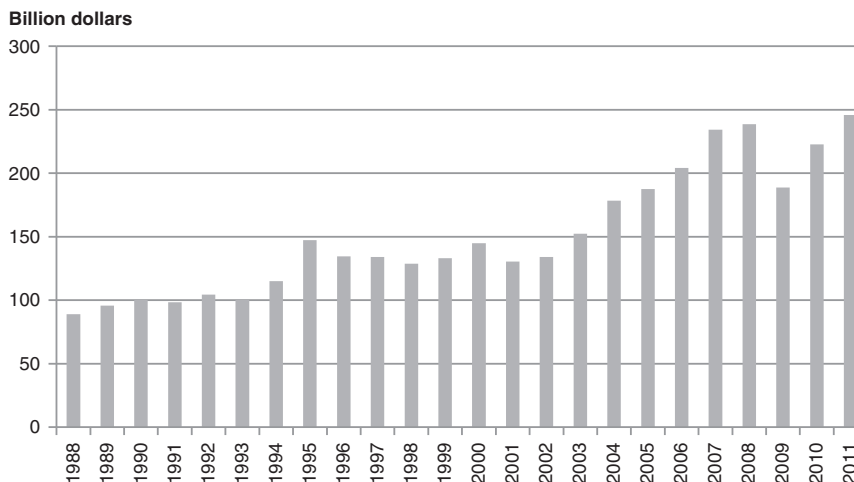


Fig. 2. World forest product export values from 1988 to 2011. Data source: FAOSTAT, 2013.

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