Why and how motives (still) matter

Gabriel R. G. Benito
BI Norwegian Business School

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Gabriel R.G. Benito

BI Norwegian Business School

N-0442 Oslo, Norway

e-mail: gabriel.r.g.benito@bi.no

Purpose – The article provides a discussion of the relevance of motives for companies' internationalization.
Design/methodology/approach – Conceptual discussion building on established classifications of motives of internationalization, which distinguish between market-seeking, efficiency-seeking, resource-seeking and strategic asset-seeking motives.
Findings – The analysis demonstrates that important issues in companies' internationalization differ systematically across different types of motives, which implicates that motives remain relevant when analyzing various aspects of the internationalization of the firm. Motives are also useful elements for theory building in international business.
Research limitations/implications – The analysis is purely conceptual and is not further substantiated by empirical evidence.
Practical implications – The classification of motives is a useful tool for companies to analyze their strategic alternatives and actions, especially with regard to performance measurement.
Social implications – A clear classification of the various motives for companies' foreign activities is essential for formulation of sound policies about attraction/stimulation and regulation of companies' inbound and outbound internationalization.
Originality/value – The article demonstrates the importance of retaining a clear classification of motives as a basis for further development of a theory of firms' internationalization behavior.
Keywords – Internationalization of the firm, FDI, Motives, Internalization theory, Internationalization process.

About the author

Gabriel R.G. Benito is Professor of International Strategy at BI Norwegian Business School. His research agenda currently concentrates on strategies and structures of multinational enterprises, headquarter-subsidiary relationships, and foreign operation mode strategies. He can be contacted at: gabriel.r.g.benito@bi.no

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Introduction

Companies engage in cross-border activities in many different forms and for many different reasons. Some source inputs, components, and services from foreign suppliers, because they are cheaper, more readily available, or of higher quality than those from domestic suppliers. Some sell their goods and services in foreign markets, thereby increasing their customer base considerably. Some acquire knowledge assets such as patents, reputation assets such as brands, or perhaps even other companies in order to quickly obtain competitive advantages that would have taken them a long time and many resources, and involve considerable risk to develop themselves. Some choose to locate activities in abroad in order to take advantage of lower costs, or to improve (or even secure) the availability of important resources for the type of business that they are in.

Whatever companies do beyond the boundaries of their home country, they do it for a reason. Companies' internationalization is purposeful and goal-oriented. That is not to say, of course, that companies always succeed in their international endeavors. There is much evidence suggesting that is often not the case. Nevertheless, even those that at some point turned out to be a failure, a mistake or just an unsuccessful venture, started out with a reasonable aspiration and hope for success. However tentative it might be at times, there is a rationale, perhaps even a strategic goal, behind companies' actions.

Put differently, a company's internationalization – what it involves, how it unfolds, and how it is organized and managed – is inextricably linked to the motives underlying it. Motives seemingly define the essential nature of internationalization. Hence, here I argue that motives remain (key) elements of international business theory as they help organizing our understanding of firms' internationalization. Specifically, I argue that (*i*) they remain useful as a basis for identifying important location and internalization factors; (*ii*) that they characteristically relate to different sectors and industries; (*iii*) that they typically involve different types of (value) activities; and (*iv*) that they have fundamental implications for how to assess performance.

Without an explicit and clear notion of motives, conceptualizations of firms' internationalization are bound to be imprecise – which would happen if highly diverse internationalization circumstances are lumped into one large bag – or inadvertently offered as general while in reality being partial, which, I argue later, has been the case for the well-known internationalization process model. From a theoretical and academic perspective, imprecision tends to result in overly general and sweeping descriptions and explanations. Conversely, unfounded claims of generality tend to result in forgetting to (or even avoiding) to critically examine the boundary conditions of a theory, perspective or framework.

In this commentary, I proceed by demonstrating how important issues in companies' internationalization differ systematically across different types of motives. On that basis, I discuss the continued relevance of motives when analyzing various aspects of the internationalization of the firm. I close the commentary with some comments on the usefulness of motives for theory building in international business.

Motives

The classical discussion of internationalization motives can be traced back to the work of John H. Dunning, who distinguished between four main motives (Dunning, 1993) [1] :

- Market-seeking, i.e. companies that venture abroad to find customers.

- Efficiency-seeking, i.e. companies that venture abroad to lower their costs of performing economic activities, and/or that aim at rationalizing their already existing operations in various locations.
- Resource-seeking, i.e. companies that venture abroad to access resources that are not readily available at home or that can be obtained at a lower cost abroad.
- (Strategic) asset seeking, i.e. companies that venture abroad to obtain strategic assets (tangible or intangible), which may be critical to their long-term strategy, but that are not available at home.

In much of the literature, these motives are typically called foreign direct investment (FDI) motives, perhaps because Dunning himself and many scholars alongside and after him were mainly interested in understanding the phenomenon of FDI. However, FDI – the setting up of an organizational unit abroad that is owned by a company domiciled elsewhere – is only one of several ways in which companies can access customers, resources, and assets, or are able to achieve greater efficiency. In each case mentioned above, an alternative to FDI could entail entrusting the selling of goods and services or the sourcing of inputs and resources to market-based transactions. In other words, companies may replace FDI with exporting and importing activities. Another possibility would be to enter an agreement (typically, but not necessarily, requiring a fairly detailed contract of some duration) with another party to carry out the business. For example, a firm may set up a licensing contract with another firm to obtain the right to use some proprietary knowledge (so-called "intellectual property") of the latter – against, of course, a suitable compensation [2]. Yet another alternative could be to engage in close collaboration – i.e. to form an alliance – with another party.

Hence, it is important to realize that motives *per se* do not provide a sufficient justification for either FDI, or any other form of business activity across borders. For example, a company that exports is equally market-seeking as a company that produces abroad to service a local market, and a company that sub-contracts parts of its production to a foreign supplier is efficiency-seeking just like one that has instead set up its own subsidiary to carry out production. Motives clarify above all the *why*-question in international business, and are as such applicable across the various forms through which international business activities can be organized (Welch et al., 2007).

Motives and the *where* of internationalization

Because companies go abroad for different reasons, it is also likely that they go to different places. If the motive for internationalization is to find new markets and customers, companies are likely to seek out locations that have a large population, which lives concentrated preferably in densely populated areas, and which has a high purchasing power. Since market entry is costly and risky, and market knowledge is crucial for succeeding in a market, companies also tend to value proximity to their new markets, especially in the early phases of their expansion abroad. Distance is likely to be particularly significant for companies that sell to other companies and not end consumers, because closeness is crucial in business-to-business relationships.

When companies venture abroad to lower the costs of production or doing some other activity, the decisive location factors change to cost levels and availability of human resources, often in combination with a well-developed infrastructure that supports the logistical processes needed to achieve potential cost reductions in production and distribution. Since distance typically translates to transportation and management costs, proximity might also be an important consideration by efficiency-seeking companies.

In terms of location choices, resource-seeking companies are often more constrained in their choices: resources are not evenly distributed geographically (and hence, politically, socially etc.). However, that also means that the *raison d'être* for international activity becomes imperative for such choices. For example, because salmon farming requires a multitude of conditions that locations should meet, commercially successful farms are mainly found in a handful of countries, principally Canada, Chile, Norway and Scotland. In many instances, the inequity of resource availability coincides with (and may have been upheld by) significant economic, social, and political stability issues.

Finally, companies seeking out opportunities to develop or acquire new strategic assets are likely to look for factors such as the existence of vibrant clusters, a high level of development, urban centers etc. in their search for suitable locations for their activities (Narula and Santangelo, 2012). The crucial point is that strategic asset seeking is forward-looking. It is about developing new resources and capabilities that can generate future streams of revenue, not exploiting already existing ones. While risky in general, such endeavors have a better chance of succeeding in diverse and dynamic environments that are simultaneously able to both continually produce high innovation rates and to absorb failures, i.e. generate new opportunities for projects and people that do not succeed at some point.

Motives and the *how* of internationalization

In addition to the *where* question, an essential decision is determining *how* to organize and operate their international business activities. As noted earlier, companies can carry out their businesses in a variety of ways, ranging from performing activities in-house, via collaborating with others, to engaging in arms-length market transactions. According to internalization theory (Buckley and Casson, 1976), arguably the leading theory in international business, these choices are fundamentally about finding the most efficient (cost minimizing) way of operating abroad. For example, establishing a subsidiary in a foreign country, often referred to as FDI, would be the preferred choice of operating when the joint costs of performing and governing an activity – or a set of activities – in-house are lower than the equivalent costs of other options, such as exports, licensing or alliances (Welch et al., 2007). Since setting up a subsidiary abroad is costly, potentially risky, and commits resources from other possible uses, companies are wise not to make FDIs unnecessarily, i.e. when other modes of operation would offer an adequate execution of activities without the added costs, risks, and complications of a FDI. Internalization theory argues that the in-house option is superior only in circumstances where the alternatives either do not provide a social context among those involved in an activity that is advantageous to its performance (examples could be work that is non-programmed and that requires a high level of interaction between people), or entails using proprietary assets and resources (firm-specific advantages) whose value could exploited by outside parties without due compensation. These issues also play out in a differentiated manner across different internationalization motives.

For market-seeking companies the basis for their international expansion is typically that they own brands or trademarks that are – or, given suitable investment in them, can be made – valuable when expanding in new markets. Such brands and trademarks are exposed to inappropriate use by outside parties, who would like to free-ride on their revenue increasing clout, but, since they do not own it, have little interest in making the efforts and investments necessary to keep and develop their value. Expanding abroad by setting up own subsidiaries is a way of safeguarding branded assets.

The assets that are potentially at risk for efficiency-seeking companies are usually not (primarily) a brand or a trademark as in the case of market-seeking companies. Rather, such companies often make substantial investments in production and logistical systems and hardware to gain economies of scale, scope and time. Such investments typically result in assets that are tailor-made to the specific needs of the company and have little, or substantially reduced value in alternative uses. That makes them vulnerable to hold-up and under-investment problems if not safeguarded under common ownership (Williamson, 1985). That is not to say, of course, that efficiency-seeking companies always prefer to expand abroad through wholly owned subsidiaries. The formidable increase in offshored outsourcing over the last decades demonstrates the opposite, and speaks to the feasibility of capturing efficiency-enhancing benefits by shedding off activities and operations that might previously have been performed in-house, and at home [3]. Technological advances that facilitate more flexible production and shorter horizons for recouping investments in specialized assets have led companies to re-think how they organize their operations worldwide.

Resource-seeking companies experience challenges regarding hold-up as well as under-investment that seem similar to those of efficiency-seeking companies. Some invest in specialized machinery and infrastructure to exploit an input optimally, for example by co-locating with the input provider. Some develop technology that is tailor-made for a specific resource-location combination (e.g. extraction of oil sands in Canada). Some set up production facilities that are made for continuous operations and which require a steady-stream of certain inputs (e.g. a chemical plant). These instances leave companies exposed to contract breaches or extortionate behavior from other parties. However, a distinctive difference for resource-seeking companies is that the risks they face often refer to the actions of governments and other political actors in the countries where they operate. That leaves even the extra safeguards provided by ownership at risk, since local authorities can seize assets without paying full reparation.

Strategic asset-seeking companies focus on developing or acquiring new resources and capabilities that provide future streams of revenue. Their key concern is often to get there first, i.e. identifying and securing the focal assets before their competitors, which may prompt hurried actions with inadequate thought being given to due diligence e.g. in the case of acquiring a brand, a technology, or even another firm. Companies that venture abroad for strategic asset-seeking motives are likely to prioritize control over their foreign operations, perhaps overriding other relevant concerns.

Are the various motives equally prevalent across different parts of an economy? Probably not. Market-seeking is a typical driver of companies' internationalization in consumer goods and many services, i.e. industries where local tastes, preferences and regulations are likely to matter much for companies' product offer and business strategies. At the same time, there should be a high degree of transferability of key elements of the business strategy (e.g. brand) across markets. Efficiency-seeking has traditionally occurred in manufacturing industries, where companies have placed production abroad to benefit from lower wages levels and other costs, rationalized production, and sourcing of cheaper inputs and components from foreign sources. Increasingly, however, many services have also relocated to foreign locations. Resource-seeking is prevalent in extractive industries such as minerals and oil and gas, but also in other primary sectors such as forestry, fisheries and agriculture. Resource-seeking can also be a vital element for companies whose essential strategy is to control and coordinate vertical supply chains such as Starbucks (coffee house), Apple (computers and personal IT equipment), and Zara (fashion). Finally, strategic asset-seeking, while undoubtedly occurring in many industries (perhaps especially among emerging market companies that are eager to catch-up with their Western counterparts quickly, see e.g. Guillén and Garcia-Canal, 2009; Meyer et al., 2009), is probably characteristic for high-tech industries such as pharmaceuticals, computers, and bio-technology.

There are also differences across motives regarding which value activities that are typical for them. Marketing and sales activities are logically associated with market-seeking; manufacturing with efficiency-seeking, extraction and production with resource-seeking; and research/development and other innovation oriented activities with strategic asset seeking.

Since what companies try to achieve in their various internationalization actions varies, arguably, the assessment of their performance should vary accordingly. Success in pursuing new market opportunities abroad can measured in terms off volume sold, sales growth, and market share. Efficiency-related performance measures include cost-profit margins, or productivity (input/output-ratios). Performance in resource-seeking can be assessed in terms of input costs, price-cost margins, and the stability and reliability of supplies. Finally, success in strategic asset seeking can be evaluated on dimensions such as new patents and other intellectual property rights, and the introduction of new products or new processes.

Table 1 summarizes the foregoing discussion.

Table 1 about here

Combinations of motives

So far, I have chosen to keep motives separated, which has simplified the discussion of their nature. That is not to say, however, that companies necessarily are focused and single-minded in their internationalization.

First, companies may evolve in their internationalization over time. Much work about the internationalization process of firms has been about market-seeking. Studies have looked at how companies have expanded abroad in terms of the number and location of markets covered, and demonstrated that companies tend to select close and similar markets initially, but venture further out as they build up experience and reduce their perceived uncertainty of operating abroad (Johanson and Vahlne, 1977). As momentum builds up, however, internationalization may also cover more activities, e.g. production (efficiency-seeking), research and development (asset-seeking), and relate to additional parts of a company's resource base, e.g. products and brands (asset-seeking) or finance (resource-seeking) (Welch and Luostarinen (1988). One important aspect of the internationalization process of firms is hence that it becomes more complex as it develops over time. Another aspect of internationalization is that it sometimes begins with inward activities, like purchases of machinery, the procurement of raw materials and semi-finished goods, and the sourcing of knowledge and technology (e.g. through licensing) which provide future opportunities for outwardly oriented internationalization (Welch and Luostarinen, 1993). The movement is then one from resource-seeking initially to market-seeking and other types of internationalization later on, but the various motives often occur in parallel. Cuervo-Cazurra (2011) uncovers an interesting dimension to inward internationalization by showing that firms that acquire international experience at home through an alliance with a foreign firm, are subsequently more prone to internationalize in a non-sequential manner, i.e. to make their first international ventures in countries that are outside the cultural cluster of their home country.

Second, as pointed out by Benito et al. (2009) some companies do a variety of activities abroad concurrently, but for different reasons and without one given motive necessarily dominating others. For example, companies may simultaneously source inputs (resource-seeking), produce abroad (efficiency-seeking), and service end customers (market-seeking), either in a value activity system that is international in the sense that it crosses various national borders – as described in detail by Buckley (2011) in his work on the global factory – or in a more localized manner in a given country. Benito et al. (2011) provide case evidence about how six Norwegian companies operated with activity packages in various countries, as well as with combinations that span across countries and activities. In doing so, the companies demonstrated that their internationalization can be multifarious and driven by several motives. Companies that aspire to compete globally are often inclined to pursue several motives at the same time, and such companies have to calibrate their internationalization strategies accordingly. This is especially the case for companies that follow the classic global strategy in the strict sense of combining a highly standardized marketing approach with a highly coordinated, yet dispersed, activity set. Such companies are driven as much by market-seeking motives (generating revenues) as they are driven by efficiency-seeking motives (minimizing costs).

A few closing remarks on motives and internationalization theories

Whereas internalization theory is a general theory of internationalization, which comprises any of the four main motives for operating abroad (Grøgaard and Verbeke, 2012), the other main theoretical perspective on firms' internationalization, the so-called Uppsala internationalization process model, has a narrower scope. Although seldom clearly specified, the latter was initially formulated as a theory of how firms expand abroad in order to pursue new market opportunities, but has more recently been developed to include sourcing as well (Johanson and Vahlne, 2009). However, it remains a theory that is less applicable to efficiency-seeking and strategic asset-seeking types of internationalization, which describe firm behaviors that are distinctly more calculated and, perhaps, adventurous. For example, efficiency-seeking often oblige firms to take relatively large and bold steps, even at the early stages of internationalization. Lowering productions costs sufficiently sometimes entail choosing production sites that lie far away from home. Hence, despite the uncertainty and uneasiness the managers may feel about making a decision, it could just be what it takes to achieve the very purpose of going abroad. Similarly, obtaining the prerequisite level of control over operations may require committing more resources than what decision-makers would otherwise have been ready to accept.

Emerging market companies stand for an increasing share of international activities. It has been noted that these companies venture abroad – often with an accelerated pace – in order to secure resources, to access markets, and, especially, to obtain new capabilities and competitive assets by acquiring local firms in advanced economies (see e.g. Guillén and

Garcia-Canal, 2009). While their international expansion makes the internationalization process model appear ever more outmoded, it seemingly remains fully compatible with internalization theory and its emphasis on developing, using and protecting firm-specific advantages. However, as pointed out by Cuervo-Cazurra and Genc (2008), the advantages of emerging market companies can be different from those typical for companies from developed countries. A distinctive advantage is their superior ability to deal with adverse political and institutional conditions, which result from having to deal with similar circumstances in their home countries. As stated by Cuervo-Cazurra and Genc (2008, p. 976) "…when analyzing internationalization, we need to broaden our attention from those resources that help the firm compete, including resources that help the firm operate in an institutional environment. Both can support the firm's advantage abroad", which points to the value of combining institutional and internalization perspectives when analyzing firms' internationalization.

A key point is that beyond their apparent descriptive value as classificatory devices, motives serve at least two additional useful functions in theories. First, as discussed earlier, motives are associated with central aspects of internationalization in a systematic, yet differentiated manner. That makes them relevant variables to include when looking at direct and/moderating effects on firms internationalization. Second, as just mentioned above, they serve as key markers for the conceptual domains of theories of firms' internationalization. Hence, if anything, we need a renewed, not a reduced, interest in internationalization motives.

Notes

[1] The listed motives presume that managers have a proactive, or strategic, orientation. For example, the list leaves out situations where firms' motivations are mainly reactive and/or defensive such as when they follow-the-customer, follow-the-competitor, or protect existing markets.
[2] The licensing contract would describe in detail both the types of "intellectual property" involved – which could be of different kinds, including patents, trademarks, copyrights, designs, and trade secrets – and the terms for their use, especially the duration of the contract, territorial constraints, and parties' access to subsequent upgrades and technological advances.

[3] However, some recent studies uncover difficulties with offshoring strategies, such as “hidden costs” (Larsen et al., 2013), which could lead to “backshoring” of activities (Fratocchi et al., 2014). Benito et al. (2013) also point out that because offshored outsourcing sometimes does not lead to the required outcomes, especially regarding management control over activities, companies may convert supply arrangements into joint ventures, and then even wholly-owned subsidiaries over time.

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Table 1. Motives for internationalization.

	Motives:			
Issues:	Markets	Efficiency	Resources	Strategic assets
Key location factors	Size, purchasing power, level of development, proximity	Cost level, infrastructure, proximity	Resource availability, economic and political stability	Dynamic clusters, level of development, urban centers
Key internalization factors	Brands	Specialized investments	Supply security/stability	Pre-emption of competition
Typical sectors and industries	Consumer goods, services	Production of goods, back-office services	Primary sectors, vertical supply chains	High-tech
Exemplar activities	Marketing and sales	Manufacturing	Extraction and production	Research and development
Key performance indicators	Market share, volume sold, sales growth	Productivity, cost margin, profitability	Input cost, Supply reliability Price-cost margin	Innovations, patents, new product introductions