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Towards an Integrated Conceptual Framework of International Business Theory – A Literature Review Perspective: Any Convergence?

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Abstract

International business research has tried vividly to advance through several efforts to establish a theoretical base and agreed lines of analysis. The international product life cycle described by Raymond Vernon (1966) probably was the first major theory of the movement of firm's production overseas, rather than just to explain international trade; since then, several theories have been put forward without any of them gaining acceptance. The theories currently in use in international business research have been borrowed from different disciplines with different views and assumptions underlying their theoretical construct. Each is partial in some significant sense, however, none addresses holistically the essential nature of international business. Therefore, the development of a common theoretical base to provide rich framework to investigate the discipline should be considered among international business scholars and researchers.

Key Words: International Business, Theories, International Trade, Behavioural theories, Government Policies

INTRODUCTION

International business in general has been the subject of extensive research enquiry, and yet to date there is no universally accepted model of international business, let alone the same theory of international business. A possible explanation for this could be that little research has been directed at theory building and testing but rather to empirically testing of fractional areas of interest resulting in a galaxy of independent or semi-independent models and theories of international business. In addition to the lack of a theory building focus, researchers have attempted to apply to international business, theories from their primary backgrounds. This of course has only served to fragment the research. It is the contention here that new frames of reference are needed other than the neo-classical rational economic perspectives that currently dominate the entire study of international business. Mtigwe (2004) argued that an attempt at explaining the behavior of international firms using the neo-classical rational economic frames of reference have proved particularly troublesome. The real world of international business is far more complex and dynamic than that envisaged by these frames of reference. Furthermore, a particular weakness common to virtually all the theories of the internationalization process and international business in general, is their failure to question the fundamental assumptions on which they proceed to develop models.

Upon reviewing of the literature, this paper document that international business literature falls into three main categories: international trade theories, foreign direct investment theories and internationalization theories. However, their theoretical bases of research at present are

taken from economics, business strategy, organizational development, political science and other disciplines that offer understanding of some aspects of the firm activities. These theories have their unique underlying assumptions, hence the critical challenge is how to conceptually integrate these theories in order to have a holistic approach in international business research. The main purpose of this paper is not to integrate or build a common framework for international business from these three categories of theories identified above. It rather seek to review these categories of the theories of international business by looking at their main underpinning and fundamental assumptions and if these assumptions could lead researchers and scholars for possible common theory for international business research in future. Tversky and Kahneman (1974) argue that many basic assumptions accepted as truth are fundamentally flawed and consequently the models on which they are based are fundamentally constrained. This seems to be the case with international business theories development. The theories and models currently present needed to be subjected to rigorous evaluation and criticism. The major criticisms should be centered on:

- The simplistic and static nature of the models. It is argued that the numbers of the variables that are considered in most studies on international business are too few to explain such a complex, multidimensional and dynamic phenomenon (Ramaswamy et al., 2014).
- The defectiveness of the methodological and conceptual frameworks. Sullivan (2014) argues that the absence of a coherent approach to establish the validity of measurement results in empirical investigations that are disjointed and inconclusive.

Sullivan (2014) provided an example of how different constructs were used to estimate financial performance of firm internalization in 17 studies, with the result that the conclusion arrived at are unreliable. Bonaccorsi (2002) also found a similar difficulties in his study of firm size and export behaviour. The main shortcoming in his study is the small sample sizes and cross-sectional nature of his data, when in fact longitudinal studies would be better to enhancing our understanding of international business activities. In view of the difficulties with a unifying theory, some scholars have argued for a more interdisciplinary approach by consolidating existing theories and models as well as redefining measurement issues might be more appropriate.

INTERNATIONAL BUSINESS DEFINITION AND THEORY BASED

Ball et al., (2012) define international business as companies whose activities are carried out across national borders. While Punnett and Ricks (1997) define international business as any commercial, industrial or professional endeavor involving two or more countries. Based on these two definitions, a company importing inputs purely for trade in the domestic market only would be classified as an international company because all the requirements of intentionality as defined above are met in a company. However, Czinkota, et al. (1999) deliberately take the broader view of international business that includes export and import activities and define international business as consisting of transactions that are devised and carried out across national borders to satisfy the objectives of individuals and organizations. Hill (2001) defined international business as any firm that engages in international trade and investment. In my thinking, these definitions of international business are not only imprecise but lead to an even more complex definition of the internationalization process far in excess of what both academics and policy makers use. Fortunately, Scott (2001) gave a more comprehensive definition that spells out the direction, the actions and the expected outcomes from international business activities. Scott's definition views international business as including all

business activities (motivated by internal and external influences) needed to create, ship and sell goods and services across national borders for financial and non-financial rewards. Based on the definitions given above by the authors, it is important to trace the theoretical foundations of international business from its earliest forms to present day conceptualizations in order to enhance our general understanding of the field. As stated earlier, international business literature falls into three broad categories and have their roots in various dominant disciplines. For example, international trade models are rooted in classical trade theory (Smith, 1776; Ricardo, 1817), factor proportion theory (Hecksher & Ohlin, 1933) and product life cycle theory (Posner, 1961; Vernon, 1966). Internationalization models are rooted and draws on the behavioral theory of firm (Cyert & March, 1963; Aharoni, 1966). While foreign direct investment (FDI) models are rooted in economic theory (Leontif, 1953; Penrose, 1956).

INTERNATIONAL TRADE THEORIES

International trade theory is the oldest stream of international business research. According to the arguments of classical international trade theory, a country will export those goods and services in which it has an economic advantage while importing those that it does not have an economic advantage over. Smith (1776) and Ricardo (1817) argued that for two nations to trade with each other voluntarily, both nations must gain. If one nation gained nothing or lost, it would refuse it. In Smith's thinking, mutually beneficial trade takes place based on absolute advantage. The theory of absolute advantage argued that an opportunity for trade arose if a country had an absolute advantage in the production of a particular set of goods and services, while at the same time having an absolute disadvantage in the production of a different set of goods and services that it needed. In this circumstances, each country specialized in what it could supply most efficiently. When one nation is more efficient than or has an absolute advantage over what the other nation is producing (a second commodity), then both nations gain by each specializing in the production of the commodity of its absolute advantage and exchanging part of its output with the other nation for the commodity of its absolute disadvantage. Under these conditions, according to Smith, both nations would benefit if each specified in the production of the commodity of its absolute advantage and then traded with the other nation. For a long period of time, this was the accepted theory of international trade. However, questions arose about what would happen to those countries that had no absolute advantage. Should their industries closed down? Also what if one country could produce many of the goods that it needed in large quantities and at the same production cost as other country, would the trade still take place? The lack of congruency between the theoretical and the practical levels led to dissatisfaction with the explanatory power of the theory of absolute advantage resulting in the search for a new theory of international trade.

Although Smith's ideas about absolute advantage were crucial for the early development of classical thought for international trade, it is generally agreed that David Ricardo is the creator of the classical theory of international trade, even though many concrete ideas about trade existed before his principles. Ricardo showed that the potential gains from trade are far greater than what Smith envisioned in the concept of absolute advantage. According to Ricardo's theory of comparative advantage and the gains from trade, technology is crucial variable used to explain international trade patterns. The theory holds that a difference in comparative costs of production is the necessary condition for the existence of international trade. But this difference reflects a difference in techniques of production. According to this theory, technological differences between countries determine international division of labor and consumption and trade patterns. It holds that trade is beneficial to all participating countries. This conclusion is against the viewpoint about trade held by the doctrine of mercantilism. In mercantilism it is argued that the regulation and planning of economic activity are efficient means of fostering the goals of nation. According to the theory of comparative advantage,

county (X) can still supply a product that it can produce more efficiently even though country (Y) may produce that same product. The main argument of this theory is that if a country has a relative advantage in the production of one product over another, then it should produce and export that good in which it has a relative advantage and import the product in which it has relative disadvantage. In the thinking of this paper, the major limitation of this theory is that it is limited to land, capital, natural resources and labour being the key factors of production. Additionally, it fails to explain why nations are continue to barricade themselves with ever increasing trade barriers if their welfare through trade efficiency is best served by specialization in those goods that they have the greatest comparative advantage while importing those goods in which they have a comparative disadvantage. The theory also fails to explain the behavior of contemporary international trade activity that is characterized by the use of high technology, globalization and the transient nature of a competitive advantage that any nation may have in the production of specific goods and services.

A refinement of the theory of comparative advantage is found in Hecksher and Ohlin (1933) model (H-O model) also known as the factor proportion theory. This theory is different from the Ricardian model which isolates differences in technology between countries as the basis for trade. 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. Therefore, this theory extends the concept of economic advantage by considering the endowment and costs of factors of production. In Heckscher-Ohlin theory, costs of production are endogenous in the sense that they are different in the trade situations, even when all countries have access to the same technology for producing each good. This emphasizes differences between the factor endowments of different countries and differences between commodities with which they use these factors.

The factor proportion theory extended the classical trade theory by adding factor endowment and the costs of the factors of production. The theory postulates that countries will tend to specialize in the production of goods and services that utilize their most abundant resources which have price advantage and exchange them for goods and services in which they have a price disadvantage. In general terms, countries will export those goods that make intensive use of those factors of production that are greater in abundance domestically thereby achieving relatively lower costs in production while importing those goods that make intensive use of those factors which are scarce locally from other nation. Hence, the differences in the production cost of individual goods brought about by differences in national production factor endowments, is the basis of trade among nations. The reasons behind this is that different products use different proportions of the three factors of production; land, labour and capital as different nations have different endowments of these factors. This theory has been recognized as the strategic trade theory in sense that firms have an incentive to export because of the lower costs of production by scale economies (increasing returns to scale). The factor proportion theory is severely limited in its practical application in sense that their main assumptions such as: homogenous products, identical production functions in all countries, and equal access to the same technical knowledge are mismatch between the theoretical and practical levels.

According to Morgan and Katsikeas (2007) 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, or technology. 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, with such a general insight into international trade, classical trade theories are unable to offer any explanation as to what causes differences in relative advantages. Therefore, the end of the classical trade theories era. The restrictions imposed by the assumptions of the classical theories have led to new theory development on international business.

The validity of both the classical trade and factor proportion theories were questioned by Leontif (1953) resulting in the development of the product life cycle (PLC) theory. This 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. 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. However, the product life cycle theory failed to explain the specifics of how the process of internationalization takes place even though it was viewed as a better alternative to classical and neo-classical trade theories.

The most common weakness of the classical theories that product life cycle theory seek to improve were their over dependency on comparative cost theory. International production was assumed to move from comparatively high cost locations to low cost location. The main arguments is that, the country of origin has a comparative advantage in the production of a particular good, but this advantage is subsequently lost to lower cost producers as the product becomes standardized (Sundaram & Black, 1995). So, the search for low labour costs and a cost advantage were the motivating factors of international production, hence firm would move endlessly between different locations to secure and maintain their cost advantage. In the assumption of this theory, product innovations are costly and require large capital investments and skilled labour, for these reasons it was expected that foreign investment was the preserve of large firms. However, in the Leontif's paradox, Leontif (1953) argued that an attempts to explain international trade from a comparative cost perspective were bound to suffer from inconsistencies? He proved that the ratio of capital to labour in the exports of the United States was lower than the capital to labour ratio of competing imports that had replaced American production. The reverse had been expected.

The product life cycle approach to international business was based on assumptions that simply do not hold as a result of more homogenous international markets and easy access to information and technology. The major criticism of the theory is that it is vague in terms of the trade-offs between the different foreign market entry methods of licensing, joint venturing, and timing of modes switches. Additional criticism is that some firms are not progressing through the defined life cycle process of introduction; growth; maturity; standardization; and decline/dematuring, but rather exhibit haphazard progression between stages (Globerman, 1996). Other criticism is also that this theory 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 exporting are the only mechanisms for transferring goods and services across national boundaries (Bradley, 1991). While this theory is insightful, a number of modern international trade theories according Morgan and Katsikeas (1997) have emerged which take account of other important considerations such as government involvement and regulation as well as entry modes strategies. Buckley and Casson (1981) argued that the choice of international market entry mode is a function of the cost associated with each country entry mode given the volume of business that the firm is planning to undertake in the market. Each market entry mode has costs such as: mode set-up costs; recruitment fixed cost associated with the mode usage; and recurrent variable cost. A given mode may have high fixed and variable costs at the planned volumes of business, therefore firms may internationalize via the most cost-efficient mode at all times.

FOREIGN DIRECT INVESTMENT THEORIES

Penrose (1956) and Bye (1958) posited that there were more other complex factors to explain international trade than what is envisaged in the classical trade and product life cycle theories, hence the introduction of foreign direct investment (FDI) theories to explain these complex factors associated with international trade. The three most important FDI theories that have explained the limitations of international trade theories are: market imperfection theory; international production theory and internalization theory. Hymer (1960) and Kindleberger (1969) argued that market imperfection as one of the complex trading obstacles is the basis of foreign direct investment. 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.

Market imperfections according to Buckley and Casson (1976) led to the concept of internalization which argues that because of market imperfections, intermediate product markets are difficult to organize and this gives a firm an incentive to internalize the activities performed by these intermediate product markets under common ownership and control. Internalization of such activities across different national boundaries gives rise to a multinational company (Calvet, 1981). An added feature of the internalization theory is the transaction cost economics, which refers to a firm's desire to minimize total costs, therefore a firm will seek an international organizational form that will minimize total costs to itself (Williamson, 1975; Rugman, 1981).

Internalization theory strives on the notion that firms aspire to develop their own internal markets and this depends on the type of FDI (horizontal or vertical) and it's relevant to the firm's strategy 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, control and governance of the firm. In circumstances like this the firm want to take advantage of international differences in factor prices by splitting up the production process, allocating the parts over different

countries on the basis of cost efficiency. The firm services its markets by exporting from a single location to create trade both of intermediate and final goods. In Horizontal FDI which is motivated by the firm desire to be closer to customer markets due to high trade costs. The firm then runs similar operations at different locations, producing and selling in the same country (or nearby countries). This type of FDI is thus a substitute for international trade relations. International production theory 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. Most of this analysis has adopted the multinational firm as the unit of analysis and excluded the process that involved the international development. Consequently, a more dynamic, process-based perspective which demanded recognition of the internationalization of the firm to constitute a significant part of the international business literature.

INTERNATIONALIZATION THEORIES

Mort and Weerawardena (2006) argue that there are two main streams of approaches regarding the internationalization of a firm; the economic approach and the behavioural approach. Andersson (2000) noted that these two approaches observe the internationalization process of the firms from considerably different but interconnected theoretical approaches. While the economic approach is mainly focusing on the company and its environment (classical theories; Dunning's Eclectic paradigm; and Resource-Based View), the central point of the behavioural approach is the individuals within the firm and their learning. The most widely known models following the behavioral approach are gradual behavioral-based (stage models) and network model. However, both research streams call attention to the fact that international business can be influenced by both external and internal variables, such as learning and experiential knowledge, psychic distance, location and ownership advantages, industry characteristics, uncertainty, inter-organizational networks, comparative advantage, and government intervention (Shrader, et al., 2007).

Behavior-based Theories

Chetty and Campbell-Hunt (2004) argue that there are two traditional gradual behavior-based approaches to internationalization: the Uppsala internationalization model (U-Model) and the Innovation related models (I-Models), both of them referred to as the stages model. These models consist of a number of identifiable and distinct stages, where higher-level stages indicate greater involvement in foreign markets. The Uppsala Model views internationalization as a learning process that involves interplay between knowledge development and increasing foreign market commitment (Johanson and Vahlne, 1977, 1990). The model was developed from firms' internationalization behaviour which followed the pattern: (1) by engagement in psychically close markets and then gradually further away to countries with greater psychic distance and the (2) 'establishment chain' which consists of five stages: no regular export activities, export through a foreign intermediary, export via a sales subsidiary, a mix of export and foreign direct investment (FDI) in the form of a subsidiary with assembly activities, and a fully-fledged production subsidiary (Johanson and Wiedersheim-Paul, 1975). This behavior is based on the logic that gaining market knowledge and increasing foreign market commitment gradually can reduce foreign market uncertainty. The model has its theoretical base in the behavioral theory of the firm (Cyert and March, 1963), which stresses that firms' decision making is characterized by limited knowledge, and theory of the growth of the firm (Penrose, 1959), which argues that a firm's growth is a result of its ability to use, combine and develop resources and accumulate experiential knowledge.

The Uppsala model made a distinction between state and change aspects of internationalization. The state aspects are market knowledge and market commitment; the change aspects are the foreign market commitment decisions and current business activities. Foreign market knowledge and commitment are assumed to influence decisions regarding the commitment of resources in foreign markets and how current business activities are conducted, which in turn influence the market knowledge and commitment decisions. The firm's current market commitment and market knowledge are assumed to influence the way that it performs its current activities and its decisions regarding the commitment of resources to overseas operations (Johnson and Vahlne, 1990). In turn, its current activities and resource commitment decisions increase the firm's market knowledge (a source of competitive advantage) and will influence its commitment to new markets. As the firm increases its knowledge from its operations in a particular foreign market, it is more likely to make incremental resource commitments to that market, such as expanding its operations from using an export agent to opening a sale subsidiary in that market.

Johanson and Vahlne (1990) make an exception to this incremental, progressive resource commitment: firms can make larger internationalization steps (leapfrog stages) when: (i) they are large in size with excess resources; (ii) they can obtain market knowledge more easily because market conditions are stable and homogeneous; (iii) or they can generalize their market knowledge to other similar markets. Johnson and Vahlne (1990) argue that stage models can be used to explain two patterns of internationalization that they have observed. The first pattern is where firms internationalize according to an established chain: (i) no regular exporting activity; (ii) exporting via foreign intermediary or representatives or agents; (iii) sales via sales subsidiaries; (iv) Establishing a manufacturing plant or production subsidiary in the foreign country. The stages within the chain reflect different levels of market knowledge and resource commitment. The second pattern is where firms internationalize firstly into markets that they most understand (low market uncertainty), and progressively enter markets that have greater psychic distance (language, cultural, educational, industrial development and political differences). Firms are able to enter foreign markets with greater psychic distance as their market knowledge increases.

Innovation-related (I-Models)

Innovation-related models (Bilkey and Tesar, 1977; Cavusgil, 1980; Czinkota, 1982) argue for a view of internationalization as the adoption of an innovation in the firm. These models are closely associated with the research of the Uppsala model (Andersen, 2000), and build on behavioural economics (Cyert and March, 1963), which argue that internationalization is the outcome of an information processing approach where the company alters attitudes and beliefs about foreign markets. The firm is initially uninterested in exporting. However, sporadic orders from external markets demand attention from managers. The models possess a common theme in which they propose an incremental "stages" approach to export development and generally support the notion of psychic distance. Consistent with U-Models, the I-Models have attributed the gradual pattern of export development to two reasons: 1) the firm's lack of knowledge, especially 'experiential knowledge', and 2) uncertainty associated with the decision to internationalize. Bilkey and Tesar (1977) have conceptualized the process of export development on the basis of firms' increasing involvement in exporting to psychically more distant markets. They have explained that the 'stage' model is meaningful for examining export behavior of small and medium-sized firms. Several criteria such as past export, present export, exploration of exporting, unsolicited orders, etc. were used to separate the stages.

There are no arguments for the classification procedures, and no discussion of why and how the independent variables should influence the export development process.

Cavusgil's (1980) model is founded on management's successive decisions regarding exporting over a period of time. Based on empirical evidence, he suggests that several firm-specific characteristics and managerial factors act as determinants in the process of facilitating or inhibiting the progress of firms from one stage to another. Reid (1981) views internationalization as an innovation adoption process. Export adoption was believed to require a favorable management attitude to exporting, an available foreign market opportunity and the presence of spare resource capacity within the firm. He points out the need to distinguish between the foreign entry expansions processes of small and large firms. Regarding small firms, he assumed that the individual decision-maker influences the export behavior of the firm while the entry behavior in large firms is supposed to be structurally determined. Although no formal definitions are offered for 'managerial attitude', Reid (1981) indicates "managerial attitude" in the exporting research has been used to refer to decision-makers' preconditioned views, perceptual tendencies, expectations, beliefs and general attitudes towards foreign markets. This model suggests that individual characteristics of both decision-maker and firm are of great importance in determining export behavior. Although all variables (except size) identified by Cavusgil (1980); and, Reid (1981) turn out to have a significant impact, they cannot explain movements from one stage to the next; it is only possible to characterize the firms that are in different stages (Andersen, 2000). Czinkota (1982) adapted the first four stages of his model from Bilkey and Tesar's study. He used several criteria for differentiating among stages: past export volume, absolute export volume, length of export experience, types of countries exported to, number of export customers, number of export transactions, and manpower committed to exporting.

The existing literature has registered severe limitations in the Stages model. Firstly, it has been argued that the importance attached to experiential knowledge constitutes both strength and weakness of the stages model. Experiences are slow to build, shared and integrated within firms. Thus, if firms base their international decisions largely on experiential knowledge, their internationalization process will invariably be slow. This will be a major disadvantage in a dynamic economy where business opportunities quickly change. Secondly, it has been empirically demonstrated that the choice of entry strategies does not always correspond to the sequential step-by-step approach suggested in the Stages Models. Some firms may enter a new market via a direct export route but may serve the same market subsequently through an indirect export route, depending on their assessment of the relative pay-offs of the two entry strategies (Turnbull, 1987). Thirdly, when firms enter a foreign market they will usually be disadvantaged vis-à-vis the indigenous firms in terms of familiarity with the local business environment. This unfamiliarity is labeled 'liability of foreignness' (Zaheer, 1995), and is presumed to raise the entrant firms' levels of operational uncertainty with regard to relations with local actors. This implies that some companies may experience serious difficulties in their internationalization process in some countries. Fourthly, firms may overestimate the similarities between neighboring countries. Even countries that share language, historical, and legal traditions, often have very different institutions that do not allow the simple transfer of business practices and attitudes across borders.

Network Perspective of Internationalization

The network model views internationalization as a process of network establishment and development with foreign individuals and firms (Johanson and Mattsson, 1992). This perspective is based on empirical studies that firms in industrial markets establish, develop and maintain lasting business relationships with other business actors (Turnbull, 1987). The

specific firms engaged in these business relationships comprises of customers, customers' customers, competitors, supplementary suppliers, suppliers, distributors, agents and consultants as well as regulatory and other public agencies (Johanson and Vahlne, 1990). In the network perspective, internationalization can be done in a number of ways (Johanson and Mattson, 1992):

- through establishment of positions in relation to counterparts in country-based networks that are new to the firm, for example by international extension or foreign market entry
- by further developing positions in those country-based networks in which the firm already has a position, i.e. international penetration
- By increasing coordination between positions in different country-based networks, i.e. international integration.

The underlying assumption of this perspective can be explained in terms of the structure of industrial networks, consisting of actors, activities and resources that are related to each other (Turnbull, 1987). The network perspective has received strong support in light of the increasing numbers of small and medium enterprises in international markets. Prior research has reported various evidence of the role of networks in firm internationalization, such as client followership (Bell, 2005), inward-outward connection (Welch and Luostarinen, 1993), serendipitous encounter (Crick and Spencer, 2005), prior and new international ties (Etemad 2004b), and influence in the timing, mode of entry and choice of international markets (Autio, 2008; Chetty and Agndal, 2007). Increasingly, Coveillo and McAuley, (1999) argues that networks are being seen as playing a critical role in the internationalization process of the firm, where the ability of a firm to exploit opportunities and grow internationally is dependent on its set of network relationships rather than firm-specific advantages. In essence, a firm begins the export process by forming relationships that will deliver experiential knowledge about the market, and then commits resources in accordance with the degree of experiential knowledge it progressively gains from these relationships (Welch and Luostarinen, 1988).

Like the stages models, the network model has also been criticized for its lack of predictive power. Indeed, Young et al. (2004) posit that while it provides new insights into the internationalization of firms, the cause and effect relationships can be ambiguous, as networks may be seen as ways to overcome resource deficiencies rather than being the actual drivers of internationalization. Another major drawback is the power asymmetries within the network and how these firms can manage their dependence on established actors. Nevertheless as a descriptive model, it has received much support and acceptance. Its strength lies in explaining the internationalization process and illuminating how the resources, activities and actors within the network affect the various dimensions. Fillis (2002) noted that it could provide the context for international business.

MEDIATING OR OMISSION VARIABLE

The table below depicts the main assumptions or conclusions drawn by the various theories reviewed in this paper. Critically examining their basic assumptions, one fundamental omission was none of these theories have tried to understand the effect of government interventions and regulations on international business. Gone were the days when international business was just a cross-border trading activities between firms from different countries. Same cannot be said nowadays of contemporary cross border trading or business activities because of keen government's participations and their key interest through policies and regulations.

Table 1: International Business Theories Assumptions

Theory Type	Theoretical assumptions	Credited writers
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	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)
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)
Uppsala Theory	Suggests that the process of internationalization is founded on an evolutionary and sequential build-up of foreign commitments over time through knowledge acquisition. The theory assume that firms stand alone in developing their market entry strategies	Johanson and Vahlne, (1977); Johanson and Wiedersheim-Paul, (1975)
Innovation-related Theory	View internationalization as the adoption of an innovation in the firm	Bilkey, Tesar, (1977); Cavusgil, (1980); Czinkota, (1982); Reid, (1981)
Network Theory	Understanding of the internationalization of firms lies in the emphasis on relationship building through interactions and mutual interdependence as an exchange governing mechanism.	Johanson and Mattson (1988); Coviello, Munro, (1997)

Source: Modified from Morgan and Katsikeas (1992)

Heckscher-Ohlin view and the other theories that have been applied to international business are explanations of production and income-generation, but in the thinking of Grosse and Behrman (1992), none is an explanation of distribution of benefits and burdens between firms and governments. But the purpose of government intervention is the redistribution of the gain cross-nationally. Since governments are centrally concerned with the distribution issue, and their policies towards international firms are a central concern of international business

analysis, those efforts to alter the distribution of gains should be the central subject of an international business theory. Ibeh and Young (2001), argued that to avoid governmental policies and politics eliminates or would render international business theory incomplete.
The purpose of governments is to seek growth, efficiency and a distribution of benefits, both internally and with respect to international firms. International markets will therefore be distorted by governments, and it is this very distortion that requires explanation by international business theory – why and how it works out through business activities cross-nationally Grosse and Behrman (1992). A uniquely international business theory must explain differential barriers and incentives to international business imposed by sovereign governments in an effort to change the distribution of gains, and the effects of those policies on international firms' decisions and operations.

CONCLUSION AND DISCUSSION

The main purpose of this paper is to review the different perspectives of theories of international business by looking at their main underpinning and fundamental assumptions and if these assumptions could lead researchers and scholars for possible common theory for international business research in future. In so doing, the theories reviewed in this paper can be considered laudable and satisfy the general criteria of theoretical parsimony and communicability. In demonstrating this, the assumptions underlying each theory and certain contrasts were drawn between the theory types in an effort to frame them in relation to international business. While no specific attempt was made to compare the theories, the discussion emphasised their particular focus and general conclusions. Grosse and Behrman (2002) argue that international business has existed as a distinct field of study for the past decades, but it does not have a widely accepted explanatory theory on which to base its uniqueness as a discipline. The theoretical bases of research on international business at present are taken from economics, business strategy, organizational development, political science and other disciplines that offer understanding of some aspects of the firm activities. Those theories explain firm characteristics (such as strategy, structure, performance, size, ownership, marketing, functioning of the firm's internal hierarchy etc.) and provide means of predicting behaviour usually assuming the absence of Government intervention. There is also a vast literature, ranging from value-oriented analyses to social explanations, but these have not been absorbed into international business theory; and they are, even so, explanations of competitiveness among firms in different social settings.

Ricardo's theory of comparative advantage, Vernon's product life cycle, Smith's absolute advantage, Penrose's foreign direct investment, Johansson and Vahlne's Uppsala theory and all others are essentially explanations of business between domestic firms or regions, as well as international firms. They explain investment and intra-national trade. Those theories offer important insights into the functioning of firms in business anywhere, including international firms, but they fail to focus on the distinguishing characteristics of business operating among different nations. Since international business is the study of business activities that cross national borders and, therefore, is fundamentally concerned with the firms that undertake that business and the national Governments that regulate them, a theory that is unique to such business must explain the responses of businesses to government policies and the policy-making of Governments themselves towards international firms. Empirical studies have distinguished international from domestic business strategies and operations, but they have not resulted in an international theory of cross-national business behaviour. The lack of a proper theoretical focus has diverted the discipline from an emphasis on policy and on conflicts and cooperation among corporations and governments. A framework for constructing such a theory can be built on existing bargaining theory.

Morgan and Katsikeas (2007), argued that the fundamental consideration that differentiates a theory of international business from those explaining domestic business is the existence of governmental policies that differ between countries. Without such differences, market or firm theories will apply similarly to activities on larger stages, that is, across borders. Therefore, a theory of international business must be a theory of obstructions to markets (interventions and distortions), flows of information, movements of people, etc., imposed by governments. The purpose of such interventions is to redistribute the benefits and burdens as compared to those generated by market forces. This means that an international business theory must explain both the barriers imposed by governments and the firms' responses to those barriers. While location theory shows that production should be cited to minimize delivered cost to markets, international business theory must show how government restrictions differentially affect location and operating decisions. Similarly, while internalization theory shows cost conditions under which a firm should bring transactions within its hierarchy, international business theory must show how government policies alter those decisions and to what effect. In all, in order for a theory of international business to be uniquely international, it must concentrate on the issues not explained by the existing theories, which are merely "extra-domestic" in being applied to activities outside one country.

An international business theory must look at the distribution of gains from international business activities between the firms involved and the governments in each country and between (or among) relevant governments.' When governments are satisfied with the gains generated by an international business activity in open markets, they impose no barriers and, hence, no theory of international business is necessary; firms will then undertake cross-national activities for reasons explained by non-international theories, such as comparative advantage or internalization theory. When governments wish to redistribute the costs and benefits of international business activities, they impose policies which firms must take into account in their decision-making-and this action/reaction should be a subject that international business theory must explain. Since there are no governments that permit fully open markets, the world of international business is one requiring differential explanation. Just as Porter (1980) refocused business strategy analysis on the relationships between firms in competition, so international business theory needs to re-focus its analysis on the relationships between international firms and governments. Instead of competitive strategy among firms, it should analyse bargaining and strategic relationship between firms and Governments as suggested by Grosse and Behrman (2002).

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