THE E3R MODEL: A HOLISTIC APPROACH OF INTERNATIONALISATION OF FIRMS RELATED TO CONSTRUCTION

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ABSTRACT

Several scholars have observed the internationalisation of construction firms by using various existing models. These models are Eclectic Paradigm, Stage Growth Theory, Resource-based View and Diamond Framework. Each model has its own strengths and weaknesses. By amalgamating the various existing models, the strengths of one prevail over the weaknesses of another. This paper suggests a holistic approach by combining the various existing models, not only the ones mentioned above, but others as well such as Network Approach and International Entrepreneurship. A holistic approach is a more appropriate representation of the complexities and realities of internationalisation of construction firms. In this paper, the existing internationalisation models are discussed individually before the holistic model, E3R Model, which combines all of them, is presented. The E3R Model proposes that entrepreneur acts as the central factor by integrating and manipulating the other three important factors (relationship factor, resource factor, and regional factor) to move construction firm into international markets. This model helps to explain the internationalisation of construction firms in a holistic, rather than uni-model, manner.

Keywords: Holistic model; Internationalisation; Construction firms

1.0 INTRODUCTION

The research of firm internationalisation is one of the popular topics in international business studies (Fletcher 2001, Andersson 2002). Internationalisation is a multifarious, multifocal and multidimensional process (Barrett 1986, Fletcher 2001) which cannot be evaluated by single measure (Burgel *et al.* 2001). Some researchers also argue that the firm's internationalisation strategies cannot be fully explained by any existing agreed theory alone (Crick & Jones 2000, Bell *et al.* 2004, Jones & Coviello 2005). The internationalisation of the firm should be considered as holistic (Luostarinen 1979, Fletcher 2001, Bell *et al.* 2003, Crick & Spence 2005) and multidimensional manner (Andersen 1993, Lim *et al.* 1993, Leonidou & Katsikeas 1996, Coviello & McAuley 1999). Most theories are actually complementary to each other rather than substitutable (Dunning 2000) (see Figure 1).

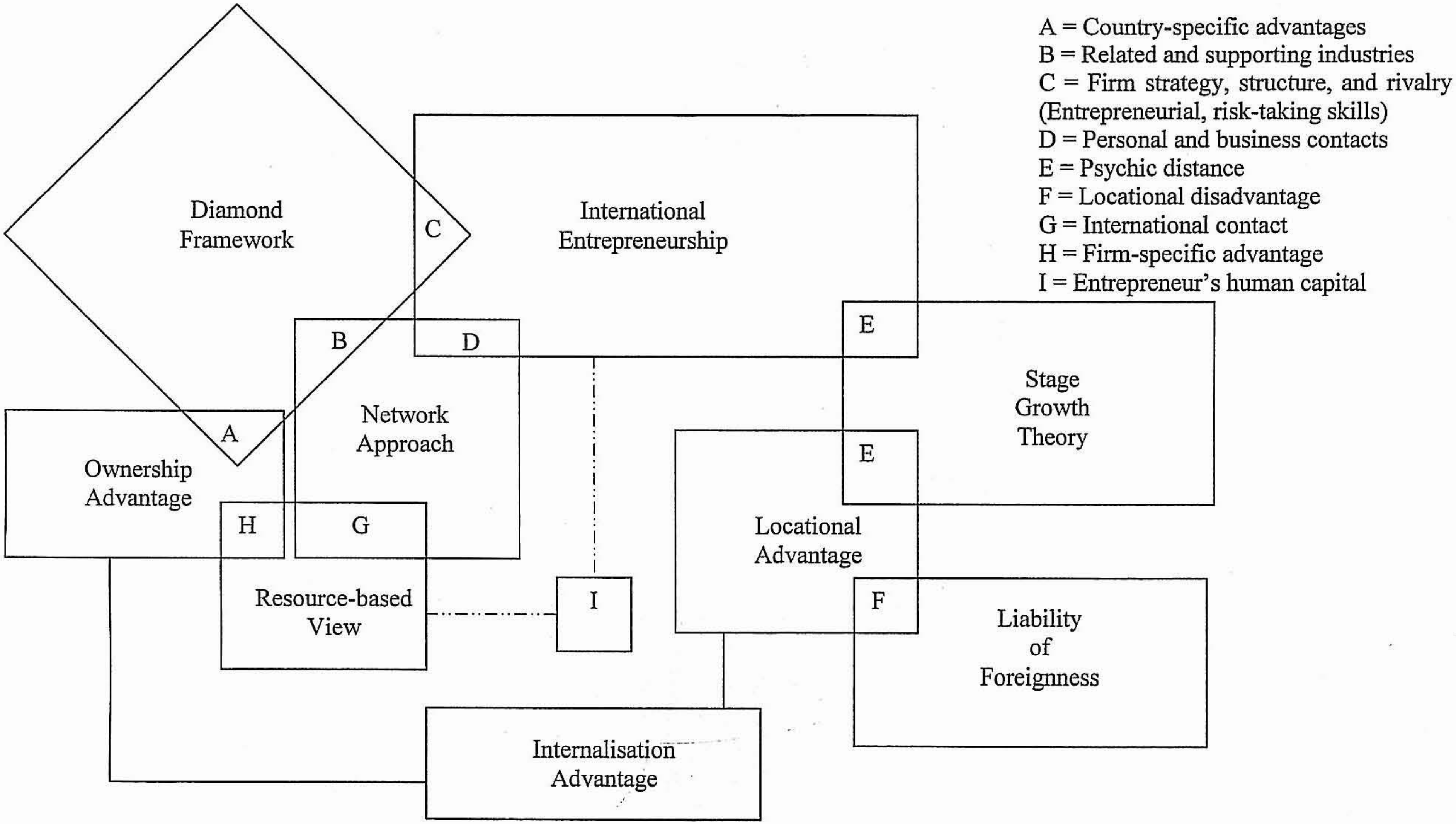

Figure 1: Overlapping of Existing Internationalisation Theories

This paper presents several extant models of firm internationalisation. It then presents an integrated model which, by drawing together the strengths of the individual models, promises to better explain the phenomenon of firm internationalisation. The objectives of this paper are:

1. To discuss about the strength and weaknesses of the various theories related to firm internationalisation.
2. To propose a new holistic model of firm internationalisation related to construction.

2.0 LITERATURE REVIEW

There are several extant models on firm internationalisation: Stage Growth Theory (Johanson & Vahlne 1977, 1990), Eclectic Paradigm (Dunning 1977, 1980, 1981, 1988), Resource-Based View (Wernerfelt 1984, Barney 1991), Network Approach (Johanson & Mattsson 1988), Diamond Framework (Porter 1990) and International Entrepreneurship (Morrow 1988). They are presented here, one by one.

The Stage Growth Theory is considered as one of the appropriate models in this field, both empirically and theoretically (Bjorkman & Forsgren 2000). Its strengths lie in its step-by-step demonstration of international market growth (Mtigwe 2006), exploring learning processes of the internationalising firm (Reihlen & Apel 2007), and its offering of a unique way in viewing market information regarding experiential knowledge and market entry mode selection (Whitelock 2002). It has been applied widely to explain the behaviour of low-tech firms (Bell *et al.* 2004), small and medium enterprises (SMEs) from Nordic and many other regions as well (Axinn & Matthyssens 2002). Its validity is supported by empirical works (Bilkey & Tesar 1977, Cavusgil 1980, Karafakioiglu 1986), especially studies that focus on the early stages of internationalisation (Melin 1992), and in the international retailing literature (Robinson & Clarke-Hill 1990, Treadgold 1990, Pellegrini 1994). However, it has a narrow conception of learning (Forsgren 2002) and provides partial explanation of the speed of internationalisation (Axinn & Matthyssens 2002). It neglects managerial action which causes it to become too deterministic (Andersen 1997). It ignores the importance of social interaction and relational exchange (Vahlne & Nordstrom 1988) and the role of networks (Rutashobya & Jaensson 2004). It fails to explain the networks and relationships between firms as well (Hutchinson *et al.* 2006). Its concept of psychic distance can hardly explain the firm's expansion in e-commerce markets which are less related to geography or culture, and an increasing culturally homogeneous environment (Johanson & Vahlne 1990, Leonidou & Katsikeas 1996, Axinn & Matthyssens 2002).

The Eclectic Paradigm provides a framework for answers to the basic questions – the why, where and how – of foreign value-added activities of firms, especially the roles of ownership advantages and internationalisation mode (Dunning 1977, 1980, 1981, 1988). Eclectic Paradigm creates awareness of a firm's need to build and maintain sustainable competitive advantages if it is to succeed in foreign market exploitation (Porter 1990, Prahalad & Hamel 1990). However, Eclectic Paradigm is static (Johanson & Vahlne 1990), and undervalue the important roles of the manager (Axinn & Matthyssens 2002). It narrowly focuses on the manufacturing industry (Axinn & Matthyssens 2002), and is less relevant for today's alliance capitalism (Li 1998, Madhok 1997, Mathews 2002). It does not cater to cooperative agreements in the new, value or the network economy, and service industry which emphasises on customer value and market-based assets (Axinn & Matthyssens 2002).

The Resource-Based View provides a theoretical perspective with wide applicability by Collis (1991) and Peng (2001). It presents an amalgamate framework to observe the firm's internationalisation activities (Loane & Bell 2006). It can integrate competing conceptualisations of internationalization theories and models (Bell & Young 1998). It also examines sustainable competitive advantage in the marketing and management areas (Barney 2001). The Resource-Based View assesses the relative importance of the broad resource pool available to firms competing in a global environment and is a popular explanation of performance heterogeneity (Fahy 2000). Ekeledo and Sivakumar (2004) argue that the Resource-Based View not only explains the differences in the entry mode choice of firms in an industry, but also elaborates the reasons firms do not or are unable to practice strategies that offer the highest returns. The Resource-Based View more or less complements the other perspectives by proposing ownership advantages in terms of organisational capability and capability of entrepreneur, availability of a change agent, export marketing knowledge and experience, market information, business and social networks, etc. - all are important drivers of internationalisation (Rutashobya & Jaensson 2004). Several authors such as Porter (1990), Ohmae (1995), and Banerji and Sambharya (1996) have accredited the phenomenal success of Japanese international enterprises to strategy choice and resource-advantage. Therefore Resource-Based View has merits in explaining why international business takes place (Mtigwe, 2006). However, the Resource-Based View has been criticised as being too deterministic and too limited by focusing only on one explanatory variable (Andersen 1997, Johanson & Vahlne 1990). Resource-Based View is somehow static in nature and lacks dynamic element (Kylaheiko 1998). Jones and Coviello (2005) argue that the Resource-Based View tends to emphasise rational and strategic decision-making criteria such as costs, investment, risk and control, and focus on factors influencing internationalisation. The Resource-Based View also assumes that foreign market entry decisions consist of discrete alternatives, and occur at specific and identified points in time. A lot of Resource-Based View literature takes resource stocks as 'givens' and pays little or no attention to the process of resource development (Loane & Bell 2006).

The Network Approach is a suitable framework for explaining the internationalisation of organisations (Chetty & Holm 2000, Vahlne & Nordstrom 1988), especially small firms (Young *et al.* 1999, Rutashobya & Jaensson 2004), SMEs in Nordic and many other regions as well (Axinn & Matthyssens 2002). The Network Approach also helps to explain the formation of international new ventures (Oviatt & McDougall 1994, McDougall *et al.* 1994), rapid internationalisation and the born-global phenomenon (Madsen & Servais 1997, Jones & Coviello 2005). The Network Approach not only focuses on the internationalisation as at the firm-level behaviour and a process of development, but also accommodates the idea that certain conditions (i.e. firm and environmental factors), must be necessary and sufficient to explain internationalisation (Oviatt & McDougall 1994). The main criticism of the Network Approach is its ignorance of the importance of decision-maker(s) and firm characteristics in availing of the international opportunities which emerge from the networks (Chetty & Holm 2000).

The Diamond Framework is an integrated framework that encapsulates competitive advantages of countries and integrates the theory of international trade and comparative advantage with the competitive strategy analysis, thereby enhancing the dynamic context of the framework (Grant 1991). Pressman (1991) accredits the Diamond Framework for pointing out the important issue related to internationalisation of firms unable to perform overseas what they have not be trained at home. However, the Diamond Framework is essentially static and overlooking various essential issues that are crucial to the analysis of international business, such as the significant role of price competition and exchange rate in international trade (Gary 1991), the importance role of technology in a dynamic and incremental process (Narula 1993), the effects of locational advantages and the way the interaction of the locational advantages influences the Diamond Framework (Dunning 1993), the activities of multinational firms in the domestic economies (Moon *et al.* 1998), and the utilisation of multinational activity of firms to enhance their competitiveness (Moon & Lee 2004). Rugman and Verbeke (1993) argue that the Diamond Framework can hardly be 'operationalised' as its case studies do not have a homogenous analytical tool to examine exact impact and significance of each determinant on the industries competitive position.

As early as 1969, Perlmutter from the management discipline has stressed the significant role of the management team in the firm's internationalisation. International Entrepreneurship has become the focus among certain scholars over the past decade. Unlike the economic man, International Entrepreneurship explains the internationalisation of firms by considering that the entrepreneur makes decisions under uncertainty and circumscribed rationality (March & Simon 1958, Wieck 1995). International Entrepreneurship is relevant not only to SMEs where decision making process is in the hands of one or a small group of individuals and they therefore have an exclusive and essential role in their organisations (Bloodgood *et al.* 1996, Westhead *et al.* 2001), but also among giant firms like British Petroleum (Prokesch 1997), Royal Dutch Shell and Microsoft (Zahra & Garvis 2000).

3.0 DISCUSSION

Some researchers (Doz & Prahalad 1991, Melin 1992) propose locating the individual manager as the centre of the internationalisation process to facilitate and integrate different actors at different level within the complexity of environmental change. However, there is limited theoretical research towards this development (Matthyssens & Pauwels 1998). International Entrepreneurship is able to prevail over the Eclectic Paradigm limited predicting power (Lundgren 1977, Jones 1996), and its focus on the equilibrium state (Johanson & Vahlne 1990). The International Entrepreneurship can surmount weaknesses of the Stage Growth Theory in explaining internationalisation process. The Stage Growth Theory's explanation is too deterministic (Buckley *et al.* 1979, Reid 1983, 1986, Bell 1995, Johanson & Vahlne 1992, Turnbull 1987, Strandskov 1993, Rosson 1987, Andersen 1997) as it predicts that the internationalisation process must follow specific stages (Buckley & Chapman 1997) and sequences of value-added activities (Hadjikhani 1997) with certain parameters (Leonidou & Katsikeas 1996). Other than that, International Entrepreneurship also can be used to overcome the Resource-Based View's weaknesses, such as for being too deterministic and too limited by focusing only on one explanatory variable (Andersen 1997, Johanson & Vahlne 1990), static in nature and lacking in a dynamic element (Kylaheiko 1998), tending to emphasise rational and strategic decision-making criteria (i.e. costs, investment, risk and control), and assuming that foreign market entry decisions consist of discrete alternatives and occur at specific and identified points in time (Jones & Coviello 2005). International Entrepreneurship also can complement the missing part of decision maker in Network Approach.

The Network Approach can complement the Eclectic Paradigm and Stage Growth Theory as it is able to explain the internationalisation process and to illuminate how the resources, activities and actors within the networks affect various dimensions thereof (Hakansson & Snethota 1995, Kundu & Katz 2003), and to explain the transition from a focus on costs and control only to a focus on relationships, resources, and coordination among participants in an international supply chain (Overby & Min 2001). This brings recognition that firm internationalisation is never a "solo" effort, but that it is a product of network relationships that are both formal and informal (Mtigwe 2006). It is not surprising that Dunning (1995, p. 473-474) modifies the Eclectic Paradigm to embrace external alliance:

> *"The incorporation of external alliances into the theory of internalisation presents no real problems, other than semantic ones. Either one treats a non-equity alliance as an extension of intra-firm transactions, and accepts that the theory is concerned less with a de jure concept of hierarchical control and ownership, and more with the de facto ways in which interdependent tangible and intangible assets are harnessed and leveraged; or, one treats the inter-firm alliance as a distinctive organizational mode,*

and more specifically one which is complementary to, rather than .a substitute for, a hierarchy."

Johanson and Vahlne (2003) also propose a network model of internationalisation process which combines their old internationalisation process (1977, 1990) with a similar experiential learning–commitment mechanism of business network relationships. Through relationship learning, the firm is able to enter new foreign markets. Later, the firm can develop a new relationship there which provides a platform to venture into another market.
Locational factors are also very important to firm internationalisation. Among internationalisation theories, only the Eclectic Paradigm and Stage Growth Theory discuss about locational factor by using different terms. The Diamond Framework (initially) and Network Approach (still) did not give emphasis to this matter. However, Porter (1998, p. 78) implicitly acknowledges the importance of locational factor when discussing clusters:

"Clusters are not unique, however; they are highly typical – and therein lies a paradox: the enduring competitive advantages in a global economy lie increasingly in local things – knowledge, relationships, motivation – that distant rivals cannot match."

Some researchers (Foster & Karim 1998, Chen 2003) even use networks in a spatial context, i.e. the network distance. Chen (2003) finds that Taiwan's electronics firms' internationalisation process starts from going to nearest network distance before moving to other regions. Foster and Karin (1998) use the network distance concept to study firm's business links between Ghana and Finland.

Having surveyed the various models, a holistic version is proposed – the E3R Model (see Figure 2). The E3R Model argues that entrepreneur is central to firm internationalisation. There are three main factors that determine the entrepreneurial acts: 1) relationship factor, 2) resource factor, and 3) regional factor. Relationship factor is built on the Network Approach with the support of Stage Growth Theory and Diamond Framework. The entrepreneur's network (Network Approach) is an incremental learning process (Stage Growth Theory) through the formation of a cluster (Diamond Framework). This relationship enables the firm to venture abroad through integration and coordination with other actors' networking. The Resource factor is based on the Resource-Based View, Eclectic Paradigm and Diamond Framework. The combination of the entrepreneur's individual abilities and skills (Resource-Based View), firm-specific advantages (Eclectic Paradigm) and country-specific advantages (Diamond Framework) form a synergy to move the firm into international markets. Regional factor is derived from locational advantages (Eclectic Paradigm) and liabilities of foreignness (Liability of Foreignness) as well as network distance (Network Approach). This factor explains the region/location the firm chooses to expand their value-added activity.

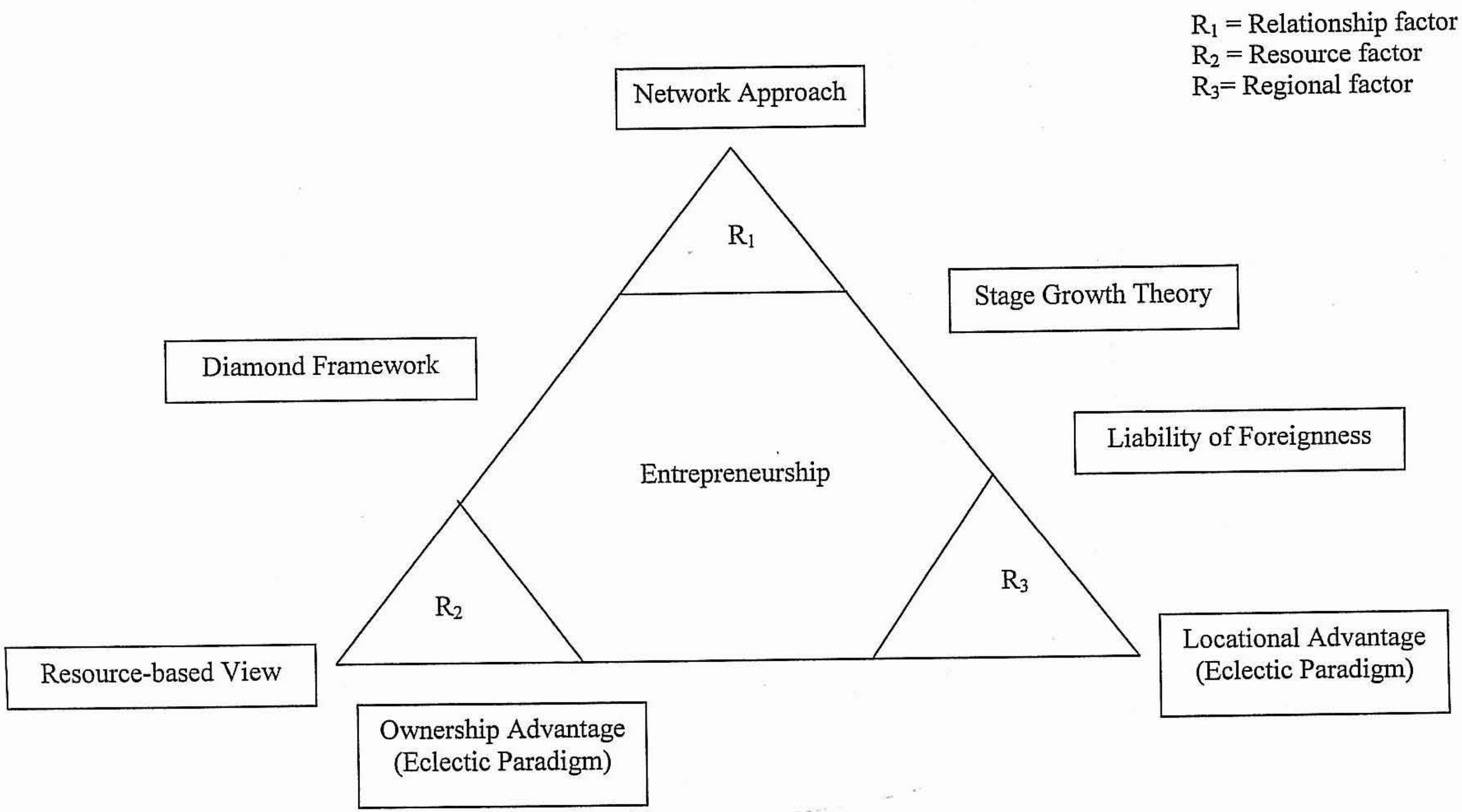

Figure 2: The Holistic Model – E3R Model

4.0 CONCLUSION

The E3R Model can be used to explain the internationalisation of firms which are related to construction industry. Actors in the construction industry (i.e. contractors and consultants) are service providers who move into international market wherever there are business opportunities (Svensson 2000, Schnepper 2007). The internationalisation paths of service providers are mainly market seeking and client following (Majkgard & Sharma 1998, Welch 2004, Schnepper 2007). The decision to venture to certain locations is influenced by their firm's network as well (Welch 2004, Schnepper 2007). Netland and Alfnes's (2007) study found that the internationalisation of service providers is positively related to global networks. They note that the client following was the most common driver for firm to move into new foreign markets in the 20th century. They acknowledge that proactive market seeking strategies become popular among service providers in order to conquer new customers abroad. Therefore, the entrepreneur as the firm's top management needs to consider his liability beside locational advantage before entering into market abroad. The entrepreneur must ensure that firm's resources can be manipulated and utilised at optimum level in host country. Again, the role of networking cannot be ignored as good contact with clients and other actors abroad accelerate the international venturing.

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