Theories of international trade, foreign direct investment and firm internationalization: a critique

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It has been suggested that there is a lack of consensus regarding the conceptual domain of cross-national studies. That said, the theoretical focus of such scholarly activities has tended to reflect the multidisciplinary nature of the field. By far the most significant contributions to knowledge in the area can be sourced to the international economics, international finance and international business literatures. The proliferation in focuses and the diversity of empirical studies to be found within these literatures demonstrates the wealth of understanding which can be attributed to the research of cross-national commercial activities and operations. Attempts to explicate many of the dominant theories within these literatures. Contributions to the macro level of analysis can be found in the form of theories of international trade. Alternatively, micro theories engage the organization, as the level of analysis and consideration is given to both the foreign direct investment decision process and the pattern pursued by firms in internationalization. Discusses the nature and emphasis of these theories in the form of a critique.

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Introduction

At its most basic, economic exchange across national boundaries has taken place for several centuries. Furthermore, one of the most remarkable aspects of economic life nowadays is the manner in which all countries increasingly find themselves an intrinsic part of the global economy (Auerbach, 1996). Such interdependence means that the concepts of the *global village* and *spaceship earth* are reflections of the fact that the contemporary marketplace is inherently international. Moreover, this new world order with its international competition, economic trading blocs (e.g., Association of South East Asian Nations, North American Free Trade Agreement and the Single European Market) and global emphasis, is forcing firms towards a "new reality" (Lazer, 1993, p. 93) which demands a global marketing imperative. Czinkota *et al.* (1995) have described this scenario as follows:

> The global imperative is upon us! No longer merely an inspiring exhortation, thinking and acting globally is the key principle for business success. Both the willing and the unwilling are becoming participants in global business affairs. No matter how large or small your business, ready or not, here comes the world (p. 1).

In attempting to explain cross-national commercial activities, the international economics, international finance and international business literatures have, over the last three decades, witnessed significant advances. However, such intellectual developments have fostered a diversity in knowledge which is evident from the range of extant theories. This article will endeavour to explore many of these theories and provide an understanding of the mechanics and processes witnessed in cross-national trading activities at both macro and micro levels of analysis. The discussion is presented by way of an exposition of international trade and economic theory, which is followed by a review and assessment of international trade theories, foreign direct investment (FDI) theories and internationalization theories of the firm. The majority of the presentation is given to a discussion of the third set of theories which is believed to be an area where most contemporary theoretical controversy exists. Furthermore, significant renewed interest in patterns of firm internationalization has recently arisen, which suggests a review and assessment of current knowledge may be timely.

International trade and economic theory

The importance of international trade to a nation's economic welfare and development has been heavily documented in the economics literature since Adam Smith's (1776) pioneering inquiry into the nature and causes of the wealth of nations. The rationale underlying this relationship suggests that economies need to export goods and services in order to generate revenue to finance imported goods and services which cannot be produced indigenously (Coutts and Godley, 1992; McCombie and Thirlwall, 1992).

Probably one of the broadest indicators of a nation's economic strength can be gauged from its gross domestic product (GDP), as this measure is an estimate of the value of goods and services produced by an economy in a given period (Tayeb, 1992). The notion that international trade can influence GDP has been explored by several economic theorists (Marin, 1992; Meier, 1984) and culminated in the export-led growth thesis. The tenet underlying this volume of research is that as export sales increase, other things being equal, the GDP of a nation will rise and provide a stimulus to improved economic well-being and societal prosperity. The way in which this relationship can be interpreted suggests that export performance has a stimulating effect throughout a country's economy in the form of technological spillovers and other related favourable externalities (Marin, 1992). Export activities may exert these influences because exposure to international markets demands improved efficiency, and supports product and process innovation activities, while increases in specialization encourage profitable exploitation of economies of scale (Temple, 1994). Thus, the export-led growth thesis predicts export growth will cause economy-wide productivity gains in the form of enhanced levels of GDP.

Another mechanism through which exports are connected with sustainable rates

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of economic growth is the balance of payments. The balance of payments constraint can be expressed as follows. In general, economic growth creates a variety of demands which cannot be satisfied solely by domestic output. Therefore, beyond a certain level, the faster the rate of domestic demand, the more accelerated the growth of imports (Abdel-Malek, 1969). However, any excess of imports over and above exports requires the trade deficit to be financed by either government borrowing from overseas or drawing on the economy's stock of assets. If this situation is sustained, it becomes vital for the home government to address the issue of such a trade imbalance (de Jonquieres, 1994; Hornby, 1994).

International trade theories

International trade issues generally pose three types of questions for economists. The first is based on explanations of trade flows between at least two nations. The second refers to the nature and extent of gains or losses to an economy. Finally, the third issue concerns the effects of trade policies on an economy. Most theories of international trade are dedicated to the first question, and attention will now turn to theoretical responses to such an issue in the form of: classical trade theory; factor proportion theory; and product life cycle theory.

'…classical trade theory effectively describes the scenario where a country generates goods and services in which it has an advantage, for consumption indigenously…'

Classical trade theory dictates that the extent to which a country exports and imports relates to its trading pattern with other nations. That is, countries are able to gain if each devotes resources to the generation of goods and services in which they have an economic advantage (Ricardo, 1817; Smith, 1776). Therefore, classical trade theory effectively describes the scenario where a country generates goods and services in which it has an advantage, for consumption indigenously, and subsequently exports the surplus. Consequently, it is sensible for countries to import those goods and services in which they have an economic disadvantage. Economic advantages/disadvantages may arise from country differences in factors such as resource endowments, labour, capital, technology or entrepreneurship. Thus, classical trade theory contends that the basis for international trade can be sourced to differences in production characteristics and resource endowments which are founded on domestic differences in natural and acquired economic advantages. However, over and above such a general insight into international trade, classical trade theory is unable to offer any explanation as to what causes differences in relative advantages.

The factor proportion theory, in contrast to classical trade theory, is able to provide an explanation for the differences in advantage exhibited by trading countries. According to this theory, countries will tend to generate and export goods and services that harness large amounts of abundant production factors that they possess, while they will import goods and services that require large amounts of production factors which may be relatively scarce (Hecksher and Ohlin, 1933). Therefore, this theory extends the concept of economic advantage by considering the endowment and costs of factors of production.

Both of these theories have been shown to be deficient in explaining more recent patterns of international trade. For example, the 1960s witnessed significant technological progress and the rise of the multinational enterprise, which resulted in a call for new theories of international trade to reflect changing commercial realities (Leontief, 1966). At that time, the product life cycle theory of international trade was found to be a useful framework for explaining and predicting international trade patterns as well as multinational enterprise expansion. This theory suggested that a trade cycle emerges where a product is produced by a parent firm, then by its foreign subsidiaries and finally anywhere in the world where costs are at their lowest possible (Vernon, 1966, 1971; Wells, 1968, 1969). Furthermore, it explains how a product may emerge as a country's export and work through the life cycle to ultimately become an import (Table I). The essence of the international product life cycle is that technological innovation and market expansion are critical issues in explaining patterns of international trade. That is, technology is a key factor in creating and developing new products, while market size and structure are influential in determining the extent and type of international trade.

While these theories are insightful (Table I), a number of modern international trade theories have emerged recently which take account of other important considerations such as government involvement and regulation. However, it remains that these theories make several assumptions which detract from their potential significance and contribution to international business. For instance, they assume that: factors of production are immobile between countries; perfect information for international trade opportunities exists; and, traditional importing and

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exporting are the only mechanisms for transferring goods and services across national boundaries (Bradley, 1991).

Foreign direct investment theories

Certain theorists have attempted to address limitations of international trade theories under the rubric of FDI. A selection of these will now be discussed which concern market imperfections theory, international production theory and internalization theory (Table I).

The market imperfections theory states that firms constantly seek market opportunities and their decision to invest overseas is explained as a strategy to capitalize on certain capabilities not shared by competitors in foreign countries (Hymer, 1970). The capabilities or advantages of firms are explained by market imperfections for products and factors of production. That is, the theory of perfect competition dictates that firms produce homogeneous products and enjoy the same level of access to factors of production. However, the reality of imperfect competition, which is reflected in industrial organization theory (Porter, 1985), determines that firms gain different types of competitive advantages and each to varying degrees. Nonetheless, market imperfections theory does not explain why foreign production is considered the most desirable means of harnessing the firm's advantage. Dunning (1980) and Fayerweather (1982) have addressed this issue and developed what can be described as international production theory.

International production theory (Table I) suggests that the propensity of a firm to initiate foreign production will depend on the specific attractions of its home country compared with resource implications and advantages of locating in another country. This theory makes it explicit that not only do resource differentials and the advantages of the firm play a part in determining overseas investment activities, but foreign government actions may significantly influence the piecemeal attractiveness and entry conditions for firms. A related aspect of this foreign investment theory is the concept of internalization which has been extensively investigated by Buckley (1982, 1988) and Buckley and Casson (1976, 1985).

Internalization theory (Table I) centres on the notion that firms aspire to develop their own internal markets whenever transactions can be made at lower cost within the firm. Thus, internalization involves a form of vertical integration bringing new operations and activities, formerly carried out by intermediate markets, under the ownership and governance of the firm. Much of this research, however, adopted the multinational enterprise as the unit of analysis and excluded the process that preceded that level of international development. In response, a more dynamic, process-based perspective was

Table I
Selected theories of international trade and foreign direct investment

Theory type	Theoretical emphasis	Credited writers
International trade theories		
Classical trade theory	Countries gain if each devotes resources to the production of goods and services in which it has an advantage	Ricardo (1817) Smith (1776)
Factor proportion theory	Countries will tend to specialize in the production of goods and services that utilize their most abundant resources	Hecksher and Ohlin (1933)
Product life cycle theory (for international trade)	The cycle follows that: a country's export strength builds; foreign production starts; foreign production becomes competitive in export markets; and import competition emerges in the country's home market	Vernon (1966, 1971) Wells (1968, 1969)
Foreign direct investment theories		
Market imperfections theory	The firm's decision to invest overseas is explained as a strategy to capitalize on certain capabilities not shared by competitors in foreign countries	Hymer (1970)
International production theory	The propensity of a firm to initiate foreign production will depend on the specific attractions of its home country compared with resource implications and advantages of locating in another country	Dunning (1980) Fayerweather (1982)
Internalization theory	Internalization concerns extending the direct operations of the firm and bringing under common ownership and control the activities conducted by intermediate markets that link the firm to customers. Firms will gain in creating their own internal market such that transactions can be carried out at a lower cost within the firm	Buckley (1982, 1988) Buckley and Casson (1976, 1985)

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called for which demanded recognition of the internationalization of the firm. Nowadays, published research on internationalization forms a significant part of the international business literature.

Internationalization theories of the firm

Concept of internationalization

As was recorded in a seminal article by Hayes and Abernathy (1980), the trade deficit performance of a nation cannot always be explained by macro-economic phenomena. It needs to be recognized that the role of the entrepreneur plays a part in explaining the international trading activities of a nation. Given that an economy may comprise several industries accommodating an array of firms, it appears reasonable that the role of decision makers within such organizations can, collectively, provide a substantial contribution to economic performance. In contrast to the international trade and FDI theories, outlined above, internationalization theories endeavour to explain how and why the firm engages in overseas activities and, in particular, how the dynamic nature of such behaviour can be conceptualized.

'...the growth of countertrade, in the form of barter or buy-back arrangements, clearly illustrates the way in which outward growth is related to inward growth...'

Even though the term internationalization has been used extensively, few real attempts have been made to provide an operational definition of its meaning. Piercy (1981) and Turnbull (1985) describe internationalization as the outward movement of a firm's operations. However, this expression could be embellished on to describe internationalization as "...the process of increasing involvement in international operations" (Welch and Luostarinen, 1988, p. 36). This latter definition takes account of both the inward and outward growth of international firms. For example, the growth of countertrade, in the form of barter or buy-back arrangements, clearly illustrates the way in which outward growth is related to inward growth (Huszagh and Huszagh, 1986; Khoury, 1984). The merits of Welch and Luostarinen's (1988) definition have been recognized by others (Young, 1990) because it is a working explanation which is concise and readily interpretable. Furthermore, it is sufficiently holistic to take account of the multiple factors associated with international expansion.

The internationalization process of firms has been subject to widespread research attention and empirical investigation (Anderson, 1993). Welch and Luostarinen (1988) have comprehensively reviewed this literature and concluded that "...there is a wide range of potential paths any firm might take in internationalisation" (p. 43). An array of approaches and perspectives have contributed to the contemporary understanding of firm internationalization. For example, economic, econometric, organizational, marketing and managerial models have been formulated which help to explain the structural and behavioural issues underlying internationalization theory (Dalli, 1994). However, despite such a profusion of interest from such scholars one approach has developed a significant body of literature on the subject of internationalization: export development.

Given that export activities of the firm perpetually change, the mode of export behaviour, quite naturally, tends to be development (Albaum *et al.*, 1989) and a large number of studies have adopted this frame of reference in studying firms' dynamic and evolutionary process of internationalization. It has been contended that the literature concerned with internationalization, from an export development perspective, is probably one of the most advanced and mature areas of knowledge in international business (Haar and Ortiz-Buonafina, 1995). This is primarily because these studies synthesize many of the disaggregated concepts in the area and devote their attention to challenging questions such as: what factors determine the advancement of the firm along the path of internationalization; what are the phases which characterize the exporting process; and what are the ingredients of a typical export behaviour pattern.

In order to appreciate the particular research efforts in this area, the following sections will review two prominent approaches for describing internationalization theory in the context of exporting. These two approaches have been characterized as: the Uppsala internationalization model and related hybrid models; and innovation-related internationalization taxonomies.

Uppsala internationalization model and related hybrid models

Much of the extant literature on internationalization has been inspired by the work of Scandanavian researchers who are collectively referred to as the Uppsala School (e.g. Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). This literature generally suggests that the process of internationalization is founded on an evolutionary and sequential build-up of foreign commitments over time.

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Johanson and Wiedersheim-Paul (1975) studied the establishment chains of four large Swedish multinationals and found that the growth patterns of these firms were distinguished by a number of small incremental changes which could be described as an internationalization process. They identified four steps within this process which were distinguished by those firms with: no regular export activities; export activities via independent representatives or agents; the establishment of an overseas subsidiary; and overseas production/manufacturing units. To explain the concept of incremental internationalization further, Johanson and Vahlne (1977) refined this work and formulated a dynamic model. The contention implicit within this model is that the firm proceeds along the internationalization path in the form of logical steps, based on its gradual acquisition and use of intelligence from foreign markets and operations, which determine successively greater levels of commitment to those overseas destinations. Johanson and Vahlne (1977) have postulated that internationalization is based on learning through the development of experiential knowledge about foreign markets, which is gained so as to reduce their "psychic distance" (p. 30). Consequently, the firm is able to enter further overseas markets, previously characterized by greater levels of psychic distance, and thereby commit greater levels of resources to internationalization.

'…the firm proceeds along the internationalization path in the form of logical steps, based on its gradual acquisition and use of intelligence from foreign markets and operations, which determine successively greater levels of commitment to those overseas destinations…'

This evolutionary model, which is based on the behavioural theory of the firm (Cyert and March, 1963), has been endorsed by the Finnish research of Luostarinen (1980) and Larimo (1985), the Swedish research of Hornell and Vahlne (1982), Swedenborg (1982) and Gandemo and Mattsson (1984), the Norwegian research of Juul and Walters (1987), as well as work in other, non-Scandinavian, settings (Yoshihara, 1978). This reinforces a previous conclusion by Wilkins (1974) who identified a gradual process of firms' international involvement from his longitudinal study of American firms' internationalization patterns. Furthermore, British researchers have found that a number of intermediate stages are experienced by firms in the build-up to foreign involvement activities (Buckley *et al.*, 1979, 1981).

Innovation-related internationalization taxonomies

An extensive volume of research has examined the way in which firms progress along the internationalization continuum and suggests that a sequence of discrete stages exists which proxy the "stop and go" (Dalli, 1994, p. 92), stepwise process exemplifying the evolution of international involvement. Implicit between each set of stages is the notion that fairly stable periods exist in which firms consolidate and generate an appropriate resource base to respond to fortuitous environmental conditions which allow them to proceed to the next internationalization stage. Tables II and III illustrate selected innovation-related internationalization taxonomies, all of which follow a similar sequence based on organizational learning and derive, in part, from Rogers' (1962) stages of the innovation adoption process.

Innovation adoption describes the selection of an innovation as the most acceptable alternative, among a series of options, at a given point in time (Zaltman and Stiff, 1973). The utilization of the innovation adoption framework in export decision making was first considered by Simmonds and Smith (1968) but significant advances were made by Bilkey and Tesar (1977). These authors concluded that the process of export development was depicted by several distinct stages and that various different factors affected decision making at each stage.

The taxonomies highlighted in Tables II and III share many of the same characteristics. However, the main differences include the number of stages in each model. For example, Bilkey and Tesar (1977) and Czinkota (1982) recognized six stages, while Rao and Naidu (1992) were only able to identify four stages in their research. A brief discussion will now follow for each of the taxonomies presented in Tables II and III.

Bilkey and Tesar (1977) conceptualized the process of export development on the basis of firms' increasing involvement in exporting to psychologically more distant markets. Their taxonomy was composed of six export development stages with the extremes ranging from firms whose management had no interest in exporting to those whose management explored the feasibility of exporting to perpetually greater psychologically more distant countries.

Cavusgil (1980) proposed a taxonomy with five stages which were described as firms' activities in: domestic marketing; pre-export involvement; active export involvement; and committed export involvement. This export development process was founded on management's successive decisions regarding exporting over a period of time. Furthermore,

it was suggested, on the basis of empirical evidence, that several firm-specific characteristics and managerial factors acted as determinants in the process of facilitating or inhibiting the progress of firms from one internationalization stage to the next.

Reid (1981) purported an explicit innovation adoption sequence of exporting. He conceived the innovation to follow the stages of a firm's: export awareness; export intention; export trial; export evaluation; and export acceptance. In this context, export adoption was believed to require a favourable management attitude to exporting, an available foreign market opportunity and the presence of spare resource capacity within the firm.

Wortzel and Wortzel (1981) were able to identify five stages of international market entry and expansion. Each of these stages was distinguished by the extent of control exercised by the exporter concerning its activities in overseas markets. That is, each successive stage was signified by a greater internalization of marketing, production and administrative functions previously performed by foreign market-based intermediaries. Underlying this taxonomy is the significance of contingency issues which influence the determination of appropriate and desirable levels of international involvement.

Czinkota (1982) attempted to segment firms on the basis of an internationalization taxonomy so as to be able to target government export assistance requirements effectively. Six distinct groups of firms emerged, which ranged from those completely uninterested in exporting, and restricted to the domestic market, to those that could be described as experienced large exporters. An empirical investigation revealed that firms, at various stages, significantly differed in terms of their organizational and managerial characteristics.

Lim *et al.* (1991) expanded on the work of Reid (1981) and identified four levels of export innovation, these being: export awareness; export interest; export intention and export adoption. Strong evidence of support for this framework was found which suggested that innovation adoption does have considerable applicability in the context of export decision making.

Rao and Naidu (1992) analysed groups of firms according to an a priori assignment of firms classed as: non-exporters; export intenders; sporadic exporters; and regular exporters. This taxonomy was empirically tested and validated on the basis that each stage captured the distinct attributes of firms' internationalization activities.

All of these taxonomies possess a common theme in which they attempt to introduce a classification of export behaviours which generate heterogeneous profiles of firms that reflect different degrees of development along a reference line of internationalization.

Table II
Selected innovation-related internationalization taxonomies

Bilkey and Tesar (1977)	Cavusgil (1980)	Reid (1981)
Stage 1		
Management is not interested in exporting	Domestic marketing: the firm sells only to the home market	Export awareness: problem of opportunity recognition, arousal of need
Stage 2		
Management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of active exporting	Pre-export engagement: the firm searches for information and evaluates the feasibility of undertaking exporting	Export intention: motivation, attitude, beliefs and expectancy about export
Stage 3		
Management actively explores the feasibility of active exporting	Experimental export involvement: the firm starts exporting on a limited basis to some psychologically close country	Export trial: personal experience from limited exporting
Stage 4		
The firm exports on an experimental basis to some psychologically close country	Active export involvement: exporting to more new countries – direct exporting – increase in sales volume	Export evaluation: results from engaging in exporting
Stage 5		
The firm is an experienced exporter	Committed export involvement: management constantly makes choices in allocating limited resources between domestic and foreign markets	Export acceptance: adoption of exporting/rejection of exporting
Stage 6		
Management explores the feasibility of exporting to other more psychologically distant countries		

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Incremental internationalization: contradictory evidence

Both the Uppsala internationalization model (and related hybrid models) and the innovation-related internationalization taxonomies confirm the fundamental tenet that a firm's internationalization is largely attributed to two key elements: the amount of knowledge the firm possesses, particularly experiential knowledge; and uncertainty regarding the decision to internationalize. Despite the widespread recognition and general acceptance of these models in the extant literature, they have been recently subject to criticism regarding their theoretical foundation (Anderson, 1993) and generalizability (Sullivan and Bauerschmidt, 1990).

'…International involvement continues to increase to the extent that experience may be translated across different markets and between various product groups, thus, enabling firms to leapfrog the incremental process within markets…'

Furthermore, others have subsequently found that the incremental internationalization thesis fails to explain fully the nature and character of firms' international involvement (Gripsrud, 1990; Grønhaug and Kvitastein, 1993; Millington and Bayliss, 1990; Sharma and Johansson, 1987; Turnbull, 1987). A number of reasons account for this.

First, Millington and Bayliss (1990) paid particular attention to the role of strategic planning in the process of internationalization and found that the incremental stepwise development of firms was the exception rather than the rule. They concluded that, in the early part of international involvement, firms rely on market experience and thereby make incremental adjustments. However, as the degree of international experience increases, planning systems are implemented which formalize strategic analysis and information search. International involvement continues to increase to the extent that experience may be translated across different markets and between various product groups, thus, enabling firms to leapfrog the incremental process within markets. Similar arguments of leapfrogging have been proposed by researchers in other contexts. For example, international involvement patterns by Swedish (Hedlund and Kverneland, 1983) and Australian (Bureau of Industry Economics, 1984) firms have found this to be the case.

Second, an important issue of intra-stage evolution is not considered within these models. Commonly referred to as "micro-internationalization" (Dalli, 1994, p. 95), this issue can have significant implications for the development of small and medium-sized firms because a number of subtle changes regarding systems, procedures and other internal and external phenomena may influence their outlook on exporting (Bonaccorsi and Dalli, 1990).

Third, it is largely considered that firms advance along the path of internationalization

Table III
Further selected innovation-related internationalization taxonomies

Wortzel and Wortzel (1981)	Czinkota (1982)	Lim *et al.* (1991)	Rao and Naidu (1992)
Stage 1			
Importer pull	The completely uninterested firm	Export awareness	Non-exporters: the firm has no current export activity nor any future interest
Stage 2			
Basic production capacity marketing	The partially interested firm	Export interest	Export intenders: the firm is a current non-exporter, but would like to explore future export opportunities
Stage 3			
Advanced production capacity marketing	The exporting firm	Export intention	Sporadic exporters: the firm exports, but in a sporadic fashion
Stage 4			
Product marketing – channel push	The experimental firm	Export adoption	Regular exporters: the firm exports on a regular basis
Stage 5			
Product marketing – consumer pull	The experienced small exporter		
Stage 6			
	The experienced large exporter		

rather than the reverse. Some international firms may encounter the situation where the aggregate disadvantages of international involvement outweigh the potential advantages of such a strategy. Given this scenario, it is possible that firms may undergo a process of "de-internationalization" (Welch and Luostarinen, 1988, p. 37) and thereby reverse the sequence of international expansion through divestment and other similar tactics (Boddewyn, 1989).

The final issue has been addressed by Sullivan and Bauerschmidt (1990) who attempted to test the incremental internationalization hypothesis. Although these researchers acknowledged a number of methodological shortcomings in their study, no significant differences were revealed with regard to barriers and incentives to internationalize among firms at various levels of international involvement. Thus, no findings were evident to support the incremental fashion of a firm's path to internationalization.

Despite the controversy surrounding the incremental internationalization thesis, it seems reasonable to suggest that the concept of a sequential process of international involvement does not imply that such a transition is either consistent or uniform. The likelihood is that some general evolutionary pattern of international involvement can be pursued which could be irregular and *ad hoc*. To illustrate this, Mintzberg and McHugh (1985) intimate that most strategies for growth are characterized by peaks and troughs of commitment which are related to the discontinuous emergence of opportunities and threats in the firm's environment. Consequently, the outcome of international involvement may be the result of a combination of deliberate and emergent strategies over time.

'…most strategies for growth are characterized by peaks and troughs of commitment which are related to the discontinuous emergence of opportunities and threats in the firm's environment…'

One of the key problems that will likely confound further progress in internationalization research will be the precise method of measuring and determining the degree of internationalization. For instance, Sullivan (1994) considered that the reliability of measuring the degree of internationalization of a firm remains almost completely speculative. In consequence, attempts at theory building may lack the evidence to ensure that comparison between different conceptualizations of internationalization are suitable. Therefore, future research should necessarily take account of these anomalies in internationalization measures, in order to draw more precise conclusions underlying the nature of international involvement and expansion.

Conclusions

This critique was based on the premiss that the function of a theory "is that of preventing the observer from being dazzled by the full-blown complexity of natural or concrete events" (Hall and Lindzey, 1957, p. 9). Therefore, theoretical statements have two purposes: to organize parsimoniously; and communicate clearly (Bacharach, 1989). Despite the fact that sophisticated frameworks have been advanced to assess the rigour of theories (e.g., Blalock, 1969; Dubin, 1976; Nagel, 1961; Popper, 1959), the approach taken here adopted the stance of a broad review of the major extant theories of international trade, foreign direct investment and firm internationalization.

Many of the theories detailed in this article can be considered laudable (Bradley, 1987) and satisfy the general criteria of theoretical parsimony and communicability. In demonstrating this, illustration was given to the issues underlying each theory and certain contrasts were drawn between the theory types in an effort to frame them in relation to their intellectual biases of international economics, international finance and international business. While no specific attempt was made to compare the theories, the discussion emphasised their particular focus, accredited writers and general conclusions.

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Application questions

1 How well does the body of theory on international trade inform actions in international trade in your experience? How useful is it?

2 Look again at the article, and compare and synthesize the various theories presented by the authors. Where is the discussion leading? What further research would you advise?