

THE KEY FACTORS OF BUSINESS INTERNATIONALIZATION

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Abstract: The opening of markets and the internationalization of exchanges and the development of information technology and telecommunication have profoundly modified the company's economic, commercial and technological environment. This process is a challenge for companies that want to internationalize. In this paper, we present the main theories of internationalization and focus on the success factors that allow the company to survive and develop.

Key words: business internationalization, companies, transaction costs, competitive advantages, international entrepreneurship.

Introduction

Companies are now the main pillars of the modern economy. They are characterized by their high absorption of unemployment and offer new prospects for the future of economy. One can note that the development of international trade has been both a consequence of the development of free trade for the diversification of trade and an incitement to decrease protectionist barriers and obstacles. Thus, the increase in international and multinational groups was accompanied for regulating competition on a transnational scale. In the right relation of things, the global adherence to the market economy is an accepted logic of the development of international trade. In this context, we propose to synthesize the main theories of internationalization and then specify the success factors of the business internationalization process.

1. Theories of company internationalization

The literature of international business includes a large number of theories that explain the outbreak and the course of the firms at the international scale. We present the most used theories in empirical approaches on business internationalization.

1.1 .The theory of foreign direct investment (FDI)

The theory of foreign direct investment (FDI) seeks to understand why firms send their production activities in the form of FDI rather than collaborating with local partners or export their products from national market (O 'Farrell, Wood and Zheng, 1999). This theory uses the

concepts of transaction costs (Crooks) and internalization (Buckley and Casson, 1976). So, companies as rational entity seek to minimize transaction costs; will evaluate the most optimal structure to adopt for each stage of production choosing between internalization and outsourcing activities. For example, when transactions are perceived as risky and requiring substantial resources, the firm would rather internalize this activity within its hierarchical structure rather than commissioning a third party. Indeed, Dunning notes that «the greater the perceived costs of transactional market failure, the more companies are likely to exploit their competitive advantages through international production rather than by contractual arrangements with foreign firms».

According to Johanson and Vahlne (1990) one of the internationalization frameworks based on the most accepted (FDI) theory is the eclectic paradigm of Dunning. The paradigm of Dunning, also called OLI paradigm, explains that the size, shape and routing of international production are linked to the presence of three types of advantages:

- The specific advantage to the firm (O), such as trademarks, patents, synergy capacities between subsidiaries, scale economies and integration, in short, the factors of national competition;

- The internalization advantages (I), that is to say, the benefits of integrating the "O" within the firm, for example by creating a subsidiary rather than the sale of a license ;

- The advantages linked to the location of production units in different countries (L), such as natural resources, transportation and energy costs, tariff barriers, etc.

We can see that the "L" advantages are external to the firm, then the "O" and "I" are internal and specific to the firm. The more advantages of "O" will be larger; the firm will have an incentive to internalize (Andersen). The above mentioned advantages in the eclectic paradigm help the firm to make a decision about the most appropriate way to internationalize. Dunning paradigm can be used as an analytical tool for managers to take a decision about the selection of the input mode. Typically the export, sale of license, the joint partnership and the creation of a subsidiary (Dunning). Several empirical studies have shown that the more OLI advantages increased, the more the firms choose an input mode such as the creation of a subsidiary in order to maximize its advantages and retain full control privilege.

1.2. The life cycle of the Vernon product

Modeled on the life cycle of the product, Vernon internationalization model differs from FDI theory and the Dunning Eclectic Paradigm by the dynamic and temporal aspect he brings to the understanding of FDI flows (Dunning, 1988). The model stipulates that the internationalization of the firm moves in a sequence of development in three stages depending on the volume of sales achieved in the country.

- Step 1: Export (the new product)

This first stage is based on the firm's innovation capacity. It develops a distinctive competence in its domestic market, in the form of a new product or a technological breakthrough that allows it to access the export to international markets.

- Step 2: The abroad production (the mature product)

Once sales in the mother country grew well, the company will establish abroad production sites in order to circumvent the export barriers and achieve a cost advantage to deal with the emergence of local competitors.

- Step 3: Re-export (product in decline)

In this third stage, production is made entirely abroad and possibly re-exported from developing countries with low labor costs to the mother market. Then, the firm puts on a high level of standardization and economies of scale and the benefits of location (it seeks the cheapest source of supply). Through these three steps, Vernon's model highlights the role of product innovation, the importance of economies of scale and the impact of uncertainty on the path of international production (Vernon). As Ody notes, the interest of the Vernon model is that it presents the international development stages which are both specific to the firm, but also recognize the impact of market forces. As was the case for the eclectic paradigm of Dunning, this model has been criticized in terms of its empirical validity in industries other than manufacturing. For example, in the case of the service industry, it is not always possible to choose between exports and overseas production, both may be required from the outset.

1.3. The Uppsala internationalization model

Under the logic of steps introduced by Vernon, the Uppsala model, developed by Johanson and Vahlne, also designs the internationalization of the firm as a learning process in which the company is gradually

increasing its international involvement. The international career of the firm is the product of a series of incremental decisions. While the FDI theory was based on economic theories, the Uppsala model, named by the university where he was born, is anchored in a more behavioral approach. The basic assumption of the Uppsala model is that the lack of knowledge about foreign markets and foreign operations act as a significant barrier to the international development of firms and that such knowledge can be acquired mainly through experience in the market (Johanson and Vahlne).

1.4. The network perspective

Let us Offer an alternative vision to the FDI theory and stepwise models (Vernon and Uppsala), the network approach studies the behavior of the company in the context of a network of inter organizational and interpersonal relationships (his Axels and Easton; cited by Coviello and Mc Auley). As these relationships may involve consumers, suppliers, competitors, public and private agencies, family and friends, the boundaries of the organization incorporate both many business relationships (formal) and social (informal) (Coviello and Mc Auley). From the perspective of networks, based on theories of social exchange and dependence on resources, a firm depends on resources controlled by other companies and gains access to these external resources through its position in the network.

The internationalization process therefore does not only depend on the behavior of the firm studied (bell). According to Coviello and Mc Auley, the network perspective provides a complementary vision to the FDI theory since the latter, as we have pointed out, does not take into account the role and influence of social relationships in business transactions. Moreover, the decision to internationalize and the deployment of international activities emerge in network perspective as a function of the members' behavior of the various networks while the theory of FDI considers that strategic decisions are made rationally. Comparing the internationalization model of Uppsala to the network perspective, Johanson and Vahlne (cited by Coviello and Mc Auley) find that the latter provides a more multilateral element to the internationalization since entering the market, so gradual as it is, is the result of interactions and the development of relations through time. In short, the network approach represents the internationalization as a complex and less structured process than theories and models we have presented above.

The literature notes that the networks perspective of has the quality to bring a refreshing perspective on the internationalization process of the

firm particularly for SMEs whose development tends to be dependent on relationships with others (Alexsson and Easton; cited by Coviello and Munro). They point out that the success of the entrance of a firm on international markets is more a question of its relations in its markets, nationally and internationally, then the market itself and its cultural characteristics.

1.5. The international entrepreneurship:

The theories and models presented so far have put some emphasis on the environmental firm in explaining the internationalization process of the firm. Yet, the concept of the business strategy articulated by Andrews is based on the assessment of environmental and organizational capacities of the company combined the rationale behind the firm and the personal values of its leaders. It is therefore necessary to analyze the role of key players in the organization in order to understand the international business development strategy. In the context of the internationalization process, the field of international entrepreneurship is particularly interesting by his attention on the formation of the international development strategy. By combining theories of international business and entrepreneurship, international entrepreneurship is defined as *«the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in the pursuit of competitive advantage»* (Zahra et George)¹.

The international entrepreneurship is carried by a contractor, described as "an imaginative person, characterized by an ability to set and achieve goals. This person maintains a high level of sensitivity to detect business opportunities [...]. "(Filion), which is oriented towards the international market. Zahra and George noted the creativity, innovation and risk taking which these enterprising firms are showing in the international expansion of their operations. By the proactive mode, thus, International Entrepreneurship contrast with the Uppsala internationalization model. One can note that where international entrepreneurship is not limited to the question of "timing" of internationalization, that is to say how quickly the firm goes global.

1.6 Synthesis of the company's internationalization theories

This first section has enabled us to highlight the contribution of the most commonly used enterprise internationalization theories in empirical approaches on international development process.

We can see that each of the identified theories provide an explanation for the decision to internationalize, the choice of markets, input mode, the subsequent or benefits of internationalization. The nature of the internationalization process can be conceptualized as five dimensions that correspond to the five research sub-questions presented in Chapter 1. Table 1 shows the links that can be made between these dimensions and the company's internationalization theories.

Dimension	Internationalization theories
Decision to internationalize	Vernon, networking, international entrepreneurship
Choice of markets	Uppsala, networks
Input Mode	Dunning, Uppsala, networks
subsequent internationalization	international entrepreneurship
Benefits of internationalization	international entrepreneurship

2. Success factors of the internationalization process:

The analysis of the literature on the success factors of corporate internationalization strategies demonstrates a convergence between different speech writers. This census has identified factors that contribute to the success of enterprise internationalization strategies.

2.1. Skilled human resources:

One of the factors identified as contributing to the success of companies which internationalize is the presence of qualified human resources. These resources will help the SMEs to overcome adversities that it may encounter in its internationalization project. Frequently, the organization neglects this aspect of development, and this for several reasons, including the small size of SMEs and limited resources. Pasco-Berho notes that, to make its export business, the company must rely on qualified staff and this "presupposes the existence of a trained and competent staff"

In a study of 299 industrial SMEs of the Lorraine region, Bayad notes that the leader must pay particular attention to the management of human resources, especially in light of the specific needs of the export organization. This study focuses on the guidelines and human resource management practices according to the size and nature of the commitment of industrial SMEs in foreign markets. However, the author specifies that the size of the company has a very significant impact on key personnel management policies, but also on the weight given by the head of human resources.

2.2 Competitive advantages of the company:

It should be clarified that the term competitive advantage has been the subject for specific writings whose main author is Michael Porter. According to this author:

To create a competitive advantage over its rivals, the company must either offer customers a value comparable to the value proposed by the competitors but be more efficient in the production (cost leadership) or develop unique types of activities, which generates greater final value and grants higher selling prices (differentiation strategy). It is therefore crucial for a company to identify its sources of competitive advantage, before exploiting them. The firm must have a minimum of one competitive advantage, and it is by analyzing its strengths and weaknesses that can successfully bring out his or her distinctive advantages.

2.3 Production capacity

The term production capacity means the ability for a company to respond to a request to produce outputs after an external stimulus of a prime contractor. In the literature on internationalized companies, one of the identified success factors refers to the ability to respond to a request. The company can respond by itself or by others.

Panet-Raymond believes that one of the questions that the contractor should analyze its production capacity before conquering external markets. In this sense, it is important for a company to be able to satisfy the requests that come from the local market than foreign markets since "the inability to perfectly fulfill this obligation may jeopardize any future efforts on foreign markets. »

2.4 Research and Development capacities

The adoption of advanced manufacturing technologies has long been recognized as one of the key factors in the competitiveness of manufacturing companies, because these technologies enable greater productivity, improvements in terms of product quality and reductions in product rejection rate since these are all essential elements in both domestic and foreign markets.

Joyal emphasized that to maintain their competitiveness in international markets; companies need to maintain sustained efforts in terms of research and development. "The structuring of research and development activities is essential to ensure the continuous improvement of products'

For a company that goes international, R & D is one of the most important activity because it allows more advantageously succeed in foreign markets, to ensure the continuous improvement of products and to face competition.

2.5 Financing Capacity:

Regarding the financing capacity, the authors are unanimous in holding that element as essential to the success of export activities. However, the observed studies indicate that it would be one of the major difficulties encountered since SMEs have limited financial resources.

In this context, Philippe says that when SMEs want to internationalize, they face two major difficulties, including the cost.

Whether performed by the exchange or direct investment, internationalization is expensive and rarely brings immediate benefits.

However, for many SMEs, the relative weakness of funds demands quick returns on spending. A successful international development presupposes prior financial consolidation.

For these reasons, the SME ventures cautiously on the export market. This is explained by "the lack of financial resources" and according to Panet Raymond and Robichaud, the company must have good financial health. In this literature, we hold that the SME must have solid fund to manage international projects and this need is a major obstacle for companies that internationalize. Moreover, the difficulty of obtaining favorable financing conditions is also present because of the risk associated with its particular SMEs.

2.6 The Presence of marketing mix strategies:

The elaboration of a marketing strategy is essential for any company wishing to sell products or services. It is essential especially if the company wants to make a breakthrough on a foreign market, since it must take into account a complex and a different environment.

The four variables of a marketing strategy are: product, price, distribution and promotion. A good marketing plan uses four variables to deliver the right product at the right location at the best price, all backed by adequate and targeted promotion to reach the targeted customer.

Moreover, Panet-Raymond and Robichaud highlight that:

Export marketing activities are significantly different from the activities that are related to local marketing, since in the first case, the

marketing is done in a different environment with new customers with special needs. On foreign markets, the situation is different since the exporter must consider these factors [competition laws and regulations, market conditions] for each country and for each market in which he will be active.

As mentioned, the various elements of the marketing mix to succeed abroad are: product, price, distribution and advertising-promotion. It is our responsibility to clarify the importance of these terms that we have qualified as sub-factors, since they explain the advantage factor which they are associated. Also, information will be introduced to each of these elements.

Conclusion:

The analysis implemented in this article has not only revealed an overall vision of the place taken by SMEs in the economic theory and literature, but also the factors that allow it to maintain and strengthen its existence internationally.

Indeed, the theories that have focused on the study and analysis of the phenomena of companies internationalization and its success factors are different. Some of them were related to factors related to the environment in these dimensions as explanatory of these phenomena. But others, were related to the organization and to the management mode, where others consider the resources and expertise of the company as determining factors. The contractor or the owner-manager of an SME with his social capital (experience, knowledge and skills), is often considered as one of the key factors that contributes to the survival, success and sustainability of any business in this case SMEs.

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