

# Enhancing Competitive Advantage With Dynamic Management and Engineering

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## Chapter 5

# Challenging the Theoretical Lenses of Internationalization: A Case Study Analysis

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### **ABSTRACT**

*Internationalization involves an active behavior to compete in international markets. Several theories, as well as several entry modes, have been developed to explain why and how firms compete internationally. Nevertheless, the internationalization process is difficult to implement as it involves not only historical reasons, as well as traditional strategies that sometimes are usually not questioned by the firm. This chapter aims to depict a case study in which a firm is trying to deploy an opportunity-driven internationalization, shifting its traditional modus operandi. The firm is analyzed based on several theories, namely the Uppsala model, the network-based theory, the born globals and the born again globals, and it is possible to conclude that despite its more than 80 years of existence, neither of the four theories can be properly used to explain the firm's international behavior. Moreover, to embrace international challenges, the firm needs to reposition its traditional business behavior.*

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## INTRODUCTION

Internationalization is very important for firms across the world. It is important for a wide range of firms, including small and medium-sized firms (SMEs) as internationalization is a dynamic process that is the result of the exploitation of competitive advantages (Stanisauskaite & Kock, 2016).

The globalization of markets and production, underpinned by a pervasive technological change, has made the business world a common “battle ground” for all companies whether large, medium or small. On the other hand, international competition is ever present even for firms competing in their “local” markets (Ribau, Moreira, & Raposo, 2015). As such, internationalization is ever present in basically all contemporary business activities. However, if some companies choose not to export, therefore not competing in international markets, others fail to compete abroad as a result of their lack of competitive advantages (Stanisauskaite & Kock, 2016).

Internationalization is a strategy aiming at expanding and creating an integrated network of contacts and partners when firms seek to expand to new markets, despite the firms’ risk embarking on international ventures (Dominguez, 2016). Although the less risky mode of entry in international markets, exporting can be very difficult as it is a dynamic and complex process separating buyers and sellers in international markets. As such, companies need to be aware of the international business context. However, non-exporting companies seek challenging objectives, such as export-led sales growth, growth output and increased profits from foreign markets. For that they need to be tuned to increase their competitive advantage.

According to Welch and Luostarinen (1988), internationalization refers to the process of increasing involvement in international activities and is related to how the firm explores international markets. Many studies analyze the internationalization process based on two main strands: the Uppsala model, that advocates an evolutionary, sequential and linear model with growing international involvement (Ribau et al., 2015); and the network-based view of the firm (Håkansson & Snehota, 2006), based on a relational-based perspective among market players.

However, those theories of internationalization do not fully disclose the internationalization of a firm, especially from an entrepreneurial perspective based on a combination of innovative and risky behaviors at cross border level (McDougall & Oviatt, 2000). As such, *born global* and *born again global* firms are typologies that have been put forward to explain why firms internationalize rapidly or suddenly, based on entrepreneurial behaviors empowered by powerful, open minded entrepreneurs/managers, guided by the generation of new and innovative ideas, with riskier decisions and able to detect unique opportunities at an international level. This leads to the creation of a much more motivating, attractive and ambitious environment inside the company (Bell, McNaughton, & Young, 2001).

In the business context, the process of internationalization might be considered an entrepreneurial act as firms move away from its comfort zone (home market) adapting their strategy to the new market conditions. The search for competitive advantages has traditionally pushed firms to embrace opportunities in foreign markets. However, traditional theories explaining the internationalization process depict certain specificities, but sometimes fail to capture the dynamic changes certain firms go through. As such, not only certain theories fail to explain how firms internationalize, but also certain firms do not fit within what theories postulate.

Based on a case study that analyzes a 70-year old Portuguese firm that went through difficult times and decided to turnaround their internal operations and business model and is striving to internationalize their activities so that growth and profitability will not fade away, the objective of this chapter is to examine and debate the internationalization process from a historical perspective and debate the intricacies of the following main internationalization theories: the Uppsala perspective; the network-based view of the firm; the *born global* and *born again global* theories. The aim is to confront these four theories in order to address the particularities of the firm within the four theoretical grounds.

The case study depicts the way the firm is analyzing new market entry opportunities abroad, based on the firm's strategy to deploy their new services to international markets, which is a very significant advance for this company. However, when one analyzes the competitive behavior of the firm one realizes that, in order to embrace the new strategy, the firm left behind its passive position in international markets deploying an active, risk-taking behavior, analyzing opportunities and weighting risks in a much more entrepreneurial way. Accordingly, the aim of this chapter is to examine the firm from a business historical perspective and the internationalization process involving an opportunity-driven perspective. In order to achieve the above-mentioned goals several theories about internationalization are presented and discussed throughout this chapter.

The document is structured in three main parts. The first part addresses the importance of internationalization, following an entrepreneurial, opportunity-seeking perspective. For that, a literature review addresses internationalization theories from four different perspectives: Uppsala model, the network-based approach, the born globals and the born again globals. The second part presents the case study of a small and medium-sized firm – that despite its long successful behavior in the Portuguese market it has been quite passive on international grounds –, the selection and assessment market entry process and how the firm is trying to overcome the “stuck-in-the-middle” positioning it has been facing over time and to rely in the provision of high-end services to position the firm as a reliable international partner. Finally, the third part of the chapter discusses and concludes the main benefits of

the entrepreneurial process *vis-à-vis* with more traditional internationalization perspectives and presents some future research direction.

## **INTERNALIZATION THEORIES**

### **Uppsala Model**

The Uppsala model is essentially based on two articles by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977). Afterwards they were reviewed by Johanson and Vahlne (1990, 2009) and Vahlne and Nordström (1993). Moreover, since the first article published, the literature on the internationalization process has been growing (Ribau et al., 2015, Ribau et al., 2017). The Uppsala model deals with the acquisition of knowledge, namely with learning, i.e., how organizations learn and how their learning affects their progressive investment behavior in international markets. This model is based on four fundamental concepts, namely market knowledge, market commitment, commitment decisions and current activities (Forsgren, 2002).

This model is based on three basic assumptions (Forsgren, 2002). First, the companies' lack of knowledge regarding external markets is a serious obstacle for companies to embrace international activities; however, this knowledge can be acquired. Second, the decision and the implementation of investments abroad are made incrementally, as a result of the uncertainties of international markets. Finally, the third concerns knowledge that is highly dependent on individuals and therefore difficult to transfer to other contexts and individuals. Moreover, to explain the company internationalization, the concept of psychic distance was put forward to explain how companies would enter first close, cultural familiar markets, and afterwards new, distant and culturally different markets, as occurs for example between Czech and German firms (Novotná, Martins, & Moreira, 2017).

According to what is exposed above, the Uppsala model argues that a company's knowledge and market commitment determine the company's path throughout the stages of internationalization (Geldres-Weiss et al., 2016). As far as knowledge is concerned, companies enter external markets after acquiring the necessary knowledge to generate new opportunities and reduce uncertainty. Moreover, the market commitment can be related to the amount of resources that a company allocates to that market (Geldres-Weiss et al., 2016).

According to Ribau et al. (2015), in the Uppsala stage model, the company gradually increases its international participation, through information and experience. In summary, the model basically includes the following steps:

1. Non-regular exports;
2. Exports through independent representatives (agents or distributors);
3. The establishment of a sales branch abroad;
4. The establishment of production / manufacturing units abroad.

Geldres-Weiss et al. (2016) and Johanson and Vahlne (2009) state that the Uppsala model emphasizes the possibility of acquiring and internalizing knowledge dynamically through interactions with foreign partners. This is an adaptation to the initial model, as Johanson and Vahlne (2009) argued that when the model was presented there was a rather rudimentary understanding of the complexities that could explain internationalization difficulties. In addition, further research on international marketing and procurement has given a different perspective on the international inter-organizational network faced by companies. Therefore, Johanson and Vahlne (2009) present two conclusions: the first is that markets are networks of relationships in which companies are linked together in several complex patterns; the second is that relationships contribute to learning and to build trust and commitment.

Complementing the above-mentioned vision, some researchers argue that this model is static as it does not explain or predict the dynamic patterns of the companies' internationalization process. In addition, this and other static models do not explain how and when internationalization processes begin, as they only focus on what drives companies' activities in an internationalization process already underway (Ribau et al., 2015). As a result, stage models have a limited explanatory power to explain the behavior of certain firms, hence the emergence of new theory such as the Born Globals (Ribau et al., 2015).

According to Forsgren (2002), the Uppsala model is about how organizations learn and the impact of learning on organizational behavior. However, there may be different paths and "shortcuts" to gaining knowledge, such as acquiring other companies or hiring employees with the necessary international knowledge, which complements the concept of organizational learning (Forsgren, 2002).

Summarizing, the Uppsala model is one of the most important and studied theories explaining internationalization. This theory defends that the companies' internationalization process is carried out in stages, from non-regular exporter to the establishment of companies abroad. However, not all companies internationalize following strictly these steps. As a result, this theory was subject to criticisms as was complemented by the networked-based approach.

## **Networked-Based Model**

Personal contacts and social interactions play a very important role in the development of international markets (Welch & Luostarinen, 1988), since it is important to establish international networks that include buyers and sellers from abroad. These networks are at the basis of effective communication (Welch & Luostarinen, 1988).

Networks are usually defined as sets of inter-organizational exchange relationships (Franco, Mainardes, & Martins, 2011; Popp et al., 2014). The inter-organizational connection is the core of the business network approach, since it is through the company's commitment that they gradually expand the connections to the networks (Franco et al., 2011; Popp et al., 2014).

According to Ribau et al. (2015), the network-based approach is considered an expansion of the Uppsala model and describes industrial markets as business networks, based on the resource dependence theory. They also point out that the basic assumption of the network-based approach defends that actors (companies) depend on resources controlled by other companies, since access to resources and the construction of relationships represent the process of resource consumption. In short, since the company's basic objective is to survive, internationalization is a way to increase the likelihood of short- and long-term survival (Ribau et al., 2015).

It is important to refer that the creation of networks can be a very demanding, time-consuming process, as there are sometimes large differences between the seller and the buyer, which indicates that it is important to invest in a knowledge-based relationship to overcome the lack of knowledge on both sides. This enables the overcoming of the barriers that exist at both cultural and physical distance levels (Welch & Luostarinen, 1988). As such, it is not unexpected to witness that buyers prefer local suppliers because they end up being more "familiar", which make them feel more secure. However, overcoming the liability of newness is part of the first phases companies must go through, in order for the gap between sellers and buyers diminish over time. As such the growth of the company is expected to grow with a more diversified experience, with more contacts abroad and with greater cultural exposure, which ultimately deepen inter-organizational relationships, strengthening commitment (Welch & Luostarinen, 1988).

In addition to promote growth, these inter-organizational networks also end up being extended to international partners (Moreira, 2007; Moreira, & Alves, 2016; Moreira, & Silva, 2015). These market "fluctuations" are driven by innovation-based international activities (Törnroos, 2002). The ARA (Actors-Resources-Activities) model is used to explain how actors behave, and what resources are deployed to embrace different activities (Törnroos, 2002), forming an inter-organizational network in which it is profitable and safe for all companies to cooperate and use their diverse skills, capabilities, and knowledge. When actors create, develop, combine or

exchange resources they perform their activities in international markets (Håkansson & Snehota, 2006), they expand the Uppsala model to address how companies resort to the network theory of internationalization.

The company's position in a network turns out to be a key factor in maintaining and developing the company's objectives, both in terms of the company's degree of internationalization and in terms of the level of internationalization of the market (Axelsson & Johanson, 1992; Carvalheira & Moreira, 2016; Törnroos, 2002).

Johanson and Mattsson (1988) put forward the following typology to address how companies are influenced by the level of internationalization of both the market and the company: the *Early Starter*, the *Late Starter*, the *Lonely International* and the *International among Others*.

Early starters have few, or even insignificant, network relationships with foreign companies. As they have very limited knowledge of international business, these companies use local agents or even other companies that have international business experience so they can learn and start their operations abroad gradually.

Lonely internationals depict companies in already highly internationalized markets, although with a low level of internationalization. These companies have experience and know how to operate in international markets. These companies need to adjust their differences to the international markets, learn as they enter other networks and, in order to be able to expand their networks and operations. It should be noted that these lonely internationals are better known for being "promoters" of the international expansion of their counterparts in the network, as they tend to be quite independent of the other agents of the network.

Late starters are companies that have or are looking for international networks to be able to start their activities at an international level. Relationships in international markets may turn out to be important to facilitate entering international markets. Investments in developing important capabilities to conquer the domestic market can be seen as assets that can be used when late starters move abroad.

International among others are highly internationalized companies in international contexts. In these cases, the extension of their networks or the entry into international networks only means a gradual change in their international position. These companies have the capability to use their own networks to be able to join other networks if they feel it is necessary.

In business to business markets, companies are involved in the production, distribution, and use of goods and services (Johanson & Mattsson, 1987). There is a division of labor across the network, which means that firms become dependent on one another, so their activities have to be well coordinated. This coordination is not carried out through a central plan or organizational hierarchy. It occurs, rather, through an inter-organizational interaction among companies of the network (Geiger, Dost, Schönhoff, & Kleinaltenkamp, 2015; Kleinaltenkamp, Rudolph, & Claßen,

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2012). It should be noted that there is a need for adjustments between interdependent firms as to the quantity and quality of the goods and services exchanged and also the timing of such exchanges (Geiger et al., 2015; Johanson & Mattsson, 1987; Kleinaltenkamp et al., 2012).

Networks provide opportunities for smaller companies to internationalize (Carvalho & Moreira, 2016; Dana, 2001). Large companies encourage skilled workers to leave their jobs, in order to set up their own businesses, aiming at signing business contracts from their former employers (Dana, 2001). These emerging small businesses are gaining platforms for growth and internationalization through those business relationships with large companies (Dana, 2001). However, these new ventures remain free to create the relationships they find most convenient, even though large companies give them advice on how to get started. When smaller companies connect with larger scale companies, they are able to get their products / services to international markets faster, and at lower costs, because smaller companies feel they can count on larger companies to facilitate their internationalization activities (Dana, 2001; Moreira, 2007; Moreira & Silva, 2015).

The capability to embrace new opportunities abroad is not limited to large companies (Dana, 2001, Moreira, 2007, Carvalho & Moreira, 2016). According to Dana (2001), the recent expansion of markets has not been associated with an expanded role for large companies. The role of small companies is quite varied in international markets (Ribau et al., 2017). Clearly, there is a major change in international business activities: traditionally, large companies opted for setting up branch offices abroad as the preferred means of internationalization, because of the company's desire to remain independent and to maximize control of its own activities. However, the recent evolution of networking activities suggests that companies are looking for balanced, symbiotic interdependent relationships based on dynamic complementarities between firms (Dana, 2001; Franco et al., 2011).

Summarizing, the network-based approach is based on the industrial networks theory, which states that firms evolve on the basis of established relationships (Ribau et al., 2015). As such, companies establish long-term relationships that go well beyond the transaction-based perspective (Carvalho & Moreira, 2016; Ribau et al., 2015). Clearly, the company's home network and its relationships can be a starting point for the company's internationalization. When entering new international markets, companies have the opportunity to develop new relationships that give them access to broader markets in other countries (Ribau et al., 2015). Therefore, internationalization is understood as a process led by inter-organizational relationships that co-ordinate the evolution of the company's network in international markets (Ribau et al., 2015). Moreover, the availability of market information from network partners can be a potential source of competitive advantage for the company's internationalization

through the sharing of information, support and assistance (Carvalho & Moreira, 2016; Moreira & Silva, 2015; Ribau et al., 2015).

## **Born Globals**

The contemporary world of international business is characterized by globalization, which is related to the dissipation of different obstacles of international business activities (Dicken, 2015). This notion of globalization has been popularized as the lack of barriers to trade among nations, through free trade agreements throughout the world and among nation states (Törnroos, 2002), giving rise to investment opportunities rapidly materialized (Dicken, 2015).

According to Törnroos (2002), both temporal and spatial processes can be reduced and compressed in the “here and now” perspective. An example of this is the global financial market, as the acceleration of the speed of information, together with the development of Information and Communication Technologies (ICT) and the possibility of information exchange in real time, makes everything faster and reaches more people and places in the world (Törnroos, 2002). These changes in the economic context gave rise to a set of strategies that allowed both large multinationals and small companies to be present in international markets (Ribau et al., 2015, 2017; Coviello, 2015).

Globalization has given rise not only to a global geographic market reach, but also to a global competition for global trade and investment (Zander, McDougall-Covin, & Rose, 2015).

Globalization has given rise to new competitive positions, where born globals (BG) and International New Ventures (INV) stand out as examples of internationalization, based on rapid internationalization processes where innovation plays a fundamental role in the early stages of the firm’s internationalization process (Ribau et al., 2015). The number of companies that conduct international business since its inception are growing significantly throughout the world (Weerawardena et al., 2007; Coviello, 2015).

BGs are companies that expand to international markets, taking advantage of both new global contextual conditions and new needs, based on rapid internationalization approaches (Ribau et al., 2015). It is the rapid internationalization processes that allow questioning the classical behavioral theories, given the emergence of new typologies such as INV, *High Technology Start-Ups*, *Infant Multinationals*, *BG* and *Born Again Globals* (Ribau et al., 2015). These new phenomena, which marked the beginning of the 21<sup>st</sup> century, have been studied by researchers looking for new theories to describe the internationalization of companies (with special attention to SMEs), trying to circumscribe the ineffectiveness of the traditional theories of internationalization. However, the research that has been developed so far does not

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seem to be enough to anchor a new consensual theory about the definition of new internationalization phenomena (Ribau et al., 2015). Despite the scarce financial and human resources that characterize most SMEs, born globals have been heavily involved in international business very early on. In short, BGs are business organizations that, from the outset, seek competitive advantages from the use of resources and the sale of products in several countries (Weerawardena et al., 2007; Coviello, 2015).

Born globals have as main characteristics: a global vision from the beginning of their business activity; their managers have international experience prior to the internationalization of the company (making them aware of international opportunities); access to international networks; strong technological base with strong capabilities (Ribau et al., 2015). However, as the technology of the BGs becomes obsolete, they need to exploit its advantages, causing BGs to rapidly develop international activities (Ribau et al., 2015).

Born globals can be considered as very recent companies, as a result of the consequences of the opening up of international markets. On the other hand, the use of emerging technologies and small-scale production systems has brought profound changes to the traditional way of competing. The fact that new production systems support the manufacture of complex, non-standard parts and components relatively easily enables smaller firms to be catapulted to an international competitive base previously only achieved by large multinationals (Knight & Cavusgil, 1996).

Born globals are young, entrepreneurial companies with a strong culture of innovation and a strong tendency to internationalize, eventually achieving a sustainable performance in foreign markets (Knight & Cavusgil, 2004). In fact, as mentioned earlier, BGs may be characterized by a shortage of both financial and human resources, and may also lack equipment and other physical resources. However, they are rich in their assets of key intangible skills based on knowledge of foreign markets, since the very beginning of their international evolution. It should be noted that BGs have a great ability to acquire knowledge, which is a key success factor for achieving superior international performance among entrepreneurial companies, based on their R&D capabilities and on knowledge of international markets they are able to internalize (Knight & Cavusgil, 2004). The capacity to consistently acquire the capabilities the company needs to compete in a variety of markets and to support international expansion is what gives BGs a competitive edge (Knight & Cavusgil, 2004).

According to Weerawardena et al. (2007), the combination of the dynamic capabilities perspective of competitive strategy with the theory of organizational learning is important. The process of having the capacity to build a new global company is present among entrepreneurs / owners / managers who have a global mindset, previous international experience and a learning orientation (Weerawardena et al., 2007). Clearly, they build and nurture the “distinctive capabilities of market-

focused learning, internally focused learning and networking capabilities which enable the small, innovative, international new venture to develop leading-edge knowledge intensive products” (Weerawardena et al., 2007, 298). As a consequence, it is the development of superior marketing capabilities that facilitates these combined capabilities to produce rapid internationalization and, possibly, superior performance when entering international markets (Weerawardena et al., 2007).

Born globals are examples of successful international SMEs. In short, these firms challenge conventional theories of internationalization and the belief that strategic choices of small firms are limited because of the scarcity of their resources, rapidly entering international markets (Weerawardena et al., 2007).

In conclusion, the debate about BGs is still in its infancy and research on this topic is still ongoing (Cesinger, Danko, & Bouncken, 2012). There is little research on the factors that give rise to rapid internationalization (Weerawardena et al., 2007). So this is a key area for possible future research.

## **Born Again Globals**

Although BGs and international new ventures have been extensively used to explain international activities, the traditional process model of internationalization is considered as one of the most influential theories explaining firms’ internationalization (Coviello and McAuley, 1999; Ribau et al., 2017). They clearly differ from each other as in the Uppsala model internationalization is perceived as an incremental process, while born globals, based on the entrepreneurship theory, are considered rapid internationalizers (Oviatt & McDougall, 1994; Bell, McNaughton, & Young, 2001).

Knowledge is considered a competitive weapon in those two types of models of internationalization. In the Uppsala model knowledge about international markets enables the company to penetrate psychic and geographically distant markets. In turn, knowledge of international markets enables to explore the dynamics of an increasingly global market environment (Bell et al., 2001), which allows INVs and BGs to internationalize rapidly. This thought led to the study of another type of companies, the *born again globals*, which are established in their internal markets that apparently do not have a strong motivation to internationalize (Bell et al., 2001).

The literature on born again globals, that are different from BGs, presents the emergence of a new phenomenon, which is still little explored, because born again globals adopt a different trajectory: instead of gradually penetrating the markets with very close psychic distance to their home market, represented by low risk (Schueffel et al., 2014), they embrace this new international venture in a more spontaneous, albeit late, way. Bell et al. (2001) have classified born again globals as the combination of process theory and INV theory, since they present characteristics of both theories.

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Born again globals are business organizations that do not seek to obtain a significant competitive advantage using their resources to compete essentially in the domestic market, as opposed to BGs that seek rapid internationalization right after their inception (Schueffel et al., 2014). It is only after a strategic change that born again globals seek to gain a competitive advantage of the use of their resources and product sales in various countries (Schueffel et al., 2014).

The internationalization of born again globals are often triggered by certain “critical incidents”, and domestic, foreign, or network partners may exert some influence on the company that ultimately has to adjust its internationalization activities significantly (Schueffel et al., 2014). The most common critical incident in these cases is related to the change of ownership or management and / or administration of the company, thus triggering the internationalization process, which may not be linear, incremental or unidirectional (Schueffel et al., 2014).

Although born again globals have focused on domestic markets in their early years, it does not mean that they cannot begin the path of rapid and dedicated internationalization. Born again globals can be equally well-structured, proactive and flexible in their modes of entry into international markets (Schueffel et al., 2014). An interesting example of this phenomenon refers to the born again globals that are able to decrypt international opportunities, however, they are prevented from exploiting them because of lack of resources (Bell et al., 2001).

In conclusion, born again globals are characterized as being very focused on the domestic market and suddenly being able to radically change their strategic focus in order to increase their sales volume. They differ from both traditional companies and BGs, since they omit some internationalization stages and present a different trajectory from BGs.

## **CASE STUDY**

The aim of this section is to present the case study of ALFA, which by confidentiality reasons cannot be disclosed, explaining ALFA’s history, as well as ALFA’s international business history.

ALFA was founded in 1935. During its more than 80 years ALFA has gone through several phases. Initially, its business area was the wood sawing band. Later on, in 1939/1945, ALFA embraced a new business area – special steels – starting a partnership with Uddeholm and becoming its exclusive representative in Portugal.

In 1950s, ALFA began the provision of heat treatments services complementing the previous activity. In 1954 ALFA was renamed and opened company branches

in Porto, Lisbon, Águeda, Marinha Grande, Portugal and Luanda, Angola. Some of these branches do not currently exist for reasons which will be explained later in this chapter. In 1958, the first perforated shelf bracket was produced in Portugal, under license from Dexion (another ALFA's partnership).

With its increasing development, in 1962, ALFA decided to create a new industrial unit in Ovar, Portugal, where the activities of cold-rolled steel and cold-drawn steel would be developed. In the 1970s, ALFA began to invest in its production capacity and built a new warehouse linked to the manufacturing of special steel.

At the end of the 1980s ALFA renewed the heat treatment unit and started using the vacuum heat treatment technology. In 1997, ALFA started with machining services, namely the assembly machines and straightening presses. In 2002, ALFA obtained the ISO 9001: 2000.

More recently, the company started the provision of oxy cutting service and the product range was expanded with the commercialization of stainless steels, with the development of brass-based products and with the development of machining services – controlled material-removal process and drilling of water. Finally, ALFA started a brand new unit producing anti-wear steels and high elastic limit steels.

In 2014, another machining service is integrated in this company: the milling custom machined parts. In 2017, ALFA's headquarters is relocated in Ovar and there are now branches in Braga, Lisbon, Marinha Grande, Águeda and Porto. However, the branches are considered just logistical platforms. In addition to that, the company currently has 223 employees and the company's turnover is now around 75 million euros.

Clearly, ALFA has been developing throughout its 80 years. ALL its business areas have been addressing and integrating innovation in order to keep abreast of technological knowledge. ALFA can be considered a market leader in Portugal with partners from all over the world. As the company's largest partner is Uddholm, as previously mentioned, ALFA has been a unique reference in Portugal for more than 50 years. Its partnership with the Swedish company drives important competitive advantage based on knowledge acquisition that otherwise would have been difficult to generate internally.

As can be seen in Figure 1, ALFA offers a variety of services. Furthermore, ALFA commercializes products such as:

- Special steels and alloys;
- Rapid steels, steels for molds, steels for cold or hot working tools, aluminum alloys, technical plastics, among others;
- Cutting tools: Milling and turning tools, drilling and boring tools, threading tools, saws, fastening systems.

*Figure 1. Services provided by ALFA*



## **ALFA's Internationalization**

This subsection analyzes ALFA's internationalization.

Almost all the products that ALFA manufactures end up in international markets. However, direct exports reach only 2%, to nearby Galicia, Spain. Although indirect exports are important, ALFA is aware that to increase added value to final clients, it is important to transform steel internally and to exploit competitive advantage with their resources.

In the past, ALFA apart from its exports to Spain, has exported to Brazil as a response to a Portuguese major client with an affiliate in Brazil. However, as the client has headquarters in Portugal, the relationship was directly carried out afterwards with the headquarters in Portugal and not with the affiliate in Brazil. As a result, ALFA resorts to indirect exports to Brazil, as well as to several other markets.

One of the reasons pointed out by ALFA for having such a residual (2%) percentage of exports, two answers were given: firstly, that steel, as a heavy material, is cheap to transport abroad, which may be quite expensive as a commodity; secondly, ALFA has signed contracts with several international partners, like Uddholm for example, representing them in the Portuguese market. Moreover, those deals give ALFA a competitive edge in the Portuguese market, however, hinder ALFA's strategy to

internationalize exporting steel to other markets. As such, ALFA decided to embrace an added-value service-based strategy to serve international markets in order to circumvent the possibility to export raw steel.

As previously mentioned, ALFA had already had a branch in Luanda, Angola, at an earlier stage of its internationalization path. However, before setting up the branch, ALFA has already exported products to Angola. ALFA choose this market because it was a Portuguese colony and because they were dedicated to the commercialization of machetes, which currently represent only 10% of the total sales volume in Angola (which previously represented 100% of the business). As a result of the economic turmoil in Portugal and Angola, this branch is no longer active.

ALFA's strategy is changing. The company is changing its business model as aims to provide added-value services transforming steel and supplying directly to international clients/markets (Spain, England, Italy, Germany and France), where it seeks to enter in international value chains to take the most of international contacts. This is expected to change the international competitive landscape and is expected to provide a more international market orientation. In order to implement this change, ALFA is seeking to expand its facilities, to be able to increase competitiveness and profitability. As such, the company is seeking to abandon an indirect internationalization strategy and to embrace in an active one.

In order to expand its international market penetration, ALFA has started to negotiate and hire representatives, mimicking the strategy it has deployed in Galicia, Spain. This market penetration strategy is currently going through a market test phase. The feasibility and outcome of this process is still under research.

Three main factors led ALFA to seek the international markets:

- Firstly, the success of spot exports to Brazil, which clearly demonstrated that ALFA has a competitive edge, albeit unexploited in international markets;
- Secondly, the fact that they are heavily investing in the development of the company infrastructure and in brand new technology (equipment and machinery). As the investment needs to generate above average returns, ALFA considered that the exploitation of international markets could be potentially interesting, instead of relaying in indirect exports;
- Thirdly, the fact that ALFA needs to grow in order not to stagnate and be able to take on very strong competition. Clearly, the Portuguese market is not large enough for ALFA to grow. As such, internationalization is an important issue as the firm is willing to compete (directly) on international grounds.

It is clear that ALFA has already international experience, albeit a very passive one. However, ALFA's strategy has traditionally aimed at the domestic market, jeopardizing its market position in far-flung markets. This is perhaps a result of a

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very conservative strategy, as well as a result of the contract signed with Uddeholm and Dexion, among others. However, ALFA realized that can explore international markets without jeopardizing their contract as long as it is able to add value to steel. Based on its domestic experience, ALFA realized that it is possible to capitalize its competences in international markets and not be so dependent on a domestic saturated market.

## **DISCUSSION**

The search for competitive advantage drives the strategy among all companies. In the quest for a new competitive behavior, ALFA has been changing its strategy, abandoning a passive behavior and taking on active, risk taking posture to embrace new business opportunities. However, when analyzing the firm through theoretical lens, there is hardly any fit between internationalization theories and ALFA's strategic behavior, as can be observed in Table 1.

ALFA has traditionally been involved in the commercialization of commodities, which normally shrinks profit margins as they are subject to international market fluctuations. As it normally commercializes raw material, its price is determined by the fluctuations of the supply and demand of international markets. In addition, ALFA has been traditionally dependent on its biggest partner (supplier of steel): Uddeholm.

After exploring the Portuguese market, and overcoming all the intricacies of entering foreign markets, namely to Brazil and Angola, one can argue that ALFA began its internationalization process following the Uppsala model, i.e. based on progressive steps, which eventually ended up not succeeding as originally predicted. As knowledge is an important part of the Uppsala stage-based model, one can argue that ALFA has failed in taking advantage of the necessary knowledge to proceed with its internationalization process to other distant markets, taking advantage of its domestic competitive position.

It is clear that ALFA is not a BG at all. Nevertheless, it would have been almost impossible, based on the year it was set up. However, its 2% of sales in international markets gives a clear picture how passive the firm has behaved on international business grounds.

Based on its passive international behavior, ALFA realized it had to start gaining international market share and decided to analyze the relevance of its international contacts and the relationships with international actors through indirect internationalization process. This recalls immediately to the network-based theory. As previously stated, networks play an important role in explaining why and how companies internationalize their operations / activities, and their position in the

network is a key factor, both internally and externally, for companies to become interdependent in sharing resources and in overcoming the vulnerabilities they may face.

It is important for a company to be embedded in an international network, in order to exchange and internalize knowledge, maintain stable relationships and perspective the market as a business relationship network. Belonging to these networks gives companies the possibility of increasingly acquiring contacts and being able to embrace active internationalization strategies. However, in this case study, ALFA showed a clear inability to embrace this active outward internationalization process. One possible explanation for this is the fact that ALFA, after signing its partnership with Uddholm was very focused in conquering the domestic market that ignored their possibilities of gaining market share abroad. Moreover, the first strategy deployed by ALFA was to sell raw steel in the domestic market. As such, mimicking this strategy in international markets was doomed as steel is difficult and costly to transport. As such Uddholm ends up exporting the steel and it has a bigger role in the international contact network. Clearly, this is changing nowadays.

One can argue that the network-based approach is perfectly suitable to explain ALFA's position with regards to internationalization. However, it is difficult to explain why it is not as successful as it could have been. The born again global behavior is a possible outcome, yet to be proved by ALFA.

One can argue that ALFA might behave as an early starter or as a late starter. ALFA behaves as an early starter in the sense that the company does not have, as already mentioned, a lot of knowledge about international business, and therefore uses local agents or even other companies that have export experiences, so that ALFA can learn and thus start their international operations more gradually. As a late starter, ALFA uses its networks to be able to start its activities at an international level. These international actors and activities can be very important so that ALFA's entry in international markets can be, in a certain way, smoother.

Finally, if the company really wants to succeed it is important to focus on its competitive advantage to embrace internationalization with a different approach: not behaving as a traditional small and medium-sized firm. For that a new strategic mindset is important. As such, it is not strange that the firm is trying to abandon its commodity transaction-based strategy to embrace a technology-based one, in which the added value provided to the customer makes a difference. For that the company needs to understand that its strategic position in international markets depends not only on their internal capabilities, but also on their willingness to embrace it.

Given this, it is difficult to categorize ALFA, as neither the Uppsala model nor the network-based approach can be easily used to explain ALFA's international behavior. Moreover, neither we can use the born global nor the born again global concepts. Let us see, ALFA did not internationalize gradually, nor installed production facilities

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Table 1. Summary table depicting ALFA position

	Main Ideas of Theories	Theoretical Framework of the Company in the Different Theories Analyzed
<b>Uppsala Model</b>	<p>It is based on two articles: Wiedersheim-Paul (1975) and Johanson and Vahlne (1977);</p> <p>This theory deals with the acquisition of knowledge, regarding international markets;</p> <p>Four fundamental concepts: market knowledge; the market commitment; decisions; and current activities;</p> <p>Company's knowledge and market commitment determine the path of the company through the stages of internationalization;</p> <p>Stages of the internationalization process: non-regular exports; independent representatives (agents or distributors); creation of a sales subsidiary abroad; establishment of foreign production / manufacturing units;</p> <p>Static model.</p>	<p>ALFA does not fit the Uppsala model, once it did not manage to internationalize following a progressive, stage-based perspective. ALFA took advantage of the knowledge acquired to achieve a competitive position in the domestic market and in indirectly internationalized (through indirect exports).</p>
<b>Network Theory</b>	<p>Sets of connected exchange relationships;</p> <p>Expansion of the Uppsala Model;</p> <p>Main rationale: companies depend on resources controlled by other companies, since access to resources and the construction of relationships represent the process of resource consumption;</p> <p>Networking is a time-consuming process;</p> <p>Typology of companies in this internationalization model: <i>early starter</i>, <i>lonely international</i>, <i>late starter</i> and <i>international among others</i>;</p> <p>In business to business markets, companies are involved in the production, distribution and use of goods and services. There is a network division and an interaction between the companies inserted in the network;</p> <p>Networks provide opportunities for smaller companies to internationalize;</p> <p>Internationalization is a process governed by relationships and the evolution of a company's network.</p>	<p>Based on its international indirect exports, ALFA can be considered a <i>late starter</i>. However, based on ALFA's poor reach of international penetration it is an early starter as it has many relationships with its partners. However, ALFA is seeking to change its strategy competing through adding value while avoiding the mere trade of commodities.</p>
<b>Born Globals</b>	<p>Companies that, from the outset, seek competitive advantages from the use of resources and the sale of products in several countries;</p> <p>Technology-based companies;</p> <p>Innovation plays a key role;</p> <p>Global networks;</p> <p>The debate on BGs is still growing and research on this topic is still ongoing.</p> <p>There is little research on the factors leading to rapid internationalization. So this is a key area for possible future research.</p>	<p>ALFA is certainly not a BG, because it has not internationalized early on. However, only in the 1980s the international economic/business context started to experience an open, global environment.</p>
<b>Born Again Globals</b>	<p>Companies that are very focused on the domestic market, but with the objective of increasing their sales volume.</p> <p>They internationalize suddenly;</p> <p>They differ from traditional companies as well as from BGs;</p>	<p>If taking advantage of international opportunities, ALFA could be a born again global, exploiting their competencies and capabilities in foreign markets.</p>

abroad, having concentrated its production in its headquarters in Ovar, Portugal. Therefore, the company did not follow an internationalization process consistent with any traditional model, explained previously. In addition, the company exports only 2% of its production. This situation is depicted in Table 1.

Accordingly, if ALFA is willing to succeed in the strategic change it is deploying, ALFA needs to be aware to establish agreements and secure relationships with other companies. Moreover, ALFA needs to position itself as a technology service provider. The relationship with other companies is extremely important so that ALFA can acquire certain knowledge, giving ALFA more confidence and motivation to evolve in international markets. Finally, the major challenge ALFA has to overcome is to stop behaving as a traditional company focused on the domestic market. If opportunities are meant to be taken, risk taking behavior is important to success.

## **CONCLUSION**

Studies on internationalization and globalization have been fruitful in studying companies and theories. They have also addressed the main forms and strategies that have been used by successful companies in international markets. However, there are companies that despite their long experience in the market still have difficulties in embracing competitive strategies in far-flung markets. Clearly, almost all studies support internationalization, with few studies analyzing less-successful companies in their internationalization process.

A first conclusion that can be drawn from ALFA's case is that exporting may not be easy, since it implies the adequacy of resources to the environment, which apparently ALFA has never achieved.

The ALFA's case study portrays the difficulty of exporting, based on the type of product, and the lack of an adequate strategy on the part of the company. As such, this case portrays an important lesson: companies need to clearly define their strategies to cope with the intricacies of the market. As such, the first challenge ALFA needs to overcome is the abandonment of its commodity transaction-based strategy to embrace an opportunity-based one, in which ALFA can provide added value to their customers, whether in the domestic market or in international markets. Another challenge for the company is to understand that what matters are both the firm's internal capabilities and the willingness to embrace change.

Taking into account the objectives set out in the introduction, this chapter presented the main theories related to the internationalization process, such as the Uppsala model, the network-based model, the born globals and the born again globals. Moreover, one has seen that the case analyzed does not fit into any of these theories or typologies, which depicts the particular character of this company,

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which may reflect its traditional strategic posture. It is important to make clear that it is important for the company to define a clear strategy to exploit its competitive advantage in wider markets.

It is important to refer that although certain theories try to explain how firms evolve over time in their internationalization process, certain firms do not fit within what theories postulate. As such, it is important to be aware that change, as an important driver of competitive advantage, needs to be addressed to understand the theoretical stances that support the theoretical rationales of internationalization.

## **FUTURE RESEARCH DIRECTIONS**

Although research on internationalization is quite reach, it would be interesting to analyze pre-internationalization behavior to depict the possible causes that hinder the internationalization process among many small and medium-sized firms.

It was clear that ALFA wanted to reposition its business activities as it was following a very passive strategic behavior, and only recently ALFA started seeking to approach the market from a technology-based, opportunity-seeking behavior. This opens up new opportunities for research as it would be of added value to analyze how managers' behavior might generate proactive internationalization behavior, which might explain why some firms suddenly embrace born again global behaviors.

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## KEY TERMS AND DEFINITIONS

**Born Again Globals:** They are characterized as being focused on the domestic market and suddenly being able to radically change their strategic focus in order to increase their sales volumes in international markets.

**Born Global:** It is a type of company that from its inception seeks to derive a competitive advantage to compete in many countries. It normally pursues a vision of becoming global and globalizes rapidly without any preceding long term domestic or internationalization period or experience. Usually born globals are small, technology-oriented companies that operate in several international markets.

**Case Study:** It is a qualitative methodology, normally used in social sciences, that seeks to interpret a reality through a particular perspective. It is normally used to answer questions like “how” and “why.” It is commonly used to address constructivist research processes.

**Globalization:** It is a worldwide movement toward economic, financial, trade, and communications integration. It is normally envisaged as a lack of trade barriers between nations, which are removed through free trade agreements throughout the world and between nation states. It implies the opening of local and nationalistic perspectives to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods, and services across national frontiers, in which investment opportunities soar.

**Internationalization:** It is the process of increasing involvement of enterprises in international markets. It involves a strategy carried out by firms that decide to compete in foreign markets. It involves cross-border transactions of goods, services, or resources between two or more firms or organizations that belong to two different countries.

**Internationalization Process:** It involves the emphasis of a trajectory of a company in its transition from a national market to a particular foreign market. It normally involves several entry modes (exports, FDI, franchising, etc.) that exert a critical influence on the subsequent trajectory, as well as on cost related to the internationalization process. The two most important theories that explain the internationalization process are the Uppsala model and the network-based approach.

**Network-Based Approach:** It is based on the industrial networks theory, which states that firms evolve on the basis of established relationships. It considers the companies' internationalization process through their integration into networks and relationships. Following this perspective, the internationalization process occurs in interactive environments where companies of a well-established network of companies have an opportunity to develop new relationships that give them access to broader markets in other countries.

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**Uppsala Model:** It has been one of the most discussed dynamic theories in Nordic School and International Business Studies. It explains the process of internationalization of companies. It explains how organizations learn and the impact of learning on the companies' international expansion. This theory defends that the companies' internationalization process is carried out in stages, from non-regular exports to the establishment of companies abroad.