A value chain internationalization framework was developed and proposed as a useful tool for addressing the question of how firms internationalize. The framework classifies organizations based on the relative degree to which their management engages in international “upstream” and “downstream” value chain activities. To test the framework validity and usefulness, we conducted an empirical study using a representative cross-section of organizations based in Indianapolis. Our findings suggest different levels of internationalization are associated with the categories in which firms are classified within the framework.

INTRODUCTION

The establishment of the Academy of International Business in 1959 is regarded by many as the birth of international business as an academic discipline. As international business marks a 50 year-milestone, discussions on both the major contributions of the field and its future research directions have drawn great interest (e.g., Aharoni & Brock, 2010; Seno-Alday, 2010). Among many of these efforts, Seno-Alday (2010) identified four themes that serve as the main research pillars in the discipline of international business as a result of a content analysis of major articles published during the past 50 years. According to her, they are (1) What is the unique nature of international business? (2) How does business internationalize? (3) What is the nature of the interaction among the various actors and players in international business? And (4) What is the impact of internationalization on business? As this study shows, the internationalization phenomenon has remained to be a major interest yet as of today.

Traditionally it has been argued that firms expand into international markets slowly through time by developing and accumulating knowledge, experience, and networks (see Johanson & Vahlne, 1977). However, the appearance of new phenomena such as “born global” firms is challenging traditional views. In addition, firms’ stakeholders continue to ask themselves fundamental questions such as how internationalization helps a firm create value for stakeholders and society, how firms evolve from being domestically focused to being internationally engaged, how the internationalization patterns vary across firm size and industry, and what determines the international success or failure of firms. Today,
internationalization is not only important for large and well-established firms but is also an imperative for Small and Medium Size Enterprises (SMEs). Therefore, these research questions are crucial and have become relevant as large firms and SMEs become active players in international markets (e.g., Jansson & Sandberg, 2008; Knight, 2001; Peng, 2004). In sum, the extant research indicates that the process of internationalization needs to be studied taking into account the multiple paths and/or stages of internationalization as well as the diverse actors and players that participate in the internationalization process.

Given this background, this study contributes to the extant literature in two ways. First, it proposes a framework that allows us to conceptualize and test the array of internationalization patterns that firms undertake as they move from being domestically focused to being internationally engaged. Second, it presents an in-depth picture of the internationalization process of firms of various sizes and diverse capacities, by analyzing a representative cross-section sample of firms located in the Greater Indianapolis Area. This investigation process is guided by the aforementioned framework.

The framework we are going to propose is called the value chain internationalization framework. Most businesses start, develop, and grow within their immediate domestic markets. This implies businesses tend to perform upstream and downstream value chain activities within domestic markets. Such business activities include both operational and financial activities. However, the potential for higher levels of operational and financial efficiency exist and may be generated by accessing international markets. Foreign markets often present a firm with the possibility to generate higher revenues and rates of return on financial investments, as well as lower operating and financing costs. The proposed framework allows us to conceptualize and test the array of internationalization patterns that firms undertake as they move from being domestically focused to being internationally engaged.

Guided by this framework, an empirical study identifies the extent to which the growth of companies in central Indiana depends upon domestic markets and the extent to which they are taking advantage of global market opportunities. This research has been the most comprehensive effort ever undertaken to collect and analyze data associated with the internationalization processes of companies in central Indiana.

This paper is organized as follows: the literature section provides a discussion of how our study fits within the current state of knowledge in the field of international business; the value chain internationalization framework section proposes an approach to facilitate the study and understanding of the internationalization patterns of the firm; the next sections present research methodology and the results of the empirical study; and the last section provides discussion and concluding remarks.

LITERATURE REVIEW

Research on internationalization has been burgeoning since 1960s. We can classify studies into the following broad categories: first, a large body of literature has delved into the determinants of internationalization. This line of research includes internalization theory (Buckley & Casson, 1976; Hymer, 1960), product cycle hypothesis (Vernon, 1966), and eclectic paradigm (Dunning, 1977). A second line of research focuses on how internationalization of a firm takes place—processes firms follow as they engage in internationalization (e.g., Johanson & Vahlne, 1977). A third line of research focuses on a firm’s degree of internationalization (DOI) measurement (e.g., Sullivan, 1994). The operationalization of the DOI has helped authors to examine the relationship between internationalization and firm performance (Contractor, Kundu, & Hsu, 2003).

After a half century of research, our understanding of firm’s internationalization has substantially progressed. The progress, however, has left the area with fragmented perspectives toward internationalization. A potential need exists to have a comprehensive yet simple enough framework that helps us better grasp an overview of the internationalization process. In the following, each stream of internationalization research will be reviewed with consideration to the fragmentation of perspectives.
Determinants of Internationalization

Internationalization theory focuses primarily on explaining which conditions would stimulate firms to expand across borders, and on entry-mode choice (Rugman & Verbeke, 2008). Internalization means to perform value chain activities inside the corporation. Buckley and Casson (1976) demonstrated that MNE organizes bundles of activities internally. Internalization theory argues that given the presence of market failure, internalization acts as a governance mechanism to develop and exploit the firm-specific advantages. Hymer (1960), who developed the concept of firm-specific advantages, also demonstrated that foreign direct investment only takes place when the benefits of exploiting firm-specific advantages across national borders allow overcoming the additional cost of doing business abroad. Cost of doing business abroad comes from ‘liability of foreignness’ (Zaheer, 1995). Liability of foreignness includes the problem of information costs facing foreign firms vis-à-vis host-country rival firms, discriminatory treatment by their home government and foreign government, and any institutional differences among nations and the resulting hazards of unfamiliarity (Rugman & Verbeke, 2008). Therefore, internalization theory predicts that the firm engages in a comparative analysis on the benefits of exploiting firm-specific advantages across national borders and the costs coming from doing business abroad. Internalization is considered to be one of the major ways to maximize the benefit of exploiting firm-specific advantages.

Vernon (1966) approached the determinants of internationalization by focusing on the process of product innovation. Product innovation often starts in the home market, not foreign markets. Then, eventually the firm might relocate production sites overseas. Vernon reasoned that this preference occurred because the firm calculated the cost of communication. In the early stage of innovation, firms are confronted with a number of critical, albeit transitory, conditions. The product is unstandardized for a time. A considerable amount of uncertainty remains with regard to the market, the efforts of rivals to preempt that market, specifications for production, and so on. Then, the need for swift and effective communication of the firm with customers, suppliers, and even competitors is high. This need compels the firm to stick to the home market when it starts up a new product, Vernon argues.

This condition to demand swift and effective communication will change as the product cycle progresses to a mature and standardized stage. The need for flexibility declines. The reduction of the uncertainties surrounding the operation enhances the usefulness of cost projections and increases the attention devoted to cost. Then, there is more likely to be considerable shift in the location of production facilities. Thus, Vernon predicts that the stage of product cycle would at least partially influence the firm’s decision on international expansion.

The eclectic paradigm (Dunning, 1977) identified the criteria that would affect the firm’s decision to internationalize its business specifically along three dimensions: the ownership-specific advantages (O), the location-specific factors (L) and the internalization advantages (I). Dunning (1995) argues that the eclectic paradigm differs from internalization theory in that it treats the competitive (so called O-specific) advantages of MNEs, apart from that which arise from the act of cross-border internalization, as endogenous rather than as exogenous variables. That means that the paradigm is not just concerned with answering the question of why firms engage in FDI in preference to other modes of cross-border transactions. It is also concerned with why these firms possess unique resources and competencies—relative to their competitors of other nationalities—and why they choose to use at least some of these advantages jointly with a portfolio of foreign-based immobile assets.

Paths of Internationalization

In addition to the determinants of internationalization, researchers have been interested in how the firms go through the internationalization process. Jones and Coviello (2005) identified a couple of approaches in the literature. Organization-learning (e.g., Kogut & Zander, 1993) and network/resource-dependency (e.g., Pfeffer & Salancik, 1978) approaches shape a foundation of respective approaches.

An approach hinged by organization learning sees internationalization as an on-going process of evolution whereby the firm increases its international involvement as a function of increased knowledge and market commitment. Johanson and Vahlne’s (1977) study proposed a path referred to as the Uppsala model. The Uppsala model sees internationalization as a problem-finding and problem-solving process of
a firm. In the process of internationalization, the firm would encounter various changes in the environment as well as in the firm itself. In this unprecedented and unparalleled discontinuity, routine solutions do not work. Therefore, the firm needs to identify a problem and develop a new solution. This cycle of problem-finding and problem-solving is gradual acquisition of knowledge. Accordingly, the model predicts that the firm’s choice of overseas location is partly explained by familiarity and ‘psychic distance.’ The firm tends to choose a location which is more familiar and less distant in psychic distance as its initial path to internationalization.

The other stream of research that sees internationalization as an on-going learning process focuses on the manager’s innovation adoption behavior (Andersen, 1993). Researchers argue that internationalization is incremental, with various stages reflecting changes in the attitudinal and behavioral commitment of managers and the firm’s resultant international orientation (Cavusgil, 1984; Czinkota, 1982; Reid, 1981). Perceptions and beliefs of managers both influence and are shaped by incremental involvement in foreign markets. This yields a pattern of evolution from the managers having little or no interest in international markets, to trial initiatives in, and evaluation of, psychologically close markets.


As we review the research on the paths taken through the internationalization process, it becomes apparent that this stream of research placed an emphasis on managers’ cognitive orientations toward doing business internationally. Recently, the term “global mindset” represents the resurgence of interest in the role of manager’s cognitive orientations in internationalization processes of the firm. Levy, Beechler, Taylor, and Boyacigiller (2007) define global mindset as “a highly complex cognitive structure characterized by an openness to and articulation of multiple cultural and strategic realities on both global and local levels, and the cognitive ability to mediate and integrate across this multiplicity” (p. 244). With regard to the relationship between global mindset and organizational performance, the literature generally supports that, when it comes to global mindset, more is better (Nummela, Saarenketo, & Puimalainen, 2004).

### Degree of Internationalization

Studies in the previous section normally operationalize internationalization with a single item such as foreign subsidiaries’ sales as a percentage of total sales (Stopford & Dunning, 1983), foreign assets as a percentage of total assets (Daniels & Bracker, 1989), and number of foreign subsidiaries (Stopford & Wells, 1972).

Considering the vulnerability of relying on only one item to evaluate the DOI, it is surprising that an effort to develop a multiple item index of the DOI has been limited (Hassel, Höpner, Kurdelbusch, Rehder, & Zugehör, 2003). The Degree of Internationalization Scale (DOI\textsubscript{INTS}) of Sullivan (1994), the Transnationality Index (TNi) published by UNCTAD, the Transnationality Spread Index (TSi) introduced by Ietto-Gillies (1998), and real and financial dimensions approach by Hassel et al. (2003) are some that represent limited efforts.

Sullivan (1994) developed a measurement consisting of nine attributes that are classified into three categories: performance (what goes on overseas), structural (what resources are overseas), and attitudinal (what is top management’s international orientation). The Transnationality Index (TNi) published by UNCTAD is another one. TNi is made up of an average term of the foreign share in sales, employment and assets. Ietto-Gillies’ (1998) idea is to combine TNi and NSi, in which NSi stands for Network-Spread Index that is derived by dividing the number of foreign countries in which a company has affiliates by the total number of countries world-wide in which there is inward stock of FDI minus 1 (to exclude the home country). Ietto-Gillies argues that TNi only distinguishes between local/national and foreign activities and does not take into account how widely foreign activities are spread. By calculating TNi X NSi, she proposes that the Transnationality Spread Index (TSi) can capture both dimensions of internationalization:
the volume and the dispersion of foreign activities. Hassel et al. (2003) argue that the internationalization of firms has two dimensions—a real and a financial dimension. They refer to the share of foreign activities as the “real” dimension of internationalization and the orientation towards international capital markets as the financial dimension.

A debate on how to measure the degree of internationalization of firms continues. One issue that has emerged is the fact that the DOI of firms is contingent on both the changing nature of international business and the sample for which the measurement is used (Hassel, et al., 2003). Some indicators are particularly sensitive to the size of the home country of the firm (e.g., high foreign share in employees might be caused by a small home country), others are not. Researchers are expected to break through this complexity and develop a reliable index of DOI.

**Relationship Between DOI and Firm Performance**

A number of empirical studies attempted to test the effect of the degree of internationalization (DOI) on the behavior and performance of firms. However, their results are unsatisfactory or inconsistent with the theories. For example, Gomes and Ramaswamy (1999) found that the effect of the share of foreign sales might be curvilinear with declining returns for companies which have a very high share of foreign sales. This contradicts the theoretical prediction of Dunning (1996) that multiple locations of value added activities are perceived by management to yield positive gains.

Given these contradictions in empirical findings and theoretical predictions, Contractor, Kundu, and Hsu (2003) proposed a three-stagey theory of international expansion that is graphically illustrated in an S-shaped curve. The first stage is characterized by a negative slope. It is because in the early internationalization days, liability of foreignness, initial learning costs, and insufficient economies of scale would result in a decline in performance. The second stage is characterized by a positive slope. An upward performance is gained because benefits of international expansion are finally realized in this stage. Then, the third stage is characterized by a negative slope again. This suggests that geographic expansion leads to enhanced corporate performance up to a second threshold, but beyond the point the organizational costs and complexity associated with managing widely scattered operations begin to outweigh the advantages of even further internationalization. In other words, Contractor et al. suggest that the relationship between degree of internationalization and firm performance changes as the firm advances in its internationalization stages.

A review of streams of research on internationalization suggests fragmented perspectives prosper and the convergence has not emerged yet. In addition, a rigorous empirical test of the validity of theories and frameworks is expected to further progress our understanding of the degree of internationalization of a firm. In the next section, we propose a framework; one we hope can allow us to further understand the “how” of internationalization.

**VALUE CHAIN INTERNATIONALIZATION FRAMEWORK**

The *Value Chain Internationalization Framework* allows us to classify businesses into a set of comprehensive categories according to the intensity of upstream and downstream value chain activities that firms are engaged in domestically and internationally. Putting these two dimensions together, four quadrants or categories are yielded. Detailed explanation about each category will follow. Here, we would like to emphasize the ability of this framework to capture a dynamic move of a firm’s internationalization process. Thus, the framework also allows one to examine the interactions between home and host market activities, the dynamic aspects of international business, and the extent to which a firm’s value chain activities are concentrated in its home market or dispersed across foreign markets. This classification system is instrumental to compare and contrast firms’ internationalization practices, taking into account business characteristics such as industry and size. In addition, it also allows us to identify the drivers and characteristics that may explain a firm’s level of success or failure in internationalization processes. Figure 1 graphically presents the framework.
The value chain internationalization framework we propose has two distinctive characteristics. First, it separates a firm’s activities into its value chain’s operating or financial upstream activities (e.g., research and development, sourcing, and financing) and downstream activities (e.g., marketing, sales, and investments). Table 1 summarizes the type of business transactions that are classified as upstream or downstream value chain activities and their implications to a firm’s performance. Secondly, the framework allows us to capture the intensity or extent to which a firm’s value chain activities are performed within a firm’s home market (domestically) or a firm’s host markets (internationally). The framework is useful to study the internationalization patterns of both MNEs and SMEs, across industries and markets around the world. The proposed framework provides an intuitive, clear, and consistent approach through which current firm-level internationalization theories and constructs can be tested.

### TABLE 1
CLASSIFICATION OF FIRM'S BUSINESS ACTIVITIES

<table>
<thead>
<tr>
<th>Stages of value chain</th>
<th>Main impact on firm’s Income Statement</th>
<th>Representative Business Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Operational</td>
</tr>
<tr>
<td>Downstream</td>
<td>Revenue-generating</td>
<td>Marketing, Sales, Distribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Customer Service, etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investment Activities: Short-term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>cash flow investments, e.g., CDs,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>bonds, euro-currencies, equity)</td>
</tr>
<tr>
<td>Upstream</td>
<td>Cost-incurring</td>
<td>Market Research, Product/Service R&amp;D</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sourcing, Production, etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial Activities: Short-term and long-term borrowing, debt and equity issuances</td>
</tr>
</tbody>
</table>
Domestically Focused
Quadrant 1 represents a domestically focused firm category. This category includes businesses whose upstream activities (factors of production) are mainly sourced within home markets (tied to domestic market factors) and whose downstream activities are primarily targeting home markets (domestic customers). We argue businesses in this category may either be unaware about their potential to generate value for stakeholders and society by engaging in international value chain activities or they may not yet have developed firm-specific advantages that may allow them to be internationally active.

Upstream-Integrated
Quadrant 2 represents an upstream-integrated category. This category includes businesses that have to some extent already developed internationalization processes by engaging in upstream value chain activities to take advantage of the more convenient and/or perhaps less costly supply of business input factors in foreign markets. In this category, organizations may tap foreign markets through activities such as importing, off-shoring, and FDI. Nevertheless, businesses in this category concentrate downstream value chain activities in home markets; their operating and financial revenue-generating activities are primarily focused in domestic markets. Businesses in this category are considered to be internationally semi-integrated because they are only engaged in international activities that may allow them to reduce operating and financing costs. Please notice, the upstream-integrated category is consistent with the resource-seeking, efficiency-seeking, and strategic asset-seeking internationalization approaches that explain a firm’s FDI behavior. Equally importantly, these approaches are useful not only to explain firms’ FDI behavior but also less advanced internationalization upstream value chain activities such as importing and off-shoring.

Downstream-Integrated
Quadrant 3 represents a downstream-integrated category. This category includes businesses that have to some extent internationalized their operations by engaging in international downstream value chain activities to satisfy foreign customer demand and/or improve returns on financial investments. Companies in this category may serve international markets through entry mode strategies such as exports, licensing, and foreign direct investment (FDI). Nevertheless, businesses in this category still concentrate upstream value chain activities in their home market; therefore, their factors of production are primarily tied to domestic markets. Businesses in this category are considered internationally semi-integrated because they are only engaged in activities that allow them to generate international revenues or returns on financial investments. Please notice, the downstream-integrated category is consistent with the market-seeking, and the strategic asset-seeking internationalization approaches that explain a firm’s FDI behavior. Nevertheless, these approaches are useful not only to explain firms’ FDI behavior but also less advanced internationalization downstream value chain activities such as exports and licensing.

Internationally Engaged
Quadrant 4 represents an internationally engaged category. This category includes businesses with a relatively advanced level of internationalization. Indeed, firms in this category engage in both upstream and downstream internationalization activities. They simultaneously participate in international markets to satisfy foreign customer demand, improve returns on financial investments, and also to take advantage of the more convenient and less costly international supply of input factors such as raw material and capital. This enhanced participation allows them to increase revenues and returns from financial investments, as well as to reduce operating and financing costs. Please notice, the internationally engaged category is consistent with the market-seeking, resource-seeking, efficiency-seeking, and strategic asset-seeking internationalization approaches that explain a firm’s FDI behavior.

Empirical investigation of firms’ international business activities guided by this framework will contribute to our understanding of the internationalization of a firm. Specifically, it responds to a call by Contractor (2009) who has identified the potential opportunities for international business research: 1) determine the optimum division of the value chain in international business; and 2) ascertain the
allocation and location of each piece (a) geographically (that is, “located in which nation?”), and (b) organizationally (that is, which organizational form to use, ranging from “in-house” to “quasi-outsourced” to “outsourced”).

**Possible Paths towards Internationalization**

The other usefulness of the *Value Chain Internationalization Framework* is that it helps to show a set of paths that firms might take in the process of internationalization. The *Value Chain Internationalization Framework* allows us to determine whether and how firms evolve from quadrant 1, domestically focused, towards quadrant 4, internationally engaged. The following 9 development patterns are identified:

1. A firm may start in category 1 (domestically focused), move first to category 2 (upstream-integrated), and then to category 4 (internationally engaged);
2. A firm may start in category 1 (domestically focused), move first to category 3 (downstream-integrated), and then to category 4 (internationally engaged);
3. A firm may start in category 1 (domestically focused) and then move directly to category 4 (internationally engaged);
4. A firm may start in category 2 (upstream-integrated) and then move to category 4 (internationally engaged);
5. A firm may start in category 3 (downstream-integrated) and then move to category 4 (internationally engaged);
6. A firm may start in category 1 (domestically focused) and stay in this category;
7. A firm may start in category 2 (upstream-integrated) and stay in this category;
8. A firm may start in category 3 (downstream-integrated) and stay in this category; and lastly,
9. A firm may start in category 4 (internationally engaged) and stay in this category.

This latest case is consistent with the so called “born-global” firm.

In the next section, we will explain the research methodology of the empirical study that was conducted to test the validity and usefulness of the framework.

**RESEARCH METHODOLOGY**

**Sample Overview**

Indianapolis, while being Indiana’s largest city and commercial center, is not known as having a vibrant global business community relative to other cities of similar size. For this reason, ironically, it appears to provide an ideal context for examining the process of internationalization as it contains a large number of organizations at each stage of the internationalization process.

We selected our sample from a modified member listing of the Greater Indianapolis Chamber of Commerce (GICC). The sample frame included the 2,282 GICC members with valid email addresses who did not represent branch offices or retail outlets of organizations with larger administrative offices in central Indiana.

**Questionnaire**

The questionnaire was developed using the following process. First, an inventory of potential questions was derived from relevant literature. Second, the potential questions were examined by a panel of international business scholars and practitioners, which made recommendations for adding, dropping or changing questions. Third, the revised draft questionnaire was pretested using firms similar to that of typical GICC member organizations. Pretest recipients completed the online questionnaire and then made comments regarding clarity, time to complete, and other content-related issues.

Three major topic areas were included in the final questionnaire: framework classification questions, attitudes toward globalization (generally and relative to a specific organization), and performance/classification questions. First, the framework classification questions needed to be useful for classifying firms based on strategic orientation as well as a variety of upstream and downstream activities. The
strategic orientation questions determined the degree to which management conceptualized sourcing and marketing options as being global. The activity included questions about year of first attempt to market/source internationally, year of first actual marketing/sourcing activity, percentage of revenues/costs attributable to international activity, and countries of marketing/sourcing activities.

The second major topic addressed was the issue of management attitudes toward international business (e.g., Hassel, et al., 2003; Sullivan, 1994). Such attitudes include perceptions about the necessity of international business activities for success, the presence of potential and actual global markets, confidence in organizational skill sets for pursuing international opportunities, and the necessity of internationalization for growth. Attitudes were measured using standard 7-point Likert scales ranging from “strongly disagree” to “strongly agree.”

The third major topic area addressed standard classification and performance concepts such as annual revenues, number of employees, company age, general industry category, NAICS code, and IRS classification. In addition, respondents from organizations with international business activities were asked about the degree to which their international activities have (or have not) contributed to sales growth, margins, share, efficiency, earnings volatility, and organizational image. These were also measured using 7-point Likert scales ranging from “strongly disagree” to “strongly agree.”

Survey Administration

Potential respondent were sent emails explaining the study and asking participants to complete the survey. Invitation emails were sent during the fall, 2009. One reminder was also sent to potential respondents. Respondents were asked to respond from the perspective of the entire organization or from the perspective of a specific organizational strategic business unit (SBU).

EMPIRICAL RESULTS

In the following paragraphs, the research findings are presented: scope, organizational characteristics and industry representation, attitudes toward internationalization, international value chain strategies, and movement through the framework categories.

Scope: Value Chain Internationalization Framework

123 companies completed the survey. These companies were classified into 4 categories based on the Value Chain Internationalization Framework. The companies were classified into the framework categories based on either (1) their internationalization strategy or mindset or (2) actual international business practice. Strategic orientation was determined by asking respondents whether their upstream and downstream value chain activities were primarily focused on domestic or international markets. Actual international business practice was determined by asking questions such as year of first attempt to market (and/or source) internationally, year of first successful marketing (and/or sourcing) activity, percentage of revenues (and/or costs) associated with international activity, and countries of marketing (and/or sourcing) activities.
**TABLE 2**
VALUE CHAIN INTERNATIONALIZATION FRAMEWORK

<table>
<thead>
<tr>
<th>Intensity of Downstream Activities</th>
<th>Domestic (Home Market)</th>
<th>International (Host Markets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intensity of Upstream Activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic (Home Market)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Domestically Focused</td>
<td>44 (36%)</td>
<td>24 (19%)</td>
</tr>
<tr>
<td>Strategy/Mindset: n=44 (36%)</td>
<td>Actual Practice: n=76 (62%)</td>
<td></td>
</tr>
<tr>
<td>2 Upstream-Integrated</td>
<td>47 (38%)</td>
<td></td>
</tr>
<tr>
<td>Strategy/Mindset: n=47 (38%)</td>
<td>Actual Practice: n=17 (14%)</td>
<td></td>
</tr>
<tr>
<td>3 Downstream-Integrated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy/Mindset: n=24 (19%)</td>
<td>Actual Practice: n=9 (7%)</td>
<td></td>
</tr>
<tr>
<td>4 Internationally Engaged</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy/Mindset: n=8 (7%)</td>
<td>Actual Practice: n=21 (17%)</td>
<td></td>
</tr>
</tbody>
</table>

Out of the total, the **Domestically Focused** category includes 44 firms (which represent 36 percent of the sample) when firms are classified based on internationalization strategy or mindset while it includes 76 firms (which represent 62 percent of the sample) when firms are classified based on actual international business practice.

1) **Domestically Focused**: This category includes firms whose downstream and upstream value chain activities are simultaneously focused on domestic U.S. markets. This implies firms in this category exclusively target customers in U.S. domestic markets and provide them with products and/or services that are exclusively produced and/or sourced in the U.S. and with domestic input factors such as raw materials and labor.

A higher proportion of businesses are considered to be domestically focused when we classify companies from an actual international business practice perspective than when we classify them from the point of view of internationalization strategy or mindset. This difference suggests more companies are domestically focused in practice than what managers’ strategy or mindset indicate. It appears what managers envision in regards to internationalization may not be actually happening.

There were 47 firms classified as upstream-integrated and they represent 38 percent of the total sample when we classified companies based on internationalization strategy or mindset. In contrast, 17 firms were classified in this category and they represent 14 percent of the total sample when we classified them based on actual international business practice. The upstream-integrated category is characterized as follows:

2) **Upstream-Integrated**: This category includes firms which downstream value chain activities are focused on domestic U.S. markets while upstream value chain activities are at least partially connected to international markets. This implies firms in this category primarily target customers in U.S. domestic markets but provide them with goods or services that are either sourced internationally or produced at least partially with international factors of production such as research and development, raw materials, labor.
A lower proportion of businesses are considered to be upstream-integrated when we classify companies from an actual international business practice perspective than when we classify them from the point of view of internationalization strategy or mindset. This difference suggests fewer companies are upstream-integrated in practice than what managers’ strategy or mindset indicate. It appears what managers’ foresee in regards to sourcing internationally may not be actually happening either.

The firms classified in categories three (downstream-integrated) and four (internationally engaged) engage in downstream value chain activities not only in domestic markets but also internationally. Thus, companies in categories 3 and 4 may have a potential to generate higher revenue or returns on financial investments when we compare them to companies classified on category one (domestically focused) or category two (upstream integrated).

There were 24 firms classified as downstream-integrated and they represent 19 percent of the total sample when we classified companies based on internationalization strategy or mindset. In contrast, 9 firms were classified in this category and they represent 7 percent of the total sample when we classified them based on actual international business practice. The downstream-integrated category is characterized as follows:

3) Downstream-Integrated: This category includes firms which target foreign affiliates of U.S. companies and/or Non-U.S. customers in foreign markets to provide them with products and/or services that are primarily produced and/or sourced in the U.S. and with domestic input factors such as raw materials and labor. Businesses in this category are considered to be downstream-integrated because they deliver U.S. products and/or services to the global community.

A lower proportion of businesses are considered to be downstream-integrated when we classify companies from an actual international business practice perspective than when we classify them from the point of view of internationalization strategy or mindset. This difference suggests fewer companies are downstream-integrated in practice than what managers’ strategy or mindset indicate. It appears what managers’ foresee in regards to selling internationally may not be actually happening either.

There are a greater proportion of firms classified in category two (upstream-integrated) than in category three (downstream-integrated). This finding holds true independently of whether firms are classified based on strategy/mindset or actual practice. It appears it is easier for companies to be upstream-integrated than downstream-integrated. This finding is consistent with the general idea that it is relatively easier for anybody to buy than to sell.

Please note that the level of competition that firms will face within expanded global markets may be higher than within U.S. domestic markets. A higher level of competitiveness in global market environments could partially explain a higher challenge for Indiana companies to penetrate global markets with their products and/or services.

There were 8 firms classified as internationally engaged and they represent 7 percent of the total sample when we classified companies based on internationalization strategy or mindset. In contrast, 21 firms were classified in this category and they represent 17 percent of the total sample when we classified them based on actual international business practice. The internationally engaged category is characterized as follows:

4) Internationally Engaged: This category includes firms which upstream and downstream value chain activities are simultaneously performed in either domestic or international markets. This implies firms in this category target foreign affiliates of U.S. companies and/or Non-U.S. customers and provide them with goods and/or services that are produced and/or sourced with international factors of production such as raw materials and labor.

A higher proportion of businesses are considered to be internationally engaged when we classify companies from an actual international business practice than when we classify them from the point of view of internationalization strategy or mindset. This difference suggests more companies are internationally engaged in practice than what managers’ strategy or mindset indicate. In any case, this difference suggests some companies may be more internationally active than their international.
strategy or mindset may indicate. Perhaps business owners or managers in this framework category are already internationally active but still have not developed an international strategy or mindset.

Organizational Characteristics and Industry Representation

Organizational Characteristics

This section presents some important characteristics of the responding organizations. Unless otherwise noted, we report the rest of our findings using the classification of companies into the Value Chain Internationalization Framework based on international strategy or mindset rather than actual international business practice.

Revenue. Participating organizations report a broad range of annual revenue levels: more than one third have revenues of $1,000,000 or less while slightly over ten percent report revenues above $50,000,000 (see Table 3).

### TABLE 3
ANNUAL REVENUES

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Domestically Focused</th>
<th>Upstream Integrated</th>
<th>Downstream Integrated</th>
<th>Internationally Engaged</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $500,000</td>
<td>42.1% (n=16)</td>
<td>15.9% (n=7)</td>
<td>10.5% (n=2)</td>
<td>14.3% (n=1)</td>
<td>24.1% (n=26)</td>
</tr>
<tr>
<td>$500,000 - $1,000,000</td>
<td>21.1% (n=8)</td>
<td>4.5% (n=2)</td>
<td>31.6% (n=6)</td>
<td>.0% (n=0)</td>
<td>14.8% (n=16)</td>
</tr>
<tr>
<td>$1,000,000 - $4,999,999</td>
<td>28.9% (n=11)</td>
<td>34.1% (n=15)</td>
<td>36.8% (n=7)</td>
<td>42.9% (n=3)</td>
<td>33.3% (n=36)</td>
</tr>
<tr>
<td>$5,000,000 - $49,999,999</td>
<td>7.9% (n=3)</td>
<td>25.0% (n=11)</td>
<td>5.3% (n=1)</td>
<td>42.9% (n=3)</td>
<td>16.7% (n=18)</td>
</tr>
<tr>
<td>Greater than $50,000,000</td>
<td>.0% (n=0)</td>
<td>20.5% (n=9)</td>
<td>15.8% (n=3)</td>
<td>.0% (n=0)</td>
<td>11.1% (n=12)</td>
</tr>
<tr>
<td>Total</td>
<td>100.0% (n=38)</td>
<td>100.0% (n=44)</td>
<td>100.0% (n=19)</td>
<td>100.0% (n=7)</td>
<td>100.0% (n=108)</td>
</tr>
</tbody>
</table>

Note that domestically focused firms have the lowest level of revenue in general, while upstream and downstream integrated firms have the highest. While we cannot state definitively whether higher revenues are the results of international activities or whether higher revenue companies are more likely to have international operations, the next section provides at least some evidence that managers perceive that international activities contribute positively to financial performance.

Age of Organization. Participating organizations also report a broad range of ages, with four reporting ages of one year or less, and one reporting an age of 159 years. The average age of participating organizations is 29 years, while the median age is 17 years. Interestingly, organizations classified in the internationally engaged framework category have the lowest nominal age of all the categories (see Figure 2), indicating that their upper management likely had a global strategy from the founding of the organization. This view is supported by the overwhelmingly strong internationalization attitudes expressed by this group, as we will see in the next section.
Industry Representation. This section describes the distribution of industries represented in this study. Again, unless otherwise noted, the sample profile seems to match the characteristics of Greater Indianapolis Chamber of Commerce members (see Table 4).

TABLE 4
INDUSTRIES REPRESENTED IN THE SAMPLE

<table>
<thead>
<tr>
<th>Organizations Responding to the Survey</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Services</td>
<td>27.4%</td>
</tr>
<tr>
<td>IT, Technology</td>
<td>8.9%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8.8%</td>
</tr>
<tr>
<td>Construction, Skilled Trades</td>
<td>8.0%</td>
</tr>
<tr>
<td>Health Care</td>
<td>6.2%</td>
</tr>
<tr>
<td>Distribution, Logistics, Transportation</td>
<td>5.3%</td>
</tr>
<tr>
<td>Retail, Restaurants</td>
<td>4.4%</td>
</tr>
<tr>
<td>Arts</td>
<td>2.7%</td>
</tr>
<tr>
<td>Insurance</td>
<td>2.4%</td>
</tr>
<tr>
<td>Sports, Motor Sports</td>
<td>1.8%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.9%</td>
</tr>
<tr>
<td>Utilities, Energy</td>
<td>0.9%</td>
</tr>
<tr>
<td>Life Sciences</td>
<td>0.9%</td>
</tr>
<tr>
<td>Government, Public Service</td>
<td>0.9%</td>
</tr>
<tr>
<td>Other NFP</td>
<td>8.0%</td>
</tr>
<tr>
<td>Other</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

First, just over one-fourth of the respondents (27.4%) claim to be in the professional services industry, serving either consumers or other organizations. The next most common industries represented, all representing between eight and nine percent of the sample, are: IT/technology (8.9%), manufacturing (8.8%), and construction/skilled trades (8.0%). Specific remaining industries mentioned include health care (6.2%), distribution/logistics/transportation (5.3%), retail/restaurant (4.4%), the arts (2.7%), and insurance (2.4%). Compared with the organizational profile of GICC members, it appears that this sample
slightly under-represents restaurants and retail businesses, and may slightly over-represent professional services. In all other categories, the sample seems to match the GICC profile.

There do not appear to be large differences in the industry profiles of organizations across the four framework categories, with the following two exceptions: 1) professional services seem to be concentrated in the domestically focused (category 1) and downstream integrated (category 3) categories, and 2) IT/technology and distribution/logistics/transportation firms are concentrated in category 2, upstream integrated. We are a bit surprised that these firms are not more oriented towards generating international revenue streams.

Attitudes Towards Internationalization

This section is divided into three subsections. The first addresses managements’ overall strategic orientation towards internationalization in broad terms, the second addresses attitudes about specific organizational capabilities regarding internationalization, and the third identifies the perceived impacts of internationalization among those organizations that report global activity.

Overall Strategic Orientation

At the beginning of the questionnaire, respondents were presented a series of strategic orientation statements and asked to what degree, on a seven-point scale, they agreed or disagreed with each statement. Given that nearly three fourths (74%) of the sample is classified as domestically focused or upstream integrated, it is perhaps not surprising that over 80% agree that their future is “primarily in the domestic market” or that over 70% disagree that “internationalization is the only way to achieve our growth objectives.” However, when broken out by matrix category, we see that attitudes differ greatly across categories (see Figures 3 and 4).

As we might expect, there is a clear attitudinal trend based on matrix category classification: those who are classified as internationally engaged agreed most strongly with the “pro-global” statements (Figures 3a and 4a), while those classified as domestically focused agreed least strongly. For statements reflecting a “domestic only” focus (Figures 3b and 4b), the reverse pattern held. For both types of statement, category 2 and category 3 organizations gave responses between these two extremes. Table 5 provides data for all the attitude statements presented to respondents.
FIGURE 4
GENERAL ATTITUDES CONCERNING SCOPE OF MARKETS

a. The market in which we operate is global in nature.

- Domestically Focused: 1.5
- Upstream-Integrated: 2.6
- Downstream-Integrated: 3.0
- Internationally Engaged: 6.3
- Overall Average: 2.5

b. We see our future as being primarily in the U.S. market.

- Domestically Focused: 6.7
- Upstream-Integrated: 6.1
- Downstream-Integrated: 5.2
- Internationally Engaged: 2.0
- Overall Average: 5.9

TABLE 5
GENERAL ATTITUDES TOWARDS INTERNATIONALIZATION

<table>
<thead>
<tr>
<th>Statement</th>
<th>Domestically Focused</th>
<th>Upstream-Integrated</th>
<th>Downstream-Integrated</th>
<th>Internationally Engaged</th>
<th>Overall Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationalization is the only way to achieve our growth objectives.</td>
<td>1.5</td>
<td>2.6</td>
<td>3.0</td>
<td>6.3</td>
<td>2.5</td>
</tr>
<tr>
<td>We will have to internationalize to succeed in the future.</td>
<td>1.6</td>
<td>3.2</td>
<td>3.6</td>
<td>6.4</td>
<td>2.9</td>
</tr>
<tr>
<td>The company's or SBU's management uses a lot of time for planning international operations.</td>
<td>1.2</td>
<td>2.3</td>
<td>3.1</td>
<td>5.0</td>
<td>2.2</td>
</tr>
<tr>
<td>The growth we are aiming at can be achieved mainly through internationalization.</td>
<td>1.4</td>
<td>2.7</td>
<td>3.8</td>
<td>6.0</td>
<td>2.7</td>
</tr>
<tr>
<td>The market in which we operate is global in nature.</td>
<td>2.1</td>
<td>4.1</td>
<td>4.8</td>
<td>7.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Our competitors operate internationally.</td>
<td>2.1</td>
<td>3.5</td>
<td>4.2</td>
<td>6.4</td>
<td>3.3</td>
</tr>
<tr>
<td>There are potential customers for our products/services all over the world.</td>
<td>3.4</td>
<td>5.5</td>
<td>6.0</td>
<td>7.0</td>
<td>4.9</td>
</tr>
<tr>
<td>In our industry, a company cannot succeed unless it is able to constantly bring something new to the market.</td>
<td>4.4</td>
<td>5.2</td>
<td>5.2</td>
<td>5.9</td>
<td>5.0</td>
</tr>
<tr>
<td>We see our future as being primarily in the U.S. market.</td>
<td>6.7</td>
<td>6.1</td>
<td>5.2</td>
<td>2.0</td>
<td>5.9</td>
</tr>
<tr>
<td>We see no need to internationalize any part of our business.</td>
<td>5.5</td>
<td>3.6</td>
<td>2.9</td>
<td>1.1</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Results are mean responses on a 7-point "strongly disagree" (1) to "strongly agree" (7) scale.
Organizational Capabilities and Internationalization

Near the conclusion of the questionnaire, all respondents were presented a series of statements about their organizational capabilities and operations. For each statement presented, respondents were once again asked to what degree they agreed or disagreed with that statement, using the same seven-point scale.

As can be seen in Table 6, managers representing organizations in different framework categories perceive their organizations to have different capabilities with regard to their ability to operate globally.

<table>
<thead>
<tr>
<th>TABLE 6</th>
<th>PERCEIVED CAPABILITIES REGARDING INTERNATIONALIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestically Focused</td>
</tr>
<tr>
<td>* We know how to market to prospective customers in foreign markets</td>
<td>1.3</td>
</tr>
<tr>
<td>* We know how to purchase from prospective suppliers in foreign markets</td>
<td>2.0</td>
</tr>
<tr>
<td>* Daily business operations do not allow us to think about selling internationally</td>
<td>3.1</td>
</tr>
<tr>
<td>* Our production/service capacity does not allow us to serve international markets</td>
<td>3.8</td>
</tr>
<tr>
<td>* Our production/service needs do not require us to purchase from international markets</td>
<td>5.5</td>
</tr>
<tr>
<td>* Our financial resources do not allow us to engage in international operations</td>
<td>2.6</td>
</tr>
<tr>
<td>* Our current product/service offerings are inadequate to serve international markets</td>
<td>2.7</td>
</tr>
<tr>
<td>Our product/services prices do not allow us to compete in international markets</td>
<td>2.6</td>
</tr>
<tr>
<td>The prices at which we source in domestic markets are very competitive</td>
<td>4.6</td>
</tr>
</tbody>
</table>

* indicates some statistically significant differences among matrix categories.

Focusing first on the attitudes which do NOT vary across categories, it appears that respondents in general believe they have the production/service capacity, the production/service offerings, and the prices which would allow them to compete globally. This implies that these commonly-offered reasons for not engaging in international business activities are not relevant to this population.

On the other hand, it appears that category 1 and category 2 organizations believe they lack the expertise to market to customers in foreign markets. Indeed, of all the capabilities tested, this one appears to present the most challenging hurdle for central Indiana companies going global. Likewise, most organizations believe they lack the expertise to purchase from foreign suppliers (see second statement in Table 6), though most appear to believe they do not need to do so (see fifth statement in Table 6).

Impacts of International Business Activities

Finally, respondents who report current international marketing or sourcing activities (those in categories 2, 3, and 4) were presented with a series of statements about their perceptions of the impacts of those activities. And once again, respondents were asked to what degree they agreed or disagreed with each statement.
In general, respondents with upstream or downstream international activities seem partially enthusiastic about most outcomes associated with these activities, i.e., their mean responses are near the scale midpoint of “4” for most outcomes. Overall, respondents are most positive about internationalization’s impact on company profitability (4.5) and overall image (4.4). They are least enthusiastic about internationalization’s impact on profit margins associated with selling (3.1) and sourcing (3.4) internationally, and on its impact on growth in market share (3.2).

**TABLE 7**
PERCEIVED PERFORMANCE BENEFITS RELATED TO INTERNATIONALIZATION

<table>
<thead>
<tr>
<th>Item</th>
<th>Upstream Integrated</th>
<th>Downstream Integrated</th>
<th>Internationally Engaged</th>
<th>Overall Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>IB activities have contributed above average rate of growth in sales</td>
<td>2.8</td>
<td>3.5</td>
<td>5.9</td>
<td>3.6</td>
</tr>
<tr>
<td>IB activities have contributed above average rate of growth in market share</td>
<td>2.5</td>
<td>2.7</td>
<td>6.2</td>
<td>3.2</td>
</tr>
<tr>
<td>IB activities have contributed higher profit margins as a result of selling products/services internationally</td>
<td>2.5</td>
<td>2.9</td>
<td>5.0</td>
<td>3.1</td>
</tr>
<tr>
<td>IB activities have contributed higher profit margins as a result of sourcing raw materials, goods, or services internationally</td>
<td>3.7</td>
<td>2.1</td>
<td>5.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Internationalization has had a positive effect on our company's profitability</td>
<td>3.9</td>
<td>4.2</td>
<td>6.7</td>
<td>4.5</td>
</tr>
<tr>
<td>IB activities have contributed higher levels of operational efficiency</td>
<td>3.7</td>
<td>2.1</td>
<td>5.2</td>
<td>3.4</td>
</tr>
<tr>
<td>IB activities have contributed higher levels of improvements in our value chain</td>
<td>3.9</td>
<td>3.4</td>
<td>5.5</td>
<td>4.0</td>
</tr>
<tr>
<td>IB activities have contributed better overall performance than competitors</td>
<td>3.7</td>
<td>4.4</td>
<td>4.9</td>
<td>4.1</td>
</tr>
<tr>
<td>IB activities have contributed less volatility in earnings</td>
<td>2.9</td>
<td>4.2</td>
<td>4.0</td>
<td>3.5</td>
</tr>
<tr>
<td>IB activities have contributed more diversified and less risky operations</td>
<td>2.8</td>
<td>4.1</td>
<td>5.2</td>
<td>3.7</td>
</tr>
<tr>
<td>IB activities have contributed positive effect on our company's or SBU's image</td>
<td>3.3</td>
<td>4.8</td>
<td>6.2</td>
<td>4.4</td>
</tr>
<tr>
<td>IB activities have contributed positive effect on the development of our company's or SBU's expertise</td>
<td>3.4</td>
<td>4.4</td>
<td>6.2</td>
<td>4.2</td>
</tr>
</tbody>
</table>

* indicates some statistically significant differences among matrix categories.

Internationally engaged firms appear to be much more enthusiastic and consistently perceived the most benefits of international activities, while downstream integrated firms usually rated such benefits more highly than did upstream integrated firms. It appears, the higher the level of commitment to international markets the higher the perception that internationalization brings value to the firm.

However, one word of caution is in order: further analysis indicates that there is high variance in the responses to this set of questions. In many cases, the response is bi-modal (see Figure 5). In this example, the overall mean response to the item is “4.0,” the scale midpoint—yet clearly, there are few respondents answering in the middle of the scale. Such a pattern of response, especially over the entire set of perceived performance questionnaire items, indicates that it is difficult to generalize about the performance-related experiences of firms.
International Value Chain Strategies
This section presents the international value chain strategies used by responding organizations.

International Upstream Value Chain Activities
To understand the extent of downstream value chain activities, the questionnaire asked respondents to indicate their method of purchasing services or materials from foreign sources when they first did so. Typical methods of sourcing include importing, outsourcing production to a foreign entity, entering a joint venture, or foreign direct investment in foreign operations or subsidiaries. Results appear in Figure 6.

Nearly three quarters (73%) of responding organizations report using some form of direct or indirect importing as their first sourcing method. Of these, relatively few used foreign intermediaries. In addition, few used the relatively risky and more capital intense methods of joint ventures or foreign direct investment.

Again, there was only one systematic difference in foreign sourcing method among the four framework categories: upstream integrated firms were more likely to import directly from vendors in foreign countries.

Respondents were asked what current methods of foreign sourcing their organizations are currently using. Responses closely mirror the results illustrated in Figure 6, with one exception: the percentage of organizations importing via a domestic intermediary is about half the amount shown in Figure 6.

Finally, respondents were asked their plans for foreign sourcing. On fourth of respondents indicate they plan to stay focused and grow purchasing in foreign countries currently used. About one in five (21%) plan to expand the types of purchasing in foreign countries. One in ten (10%) will purchase from companies on new continents, and slightly fewer (8%) plan to purchase from companies in new countries on currently-used continents. The same proportion (8%) plan to reduce or consolidate international purchasing, but no one reported plans for closing international purchasing operations.
International Downstream Value Chain Activities

To understand the extent of downstream value chain activities, the questionnaire asked respondents to indicate their method of market entry when they first sold goods or services internationally. Typical methods of market entry include exporting, licensing, forming a joint venture, and foreign direct investment. Results appear in Figure 7.

Note that nearly 45% of the firms report “exporting” directly or indirectly as their first foreign market entry method. About as many exported directly to customers as used an intermediary. Exporting is traditionally regarded as the least risky method of entering a foreign market, so this finding is not surprising. On the other hand, joint ventures and foreign direct investment are considered to be the most advanced but risky method, so it is a bit surprising that nearly one-third (29%) used this method as their first attempt at entering a foreign market.

There were no systematic differences in market entry method among the four framework categories, except that downstream integrated firms accounted for over half of the firms who used joint ventures for this purpose.

Respondents were then asked about their current methods of selling in foreign markets. Their responses mirror their responses to the previous question, though with slightly fewer currently exporting and slightly more currently engaged in joint ventures and foreign direct investment. None of these differences are statistically significant.

Finally, respondents were asked about their plans for international marketing operations. Over one-third (38%) plan to offer additional products/services in international markets. Similarly, about one-third...
(35%) plan to expand into new foreign markets on new continents while one-fifth (21%) plan to expand into new markets on a continent in which they currently operate. Only 3% indicate they plan to “reduce or consolidate” their international revenue-generating operations.

In summary, it appears that those with current upstream and downstream activities in foreign countries plan to continue such activities in some form. Large minorities plan to expand such activities in some way, with slightly more planning to expand marketing activities relative to sourcing activities.

Movement Through the Framework Categories

Underlying the logic of this project is the question of if, and how, organizations move through the framework categories. That is, do organizations evolve over time to higher levels of internationalization? If so, what factors may influence such movement? While answers to these questions remain incomplete, we have uncovered evidence that there is movement among the categories. In addition, we have also verified that some firms are “born global,” as other researchers have found. “Born global” refers to organizations that have elements of internationalization built into them from their origin.

Using data describing the actual international business activities of organizations, Figure 8 illustrates the organizational origins of respondents classified in Categories 2, 3, and 4 based on their historical activities.

Though we are dealing with a limited sample size, it appears that it may be more common for a firm to move from Category 1 to Category 2 than it is for a firm to move from Category 1 to Category 3. Specifically, 16 of 17 (94%) firms reporting some international upstream value chain activities started that activity after being founded as a Category 1 organization. Please notice 1 of 17 (6%) originated as an
upstream integrated firm from its founding. In comparison, 7 of 9 (78%) of Category 3 firms originated in Category 1; the other 2 of 9 (22%) originated as downstream integrated firms.

Somewhat surprisingly, a plurality (8 of 21, or 38%) of organizations in Category 4 originated in Category 1. This indicates that once these firms decided to “go global,” they did so in a relatively comprehensive manner by undertaking upstream and downstream international activities simultaneously.

**FIGURE 8**

**MOVEMENT THROUGH THE CATEGORIES**

**DISCUSSION CONCLUSIONS**

This study introduces the *Value Chain Internationalization Framework* and the results of the empirical analysis generally support its validity. Our findings suggest the characteristics of businesses and the attitudes of managers vary across framework categories or degrees of internationalization. Therefore, we conclude the value chain internationalization framework is compatible with previous studies that measure firms’ degree of internationalization and success. Firms located in different framework categories are likely to face different opportunities and challenges as they try to become more internationally engaged. The support provided by governments and business development organizations should be customized and based on the value chain internationalization framework category of a particular firm. For instance, the support offerings for businesses in category 1 (domestically focused) should emphasize samples of firm internationalization successes and should also provide firms with general information about international business opportunities; for businesses in category 2 (upstream-integrated), international sourcing strategies could be highlighted; for businesses in category 3 (downstream-integrated), international marketing strategies might need to be emphasized; while for businesses in category 4 (internationally engaged) perhaps more advanced international business subjects such as international strategy, international finance, and international human resource management should be provided.

The internationalization of businesses in the greater Indianapolis is an area of strategic importance for the growth and prosperity of our region. Such an endeavor may be supported by the government,
universities, and business development organizations such as the Greater Indianapolis Chamber of Commerce. Such an endeavor and support is needed by organizations across all levels of international integration. First, the lower the level of a firm’s international integration (firms in category one – domestically focused) the greater the commitment and support needed by business owners or managers. Second, firms that are already semi-integrated into international markets (upstream or downstream-integrated) need to develop a strategy and get support to further advance their internationalization efforts in a way that they can take full advantage of tapping into international markets to gain operational or financial efficiencies (upstream value chain activities) and to grow their revenues or returns on financial investments (downstream value chain activities). In addition, the higher the level of a firm’s international integration the more sophisticated the support needed by business owner or managers. However, firms in this category are already well underway to take full advantage of international markets.

We anticipate most firms are likely to start operating in category 1 (domestically focused) and for the most part remain within such category. Most firms are relatively small and as such have business growth potential within such a category; however, the more we motivate and support them to evaluate their potential to engage in international markets the more they may be prompted to develop an international strategy or mindset and subsequently to actually engage in international business activities.

The proposed value chain internationalization framework may be useful not only to understand a firm’s degree of internationalization, at a particular point in time, but also to answer the question of “how” or to explain the process through which a firm becomes more internationally engaged. Such an international business development process may be studied by identifying a firm’s movement across framework categories. For instance, we argue “traditionally” most businesses start and initially develop within category 1 (domestically focused), then they may either engage in international resource-seeking activities through import transactions thereby moving into category 2 (upstream-integrated), or in international market-seeking activities through export transactions thereby moving into category 3 (downstream-integrated). Subsequently, firms may move from either category 2 or 3 into category 4 (internationally engaged). We argue that it may be relatively easier for a firm to move from category 3 (downstream-integrated) to category 4 than it is to move from category 2 (upstream-integrated) to category 4. Our study finds partial evidence of movement across framework categories.

There is a need to understand the characteristics and the international business development patterns of firms across areas (cities, states, countries). Future research entails applying the Value Chain Internationalization Framework to different business environments within and across countries. In addition, it is important to further evaluate the patterns of firms’ movement across categories. Our study finds mixed evidence of businesses progressing toward higher degrees of internationalization. The reason for this result is unclear. However, it is possible that our sample frame may not be ideal to capture such a movement. Perhaps testing the framework in a larger cosmopolitan business environment may allow us to more clearly identify movement of firms across framework categories.

In summary, the internationalization process of the firm is a complex phenomenon, which is affected by multiple factors such as business characteristics, strategic orientation, competition, business age, and managers’ attitudes. The proposed value chain internationalization framework should be a useful tool for further investigation of this phenomenon.

REFERENCES


