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Thesis:

“The process of internationalization of the  
Algerian firms beside hydrocarbon”

Study case: FERTIAL

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Dedication:

I would like to dedicate this thesis to the memory of my father, who I cannot thank enough for the opportunities he has given me, the constant encouragement he provides and for always being there for me. I am so fortunate to had a champion like you, who was supportive and motivating in equal measures. I hope he would have been proud.

To mom, thank you for your love, support, and unwavering belief in me. Without you, I would not be the person I am today.

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## Abstract

This study investigates firm internationalization from a developing country perspective. Despite the vast literature on firm's internationalization, the differences that exist between developing countries and developed countries remain unexplored. Therefore, current theories are influenced by processes and practices in developed countries, which are then applied blindly to developing countries. This study therefore asks: how the Algerian managers from non hydrocarbon sector describe the process of internationalization of their firms?

The literature review and case study are used to propose a framework of firm internationalization from Algeria. The framework identifies major theories that describe the firm internationalization in this context as being; entrepreneurial theory, network theory, market knowledge and commitment theory "the Uppsala model".

**Keywords:** Internationalization process, theories of internationalization process, Algerian firms, non hydrocarbon sector.

## Résumé

Ce mémoire traite sur l'internationalisation des entreprises à travers la perspective du pays en voie de développement. Bien que la documentation sur l'internationalisation des entreprises soit très vaste, la différence exister entre les pays développés et les pays en voie de développement reste inexploré. Donc les théories actuelles sont influencées par des processus et pratiques dans les pays développés et sont appliquées aveuglement dans les pays en développement. Cette recherche poser laquestion suivante : « comment les entreprises hors hydrocarbures en Algérie conçoivent le processus de leur internationalisation ? ».

Les revues de littérature et l'étude de cas sont utilisées afin de proposer une structure de l'internationalisation des entreprises algériennes. Cet encadrement du sujet identifie les théories majeures qui décrivent l'internationalisation des entreprises dans ce contexte. Elles sont identifiées par la théorie entrepreneuriale, la théorie de réseaux et la théorie d'Uppsala model.

**Mots clés :** processus d'internationalisation, les théories du processus d'internationalisation, les entreprises algériennes, secteur hors hydrocarbures.

Abbreviation List	
<b>USA</b>	United State of America
<b>USSR</b>	Union of Soviet Socialist Republics
<b>MNCs</b>	Multinational Companies
<b>FDI</b>	Foreign Direct Investment
<b>SMEs</b>	Small and Medium enterprises
<b>IMF</b>	international monetary foundation
<b>GATT</b>	General Agreement on Tariffs and Trade.
<b>WTO</b>	world trade organization
<b>WB</b>	world bank
<b>OCED</b>	Organization for Economic Cooperation and Development
<b>OLI</b>	Ownership, location and international advantage
<b>MENA</b>	Middle East and North Africa
<b>BG</b>	Born Global
<b>GDP</b>	Gross Domestic Product.
<b>ISO</b>	International Organization for Standardization
<b>OHAS</b>	Occupational Health and Safety Management Systems
<b>CEO</b>	Chef Executive Officer
<b>OCP</b>	Office Chereifien Phosphate
<b>IET</b>	International Entrepreneurial Theory

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## **Introduction**

Cross-border activities of firms have been of interest for international business researchers for a long time, and it is still an expanding field of research. During the last couple of decades, emerging markets have opened up and integrated into the world economy.

The traditional view of internationalization is that it is based on economies of scale, large firms and it's confined on the developed countries. It is considered as a tool for the firms survival and a way to rise their profitability but in the other hand the consequence of this internationalization is the loss of jobs in mature markets due to considerably increased subcontracting of products and services.

This research focuses on internationalization processes of firms in a region affected by major changes of their societies, from plan to market, from dependence to independence, and a wave of democratization. Even if the developing countries have covered different distances on the road towards maturity, most of them have successfully implemented new economic and societal institutions since the demise communism in 1989/90. Yet, despite the heavy burden of their past, the countries from the third world are integrated for example into the association agreement with the Western structures, manifested by memberships in WTO like Morocco and Tunisia. Furthermore, Algeria has become a more frequent actor in the global market.

The purpose of our study is to gain a better understanding of the Internationalization process of Algerian firms with regard to the use of any of the main theories.

The choice of this subject was based on its importance and it considers as topical subject it is also a subject that going along with my study field and Internationalization in the local firms is a relatively unexamined area despite its importance, originality and its huge impact on Algerian economy. The understanding of this impact will help us to find solution for the different brakes in front of our development. In order to address this less researched area, the present dissertation focuses on the vision of the Algerian companies toward their internationalization process.

The internationalization process is a long and demanding process and it takes both resources and management models to succeed. Internationalization in the firms is more often combined with threats than with opportunities. Traditionally the Algerian firms i.e.

the non hydrocarbon producers are, however, often considered to be home-market oriented. Earlier research has been concentrated on internationalization in large firms and the public hydrocarbon firms.

In our research we did focus on the non hydrocarbon sector that it was an abandon area from its importance side or from the research side all the concentration were guide to the energy sector for that we did particularly choose the agriculture sector which has a huge importance in the development of any economy and precisely the Algerian economy, according to its cultural importance on the economy of Algeria. The internationalization of the sector firms will imply the achievement of balance between sectors and in the country's economy so based on this reasons we did choose the Algerian fertilizer "FERTIAL" according to its weight on the Algerian market and the foreign one.

The process of internationalization this concept was developed in the literature from the experience of emerged markets from gradual approach to born global. Until the 1960s the study of Internationalization was directly influenced by economists focusing primarily on the macroeconomic flows of commerce and investment between countries. This macro approach gradually gave place to a more micro oriented analysis and research, with the integration of theoretical contributions, such as strategic management and marketing. Recently, the research has incorporated research based on organizational behavior and international business theories.

For more understanding academics explained the internationalization process by using a stage model, which follows a step by step process where the firm starts from no international activity and goes on to engage in some international activity and then ends up owning subsidiaries abroad. Such is the case of the Uppsala model proposed in 1977 by Johanson and Vahlne. Right from the beginning this model has been criticized and after much criticism by scholars and other authors such as Andersen (1993), Johanson and Mattsson (1988) introduced a new model known as 'The Network Approach', where they explained the importance of relationships with suppliers, customers and market that can stimulate or help a firm to go abroad. While studying firms' internationalization process researchers find that some of firms are international from inception so McDougall and Oviatt (1994) introduced the concept of Born Global to explain the characteristics of such firms. Later on McDougall and Oviatt (2000) approached internationalization by explaining the role entrepreneurship in the process with the international entrepreneurship theory (IET)..

To frame the previous theories we did put a principle question which is: **“how the Algerian firms conceive and describe the internationalization process?”**

To arrive to our aim and get the right answer for our problematic we did ask other subordinate questions that will orient the research to the right point, they were asked on the following form:

**Q1: What are the reasons which motivate the firm to look for the internationalization?**

**Q2: What is the role of the three theories in describing, explaining and guiding the internationalization process of firms?**

**Q3: Which aspects of these theories are most useful to the firm’s internationalization process?**

To respond to the questions above we will check the following hypothesis:

**H1: the biggest motivation toward the internationalization is the increase of the firm’s profitability.**

**H2: the role of the theories toward their internationalization that it is a tool that makes the phenomenon easier for those firms.**

**H3: through the three theories, the Uppsala model could be the most useful to the Algerian firm’s internationalization process.**

To answer and check the posed hypothesis our dissertation is structured as follows; first we present our theoretical framework in two chapter the first one did concentrate on the concepts of internationalization and the second was about the models of the , and then we account for the methodology of the research project where we did apply the analytic method. Thereafter, we analyze the internationalization of firms from the Algerian markets for that we have applied the qualitative research approach to gather more information and describe the situations involving the process. However, we have also applied the quantitative research approach since it allows us to statistically measure some of the factors, their impacts and influences on the internationalization process of firms. So, we have used a combination of both qualitative and quantitative research approach. And general conclusions are drawn, which are followed by the theoretical contributions.

To establish this study we did face a lot of difficulties from the beginning there were a rarity of documentary about the subject at our school level and the research founded were most about MNCs. Second, there is little knowledge about such internationalization related

to emerging markets, in particular about firms from these markets. Third we did face the big problem in our community toward searchers which is the confidential of information at the level of our firms and other problems during the training period.



**Chapter one :**  
**Concepts of**  
**internationalization**

The great event and revolution in the last century is the internationalization of firms. This phenomenon is very important for a firm's survival. We can consider it as a growing objective for some firms.

An increasing number of companies searching to sell their products in the international market. The international market place offers a world of business opportunities for companies to sell or source product worldwide.

In this chapter we will study the concepts of internationalization according to the literature theories which concern the subject. As we said this phenomenon has a huge importance so it is a tough decision that will be influenced by many factors, here and beside the definition of the concept we will study those factors which are: the risks going with the operation, the motivations and drivers within and outside the firm. We will further look on the institutions and organism that help the success of the internationalization process and its dimensions.

This part of the work is intended to understand the internationalization, its impact and importance of concepts framework which will lead us to better understand its process later which is the main question of our research.

## Section 1: History and definition of the internationalization

### 1.1. Historical Background

Internationalization is one of the most subtractive subjects today; this concept is in fact not a product of 20<sup>th</sup> century. Trade is international since the flint stone trade of Neanderthal human and globalization is a subject of history since first ages.

It existed when the Silk Road started in China and reached to the frontier of the Persian Empire and enlarged towards the Roman Empire and during the Roman Empire, the Persian Empire and the Dynasty of China.

Another example is the Golden Age of Islam: Early global economy created by Muslim merchants and explorers that ended up with the globalization of crops, commerce, knowledge and technology in the Old World-wide and the times that more integration was achieved along the Silk Road during the Mongol Empire. With the accession of Portuguese and Spanish Empires to every corner of the world in the 16<sup>th</sup> and 17<sup>th</sup> centuries after they had reached India, global integration continued through the enlargement of European trade. During their dynasties Roman and Ottoman Empires developed “world systems” consistent with their hegemony in the “discovered” world and Pax Romania and Pax Ottoman constituted examples of internationalization that “effects and compasses the whole world” in 19<sup>th</sup> century with the Pax Britannica known as the world order developed by Britain. <sup>1</sup>

The development in the automation network with the Industrial Revolution accelerated the globalization process.<sup>2</sup> Two significant world wars and then the competition between the United States of America (USA) and the Union of Soviet Socialist Republics (USSR) carried humanity into a very dangerous point. Consequently, the reality that instead of “power” “norm” should operate in order to alleviate the tension between these two blocs loomed large.

#### 1.1.1. Stages of the development of internationalization concept

Beside all the talking above the internationalization process may be divided into many stages encompassing colonization, slave trade, church constructions abroad, inventions in the high-capacity transportation, industrialization, highway constructions among provinces and countries, electrical and electronic infrastructure. On the other hand Robertson claims

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<sup>1</sup>History of globalization, [https://en.wikipedia.org/wiki/History\\_of\\_globalization](https://en.wikipedia.org/wiki/History_of_globalization), reviewed on 5<sup>th</sup> march 2016 at 18:00.

<sup>2</sup>HIRST Paul and TOMPSON Grahame, The limits to economic globalization, ,2003,pp 335,336.

that internationalization which is thought to be peculiar to present day is in fact a process began before the modernity and capitalism and divides this process into five stages and suggests that the last stage started in 1960 is full of ambiguities.

A commonly accepted division divides the globalization process into three stages.

**1.1.1.1. First Stage (1490):** Started with the overseas discoveries of the West.

The discoveries were followed by the establishment of colonial empires.

**1.1.1.2. Second Stage (1890):** Second extension of the West started after 1870 and institutionalized in 1890s. It was based on the classical nineteenth-century vision of Smith and Ricardo the national community embraced both national labor and national capital, and these classes cooperated, albeit with conflict, to produce national goods -- largely with national natural resources. These national goods then competed in international markets against the goods of other nations, produced by their own national capital/labor teams using their own resources<sup>1</sup>. The search for the resources and the utilized technology after the industrial revolution generated high imbalances between the West and the rest of the world. This difference was resulted with the deployment of Western countries into the markets of countries that had not experienced the industrial revolution and exploitation of the resources in these countries.<sup>2</sup> A merciless competition that curtails profit rates started. This competition previously had remained at the firm level as the land and resources abounded but later on as the free lands become scarce it raised to the national level. Increased competition resulted in conflicts and the First World War.

The world changed in many respects after the First and Second World Wars. Almost all the ordinary balances collapsed and a new formation in the world started. First, balances that collapsed and changed were the former economic powers and political authorities connected to these powers. The empires and monarchies and their colonies which are the power source and scattered into various continents diffused one by one through declarations of independence. When economic and political balances changed, social and cultural values and balances disappeared, the newly gaps were closed by new balances. One of them was USA and the other was USSR. Thereby two poles and two blocs formed in the world. But during the Second World War

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<sup>1</sup> Cambridge journal of economic, 2006, n°30, p 137-159

<sup>2</sup> Murat Ali and Onur DEMİREL, Isparta, Globalization and internationalization, Socrates Comenius 2.1, 226388-CP-1-2005-1-DE-COMENIUS-C21, pp 5-6

major changes occurred. When the vast part of Europe was ruined, industrial economy in USA experienced a huge growth.<sup>1</sup>

**1.1.1.3. Third Stage (1990):** In the first two stages instable balances aroused. The number of independent states increased, conflicts increased and accelerated. Identity conflicts reached to peak in the underdeveloped countries.

The national markets of the West were insufficient; markets were desired to expand in order to encompass the whole world. In this process there were no competitors against the West like the ones in 1490 and 1890 stages because the third stage both was the factor that engendered the collapse of Soviet Bloc and the West was left alone to conquer the world as a result of this collapse. The third stage was more powerful, widespread and faster than the first two stages because of the hegemony of MNCs on the world economy started in 1970s, communication revolution created by putting technological inventions of the West like optical cable, communication satellites, computers, internet in 1980s and disappearance of power balances with the dissolution of the USSR and Europe's turning up as the only focus of power again in 1990s. Therefore globalization has become a process that cannot be reversed and it should be accorded and strategies should be developed against the process.<sup>2</sup>

## **1.2. Definition of the concept of internationalization**

Nowadays everyone is using the concept of internationalization and globalization as the same concept but the reality is the internationalization is a part from the globalization concept. The difference between those two concepts is that the globalization refers to the integration of a country's culture and economy into an global economy, but internationalization do focus on the tacking one country's business across other nations. For better understanding of the concept we will go forward with some definitions according to the specialist of the field.

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<sup>1</sup> Op.cit. ,Globalization and internationalization, pp 5,6

<sup>2</sup> Idem,Globalization and internationalization, Murat Ali DULUPÇU and Onur DEMİREL

**BEAMISH** defines internationalization as “the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries.”<sup>1</sup>

According to **Johanson and Mattson** internationalization is defined with the three stages suggested: prolongation, penetration, and integration. Prolongation means that the first step is started by unifying the network. Penetration refers to developing positions of the company within the network and increasing its resources of engagement. Integration is an advanced stage where the firm has several international networks.<sup>2</sup>

**Perrault & St-Pierre** did define it as an active phenomenon, conscious, organized in time with different undergo and desire degrees.<sup>3</sup>

**Worthington** agreed that —In this highly competitive market the companies are considering to enter new countries to gain advantages from their rivals either to reduce cost or as a strategy for boosting demand.<sup>4</sup>

Internationalization refers to the increasing importance of international trade, international relations, treaties, alliances.<sup>5</sup>

From these definitions of the notion we do illustrate the meaning of internationalization as the firm development strategy out of the national market, the process of increasing involvement in international operations.

The internationalization as we did illustrate is a phenomenon based on different dimensions as any other important operation in this section we will give short review on those determinations.

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<sup>1</sup> mondialisation et PME :l'internationalisation des activité comme des solution Par :Josée St-Pierre , Ph.D. Université du Québec à Trois-Rivières, Juillet 2009, p 3

<sup>2</sup> Johanson and Mattson (1988, p.296

<sup>3</sup> Idem, mondialisation et PME :l'internationalisation des activité comme des solution Par :Josée St-Pierre

<sup>4</sup> School of Sustainable Development of Society and Technology, International Business and Entrepreneurship Master Thesis — EFO705.2003.

<sup>5</sup> <https://www.globalpolicy.org/globaliz/econ/herman2.htm>, globalization Versus Internationalization: - Global Policy Forum By Herman E. Daly ,1999 , consulted 20/2/2016 at 10:30 am.

### **1.3. Dimensions of internationalization**

If we talk about internationalization we do talk about three dimensions:

- Mercantile internationalization.
- Technological internationalization.
- Organizational internationalization.<sup>1</sup>

#### **1.3.1. Mercantile internationalization**

It refers to the internationalization activities which have a direct contact with the flow of products. It responds to the needs as competitiveness, diversification of risks, extend the product life cycle. It concerns the outward as the inward and FDI(Foreign Direct Investment) .

Inward activities or imports are explained by the absence of equipment, of raw material on the national market or the high cost of it. The import help firms access to innovated product to ameliorate the quality. Acquisition of experience and knowledge about the foreign firms. It will help them to approach to the potential market target.

#### **1.3.2. Technological internationalization**

It is the Establishment of a new technology or a foreign manufacture system and this dimension is forced by the absence of national manufacturer or imposed by the exigencies of the other parts for a high quality and flexibility. Respect the international production norms. And the investment on the equipment and technologies adapt to the exigencies of international commerce.

#### **1.3.3. Organizational internationalization**

It is the control of activities but also the management of different risks related to relations nature with the future foreign partner. It manages the activities and resources in a complex context to guarantee the success. Put an information exchange system with the foreign partner (security, technology) .creation an eve cell.

From those dimensions in our study we will focus on the first one as we know we will study the process of internationalization ie the process of the trade between the nations. For facility the understanding of this process we do have to know the motives and the influences of the internationalization.

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<sup>1</sup> Op.cit., MONDIALISATION ET PME :L'INTERNATIONALISATION DES ACTIVITÉS COMME SOLUTION Par :Josée St-Pierre

## **Section2: Motives and limits of the internationalization**

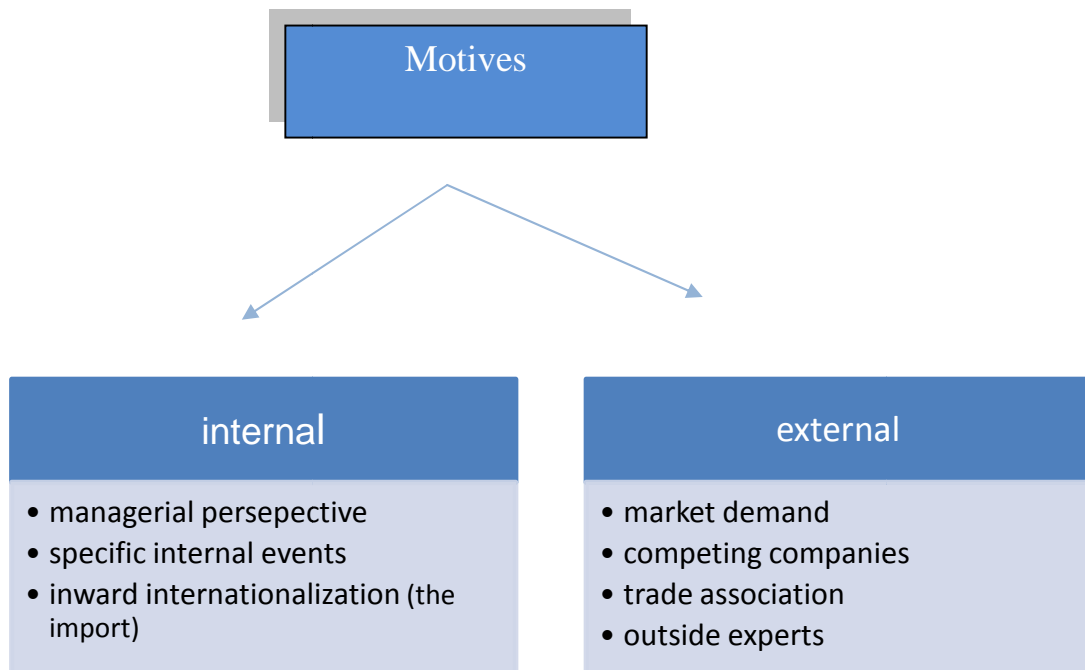
The internationalization of firms is considered as a huge step with a high importance toward the firm or the economy of the country. This importance implies different triggers that influence the firm's decision and its commitment toward the operation of crossing the boundaries. Beside those motivations we do also find a lot of limits and constraints that hold back the process of internationalization. In this section we will try to summarize those factors based on the literature review.

### **2.1. Firms motives for internationalization**

There are several different motives behind internationalization of firms indicating a diversified approach to internationalization. One of the most frequent motives is to gain access to new and larger markets in order to achieve growth. Firms expand the market for their products by exporting or creating subsidiaries or joint ventures abroad. Many firms go abroad to have access to know-how and technology in order to remain competitive. This indicates that various different internationalization processes are undertaken by firms to achieve different strategic goals.

#### **2.1.1. Internal and external factors of internationalization**

Before a firm starts its internationalization, someone or something either from inside or outside the firm must initiate the strategy of the internationalization process. The intention of a firm's internationalization is influenced by the opportunities of the foreign market. Those opportunities are stimuli only if the company has the resources to enter that market. There are two ways to analyze why SMEs decide to gain internationalization. Firms can receive internal or external stimuli in the decision making in initialization of export, where both internal qualities and environmental factors play an important role. When the firm plans internationalization, the management team should be aware of which activities should they exploit in order to meet with market opportunities. This kind of export stimuli is known as proactive (pull factors), whereas the stimuli received from the reaction to changing conditions and passive attitude to export opportunities (push factors)

**Figure n°I.1: Classification of motives into internal and external group**

**Source:** with adaptation from Internationalization of SMEs, the challenge of selecting foreign market entry modes.

### 2.1.2. Proactive and reactive factors motives internationalization

Recording to **Stewart and Mc-Auley** beside the first distinction of factors to internal and external exist other division where we do divide each of them to proactive and reactive factors.<sup>-1</sup>

#### 2.1.2.1. Proactive factors

Proactive factors indicate that the choice a firm has to internationalize is influenced by internal means: interest in exploit unique ideas and competences, as well as the opportunities that the foreign market offers. The managerial team has the desire, drive, enthusiasm, commitment to the market and motivation.<sup>2</sup>By knowing the local and international market, and by exploiting the competitive advantage the firms has over other companies in a specific, soon to be, host country, the managerial team would be able to act

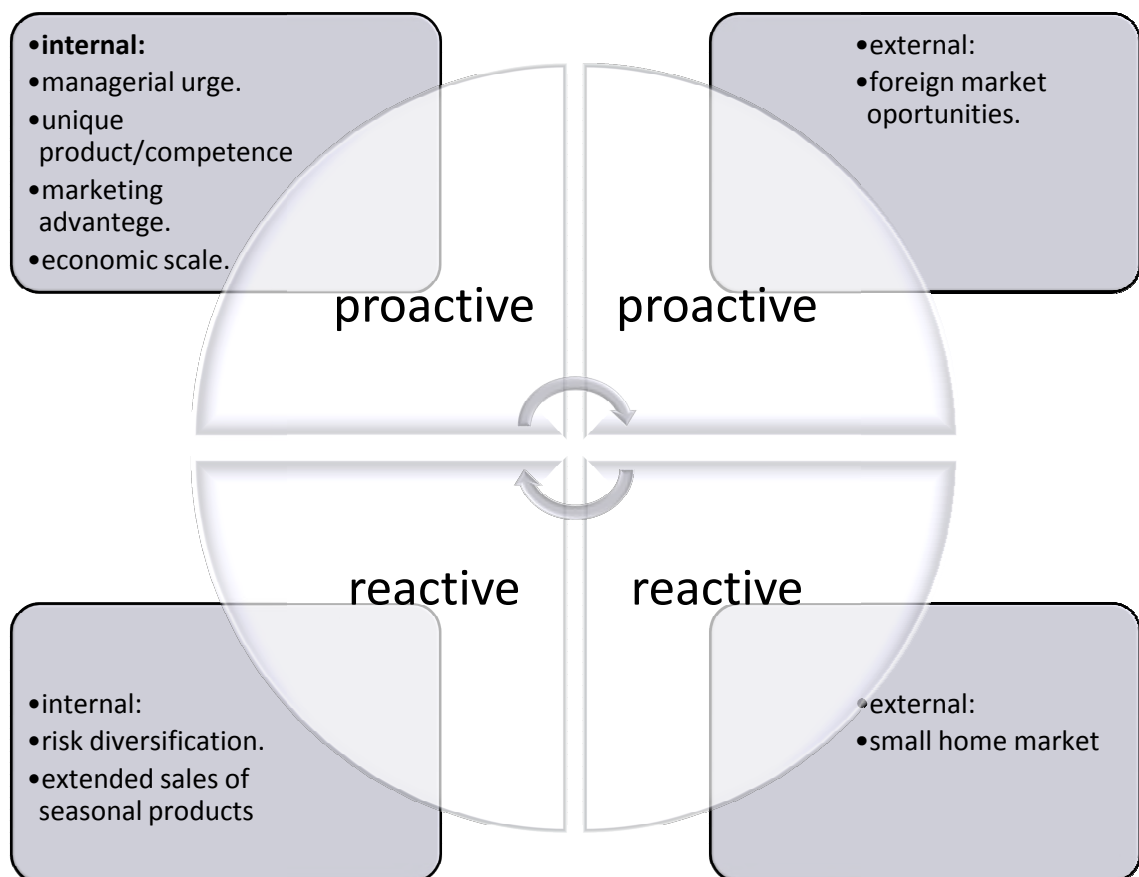
<sup>1</sup>Sara GUSTAVSSON, Erica LUNDEGREN, Internationalization of SMEs, the challenge of selecting foreign market entry modes, ,master's thesis, marketing departement, 2006 Lulea University of technology, p6  
<sup>2</sup> idem

proactive and start planning a strategy to internationalize. The examples mentioned above are internal factors. The environment also provides the management team with tools to plan a strategy to begin the process. Knowing about a foreign market will allow the firm to see and undertake the opportunities offered by that specific location.

### 2.1.2.2. Reactive factors

Reactive factors to internationalization explain that firms can act passively and respond to both internal and external pressure: competition. When a company has a unique product they face an easy way to internationalize, since foreign market can inquire for that product. Another factor that reactive firms must exploit is when the firm own specialized marketing, since they posses knowledge or have access to specific information that will make them different to competitors. The marketing advantage can serve then as an entry barrier for competition in foreign market.<sup>1</sup>

**Figure n°I.2: Motive's classification according to Mc-Auley**



**Source:** with adaptation from, the challenge of selecting foreign market entry modes

<sup>1</sup> T. Czinkota, The Export Marketing Imperative, 2004., an imprint of Thomson Learning. ,chapter 1, pp 4,5

After the discussion of the motives of the internationalization we have to know the limits in front of it. in the flowing part we will try to illustrate some limits that hold the firms on the progressing on their internationalization process.

## 2.2. Constraints and limits of internationalization

We know the importance of the operation we do understand that there is vary of difficulties on front of it so we will discuss some of those limits below according to some specialized on the field:

According to **LECERF** there are five principals constraint related to the activity

- The firm's culture.
- Lack of information concern the internationalization ( communication difficulties the linguistic knowledge)
- Problems of identifying and evaluating the potential partner.
- Administrative problems.
- Financial problems.<sup>1</sup>

Secondly according to **Julien & St-pierre** there are four constraints which are:

- Evolution of the transaction costs.
- Problems concerned the quality and allowed time delivery.
- Risks related to the market extension.
- Corruption and theft problems<sup>2</sup>.

From the difficulties writes above we notice that the most important constraints for internationalization of firms are:

- Lack of information concerned the foreign markets: Inadequate knowledge of overseas market. That information gaps remain a critical challenge to firms even in the current era of extensive information availability.
- Inability to contact potential overseas customers so the ignorance of their exigencies.
- Costs of internationalization (customs rate, logistic rate...) which imply a financial **problems**.

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<sup>1</sup> Op.cit. , mondialisation et PME : l'internationalisation des activités comme solution par :Josée St-Pierre, p20

<sup>2</sup> internationalization process of firm , <http://hig.divaportal.org/smash/get/diva2:118412/FULLTEXT01.pdf>, consulted 20 feb 2016 at 11:15 am

- Shortage of working capital to finance exports: Limitations in finance, loan terms and related physical resources concenter as on important limit that face internationalization.

The internationalization limits are different across the sectors in addition to the all constraints above exist another one which have a huge importance on the decision of internationalization which is the Lack of managerial time, skills and knowledge<sup>1</sup> and it is the result of:

- Lack of previous international experience of the management.
- The entrepreneur's inability to create business networks.
- Lack of government support.
- Lack of risk seeking behavior of entrepreneurs and management internationally.

We did notice that the lack of risk seeking behavior is one of the most important limits for the internationalization so we would like to get a better look on this factor.

### **Section 3: Risks of internationalization and the international institutions**

#### **3.1. Risks of internationalization**

When firms utilize their comparative advantages, introduce advanced technologies, foreign capital and management experience. It is also favorable for eliminating monopolistic behaviors and strengthening market competition. Nevertheless, while providing more development opportunities for developing countries, the internationalization process is also posing enormous risks.<sup>2</sup>

The economist did typify those risks to different categories here we will discuss the most applicable and known categories on the commerce field.

##### **3.1.1. Political risks**

This risks are represented by the political uncertainty which is “the threats and opportunities associated with potential or actual changes in the political system” according to Miller Extreme events resulting in high political uncertainty, such as revolutions, wars,

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<sup>1</sup> “Top Barriers and Drivers to SME Internationalization”, Report by the OECD Working Party on SMEs and Entrepreneurship, OECD. OECD Centre for Entrepreneurship, SME and Local Development (CFE),2009,p10

<sup>2</sup> Ghislaine LEGRAND,Hubert MARTINI ,Gestion des opérations IMPORT –EXPORT, ,DUNOD Paris 2008,chapitre09 pp 106-109.

and violent democratic changes in government, and the policy uncertainty is associated with changes in government policies that have an impact on firms. <sup>1</sup>

### 3.1.2. Economical risks

The economical or the industrial risk is more appropriately used to describe changes in economic activity and prices. Specifically, changes in foreign exchange rates, inflation rates, and fluctuations in relative prices of commodities, such as oil, will affect firms' financial performance in the short term. Real and expected economic growth in a region or industry will often be influential on long term investment plans, and is therefore important to the long term prospects of an internationalizing firm. <sup>2</sup>

### 3.1.3. Commercial risks

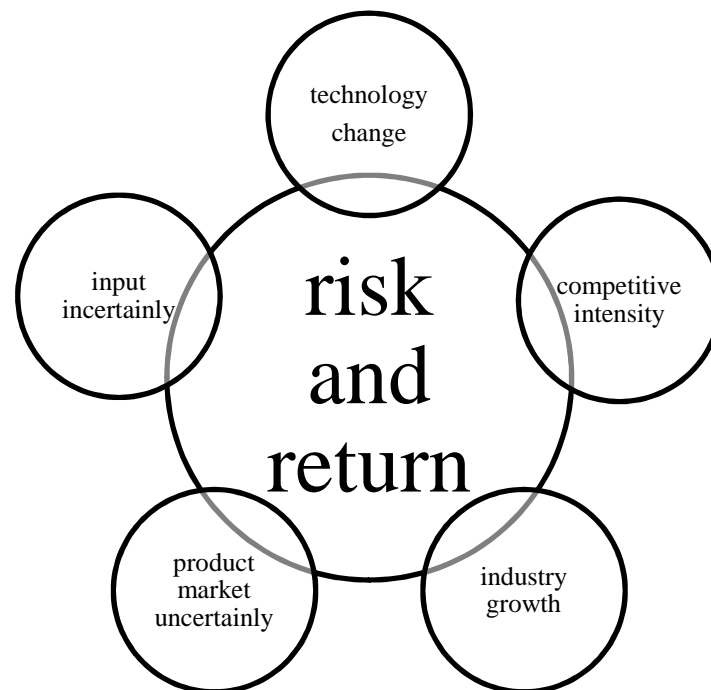
Its risks that has impact on

- ✓ The production of the firm us lack of raw materials.
- ✓ The solvability of it like the risk of no payment.
- ✓ The Competitivy like lack of information and experience.
- ✓ The costs of product for example the high rate of transport which increase marketing rate and decrease profit margin.

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<sup>1</sup> Risk in the Internationalization Process of Norwegian SMEs, Andreas Bø Karlsen, Knut Einar Dahljune 2012, p11

<sup>2</sup>Op.cit. , Gestion des opérations IMPORT –EXPORT, chapitre09 pp 106-109.

**Figure n°I-3: Industry factors affecting risk and return**

**Source:** with adaptation from Risk in the Internationalization Process of Norwegian SMEs

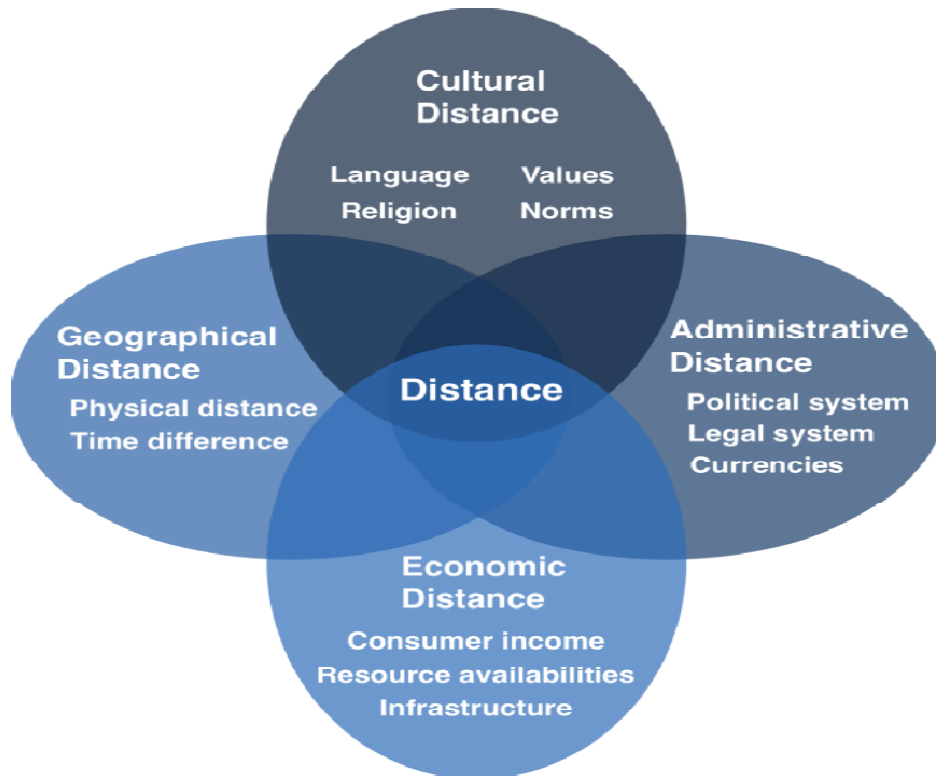
- **Competitive intensity**: it arises from rivalry among existing customers as well as firms entering an industry. A high level of competitive intensity, in which a large number of firms target a limited number of customers, can have an eroding effect on the profitability in an industry (Porter 2008).
- **Input uncertainty**: is caused by disruptions in the delivery of a product or service, and the likelihood of such disruptions increases in situation where there is only a few available suppliers of specialized product or service (Miller 1992).
- **Technological uncertainty**: is related to not knowing when rivals may introduce new technology that disrupts market dynamics. According to Miller and Ghoshal, this is a dimension of competitive uncertainty, as process or product innovation only can have an effect on industry when it actually is adopted by a firm.<sup>1</sup>

**3.1.4. Culture risks** Culture comprises human beliefs, rules, techniques the specialized people emphasize that international business involves cross cultural risk,

<sup>1</sup> Op.cit., Risk in the Internationalization Process of Norwegian SMEs, p13.

which is a result of cultural miscommunication. Ghemawat in 2011 takes a more holistic approach in an investigation of cross-border differences as barriers to internationalization by introducing four dimensions of distance.<sup>1</sup>

**Figure n°I.4: The CAGE framework. Adapted from Ghemawat (2011)**



**Source:** with adaptation from Risk in the Internationalization Process of Norwegian SMEs,

These differences imply the obligation of adaptation of products to each market according to the culture for example no alcohol on the products intend to Muslims consumer and the same for advertisement.

### 3.1.5. Competence risks

Inequality in competences capacities and competitiveness in the same market will provide diminution of market shares for the companies with low competence or even their bankrupt. This inequality appears on:

- the High performance.
- The high production.

To face the risks in front the internationalization operation the economic powers decide to create the international institutions that will help the firms and countries to rise

<sup>1</sup> Idem, Risk in the Internationalization Process of Norwegian SMEs, p12.

their profitability and develop their economy. In the following section we will look into its role.

### 3.2. International economic institutions

At the end of the Second World War and the huge economic development, the reduction of boundaries, and the absence of international law. According to the necessity of one law to organize the global economy several international institutions such as international monetary fund IMF, the international bank for reconstruction and development now called the World Bank WB, General Agreement on Tariffs and Trade GATT which was expanded and institutionalized into the world trade organization.

They were created to manage the world economy and prevent crisis and other depression as: <sup>1</sup>

- ✓ The food crisis and underdevelopment,
- ✓ Huge military expenses,
- ✓ Inflation and financial - monetary crises
- ✓ Energy and raw materials,
- ✓ Rapid Population Growth and Environmental degradation

#### 3.2.1. The role of international institutions

##### 3.2.1.1. IMF

Created on the Britten woods conference. It was established to support the fixed the exchange rate system.

Its role was to aid the developed countries to face the difficulties to mainting their fixed exchange rates.

In the early 1970, that role changed with the collapse of the Britten woods to dealing more with developing countries.

- ✓ It provides long/short loans with more conditions.
- ✓ Negotiating with countries to make major changes in their domestic policies and institution.
- ✓ Resolving specific crisis.

Those changes make the IMF more similar to the World Bank. <sup>1</sup>

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<sup>1</sup> The Role of the International Organisms in the Globalization Process, Dorina Tănăsescu, Felicia Dumitru and Georgiana Dincă, 2012 chapter 04, <http://dx.doi.org/10.5772/50188>

### 3.2.1.2. WTO

Its principal mission is:

- to promote trade liberalization,
- Fostering negotiating among countries to lower their trade barriers.
- Provide information about trade policies in those countries.<sup>2</sup>

It was a negotiation forum for developed countries but for now its interest turn to the developing countries.

WTO mission has increased after 1980:<sup>3</sup>

- ✓ it involved the connection between domestic policies and trade barriers.
- ✓ Lowering of tariffs and quotas.

### 3.2.1.3. World Bank

It concentrated mostly on reconstruction and on development with the formation of IDA “International Development Association” in 1960 moved to economic development program.

It gives also an interest free loans and grants (like Foreign aid) to the poorest developing countries. This aid was heavy used in sub-Saharan Africa.<sup>4</sup>

### 3.2.1.4. Organization for Economic Co-Operation and Development OECD

The OECD took over from the OEEC( Organization for Economic European Co-operation) in 1961. The OEEC was formed in 1947 to administer American and Canadian aid under the Marshall Plan for the reconstruction of Europe after World War II. Since 1961, its missions have been to:<sup>5</sup>

- Support sustainable economic growth,
- Boost employment,
- Raise living standards,
- Maintain financial stability,
- Assist other countries' economic development,

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<sup>1</sup> Ten basic question about globalization, national council on economic education.new York, IMF center a public center for economics education, September 21:2005,p 8

<sup>2</sup>Hellem VMilner, Prespective of politics,globalization developement,and international institutions:Normative and positive perspectives.December2005? VOL3N4 pp 835-836

<sup>3</sup> World trade organization 4-5 October 2007/2008, printed by WTO secretariat. Switzerland 672.8

<sup>4</sup> Murat Ali DULUPÇU *Globalization and Internationalization* , and Onur DEMİREL, Ispart, p 33.

<sup>5</sup>DEVESA, Sophie RICHARD LANNEYRIE Les clés du marketing international, les mémentos ,international marketing Key translated by us, p 18

- Contribute to growth in world trade.

The OECD views internationalization as an inevitable process and just aims to regulate and manage the process.

**Conclusion:**

As a student of international business, we recognize the importance of the internationalization and the progress attempted by the firms toward this phenomenon the internationalization process of those firms has been of much attention to the scholars and academics during recent years. firms have been drawing a lot of attention of scholars by playing an increasingly active role in international markets during recent years. firms rapidly expand their businesses to international markets and use international diversification as an important strategic option to achieve growth. The topic area brings some of the ‘much talked about’ theories and models of the process of internationalization such as The Uppsala Internationalization Process Model, Network Theory, International Entrepreneurship Theory as well as some interesting and significant phenomenon of today’s business world such as International New Ventures or Born Global.



**Chapter Two: The process of  
internationalization**

The internationalization process is a long and demanding process and it takes both resources and management commitment to succeed.

the process of internationalization this concept was developed in the literature from the experience of emerged markets from gradual approach to born global. Until the 1960s the study of Internationalization was directly influenced by economists focusing primarily on the macroeconomic flows of commerce and investment between countries. This macro approach gradually gave place to a more micro oriented analysis and research, with the integration of theoretical contributions, such as strategic management and marketing. Recently, the research has incorporated research based on organizational behavior and international business theories .

In this chapter we will discuss those models one by one , we will put the point on the entry modes going with those models and the rules that will help the firms with the selection of then try mode to each market and which going with the firm's resources.

## **Section 1: Foreign market entry and its mode of entry:**

Most literature in international business indicates that export is the major international business activity. Traditionally, internationalization by exporting has been considered as a way to increase growth of firms. Exporting is still significant, but during the last decade, firms has been focusing on different business activities as ways of internationalization and considering them to be important to achieve competitive advantage. Partnerships with foreign companies, foreign investments and cross border networking have become increasingly important as ways of facilitating exchange of technology and knowledge which enable firms formulate strong international business strategies. In this section we will discuss the various entry modes and the rules of their selection.

### **1.1.1. Exporting**

Exporting has been traditionally regarded as the first step to entering international markets, serving as a platform for future international expansions. It is considered to be the most used strategy for SMEs because of the lack of resources and certain degree of market knowledge and experience , explains both advantages and disadvantages of exporting. One Advantage for a firm that exports is that it avoids the cost of manufacturing in the host country. This might also been seen as a disadvantage if the costs of producing the good are cheaper in the host country. The firm can gain a substantial scale economy from its global sales volume, when it is producing in the home country and exporting to the host country. Another important advantage is that the firm will gain experience and even more knowledge from the host country. At the same time exporting firms face disadvantages such as the costs of transportation, and even the low cost of the production of the goods in that host country From country to country there are different laws that protect the home market. Some of them will do this by adding a tariff barrier which can make exporting more expensive.<sup>1</sup>

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<sup>1</sup>Mohibul Islam Masum Alejandra Fernandez, Internationalization Process of SMEs: Strategies and Methods, 03 June, 2008. Master Thesis in International Business and Entrepreneurship, 10p

### 1.1.2. The Turnkey Project

The turnkey project is about exporting process of technology and knowledge to other countries. This mode is common for complex and expensive production technology industries such as chemical, petroleum, metal refining industries. The turnkey project is useful for country that has regulations to limit the foreign direct investment. Firms who choose turnkey project will take less risk than Foreign Direct Investment (FDI) but they will leave their competitive advantage to other company as well and it will not be their competitive advantage anymore.<sup>1</sup>

### 1.1.3. Franchising

Franchising involves longer-term commitments, whereas licensing involves a shorter term. Franchising is the right a firm acquires from another firm that allows them to do particular business activities, such as selling the good or the service, under the name of a specific firm, e.g. McDonalds. Franchising is a specialized form of license, where the franchisee agrees to follow strict rules about how to carry with the business activities: the type of service, setting of the physical space, etc. The firm selling the franchise will receive a royalty payment, which is related to the franchisee's revenues. The firm that sells the franchise avoids many of the costs and risks of opening in a host country by its self. A firm whose entry mode is franchise can build great presence all over the world in a short period of time, at a relative low cost and risk One of the problems when using franchising is quality control: customers of Best Western Hotels, look for the same kind of attention when they go to their hotels in different parts of the world.<sup>2</sup>

### 1.1.4. Licensing

Licensing is another way to enter a foreign market with a limited degree of risk. The international licensing firm gives the licensee patent rights, trademark rights, copyrights or know-how on products and processes. In return, the licensee will: produce the licensor's products, market these products in his assigned territory and pay the licensor fees and royalties usually related to the sales volume of the products. This type of agreement is

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<sup>1</sup> Kittiya Chanmongkolpanich, The Internationalization Process of Telenor: A Case Study of Telenor in Thailand, p14

<sup>2</sup> Igor ANSOF & others, Strategor, DUNOD, 6<sup>th</sup> edition, chapter 08, p245

generally welcomed by foreign public authorities because it brings technology into the country.<sup>1</sup>

### **1.1.5. Joint Ventures**

Foreign joint ventures have much in common with licensing. The major difference is that in joint ventures, the international firm has an equity position and a management voice in the foreign firm. A partnership between host- and home-country firms is formed, usually resulting in the creation of a third firm.

This type of agreement gives the international firm better control over operations and also access to local market knowledge. The international firm has access to the network of relationships of the franchisee and is less exposed to the risk expropriation thanks to the partnership with the local firm. This type of agreement is very popular in international management. Its popularity stems from the fact that it permits the avoidance of control problems of the other types of foreign market entry strategies.

In addition, the presence of the local firm facilitates the integration of the international firm in a foreign environment.<sup>2</sup>

### **1.1.6. Wholly Own Subsidiaries**

The last method is wholly own subsidiaries which firm owns 100 percent of stock. This can be done by two ways: firm sets up a new operation in that country, or uses a Greenfield venture which firm acquires an established firm in that host nation to promote its product. Firm will not lose its competitive advantage but get the tight control on the operation. Firm can also learn real experience in host country of investment. Nevertheless, it takes high cost and risk for acquisition, and maybe followed by the cross culture problem as well.<sup>3</sup>

## **1.2. The selection of the entry mode and the foreign market**

There are two main concerned topics before expanding to foreign countries they are the choice of the entry mode which is the biggest decision for firms while the internationalization and the choice of the appropriate foreign market basing on the firm resources. For selecting the appropriate foreign market entry mode there is some rules that may make the choice easier on the firm those rules are:

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<sup>1</sup> Op.cit. , Internationalization Process of SMEs: Strategies and Methods ,p10

<sup>2</sup> INTERNATIONAL BUSINESS STRATEGY- REASONS AND FORMS OF EXPANSION INTO FOREIGN MARKETS, Katarzyna Twarowska ,Maria Curie-Skłodowska University, Poland, p 1008

<sup>3</sup> Idem, Internationalization Process of SMEs: Strategies and Methods, p15

- **Naïve rule:** Use the same entry mode for all foreign markets. Manager consider only one way to enter a foreign market. Ignores the individual foreign market entry mode heterogeneity. Its inflexibility prevent companies from exploiting their foreign market opportunities to the fullest.
- **Pragmatic rule:** Use an entry mode for each foreign market. Begin with export. Firm doesn't investigate all types of entry modes so the chosen one might not be the suitable one. It minimizes the wrong types of entry mode. Low cost of information and management. It fails to lead manager to select the best entry mode.
- **Strategy rule:** Compare and evaluate all entry mode alternatives before making a choice. Chose the entry mode that maximizes the profit contribution over the strategic planning period to both the availability of resources the risks and the non objectives.<sup>1</sup>

For the choosing of the foreign market to enter the firm has to answer a three main principal:

- ✓ **Which foreign market to enter:** the firm has to focus on the long term growth and the profit potential in such foreign market.

Hill stated that the alternativeness of a market depend on the balancing between the benefits, costs and risks. More factors that firm should focus on are:

- The market size.
- The purchasing power of consumer in the market
- The future income of the customer.
- The creation of international business's value.

The international business value refers to the rise registred when the product is not widely available in that market as a result greater value charge the higher price or increase the sale volume so quick.

- ✓ **When to go abroad:** the timing of entry can be described either as first-mover or later entrants. First movers are those firms that go to an international market before anyone of his kind/industry enters a foreign market. Later entrants are those firms that go abroad after other firms have done so. Both first and later entrants have advantages and disadvantages. First movers are able to be pioneers on the market, but at the same time they can experience high costs. Whereas, later entrants can just copy first movers, avoiding risks they have already

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<sup>1</sup> Op.cit., Challenge of selecting the foreign entry mode.

taken and having less cost on their proceeding. But, they will have more competence in the selected market.<sup>1</sup>

- ✓ **The scale<sup>2</sup>:** a firm can enter on a large or small scale depending on the involvement of commitment they (the firms) are willing to have. Entering on a large scale implies rapid entry and involvement of significant resources. The small entry allows a firm to learn from the market chosen with less exposure to the market itself.

## Section2: The approaches of Internationalization process

Going back through history we find a lot of theories that approach internationalization process of the firms in different ways. the process can be studied with different approach: the economic, the behavioral, the network and the entrepreneurial approach. Each one of these approaches does imply many models that describe the internationalization process. Various theories of internationalization process suggest that certain types of firms internationalize by following the ‘stage model’, expressing a cautious and progressive behavior; whereas there are other types of firms that are considered as born global and internationalize at an early stage of establishment. The aims of this section are the study of those models and provide a better understanding.

### 2.1. The economic perspective

The economic approach models focus on the firm and its environment, for this approach The decision maker has to access to perfect information to be quasi rational in their choice of investment; this choice efficiency made with the primary goal of profitability. The perspective suggests different theories for the internationalization process as Dunning’s eclectic theory, Internationalization product life cycle and Transaction costs approach theory. We will in this part discuss the fundamentals of each theory.

#### 2.1.1. Eclectic paradigm of internationalization

The eclectic model was put by **John H Dunning**; It is an instruction between the macroeconomic international trade theory and the microeconomic theory of the firm.

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<sup>1</sup> Kittiya Chanmongkolpanich, Supasana Panthong, Sustainable Development of Society and Technology, International Business and Entrepreneurship Master Thesis ,The Internationalization Process of Telenor: A Case Study of Telenor in Thailand ,August 20, 2009

<sup>2</sup> Aljandra fernandez. strategy and methods of internationalization, master thesis, 2009,p20

DUNNING did focus on the foreign direct investment <sup>1</sup> in his model and for him the the form of operation makes by a firm in a target foreign market is a result of a three advantages which are Ownership advantage, Location advantage and Internationalization advantage.

From this principal the model is also known as “OLI” framework. When the firm determine these advantages the model answer why, how and where FDI should be undertaken.

- **Location advantage**

It is where the firm should be established. What this market can offer as an advantage to the firm. A good geographical location with respect to production costs, market access, psychic including cultural distance, and the general political and economic environment.<sup>2</sup>

- **Ownership advantage**

It is the “liabilities of foreignness” that comes from the operating from a distance as the superior competitive. To simplify the meaning is: why the firm should go abroad? Is it the firm-specific assets such as knowledge and skills, technology, intellectual property, management or marketing competences, and internal and external relationships?<sup>3</sup>

- **Internationalization advantage**

It Is the how firm decide to go abroad through FDI, or if it should externalized through an Agent. Here we can decide whether go abroad through the FDI or not from the costs “if the internationalization less costly than externalization then the FDI should be the chosen mode of establishment”. According to DUNNING the Reduction of the transaction costs, the ability to protect management know-how and intellectual property concenter as an internationalization advantage<sup>4</sup>.

The “OLI model” was criticized by MTIGWE in 2006 for a limited predictive power done to ignoring the objectives of the firm, the decision maker and the surrounding environment.

### 2.1.2. **The product life cycle internationalization model**

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<sup>1</sup> Susanne SANDBERG Internationalization process of small and medium enterprises:SME’s,entering and tacking off from emerging markets., Linnaeus university ,dissertation 2012.

<sup>2</sup> TEESSIDE BUSINESS SCHOOL INTERNATIONALISATION AND GLOBAL RISK ,A Lecture Programme delivered at the Technical University of Košice Andrew Harrison , 29th September – 1st October 2008, p 12

<sup>3</sup> Op.cit. , The internationalization process – theory vs. two cases, Grein í vinnslu, 3. feb. 2009

<sup>4</sup> Op.cit., TEESSIDE BUSINESS SCHOOL INTERNATIONALISATION AND GLOBAL RISK , p 12

The PLC model is based on the logic of international trade between different parts of the world. The theory of Raymond VERNON 1976/1996 is built on the Principle of the location of new products. From the new product stage to maturity and standardization in Vernon's model when the product arrive to the highest price or the mature phase, the producers look for another market This stage of delocalization start before serious price competition from low cost producers has started. Here the development started with the export until the arriving to the FDI.<sup>1</sup> In this case the less developed countries may offer competitive advantage as product localization.

Its relevance relates mainly to product innovation in developed countries. The product cycle consists of four main stages:

- (1) A new product is developed for high-income domestic consumers with inelastic demand and production is based in the innovating country;
- (2) As the product becomes more successful and a dominant design is accepted, it is exported to other high-income countries to take advantage of economies of scale;
- (3) Competitors in developed countries produce similar products as the technology becomes more widely available;
- (4) The product becomes more standardized and production is transferred to low- cost locations as price competition increases.<sup>2</sup>

### 2.1.3. The transaction cost model

Whenever a firm undertakes a transaction with a customer or supplier, it incurs transaction costs in addition to the price paid for goods or services. These include the legal costs of drawing up a contract, the costs of going out to tender or searching for information on potential suppliers, or the cost of currency exchange or hedging, for example.

The transaction costs of foreign activities it is one of the condition under which it is more efficient for a firm to create an internal market rather than enter foreign ones.

The costs of foreign activities can create complications in its pricing, transfer and consequently increase the associated costs of transacting with a partner.

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<sup>1</sup> Socrates Comenius 2.1 Module *Globalization and Internationalization* Authors: Murat Ali DULUPÇU and Onur DEMİREL, Isparta, **the European Commission (226388-CP-1-2005-1-DE-COMENIUS-C21)**

<sup>2</sup> Internationalisation of the firm – a theoretical review with implications for business network research , 18 Annual IMP Conference, September, Lyon. Competitive Paper , Jan-Åke Törnroos Åbo Akademi University ,email: [jtornroo@abo.fi](mailto:jtornroo@abo.fi)

A high level of transaction costs implies a transactional internationalization. The firm will decide producing a good if that reduces for sure the transaction costs. So the costs risks will be less different or lower in the foreign market from the home market.<sup>1</sup>

## 2.2. The behavioral approach and its models

This approach treats individual learning and top managers as an important factor in understanding a firm's international behavior. This stream focuses on the impact of international experience, on the pace and the direction of subsequent internationalization. So the fundamental of the behavioral is The role of organizational knowledge in the internationalization process.

The common base of the theories of this stream which are Ahroni's decision making model, Uppsala model and Innovation related internationalization model is the notion of firms internationalizing slowly and incremental way.

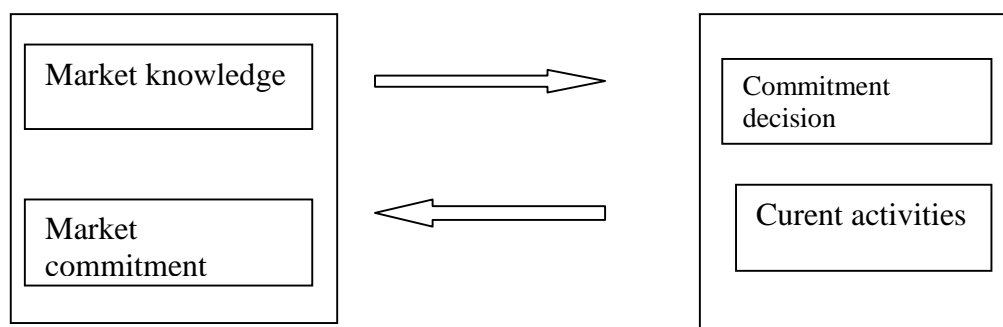
### 2.2.1. Uppsala model

The U model is the most known and the most applied although all the theories it is the result of a research done in the Uppsala University, it had started in the 1960's by the professor SUNE CLARSON.<sup>2</sup>

This concept does mean a different stage and steps which were followed in the internationalization process and with the development of the concept by Johanson and WIEDERSHEIN Paul 1975; Johanson and Vahlne 1977 and 1990.

According to Johanson and Vahlne. ; The theory focuses on four aspects that firms should face while going abroad: market knowledge and commitment, and commitment decisions and current activities which are divided into stage and change aspects that interact with each other in what seems to be a cycle

**Figure n°II.1: Uppsala model, state and change aspects (Johanson & Vahlne 1977)**



<sup>1</sup> Idem, The internationalization process – theory vs. two cases, p11.

<sup>2</sup> Internationalization process of small and medium sized enterprises : Entering and taking off from emerging markets Doctoral dissertation, School of Business and Economics, Linnaeus University 2012, p 22

**Source:** strategy of internationalization of firms (strategie d'internationalisation des enterprise, edition 6)

The basic assumption of the Uppsala Model is that market knowledge and market commitment affects both the commitment decisions and the way current decisions are performed and this, in turn, changes market knowledge and commitment. The amount of knowledge of foreign markets and operations is influenced by the amount of commitments of resources in foreign markets, and vice versa,

. Incremental growth also suggests that companies begin internationalization process in markets that have less psychic distance. Psychic distance is defined as factors such as differences in language, culture, political systems, etc., which disturb the flow of information between the firm and the market.

The U-model describes the internationalization product of the firm as a “gradual acquisition, integration and use of knowledge about foreign markets and operations, and on its successively increasing commitment to foreign markets.

The U-model as basic starting points, the process does develop from:

1. No regular export activities.
2. Export via independent representative (Agent).
3. Establishment of an overseas sales subsidiary.
4. Overseas production manufacturing units.

The process of internationalization unfolds as a sequence of stages, where firms stepwise gain experience, build management competence and reduce uncertainty in order to increase incremental investment in target market.

This approach was criticized because it is too descriptive holistic and it focus only on the larger and manufacturing firms.<sup>1</sup>

### 2.2.2. Decision making model

It is a model put by Yair Ahroni in 1960 and developed this theory in 2004. It describe the decision of the foreign investment as a complex process which influenced by social relationship within and outside the firm.

The decision of going abroad is like a trip to the unknown, with some strong force and drastic experience are motivation that push to the new path. The motivation initiates the

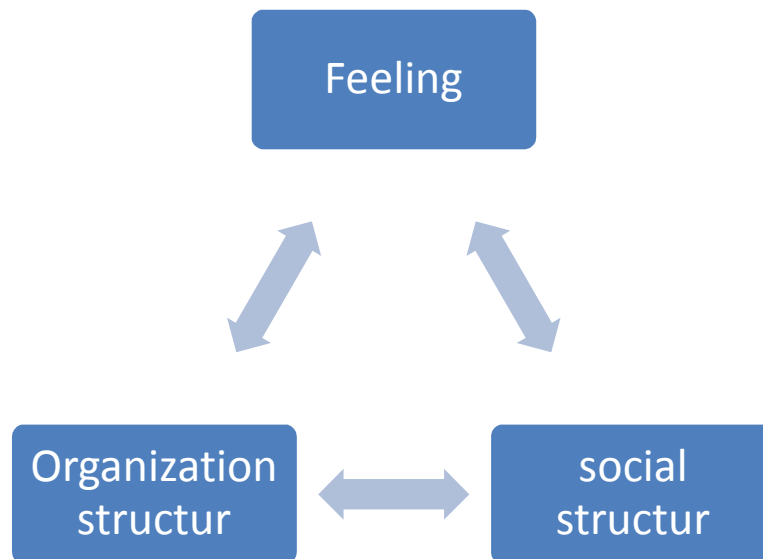
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<sup>1</sup> P. henst and al, strategy of internationalization of firms (strategie d'internationalisation des enterprise) edition 6, translated by us, p 214

decision maker to think about investing a broad with hopes of resolving some problems or fulfill some important needs.

This decision is the result of a chain of event .the importance of these events depends on the social system in encounters, it is a combination of

**Figure n°II.2: factors influence the internationalization decision**



Source: with adaptation

This model has a fail point and it is the narrow vision the firm or the decision maker looks at the possibilities of a specific country not around the globe for investment opportunities, so it get information or does research about a specific market and ignore the other opportunities of other markets that can provide better chance for example concentrate on the European zone and ignore its ability for a huge success in the MENA zone.

### **2.2.3. The innovation process model (or the I-model)**

The main idea of all the authors concerned this model is that the innovation stages of Rogers which are used in a general stepwise manner in order to see how firms start exporting and/or deepen their involvement from a non-exporting firm into international markets. The models have also a close proximity with the aforementioned models by the Uppsala-researchers. The stepwise manner and the gradual commitment to more and deeper foreign Involvement and the experimental perspective have a strong role to play in the presented models. According to the authors and especially Bilkey & Tesar and

Cavusgil find that psychic distance is a part in the process. These process models are however mainly directed towards explaining export behavior and not other internationalization alternatives. One can still argue that this could probably be done as well. We could therefore have more stages where the Joint Venture and FDI alternatives would be alternatives in the final stages. In essence, the models put forth at least the following core points:

1. A stepwise, incremental involvement to exporting and new markets,
2. The experiential nature and the “innovative” phases are explicated through empirical evidence,
3. The existence of psychic distance, which is overcome through experiential learning.

These models are pointing out the existence of a gradual process, usually towards a deeper penetration of markets as well as to geographically and culturally more distant markets.<sup>1</sup>

### **2.3. The net work or rational approach**

According to Harry SON and al in 2007, the theories distinguish between two levels of networks: Interpersonal network and Inter-organizational network.

The rational perspective is emerged from the U-model so it is connected partly with the behavioral theory and partly with sociology from the inter-organizational theory.

The international process according to the theory is the process of establishment of international relationships and as a result it able to get a position in the target market network. According to Mc-Auly “internationalization depends on an organization’s set of network relationships rather than on a firm specific advantage”.

The model explains the development process rather than the existence of international firm, this process is developed in the following way:

- (1) Establishing national networks that are new for the company, also known as international extension;
- (2) Developing existing relationships in foreign markets where the company is already established, meaning penetration;

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<sup>1</sup> opcit, INTERNATIONALIZATION PROCESSES OF SMALL AND MEDIUM-SIZED ENTERPRISES: Entering and taking off from emerging markets Doctoral dissertation, School of Business and Economics, Linnaeus University 2012,p 22

(3) Developing the coordination between relationships in different national networks.

A realized foreign market entry is the establishment of one or more exchange relationships in the foreign market that is built into long-term stable relationships through which the firm reaches a position in the new network. Thus, it is a description of the firm's direct relationship to another firm or to several firms.<sup>1</sup>

### 2.3.1. The models of the Five/Five Stages of Internationalization

The relationship process is seen as an entry process, taking up how relationships are developed with actors of importance to the firm. Jansson & Sandberg in 2008 develops a five/fives stages model of the internationalization process. It is based on the experiential knowledge process, where internationalization processes often are divided into different stages. The internationalization of firms takes place in five stages.

- During the first stage, firms have a domestic market focus.
- Next follows the pre-export stage, when the firm evaluates the possibilities to start exporting.
- The third stage is experimental involvement, when exporting is a marginal activity.
- The fourth stage is active involvement, when international business is a normal activity, e.g. an important share of the turnover is exported. A suitable organization structure is also in place for this activity. International business is now a regular feature. The company is focusing on key export markets and devotes substantial amounts of time and resources to entering and developing new markets. International business has been integrated into the organization of the firm. Adaptations are increasingly being done regularly to markets, customers, and partners.
- ✓ The fifth and last stage involves committed involvement in exporting. The firm can now be called international, since it is heavily dependent on foreign markets. The majority of the turnover is generated through exports and significant amounts of time are spent on this activity. Exporting now accounts for more than 50 % of the turnover, and the domestic market is viewed as just another market.

International business is an integral part of strategic management both in the shorter-term and the longer-term.

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<sup>1</sup> Idem, , INTERNATIONALIZATION PROCESSES OF SMALL AND MEDIUM-SIZED ENTERPRISES, p18

These five stages are integrated with the five stages of the relationship process, originally developed by Ford (1980). While the former concerns how the internationalization knowledge of the firm is developed, the latter is a good approximation of how network experiential knowledge is gained in a country. The more developed the customer relationships, the more experience the firm has of the particular foreign country market. By establishing more and more relationships abroad the firm moves further and further along the internationalization process, starting in the experimental export stage. The larger the number of relationships established, the larger the part of the firm's resources and capabilities are dedicated to international business, *inter alia* meaning locating them increasingly abroad.

The strength of it is that the model explains the development process rather than the existence of international firm. This perspective is highly used by SME's that to conquer size related barriers that restraint their growth by using network their relationships which imply exchanging information

#### **2.4. The entrepreneurial approach**

Alternative frameworks developed within the small and medium sized enterprises' (SME) sector suggest the process is more innovative and entrepreneurial in the smaller firm's environment and is strongly influenced by managerial variables. According to Johanson and Vahlne in 2003 there is a need for models that can capture the early phase of internationalization better than current models. This reflects a general agreement among both businessmen and academics that global competition and accelerating technological development are now forcing firms to internationalize more rapidly than some decades ago.

Johanson and Vahlne state that the old models of incremental internationalization are no longer valid. In the last decades academics have made attempts to fill this theoretical void regarding the internationalization process of small and medium sized companies. There is mainly one theoretical approaches that have gained considerable support in the field; the Born global Theory.<sup>1</sup>

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<sup>1</sup> The internationalization process – theory vs. two cases, Snjólfur Ólafsson og Auður Hermannsdóttir Háskóli Íslands, Grein í vinnslu, 3. feb. '09, p13.

### 2.4.1. Born global

According to Johanson and Mattson the internationalization of the market affects the process of internationalization of firms, so firms operating in a highly internationalized market can skip the first few steps. There are also some publications where the authors have provided the evidence of another, specific type of exporters. These companies were called the “Born Global”. We understand this as enterprises which have their focus on international markets and even directly on the global market. It is immediately after their creation, which means that these companies did not undergo any phase of development, but they jumped them all.<sup>1</sup>

At this point, it should be noted that some small and medium-sized businesses, such as the aforementioned “Born Global” (further BGs), often begin their activities in several markets simultaneously, then their product is developed specifically for the international (or global) market.

Mentioning the so-called Born Globals, it should be noted that the literature is inconsistent in the definition of the term. there can be found a definition: BG is a company characterized as a business with the export ratio of more than 25%, which was carried out within 3 years from the date of foundation. However, at present this definition may seem rather very general and vague. If such a small Norwegian company exports 30% of its products to Sweden and Denmark (within 3 years from the foundation), it hardly can be called global. It is therefore necessary to clearly define what type of market, to which market and how much output the firm should export so that it could be called the BG. Today, the majority of SMEs have usually the percentage of exports exceeding 25%. Therefore, elsewhere (e.g. Luostarinen and Gabrielson 2004) the BGfirm is defined as a small and medium-sized enterprise, whose export reaches at least 50% within 3 years from the start. Luostarinen and Gabrielson also introduce an additional category of business called the True Born Global. They name certain SMEs, which have an export higher than 50% within three years at which at the same time export on multiple continents.<sup>2</sup>

In connection with the controversy of the degree of the firms internationalization, there can be also discussed the degree of the company globalization. Also there is no

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<sup>1</sup> Op.cit., Internationalisation of the firm – a theoretical review with implications for business networkresearch , p13

<sup>2</sup> The internationalization of small and medium-sized enterprises in the viticulture,Lea KUBÍČKOVÁ, Aleš PEPRNÝ,p333

uniform definition of these concepts. As already mentioned, Luostarinen and Gabrielson understand these two concepts as follows:

- (1) The “internationalization degree” – the degree of internationalization relates to the ratio of export of the evaluated company. The higher the export ratio is the higher the degree of internationalization.
- (2) The “globalization degree” – the degree of globalization relates to the number of continents to which the company exports its products. The higher the number of continents to which the firm exports, the higher the degree of globalization

## **Conclusion**

Not all the theories are applicable to every case of internationalization that occurs in the business world, but they, in a way complement each other and function as different tools for us to explain and understand internationalization process of firms. . There were some models that did get the most attention and interest of the researchers those model were the U-model, the network model and the entrepreneurial model

We have discussed the theories so far in terms of how they influence the internationalization behavior of firms and we would like to develop our theoretical framework based on this discussion; At this stage, based upon the above literature review, knowledge about foreign markets, business networks and entrepreneurial abilities and activities of individuals and firms appear to be significant variables to have an impact upon the internationalization process of firms based on the three theories(U-model, the network and the entrepreneurial model).



**Chapter three: The  
internationalization process  
of the Algerian firms**

As we know the most important parts of any research is the study case according to the importance of its results.

In this chapter we will present our method for data collection. We will also discuss different perspectives on research methods and justify why we chose the methods that we are using for our study. Beside the methodology we will give summary on the Algerian economy and a presentation of the firm where we did pass the training period.

## **Section 1: Research methodology**

In this section we will present the main element related to the used methodology for guide our investigation, the questionnaire design, the way of data collecting and the brakes that we did face it in the running analyzing and collecting.

### **1.1. Research Purpose**

In general The purpose of a study can be classified into three major categories; they are, exploratory because we do deal with phenomenon that we do not know much about its aim is to gain a better understanding of the problem, descriptive in order to describe the Algerian firms internationalization phenomenon and explanatory in order to explain the patterns related to the phenomenon of interest and to answer the research questions.

In our case the purpose of our study is to gain a better understanding of the Internationalization process of Algerian firms with regard to the use of any of three main theories and there is no definitive theory that explains the internationalization process of Algerian firms in particular, the purpose of our research would mainly be exploratory and to some extent descriptive.

### **1.2. The Approach**

Since the purpose of this study was to gain a better understanding of the internationalization process of firms in Algeria, we have applied the qualitative research approach to gather more information and describe the situations involving the process. However, we have also applied the quantitative research approach since it allows us to statistically measure some of the factors, their impacts and influences on the internationalization process of firms. So, we have used a combination of both qualitative and quantitative research approach.

### **1.3. The strategy of research:**

Since the main aim of our research was to gain an in depth knowledge about the internationalization process of firms and to analyze if their behavior fits into any of the three main internationalization theories while going through the process; we find survey to be the most appropriate strategy for this research.

#### **1.4. Data Collection Method**

It is very important to choose the appropriate data collection method for a particular study in order to complete the research successfully. For our study, we have collected primary data by conducting closed interviews and questionnaires.

We have questioned a total of 30 firms, 5 of them have already internationalized and other 10 contemplating on going to international market and the others ignore our request. The gathered data enabled us to observe, understand and analyze the internationalization process that these firms has gone through as well as the internationalization process that some firms will undertake in the near future. We have gathered more knowledge about the practical situations of firms with regard to the use of the three internationalization theories (U-model, network and entrepreneurial model) that we have discussed in the second chapter we did focus on those models from all the others cited in the same chapter because of the importance that they got it from the specialist and its place in the development countries.

#### **1.5. Sample Selection**

For our research, we have used convenience sampling. According to literature convenience sampling involves collecting information from members of the population who are conveniently available to provide it. As for collecting data through interviews, our criteria for sample selection involved: firms that are either internationalized or planning to go to international market.

#### **1.6. Interview Questionnaire Design**

Three of the most common type of questions used in questionnaires or surveys includes open-ended questions, closed-ended questions and Likert scales. An open-ended question does not provide the participant with a choice of answers. Instead, participants are free to answer the question in the manner they choose. An example of an open ended question is the following. Name and total number of countries your company has international activities with (in order, first to last) and year of internationalization, a closed-ended question provides the participant with several answers to choose from; such as, which mode of entry best describes the internationalization process of your firm? Exporting; Turnkey projects; Licensing, Franchising, Joint Venture. The Likert scale asks participants to provide a response along a continuum of possible responses. For example:

How would you rate the degree of resource commitment during the initial stage of internationalization? Very low, Low, Medium, High, Very High.

We have used all three types of questions discussed above, for our survey. The questionnaires were divided into two parts: general information and interview questions.

We have used two types of questionnaires: one for the firms that are in international market already and the other for firms that are planning to go abroad (**those questionnaires presented in the Appendix part**). The questions provide both qualitative and quantitative information, using the three types of questions mentioned above. For the training period we did prepare an interview guide and frame the information that respond to our expectation into three main dimension :

- ✓ The motives behind firms internationalization.
- ✓ The firm approach toward the entry mode selection.
- ✓ The influence of the choosing of the export as an entry mode.

While developing the interview questions we have focused on using questions that will provide us with data related to the main problematic of our research which is, to understand and describe the internationalization process of firms. Can it be described using any or a combination of the three theories that we have been discussing in our study.

### **1.7. The interviews Data Description, Analysis and Results**

In this section we will present the empirical data that we have gathered and their analysis based on the theories and the conceptual framework that we have presented earlier in chapter one and two. For convenience and clarify and for the purpose of comparison, we will analyze the ‘internationalized’ and ‘planning to internationalize’ firms separately. The gathering process of information were so difficult because of the confidential problem in our firms, we did insist to get the answers by mailing phoning and even by going to the head office of the firms. First of all, we will present the general information of the participant firms that we have interviewed. Then we will analyze the results of each question. We will also treat the questions on the interviews guide that we did ask to the firm where we did pass the training period.

## Section 2: Brief summary on the Algerian economy

The Algerian economy experienced all the ups and downs that could be experienced by an economy, in the 1800 it was one of the economic power and a cornerstone of the trade of goods between the countries around the Mediterranean. But all of this turned down with the French colonization, its abusive dealing with the resources of the country and the damages that the colonization caused on the base construction. All those factors live the economy of Algeria on the bottom which takes along way for it to rebuild its foundation and stand up to enter the globalization race. Beside the colonization there were other problems on front of this economic activity as the fluctuation of the oil price, the inflation and other social problem that did affect the Algerian development.

Algeria is the first market in the Maghreb with its strategic location, the big surface and other economic variables. We do improve that with the Algeria ranking in the globe listing. Algeria is the 49th largest export economy in the world and the 114th most complex economy according to the Economic Complexity Index (ECI). In 2013, Algeria exported \$69.7B and imported \$56.3B, resulting in a positive trade balance of \$13.4B. In 2014 the GDP of Algeria was \$214B and its GDP per capital was \$13.3k.<sup>1</sup>

The biggest exports in Algeria are either mined or manufactured in the country. Agriculture plays a comparatively minor role in the country's overall economy. The vast majority of highly profitable mining or manufacturing concerns are owned and operated by the government and Algeria's government also oversees the instituting of economy-related laws and other necessary planning. In recent years there has seen a trend towards foreign investment and an increase in Algerian exports.

The top exports products of Algeria are Crude Petroleum 29.5B\$, Petroleum Gas 28.3B\$, Refined Petroleum 9.4B\$, Coal Tar Oil 1.05B\$ and Ammonia 322M\$, using the 1992 revision of the HS (Harmonized System) classification. Its top imports are Cars 4.02B\$, Refined Petroleum 3.62B\$, Delivery Trucks 2.19B\$, Wheat 2.04B\$ and Raw Iron Bars 1.88B\$.<sup>2</sup>

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<sup>1</sup> The Journal of Applied Business Research – March/April 2015, Volume 31, Number 2,418, p 15

<sup>2</sup> Idem, The Journal of Applied Business Research, p 15

The top export destinations of Algeria are Spain, Italy, the United Kingdom, France and the United States. The top import origins are France, China, Italy, Spain and Germany.<sup>1</sup>

As we noticed the Energy was by far the biggest component of Algeria's exports, the non-hydrocarbons sector vice this energy growth could be qualified by a negligible income. It grew by 4.7 % in 2005, with housing and public works expanding 7.1% and the services industry 5.6%.<sup>2</sup> And The growth rate out the hydrocarbons was registered by 4.1% in 2015 from the total of the exports.

Algeria's principle sector beside the energy is the agriculture sector and its main products are wheat, oats, citrus fruit, wine grapes, olives, figs, tobacco, dates and barley. Of these, the most notable products are olive oil, wine and other beverages and tobacco. The country is also involved in the export of some construction materials, chemicals, textiles, clothing and metals, but its involvement in this is limited. A number of Algerians farm sheep, chickens, cattle, and goats while a small fishing industry supplies the country with seafood.

The option of exporting large portions of the country's national products is becoming more and more attractive since the annual earnings from exports are considerably higher than that of importing.

But the bank of Algeria voiced concern over the health of Algeria's non-energy export industries. The structural weakness of exports outside of hydrocarbons raises the issue of the external competitiveness of our economy.

In this study we will focus on the internationalization process of those 4.1% of the export and the firms behind these percentages from those firms we find FERTIAL the Algerian fertilizer.

### **2.1. FERTIAL presentation:**

FERTIAL is the jewel of the national petrochemical industry this was the description of the firm by the managing director. FERTIAL the Algerian fertilizer was the

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<sup>1</sup> [www.atlas.media.mit.edu/en/profile/country/dza](http://www.atlas.media.mit.edu/en/profile/country/dza), OEC - Algeria (DZA) Exports, Imports, and Trade Partners, consult in the 19/04/2016/ at 13:18

<sup>2</sup> Bank of Algeria, Algeria economy grew 5- central bank

outcome of a partnership concluded in August 2005 between the Algerian group ASMIDAL and the Spanish group VILLAR MIR.

FERTIAL has a very dense industrial tissue spread over 153 hectares. This society uses a modern and state-of-the-art technologies with a complex production process peculiar to each product. Those processes ensure a high performance.

FERTIAL priorities are first safety, human resource competences, quality and respect of environment. As far as quality and environment are concerned the firm did get the best label which are the ISO certifications as ISO 9001, 14001, 17025 and 5001 and OHAS 1800.

The main activities of FERTIAL are production and commercialization of the Ammonium, nitrogen and phosphate fertilizer, realized in the two factories of the society in ANNABA and ARZEW, as well as conditioning and commercialization of some inwards of fertilizer.

Production facilities installed in ANNABA and ARZEW industrial sites have an annual production capacity of nine hundred thousand tones of ammonia.

A part of this production is reused for the production of a large range of nitrogenous and phosphatic fertilizer, after investing more than 200 million dollars which gave away to revamp the facilities. FERTIAL has won considerable market shares either in the local market or in the export one.

Thus its exports that reaches 74% of its production rank FERTIAL as a leader in the Mediterranean Sea and second in the Arab world after Saudi Arabia. FERTIAL is not only keeping the leading pack position in the export market, but also in the local market; indeed it is deemed to be a leading producer and distributor of fertilizers. Hence; the firm is meeting the entire Algerian agricultural requirements as far as this material is concerned.

### **2.1. ANNABA plant:**

The plant is spread on a 103 hectares land, and employing 840 employees. The plant is producing:

Ammonia: with an annual production capacity of 330000 Tons.

Nitric acid: with an annual production capacity of 264000 tons.

Calcium Ammo nitrate CAN27 to 27% of nitrogen content, NA 33.5 to 33.5% of nitrogen and NA 34.5 to 33.5% of nitrogen, with an annual total production capacity of 330000 tons.

Urea Ammo nitrate UAN to 32% of nitrogen content, with an annual production capacity of 240000 tons and nitrogenous solution (SN20) to 20% nitrogen.

Straight phosphatic fertilizers, binary and ternary compound fertilizers (NPK) and the Sulphate -Nitrogen at 26% nitrogen content, with an annual production capacity of 330000 tons.

Straight phosphatic fertilizers SSP in powder form, with an annual production capacity of 280000 tons.

The plant registered about 35.381481619 dinar as a turnover, from this number the export part was 32.280944500 dinar. Therefore the export ratio would be estimated by 91.24% so the firm is totally depends on the export turnover according to the literature the company is totally internationalized.

## 2.2. FERTIAL on the local market:

With this high capacity of production, the firm is keeping the top position in the podium and confirms indisputably its leading position as producer and vendor of fertilizers in Algeria.

FERTIAL is constantly increasing its shares in the local market which is supplying at a rate of 68%. In fact its market share curve is climbing constantly since 2005.

The products marketed locally are in the first place the fertilizer, NPK, SSP, TSP and CAN. The national market is not in need of the ammonia and its ammonium subsidiaries further we do register a very little demand of this product. Which imply the firm searching for a new market to sell the over production to it.

## 2.3. FERTIAL on the international market:

Major part of ammonia production 90% is intended for export. Therefore FERTIAL is comfortably positioned as the leader of Ammonia export in the Mediterranean region. Its exports constitute 21.86% of ammonia exports in the Arab world, which allows it to be attributed to it the second rank in this region after Saudi Arabia. FERTIAL ammonia exports represent 2.56% of the world's total exports where it keeps the seventh rank. In 2009 FERTIAL has carried on a more than 56% of its business turnover from exports.

FERTIAL customers on the external market belong to many regions in the world notably Europe, the United States, Latin America, North Africa and occidental Asia.

According to products, FERTIAL is exporting:

- ✓ Ammonia toward Spain, France, Italy, Greek, Belgium, Cuba, Great Britain, turkey and morocco.

- ✓ Ammonia nitrates 33.5 and 34.5% of nitrogen toward France, Great Britain, turkey, Italy, Tunisia, morocco and Abou Dahbi.
- ✓ Calcium ammonium nitrate (CAN at 27% of nitrogen) toward France, Great Britain, Germany, Netherlands, Ireland and Italy.
- ✓ Urea ammonium nitrate (UAN at 27% of nitrogen) to Spain, France and the United States. Ammonia nitrate as a cool solution with 20% nitrogen content send it toward the Spanish market.
- ✓ Nitrogenous sulphate (26% of nitrogen content and 12% of sulphur) toward all the European countries.
- ✓ Straight super sulphate 20% P<sub>2</sub>O<sub>5</sub>+12% sulphur toward morocco, Greek, France, Italy and Brazil.

The first market entered by the firm in its internationalization process was Spain and the main client of FERTIAL is the group VILLAR MIR which has many filial in Spain and FERTIAL supply those subsidiaries with the ammonia. Beside this group there is another one which is YARA group it is Swedish society with a subsidiary in all over the world. YARA group which is fertilizing too do import the ammonium from FERTIAL to cover those subsidiaries needs.

This firm internationalized from its beginning in 2005 so we can called or typified from the born global firms and this firm did get this place in the international market based on its origin which is ASMIDAL the Algerian group, this group experience the export operation before this partnership but with it there were an evolution in its internationalization process, if we do examines according to the U –model FERTIALE does situated on the regular exports stage. And it is the same in the network approach for jaohanson model FERTIAL is in the fifth and the last stage on their internationalization process.

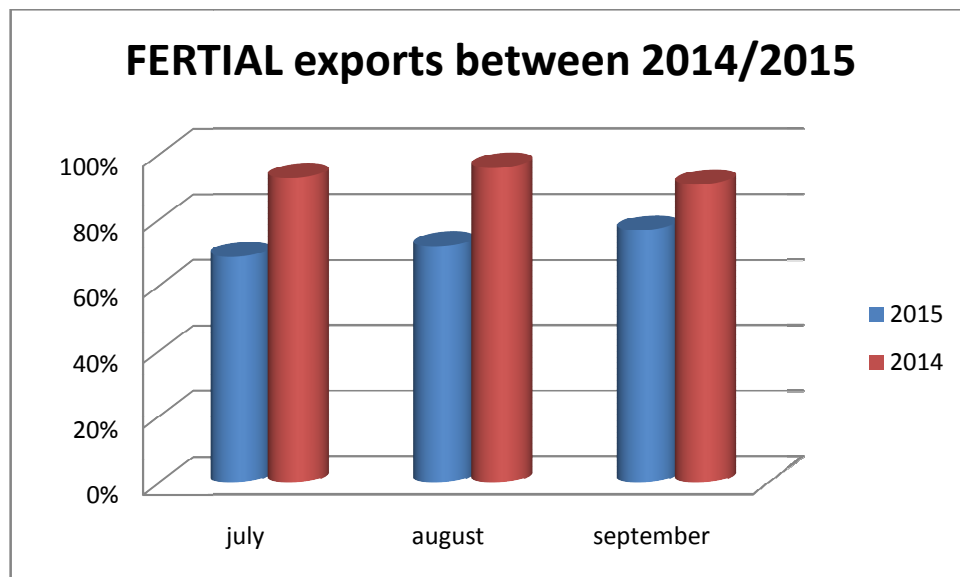
#### **2.4. FERTIAL's foreign market by number:**

We will put the point here on the exports of ammonia which do cover the major part of export. Our study will focus on the last four years:

**Figure n°III. 1: the ammonia exports**

**Source:** from the interview with the executive director of the foreign market.

We do notice a variation in the exported quantities and this according to the personnel interviewed is a result of the market demand and offer low. The foreign market did know inundate with the ammonia products so the offer overstep the market demand of this product.

**Figure n°III.2: FERTIAL exports between 2014/2015**

**Source:** FERTIAL news, magazine publishes by FERTIAL n°55, 2015.

The decline on the export quantities at FERTIAL level on the last year and according to the result registered on 2014 was up to the technical problem at the level of the industrial sites.

### Section 3: The analysis of the interviewing guide and questionnaire data:

#### 3.1. The analysis of the interviewed guide data

In this section we will present the data that were collected through face to face interviews at the level of FERTIAL. In FERTIAL we interviewed the commercial director of export Mr. ZAIDI Nour Edine, he has worked over two months within FERTIAL but he has worked his way up to become the commercial director then the CEO of **ironic and phosphate** an Algerian firm within 30 years, and also we interviewed Mr. MEBARKI Adel the executive director of the international market, he occupied his position since his first enter to the firm in 2013. Those interviews last twenty minutes each one.

#### ➤ FERTIAL motives for going international

The main reason FERTIAL went international in the ammonia line of products was due the domestic market and customers minimal demand for this product and in the same time the huge need of the foreign markets to it.

The firm got direct inquiries from foreign companies which led FERTIAL entered the international market. This began about 11 years ago when the firm enters the international market. The first market that the company entered were Spain, today the company operates in Germany, France, Sweden and its involves in international business if we concenter YARA group which supply its subsidiaries in USA, Italy and all over the world by their inward from the FERTIAL group.

In the near future this company will operate with the Moroccan group OCP “**office Chereifien phosphate**” it is a group that produces fertilizer and phosphate with the capacity of 12 million MT on average.

The reason that make the ALG-SPAIN firm began exporting to these markets was because of the foreign market demand and the absence of this need in the national market.

According to respondents it is so important to having a perspective management to detect potential opportunities.

It is highly significant to have good market knowledge, educated and skillful personnel as well as the high technology to succeed in their internationalization process and to guarantee their product quality.

To ensure the right producing process the firm makes sure to hire as we said the qualified personnel.

FERTIAL do not engage much in import so they cannot see the connection between effective inward and success outward activities and the importance of the network on their development because of their strategy of selling which is invitation to tender.

Another triggers for FERTIAL internationalization is the trigger to make more money .the opportunities to get offers with the high quantities and to make high profits works as a motivator for its internationalization.

Every year the firm receives inquiries; the criteria they are more concerned with is if the volume is large enough and how large the costs will be.

The firms give an importance to their existing profitability customers but also looking for other customers as we said the OCP group and that is to search for risk diversification.

The proactive factor that FERTIAL can relate to the most is the marketing knowledge. those specific knowledge and information that FERTIAL receive from their consumer about their wants and exigencies give the firm advantage over their competitor “SOFERT” .according to these information the firm can develop their strategies and marketing activities in order to much the client demand.

It is as well as important for the firm to divide the markets into several ones in order to spread the risk of the bankrupt of its clients or to avoid the non renovation of their contracts because the firm depend on the export turnover (91.24% of the turnover are from the exports).

➤ ***FERTIAL approaches to foreign market entry:***

Because the firm situates in a developing country, so the choice of export as foreign entry mode is the simplest. In the fact this choice was up to the decision makers of the company which are ASMIDAL and VILLAR MIR groups.

The choice of this mode was also based on the fact that it is the cheapest way to engage in international business.

So the strategy of FERTIAL for selecting their entry mode is to select the one that will minimize the costs the most. On all markets the firm has entered they have selected export as an entry mode.

For them there is no need for a representation or a sales office abroad they think that they are in the good way until now and those strategies will only raise the costs of the operation.

➤ **The influence of the international factors:**

The largest part if we do not say the all part of FERTIAL export is direct export of ammonium products.

According to the respondents the advantages they had from export as an entry mode is the low units costs, beside this it also concedes this entry mode as the easiest method and the most guaranteed and with it the firm will spread the risks of high costs and the bankrupt of the firm.

This firm do not recognize any direct disadvantages but they states there is a possibility of an under price products which will affect their sales.

This difference in the price does recurrent to the different in logistic costs because the product ie the ammonia has a legal formula to calculate its price. Any company takes this price as reference and adds a simple margin to the main price and this margin include the logistic costs.

According to FERTIAL the largest the company is the more risk are they willing and able to take, so the company resources have a certain influence on the degree of their internationalization.

Another factor that influences this process and their choice of the export as an entry mode is the previous international experience of the firm. And as we said the firm uses this mode for all the markets that it did entered so and according to the theory FERTIAL apply the naïve rule on the selection of its entry method.

There is also an internal factor that helps the company in its way up here and makes an influence on the choice of the export as an entry mode. This factor is that the origin society we do mean the Algerian partner which is ASMIDAL was an exporter of the product before this partnership so FERTIAL the result of this partnership between the two groups did exploited this base and knowledge to continue its work and ameliorate it with the technology advancement.

**3.2. The analysis of the questionnaire data( in the appendix):**

As we said above the purpose of our questionnaire is to gain a better understanding of the Internationalization process of Algerian firms with regard to the use of any of three main theories.

### 3.2.1. The presentation of the general information:

#### 3.2.1.1. The legal nature of the investigated firms:

Depending on the results 80.65% of firms investigated were private firms, the private sector has known a manifestation size in the national production and even in their share in the exportation beside hydrocarbon. Only 16.13% of those firms are public; this result proved that the reason behind the little percentage of internationalized firms because of the absence of reorganizations and the unsuiting to the new methods of management, and 3.23% are mixed firms between public and foreign firms.

- **Legal status**

Société à responsabilité limitée (SRL) got the major part of our investigation with 38.70%, next Société par Actions Simplifiée (SAS) by 32.26% then EURL by 16.13%.

- **Firm's size**

The major percentage of the firms investigated was SMEs by 50.9% of them and 48.1% were big sized firms.

- **Activity sector**

The interviewed companies do their activity in different twigs, 35.28% of those firms are from the food industry sector and this is explained by the Algerian culture, the importance of this sector and the consumer behavior toward it. Beside that we do register that there is an increase of the number of firms in this field.

Even if this percentage is considered as a high one but in the last years the paste industry did face a problem in its internationalization and this because of the subsidy on the material (the wheat) used on the production of it which implies the prevention of this product's exportation, and this is going against the government policy of the promotion toward the exportation of hydrocarbon products.

The other part was distributed between other twigs like plastic, glass, scalp and rubber products, fishing products, mining products by 6.82%, chemical, cosmetic, pharmaceutical and veterinary products by 22%. And the rest are being between textiles industry, paper and carton and others.

#### 3.2.1.2. The analysis of questionnaires data:

- **Internationalized firms**

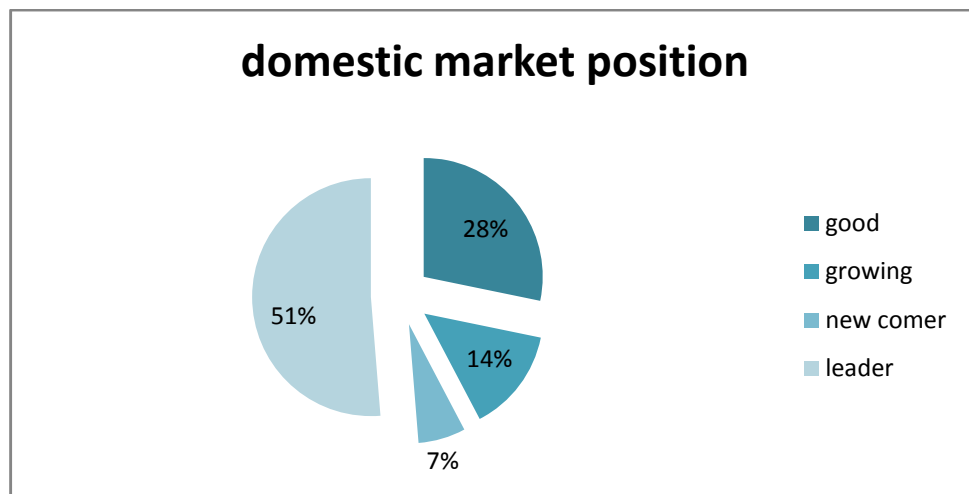
We have designed the interview questions to investigate how firms went international. Different questions were asked to understand their process and use of the theories

discussed earlier in this study. We will present the results from the questions one by one below:

**Question one:** How would you describe your company's position in the domestic market right before going international? Was it important for internationalization?

- **Position in domestic market**

**Figure n°III.3: Domestic market position.**

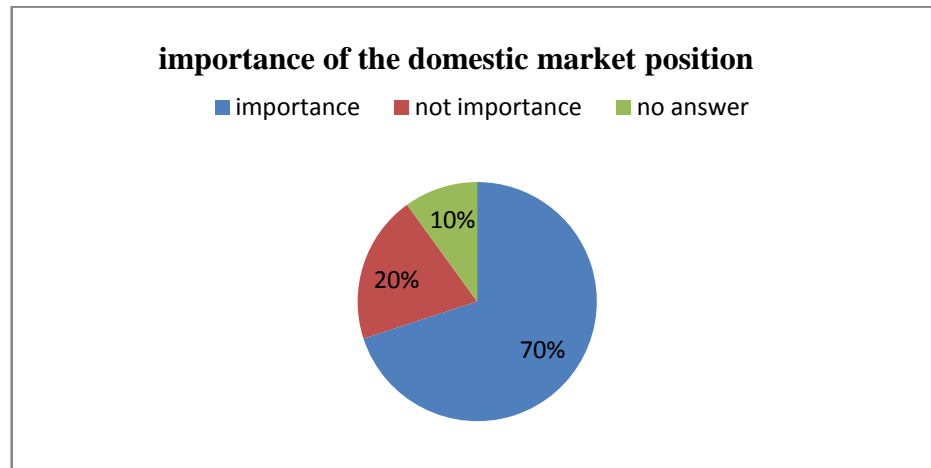


**Source: survey results**

From the interviewed firms 51% percent of them can be considered as leaders. As for the rest of the 49%, a total of 14% of the firms were growing and the rest has had a significant presence (28% were good placed) in domestic market before going international. This indicates that position in the domestic market is somewhat important for firms even if they internationalized within a short period of time from inception.

✓ ***Domestic market position's importance***

Next we asked if their position in the domestic markets were important for the internationalization process. And as shown in figure 2, 70% of the firms considered it to be important which agrees with the finding we have just presented above.

**Figure III.4: Domestic market position's importance.**

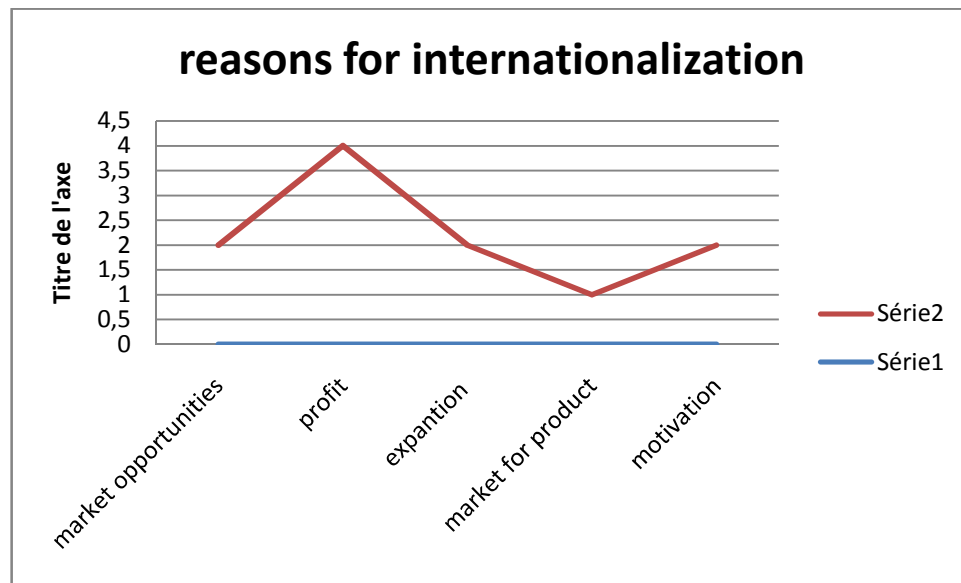
**Source:** survey result

If we analyze further, the companies seem to be less concerned about their position in the home countries. For example, FERTIAL internationalized from its first year of foundation. But most of the firms with strong or a leading position in the domestic markets consider it to be useful for internationalization. And if we do refer to the theory Porter states that market position, whether local or international, affects market commitment: “a firm’s competitive advantage position in one nation significantly affects and is affected by its position in other nations. Rivals compete against each other on a truly worldwide basis”.

**Question two:** What was the basis or main reason that made your company to expand internationally?

### **Reasons for internationalization**

As we have discussed earlier, there are two factors that influence firm’s internationalization: proactive and reactive; they shape the firms reasons to go international. Figure 3, suggests that most of the firms analyzed, go to international markets because of market opportunity, expansion and profit.

**Figure n°III.5: Reasons for internationalization**

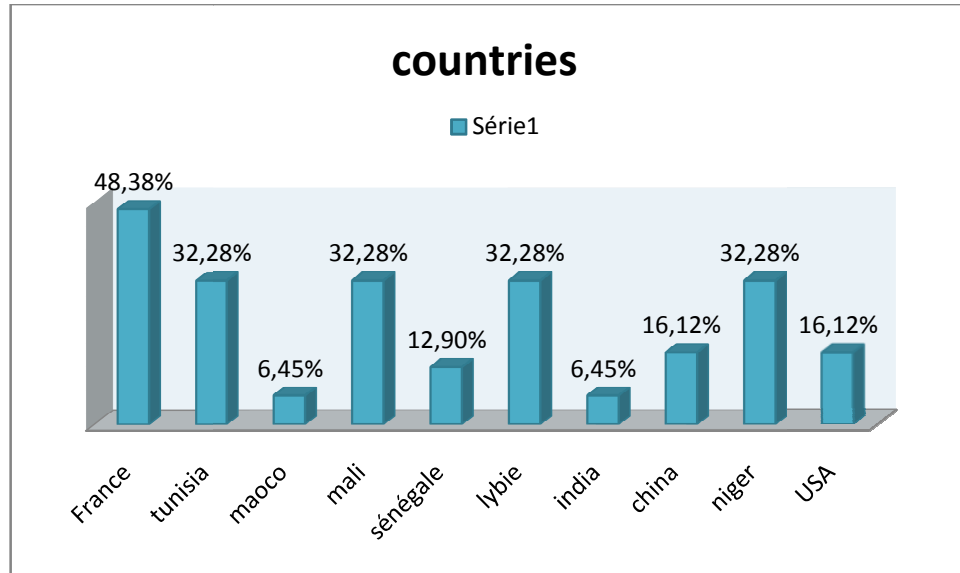
**Source:** survey results

This profit or opportunity seeking behavior of the firms can be described mainly with the 'International Entrepreneurship Theory'. One of the basic arguments of IET is that individual and firm entrepreneurial behavior is the basis of foreign market entry. This entrepreneurial behavior can be in the form of finding innovative opportunities and using them to acquire competitive advantage and acquiring competitive advantage can be interpreted as exploitation of opportunities across national borders to create future goods and services (McDougall & Oviatt, 2005). But since market opportunity comes in the form of knowledge through current activities and current activities involve interaction within relationships with customers, suppliers, competitors etc, we think that it would be unwise to ignore the role of U-model and network theory while analyzing the above mentioned behavior of firms.

**Question three:** where were the main destinations to your company while its internationalization?

#### ✓ *Countries involved*

Then we asked the firms about the countries that they have international business activities with and the year of internationalization.

**Figure n° III.6: Number of countries involved**

**Source:** survey result

The countries where these firms have international businesses are: Tunisia, France, Morocco, Mali, Senegal, Libya, India, Niger, USA, China. Through this question, we intended to find out about the impact of psychic distance on the internationalization process of firms. The results suggest that psychic distance has been a little bit negligible effect on internationalization. The psychic distance between Algeria and China is very high, yet the firm has internationalized to this market. But we also register that the firms did internationalize to other firms with similar market knowledge and consumption culture. This question was about the U-model's ability in terms of describing the internationalization process of the firms because the U-model suggests that firms will choose markets with low psychic distance when going international. The behavior expressed by those firms cannot be explained much by the U-model.

**Question four:** what was the ratio of the company international sales?

#### ✓ *Income from international sales*

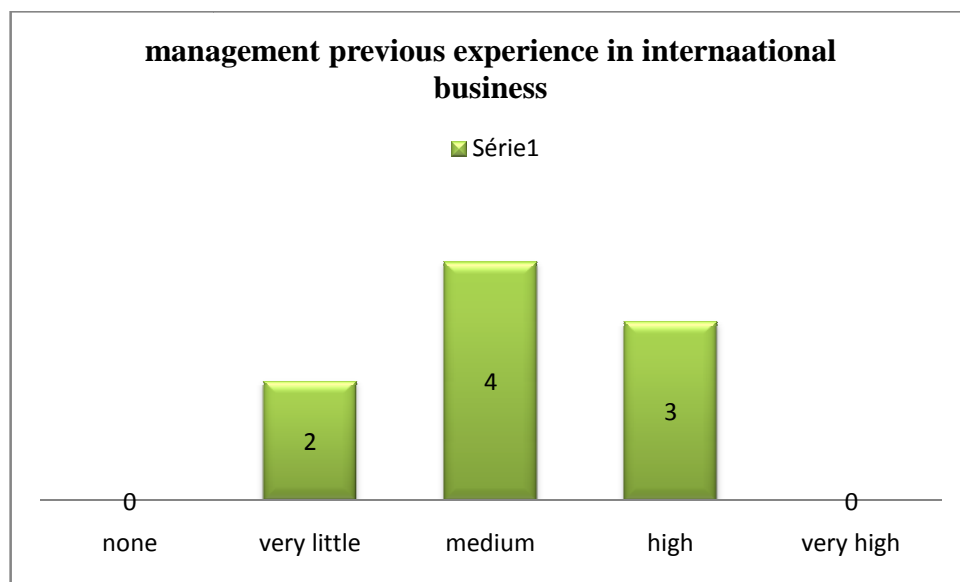
Our next question was regarding the percentage of total annual sales coming from international sales. The reason for posing this question was to find out how much are the firms involved internationally but unlike there were no answer to this question on the Principle of confidentiality of information

**Question five:** Did the founder/owner of the firm or its management have any previous experience in internationalization or international business activities?

✓ **Management's previous experience of international business**

Having previous knowledge about the international business, helps firms to skip steps in their process, either by omitting the use of Uppsala model, or by a combination of the three; or U-model and Network. As figure 5 suggests, majority of firms had a manager or owner or founder with medium or high previous experience of international business.

**Figur n°III.5: Management's previous experience**



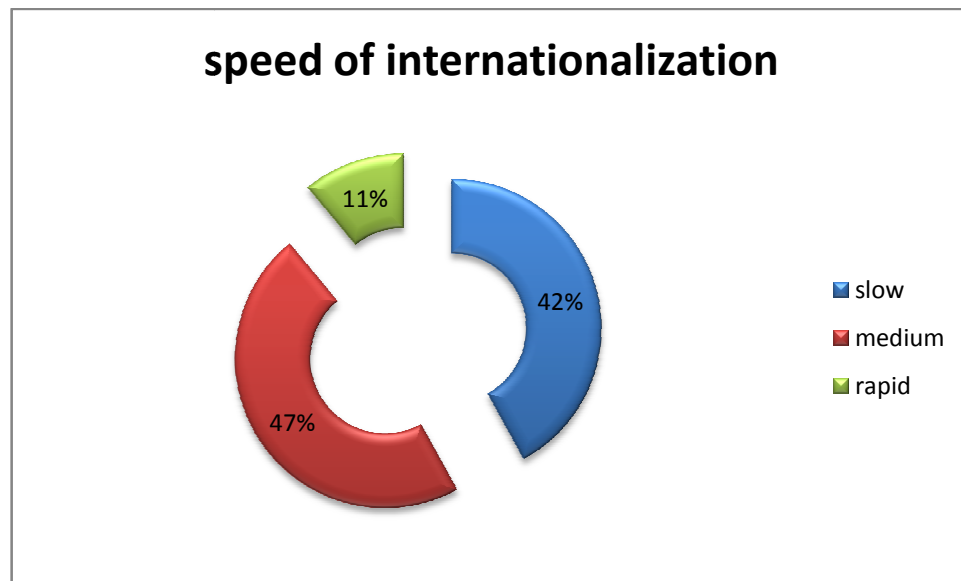
**Source:** survey result

We can say that previous experience of international business plays a very important role in the internationalization process of firms, especially it helps the speed of the process.

**Question six:** How would you describe the speed of your firm's internationalization process?

✓ **Speed of internationalization**

Then we tried to find out about the speed of internationalization that the firms had experienced. Only 11% considered its speed of internationalization to be rapid and 47% of the firms experienced a medium speed; and 42% considered it as slow process.

**Figure n°III.8: Speed of internationalization**

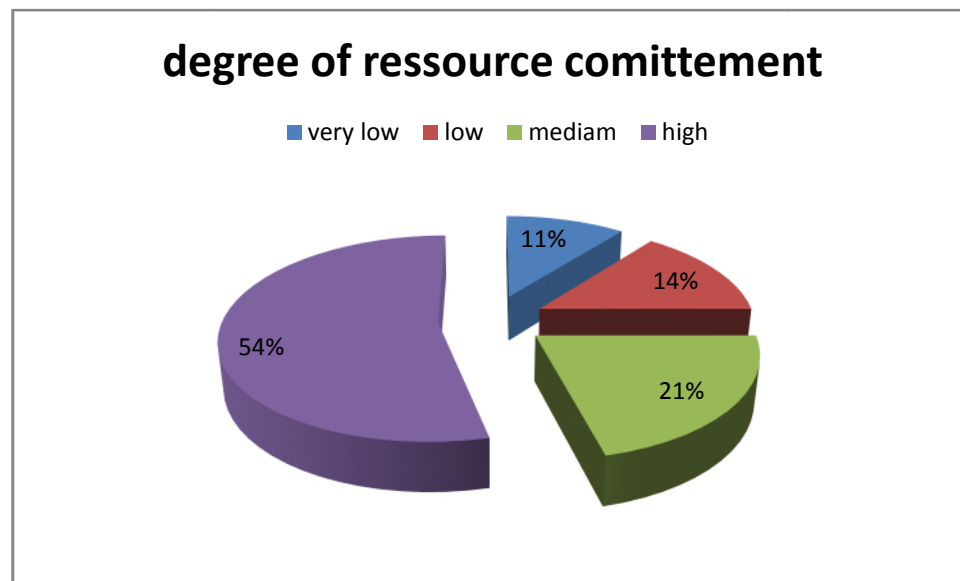
**Source:** survey result

This once again suggests that the internationalization process of firms is explained with the U-model; since most of the firms that we are discussing here seem to have a slow, step by step process as the U-model suggests. One significant aspect of this result is that the firms do not get a flying start either, they rather apply a not too slow and not too fast process, which probably means they do not completely follow the U-model.

**Question seven:** How would you rate the degree of resource commitment during the initial stage of internationalization?

✓ **Degree of resource commitment**

A firm tends to commit more resources to a market where there seems to be less uncertainty. As the results suggest in figure 7, 75% of the firms committed medium to high amount of resources when they went abroad

**Figure n°III.9: Degree of resource commitment.**

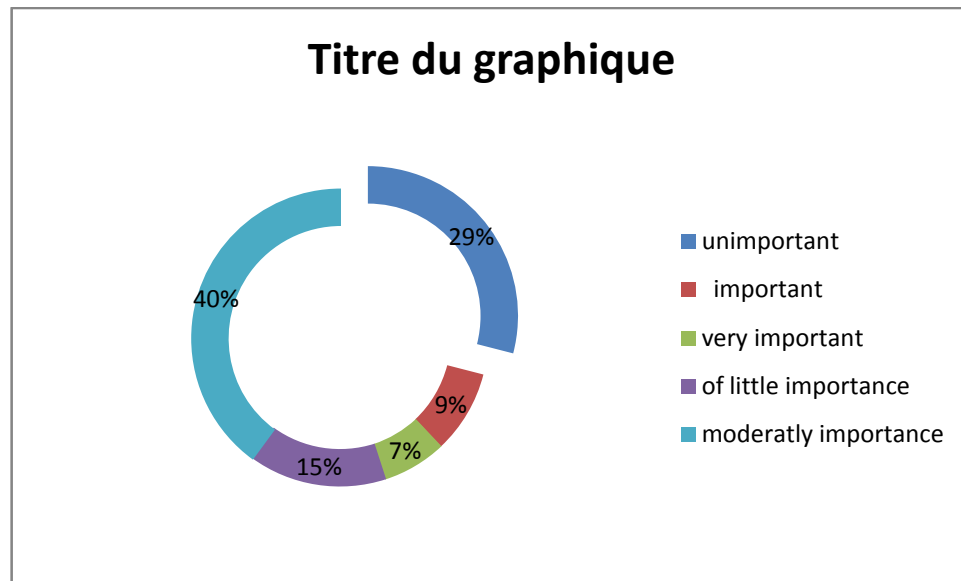
**Source:** survey results

This indicates that there is plentiful knowledge available to the firms. The more knowledge the higher the firm will commit its resources to the new market. At the same time we can say that by these firms eliminate the importance of psychic distance, because the firms that we are discussing have gone into foreign markets with significantly high amount of resources initially even though the psychic distance was high.

**Question eight:** What was the role of formulating strategy and methods for internationalization?

#### ✓ Importance of formulating strategy and methods

After this, we asked them about the importance of formulating strategy and methods for internationalization. As the figure 8 below suggests, a very small number of firms considered it to be important or very important. Firms seem to pay less attention to the role of formulating strategy and methods for internationalization; this could be explained by the entrepreneurial behavior of the firms or management. This could also be explained by network theory. Firms or entrepreneurs seem to seek opportunities without employing any formal strategy or methods or perhaps the business relationships with others in the network allow them to go with the flow and appear in different foreign markets without the aid of a strategy or method.

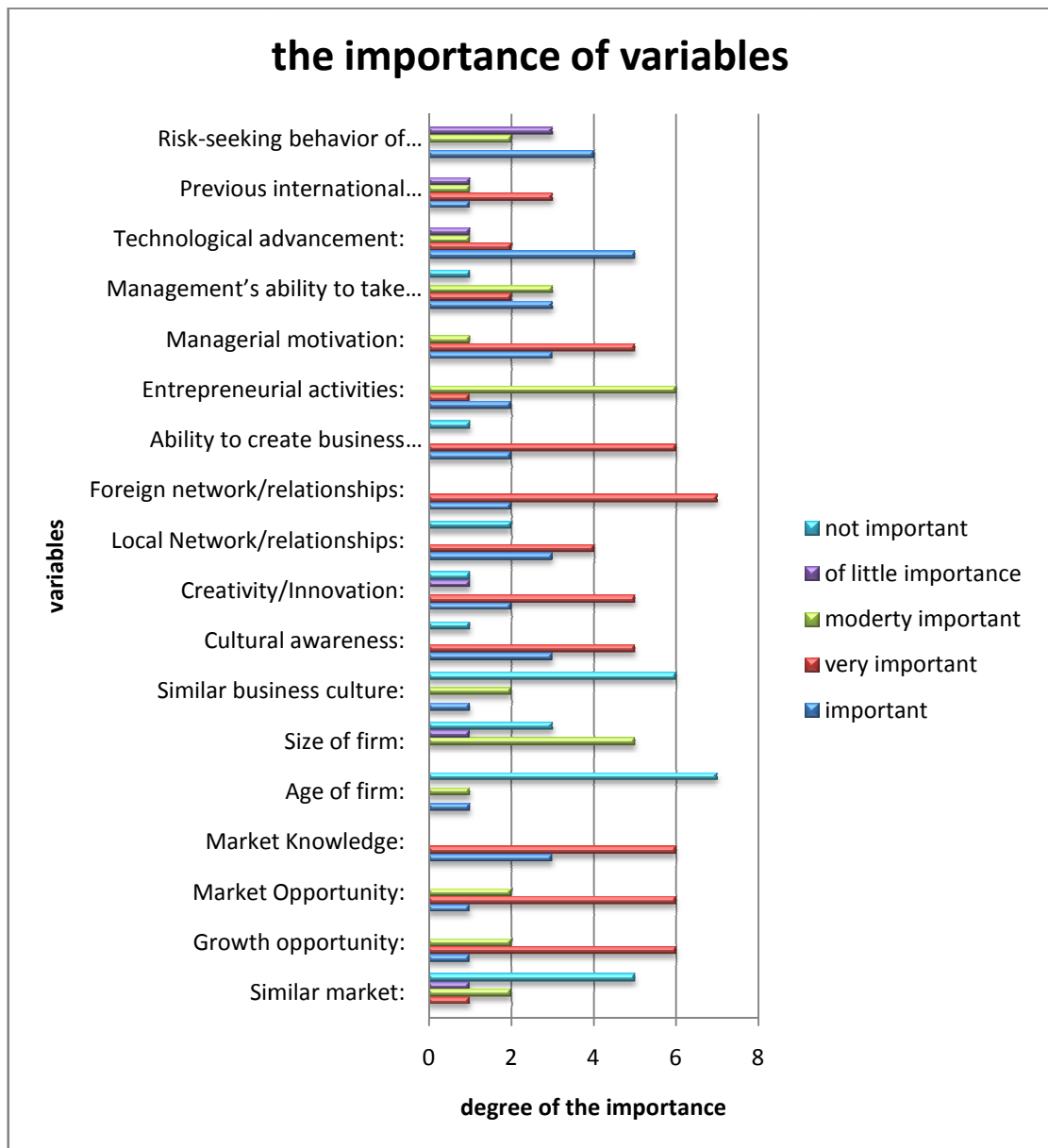
**Figure III.10: Role of strategy and method**

**Source :** survey result

**Question nine:** Which of the following factors helped your company's internationalization process?

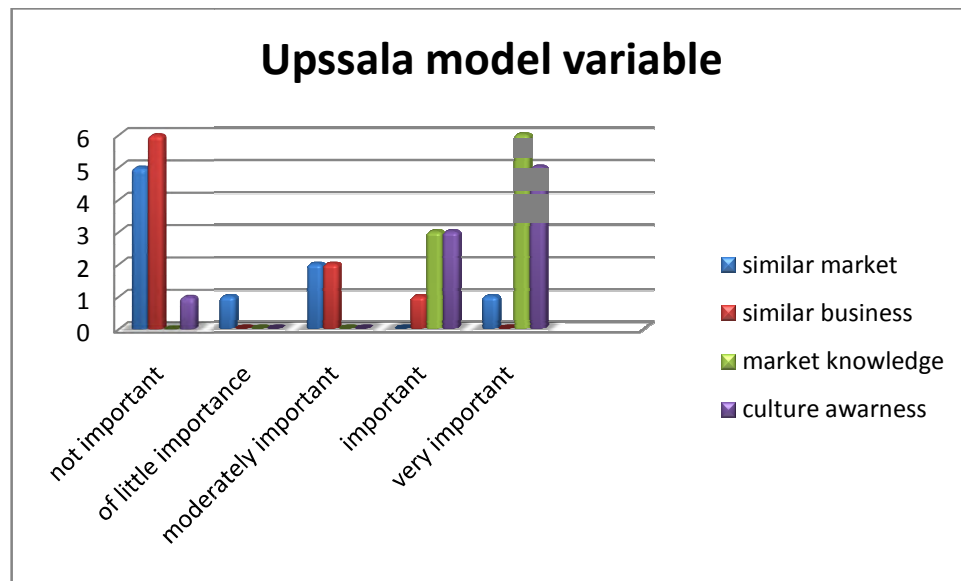
✓ **Importance of the main variables**

The main idea behind asking this question was to check out which variables from each of the theories that we have discussed, still fit into the internationalization process. The purpose was to understand which of the variables played a role and influenced the process and in what degree of importance. Although some variables can be applicable to more than one theory, for the purpose of convenience, clarity and distinguishing we have categorized them as each variable in one theory only. The results are shown in figure 9.

**Figure III.11: Importance of the main variables**

Source: survey result

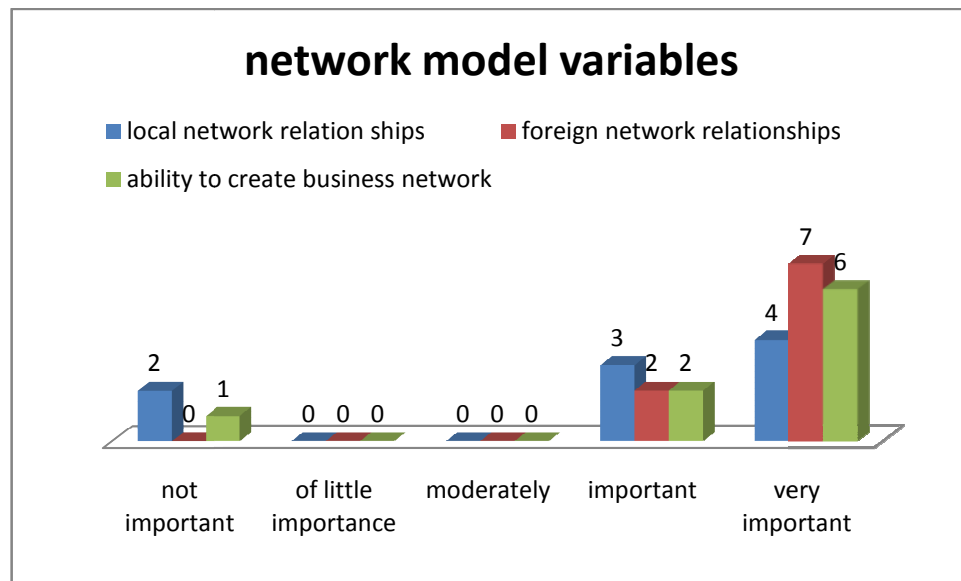
First of all, let us take a look at the variables related to the Uppsala model: similar market, market knowledge, similar business culture and cultural awareness (figure 12).

**Figure n°III. 12: Uppsala\_model Variables**

**Source:** survey result

Similar market and business culture wasn't important for most of the firms while choosing the foreign market to go international. On the other hand, all the firms considered market knowledge and cultural awareness to be important. If we put this data into the context of Uppsala model, we get a picture of firms going into international markets without paying much attention to the barrier of psychic distance suggested by the U-model; but at the same time, firms still consider market knowledge and cultural awareness to be important variables shaping their internationalization process. One explanation of this could be that technological advancement, increasing globalization, increasing number of professionals with international experiences in terms of conducting business as well as traveling, studying etc and availability of information enables the firms to overcome the barriers posed by psychic distance quite easily in a short period of time. Firms also recognize the fact that businesses are conducted in different ways in different parts of the world and having proper knowledge about the market and being aware of the cultural differences are essential in order to succeed.

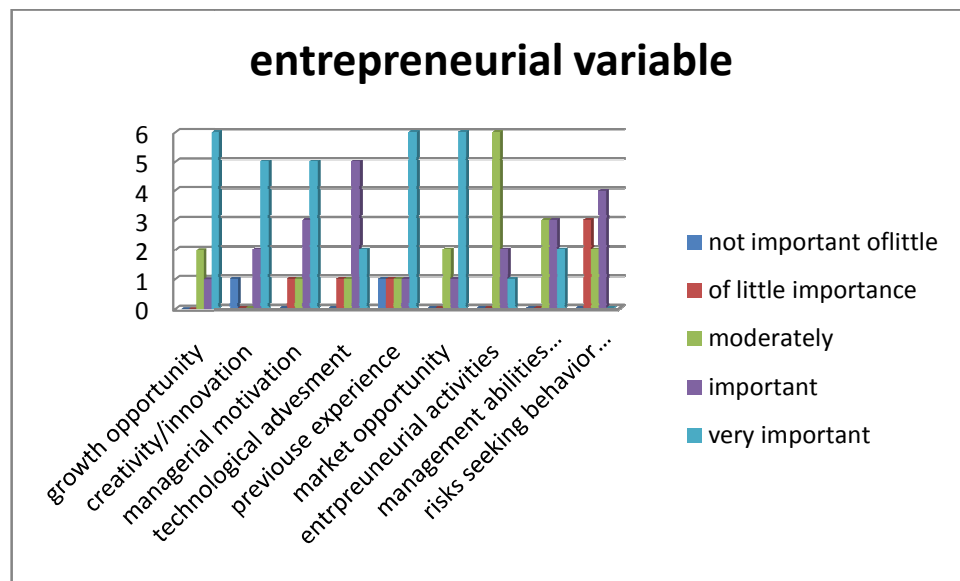
The variables that we have identified as being related to the network theory are: local networks or relationships, foreign networks or relationships and ability to create business networks and almost all the firms considered them to be very important factors influencing their internationalization process (figure 13).

**Figure n°III.12: Network theory variables**

**Source:** survey result

Firms rely heavily on the network relationships and firm's ability to create networks is important for expansion. The network relationships can also be seen as a source of market knowledge and market opportunities. This in turn, enables the firms to internationalize more rapidly without going through the stages suggested by the U-model.

Now we take a look at the variables that we have identified as being related to the international entrepreneurship theory which are: growth opportunity, market opportunity, creativity and innovation, entrepreneurial activities, managerial motivation, management's ability to take risks, technological advancement and previous international experience of the management or entrepreneurs and risk seeking behavior of entrepreneurs and management internationally .

**Figure III.14: IET variables**

**Source:** survey results

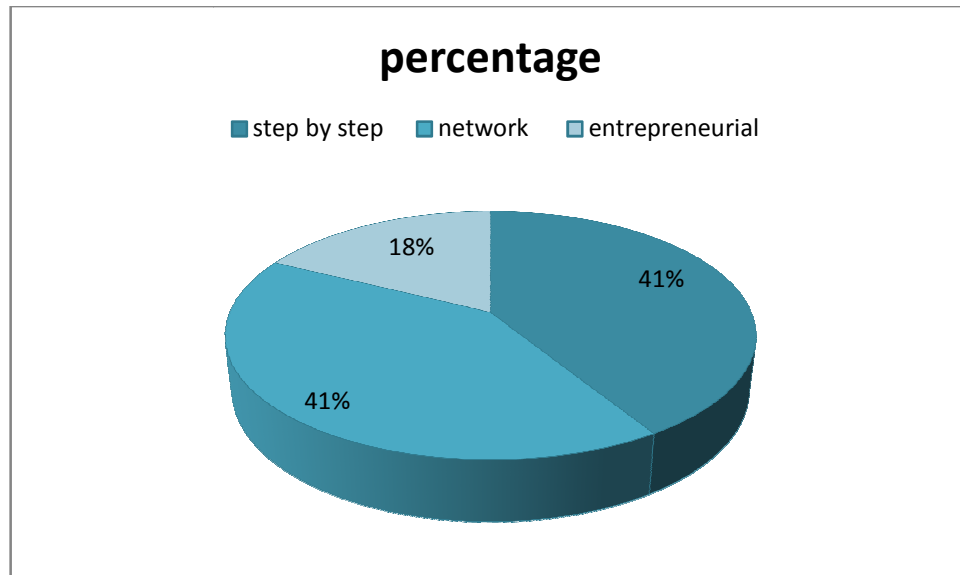
If we analyze the results, on an average all the firms acknowledged almost all these variable's importance in their internationalization process. Growth opportunity and market opportunity can be seen as important driving forces for internationalization with the aid of managerial motivation, creativity and previous experiences while technological advancements were influential in most cases.

If we analyze the above findings from this question, we can see that the internationalization process of these firms cannot be described by one theory alone rather the process demonstrates a mixture of ideas borrowed from all three theories; although the applicability of the Uppsala model is quite limited.

**Question ten:** Which of the following best describes the internationalization process of your firm?

✓ **Theory that best describes the internationalization process**

Our next question was a direct one regarding which theory best describes the internationalization processes of the firms; whether it was Uppsala model or network theory or international entrepreneurship theory or a combination of two or all three of them. The results are shown in figure 16.

**Figure III.16: Theory that best describes the internationalization process**

**Source:** survey results

There has been a lot of a research activity in the field of international entrepreneurship which can be described as a boom and the Uppsala model has been criticized from the very beginning. While in practice many firms are still using a step by step process for internationalization as the gathered data indicates,

Most of the firms applied a combination of at least two theories of which in most cases includes the Uppsala model. Even though the degree of resource commitment during the initial stages of internationalization and the speed was reasonably medium the firms still think that it was a step by step, risk averse, slow and cautious process. An explanation to this conflict could be that firms took a very short period of time to move from one step to the next and it does not necessarily mean that these steps were the same as the ones suggested in the Uppsala model that we have discussed earlier in second chapter.

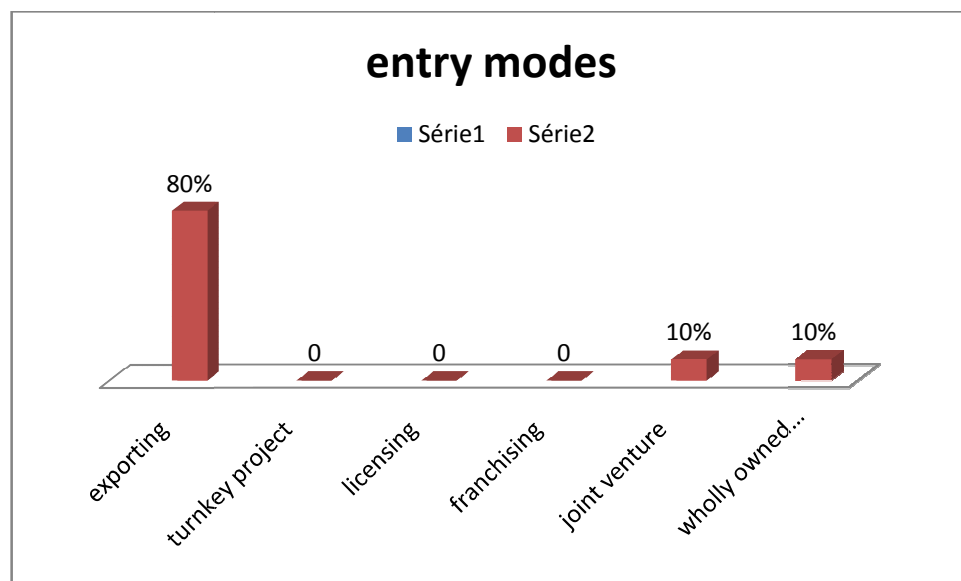
Another explanation could be that firms eliminated risks by gathering information and knowledge through networks or some other sources. Most of these firms recognize the importance of network relationships.

**Question eleven:** Which mode of entry best describes the internationalization process of your firm?

### ✓ Entry modes used

The purpose of the question was to find out the most common entry mode used by the firms. Exporting seems to be the first choice of entry mode for internationalization. The firms that we have interviewed used the entry modes as explained in figure 17:

**Figure n°III.17:** Entry modes used by firms



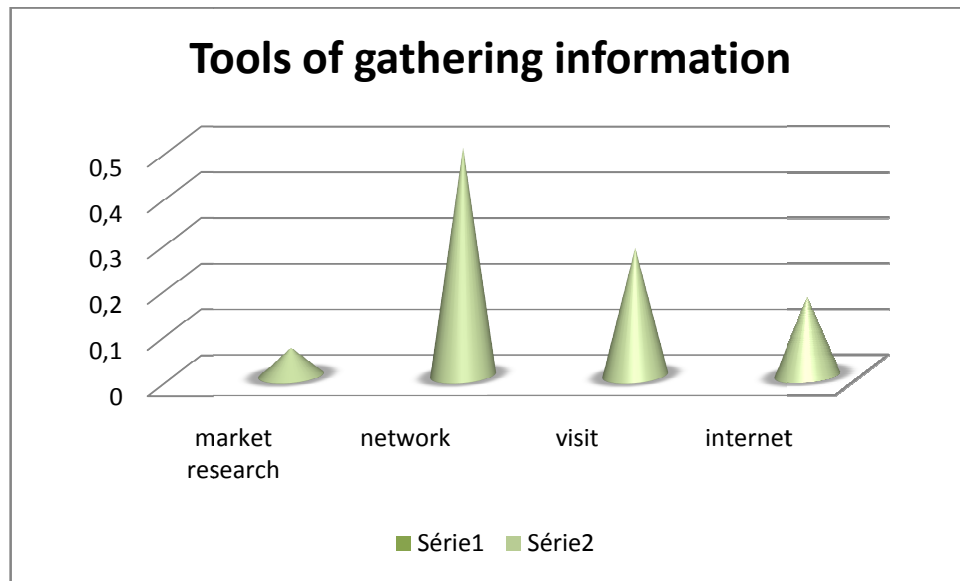
**Source:** survey results

Exporting is the entry mode that had more repetitions, followed by joint ventures and wholly owned subsidiaries. This fits perfectly with the Uppsala model idea of exporting as the first choice to gain internationalization.

**Question twelve:** Please rate the importance of the following in your firm.

### ✓ Tools used to gather information

Our next question was regarding how the firms gathered information about the foreign target market before entering into that market. Once again it is evident from the results that network played a very important role in the internationalization processes of the firms:

**Figure n°III.18: Tools used to gather information**

Source: survey results

As we have discussed earlier, network relationships can be a very useful source for gathering information and market knowledge, it consumes less time as well. Firms can gather knowledge through networks easily and quickly which otherwise would take them a long period of time to gather themselves by doing the related activities themselves in the respective market.

### ➤ Firms that are planning to internationalize in the near future

We have interviewed firms that are planning to internationalize; the purpose was to get an idea of how some firms are planning their process of internationalization these days. The firms interviewed for this part with the same questions we asked the internationalized firms; with changes only where applicable. We shall present some of the gathered data first in the form of figures, charts and graphs below and analyze them. We will not be following the sequence that we did for the internationalized firms part.

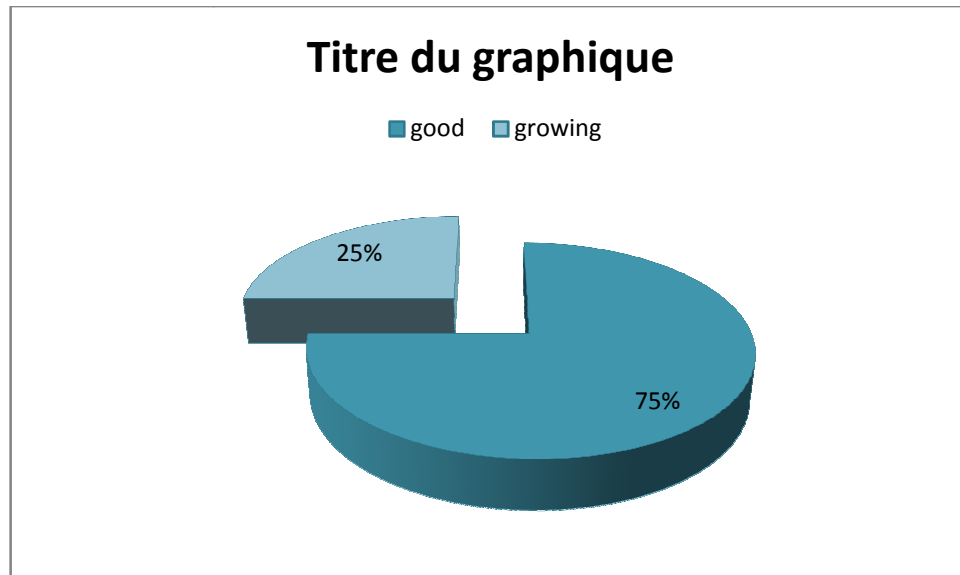
**Question one:** How would you describe your company's position in domestic market right now? Is it important for internationalization?

- **Domestic market position and its importance**

As we have discussed earlier, the domestic market position of the firms plays an important role in their internationalization process. Here we can see in figure 19, that the firms with

no international activity still see themselves as in need of growth, since 75% said they are still growing. 25% from the firms think that their market position is good.

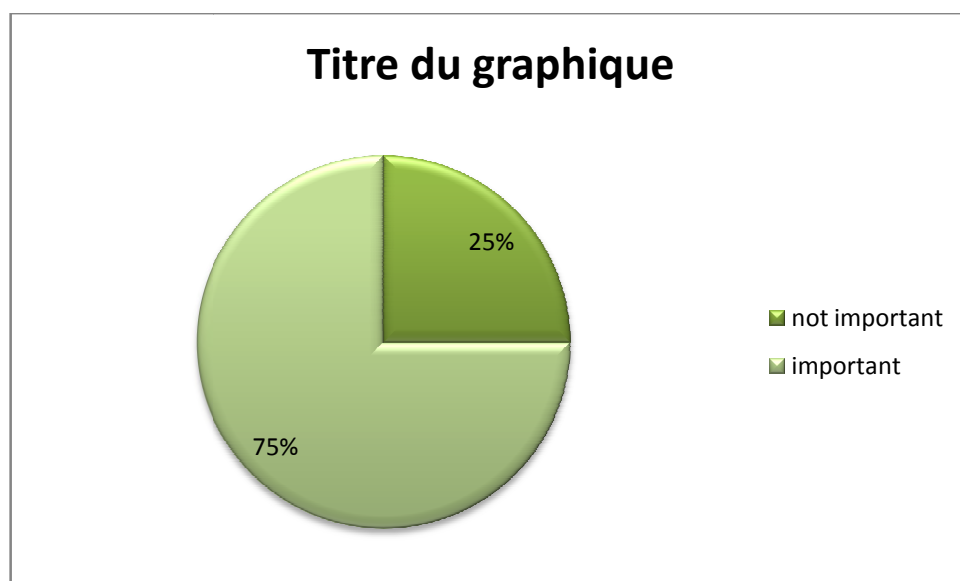
**Figure n°III.19: Market position**



Source: survey result

Although the firms are small and growing, they consider domestic market position to be important for the internationalization process. This is in agreement with the internationalized firms. One reason for most of the firms in this research to consider domestic market position to be important could be that it helps build up relationships and business networks.

**Figure n°III.20: Market position and its importance.**



**Source:** survey result

**Question two:** What is the basis or main reason why your company wants to go international?

- **Reasons for planning to internationalize**

Firms always strive to achieve growth and make more profits; one way of doing so is to expand the market for their products or services by going into international markets. The reasons for planning to internationalize seem to be the same for all the firms studied: profit, expansion, market opportunity etc (figure 21).

**Figure n° III.21: Reasons for planning to internationalize**



**Source:** survey results

### Psychic Distance

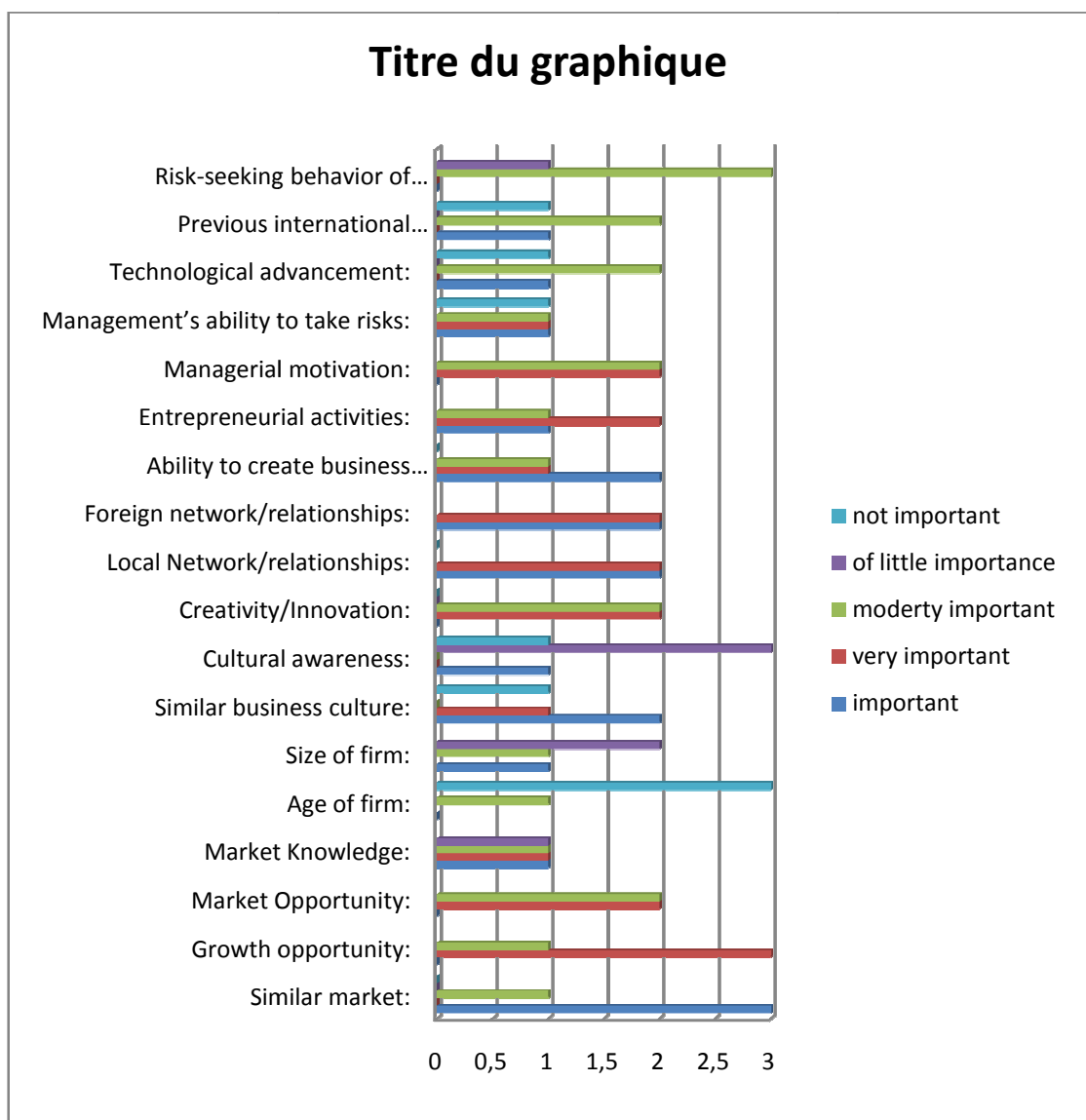
For these non internationalized firms, psychic distance seems to be very important. The interviewed firms intends to expand to Tunisia, Morocco and the reason for choosing these two countries is same language, also they plans to expand to the two neighbors because there is network that already exists in those countries ,in a sense the reasons are related to psychic distance indirectly, if not directly. So, these findings are directly related to the Uppsala model and network theory.

**Question three:** Which of the following factors do you think will help your company's internationalization process? Please rate them according to importance.

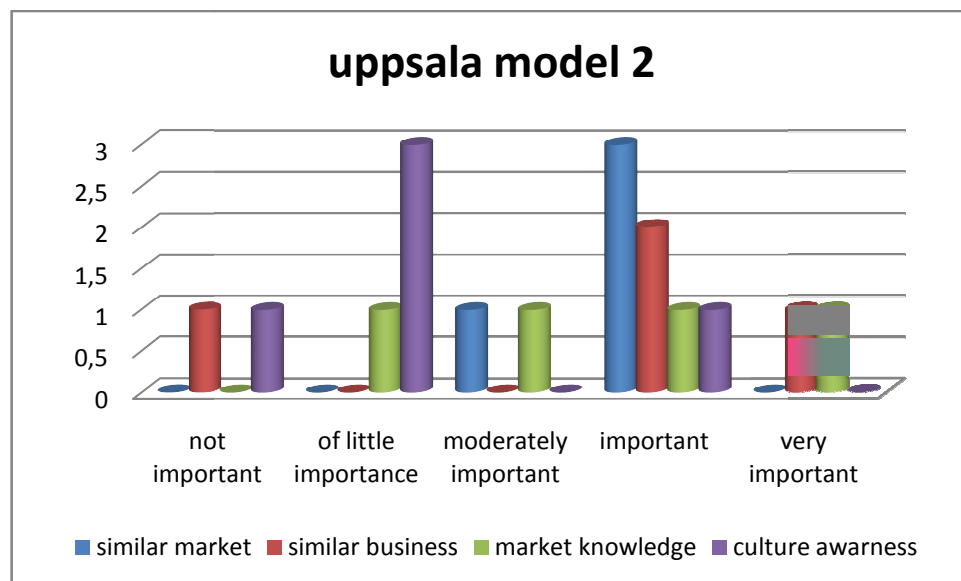
- **Importance of the main variables**

Now we shall analyze the importance of the variables that the firms think will influence their internationalization process. The results are presented in figure 22.

**Figure n°III.22: Variables that will influence the internationalization process**



**Source:** survey results.

**Figure n°III.23: Importance of the variables: Uppsala Model**

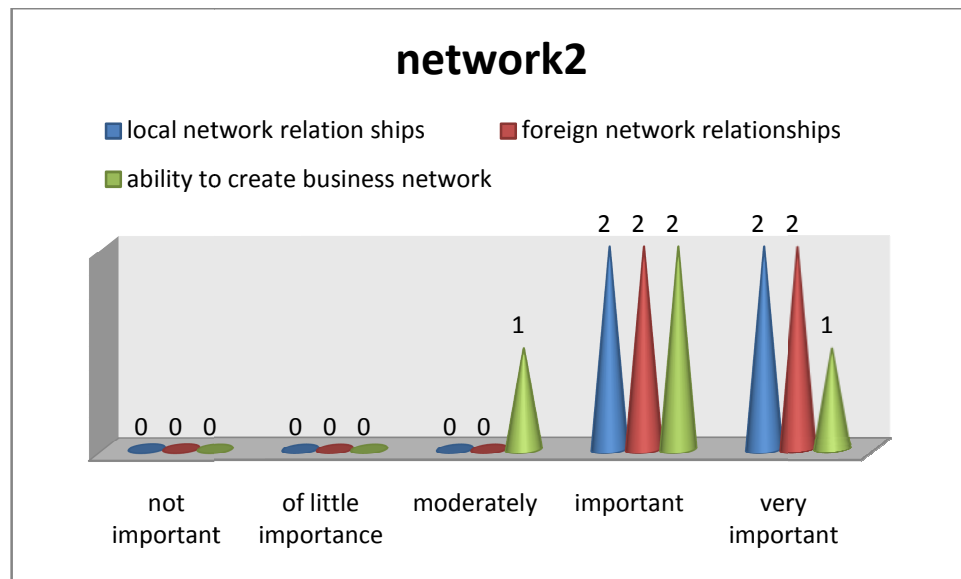
**Source:** survey results

As we have found earlier, psychic distance is an important factor for these firms. Therefore, they target the countries with low psychic distance with similar market and business culture (figure 21).

The importance of network relationships and ability to create networks are regarded highly as well. This once again indicates the reliance of firms on networking.

The firms think that identifying growth opportunity and market opportunity are necessary steps to begin with the internationalization process and for this purpose, managerial motivation, entrepreneurial activities and creativity must take place.

**Figure n°III.24: Importance of the variables: the Network Approach**



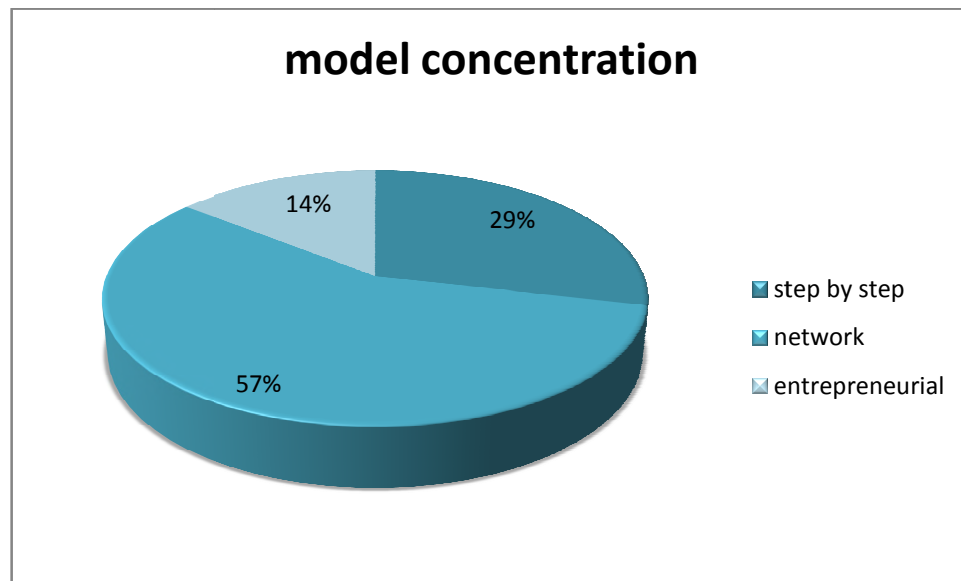
**Source:** survey result

The variables that these firms consider to be important, comes from all the three theories. Even though psychic distance has a negligible impact on the internationalization process of the internationalized firms discussed in the earlier part; for these firms it is important. The importance of networks as well as entrepreneurial behavior is acknowledged as well.

**Question five:** Which of the following best describes the planned internationalization process of your firm?

- **Planned internationalization process**

The interviews with the internationalized firms revealed that they went international by using a mixture of mainly Uppsala model and Network Approach. Figure 25 describes how non-internationalized firms are planning to go abroad in the near future.

**Figure n°III.25: Planned internationalization process**

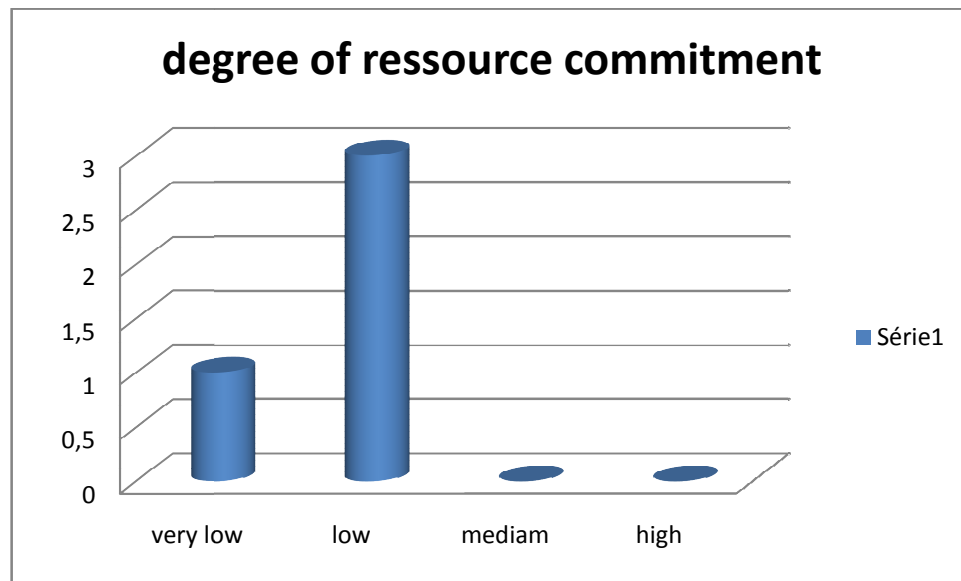
**Source:** survey results

The base for going international is through the networks, though they intend to use different entry modes. The initial degree of resource commitments and the speed of internationalization will be low and slow respectively. The firms intend to gather information about the target markets through networks mainly. This suggests application of a combination of both U-model and network theory.

**Question five:** What would be the degree of resource commitment during the initial stage of internationalization?

- **Degree of resource commitment**

These firms are planning to commit a low degree of resources during the initial stages of their internationalization process as Figure 24 suggests. This is an indication of the fact that some aspects of the U-model is still used by firms that internationalize.

**Figure n°III.26: Degree of resources that will be committed initially**

**Source** survey result

### **3.2.2. The global summary of the finding**

In this search on particularly on this chapter we did try to get a best understanding of the internationalization of firms in Algeria and their processes. We did get our aim from the involvement in the field with our training and questionnaires. The findings from our survey at FERTIAL level were abstract on the motivation behind the phenomenon and their selection of the entry mode.

The main reason were to increase the profitability of the firm, second there are other external factors; the most obvious one is foreign market demand and this help the firm to get off from its overproduction . Also the opportunities on front of the firm were always a result of a managerial perspective. In the other hand the internationalization of this firm was through export and their choice was based on the costs of the operation.

FERTIAL as an example of the Algerian firm did choose to go international through export as an entry mode. Its choice was based on the low costs of the operation and its facility. Beside this criterion the previous international experience of ASMIDAL group was a motive and an influence behind the selection of the entry mode.

From the analysis of data gathered from the questionnaires results and the firms answers we can say that, Most of the founders or managers or entrepreneurs of firms interviewed has a considerable part from the market of its sector they also had medium to

high previous experience of international business activities which enabled them to internationalize with a reasonably good speed and significant amount of resource commitments during the initial stages of internationalization.

If we compare their behavior with the three theories, we can clearly see that network theory explains many things, at the same time international entrepreneurship theory also describes their activities quite successfully. The Uppsala model is still in use, even though not that heavily but still cannot be left out either.

According to the gathered data the firms planning to internationalize give a high importance to the market position and similar to the findings from internationalized firms, the internationalization process behavior cannot be described by one theory alone; there is always a combination of two or all three. Though on this occasion, it is evident that the firms put significant emphasis on creating and maintaining networks in order to achieve internationalization.

### **3.2.3. Recommendations**

In this part we will suggest some recommendations to the firm where we did pass the training period and to the firms that we did interviewed to ameliorate their internationalization and the processes of their expanding.

- ✓ Build a hard network on the foreign market.
- ✓ Insert an internationalization eve within firms.
- ✓ Ameliorate the level of the formation concern the internationalization processes in the Algerian firms.
- ✓ The firms have to search to be on cluster, knowledge, industrial and technical clusters to share and minimize the risks and the costs of the operation.
- ✓ Try to ameliorate its productions and try to arrive to the European standards and the international norms.
- ✓ Try to get label certification as ISO and OHAS certification.
- ✓ Developed the relations between the firms and the research centers, to ameliorate the understanding of the internationalization and inspire the innovation and technological advancement.
- ✓ The government must encourage the firms to get on the internationalization race by the financial help and encourage it by giving national awards.

**Conclusion:**

The internationalization is the same all over the world all the firms search for increase its profitability in the developing country as like the firms in developed one.

Our research proves that the Algerian firm internationalization wave being motivates from different sides. The phenomenon was concenter as a process. This process was described by different models in the literature as a result of our research the Algerian firm flow a different process of those models. Their model was a combination of different approach but they were based on the export as an entry mode.

## General conclusion

The internationalization was define **as the process** by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries.

From the beginning of this research we did look to understand the firm's perspective toward internationalization. To get our goal we did looked on the literature that concern the subject and try to examine the theories on the field.

The Algerian economy is billed as it known on the energetic sector. In this research we looked to put the finger on activities beside the hydrocarbon particularly the agriculture sector according to his historical and cultural importance the Algerians and the reputation of the products of this sector on the foreign markets based on its quality.

For internationalization there is always someone or something from inside or outside the firms initiate the international process. Our research shows that the main reasons for firms to internationalize are profit, expansion, market opportunity and to achieve growth. Managerial motivation is one of the main factors for firms to begin thinking about foreign expansion along with some other. Findings also suggest that firms consider domestic market position to be important even if they are small firms. Although for the firms psychic distance is not quite important, some firms still prefer to internationalize beginning with the countries of low psychic distance as the USA. Firms tend to accumulate a high volume of sales from international markets with reasonably high degree of resource commitments in those markets. Both internationalized and non internationalized firms did not consider formulating strategy and methods to be that important.

From this research, we realize that firms that are already internationalize and the ones that are not have so many things in common. First, the reasons to go international are profit, expansion/growth and market opportunity. Second, motivation is one important factor for the firms, with no motivation there is no action. Third, domestic position seems to be really important for both types of firms. Fourth, psychic distant is not relevant, but some of firms analyzed prefer to go abroad to countries where they find similar culture and environment. From those results and our survey we do confirm the posed hypothesis in the beginning of our research that the main reason behind internationalization is to make more profit then we do find market opportunities and expansion at the same level.

Even if the internationalization phenomenon has a great importance on the firms and the country economy but we do not ignore that this step is a risky operation. In fact the most firms in Algeria confirm that this operation generates a lot of risks but they state that the most risk they do face is the economic one which is the change rate fluctuation in the first place. Then they do classify the political risks on the second place and this will affect their exportation by the law changes, the norms and the war in the target markets. Despite those risks we do find the concurrence risks that are related to the presence of foreign firms on the domestic market with low price products and also we do have problems in front of our firms' internationalization which is getting the label certificate and the unadaptation of the product to the ISO norms and this process goes along time which goes against the needs of those firms. A lot of supplementary problems do go along with the operation as the high logistic costs and the inappropriate distribution canal etc.

Although the numerous theories posed to explain the internationalization process only three were the most applied in our region which are the U-model theory, the network and the entrepreneurial approach.

Looking back at the theories, we can see that network theory was proposed after the Uppsala model was widely criticized and that entrepreneurship in a way is the mixture of both of them; relationships can be the source of opportunities that the entrepreneur will take advantage of and carefully commit his available resources to achieve growth.

From our findings, we can say that both Uppsala model and the network model are often used hand in hand. While it seems that international entrepreneurship theory is also valuable in describing some of the newly emerged phenomenon of the business world and their ways of doing business, such as the born global.

Beside those theories that measure the involvement of the firm in the international market and describe their process to get at the internationalization stage this will be only obvious on the papers, on the reality the firm internationalization does described by their entry mode.

The entry mode is the method used by the firms to enter a foreign market; from those modes there is export, licensing, turnkey, joint venture, franchising. It is up to the firm to choose which the appropriate mode for the firm resources.

This selection does depend on different rules and it is up to the degree of commitment of the firm, if we concentrate on our research the most chosen mode is export then we do

find the joint venture and wholly own subsidiary. The results from our survey present that in the most case the Algerian firms don't select their entry mode on scientific base or on specific research they go along with the naïve rule which imply the use of the same mode for all the markets and the most applied method for those firms are export.

We have observed that firms in different industries have different methods and strategies to carry on their local and international business. Age and size of the firms, are not that important especially when it comes to the born global, which are international firms from inception. However, the theories play an important role in describing the process that the firms undertake while going abroad. It can be said that there is no right theory to use but the mixture of them which makes the process easier. **Here we do infirm the second hypothesis theories and models are not tools itself but they provide tools to plan the internationalization process of firms.** There are many variables that shape and influence the internationalization process of firms and they come from all the three theories that we have discussed in this study. From the U-model, psychic distance and market knowledge are still able to explain some behaviors expressed by the process of internationalization of firms, while almost all firms tend to base their foreign endeavor on networking, for gathering market knowledge and information in particular; firms rely heavily on network relationships. Firm's and management's opportunity seeking behavior is another driving force for foreign expansion with an essential element of this activities coming from previous international experience of owners or managers or entrepreneurs. Overall, in describing the internationalization processes of the firms, we need to apply a combination of at least two or all three theories, none of the theories are able to explain the processes alone and in most cases, the behavior still fits into the U-model despite of a lot of criticism about it from the very beginning.

It is evident from this study that some aspects of the Uppsala model are very useful to the firms in their internationalization process. Although none of the firms studied here follow all the suggested steps prescribed by the U-model. The most important aspect is psychic distance. Except the born global firms, almost all the firms consider it to be important and they tend to choose countries with low psychic distance, as their target international markets during the early stages of internationalization. Market knowledge is considered to be important for all firms and many other activities in the internationalization process are dependent on the available market knowledge; such as degree of resource

commitment, speed of internationalization and so on. The firms tend to commit a low degree of resources and prefer to go on a 'slowly but surely' basis during the early stages of internationalization; these behaviors reflect the Uppsala model.

As for the network theory, it seems to be in the center of the internationalization process of the firms. Firms rely heavily on their networks for many activities during the internationalization process; especially when it comes to gathering market knowledge.

Network is also seen as a source of opportunity; particularly for the entrepreneurial firms. Most of the interviewed firms think that it is essential for firms to be able to create business networks in order to internationalize.

Some aspects of the international entrepreneurship theory are also important for all firms. Most of the companies studied here agree that it makes the internationalization process much easier if the management has previous international experiences. The firms consider growth opportunity, market opportunity and managerial motivation to be the driving forces to initiate the internationalization.

Entrepreneurial activities and risk seeking behavior of entrepreneurs and management are also important for some firms; since these factors or activities help them recognize opportunities to expand across national borders. **From here we could say that our hypothesis that said U-model is the best model for describing the internationalization model for the Algerian firm is not totally wrong but the process would be describe by a combination of all the three theories.**

Now and after all this research process we can answer on the main question of our research and we did understand the Algerian perspective toward their internationalization process. The firms and based on the founding result do describe their internationalization process as a combination of different variable from the different theories.

This study can generate many possibilities for further research. It would be interesting to investigate the other model of internationalization process of firms. In this study we have concentrated only on three different models of different approach due to the lack of time on the first place, resources and network for getting information within the firms. But it would be a good idea to develop this study and this by examinant other variables as the country involvement in those processes. We would like to recommend augmenting the number of the research sample to acquire more data in a reliable way





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## **Appendix 1: interview guide:**

### **General information of the company background**

Year of established?

Number off employees?

Main products?

Total annual sales?

Ratio of export to total annual sales?

Main competitors?

Respondent name?

Years in the company?

Respondent position in the company?

Have the respondent had any other position in the company?

### **Research question one:**

How can the motives for Algerian firms internationalization be described?

1. What was the main reason your company went international?
2. How many years have your company been on the international market?
3. What countries did your company first enter?
  - a. Why?
4. In which countries is your company operating in today?
5. Have any of the following internal and external triggers influenced your company's internationalization?

Internal triggers	<ul style="list-style-type: none"><li>• Perspective management: mangers discover new business opportunities.</li><li>• Specific internal events: overproduction or reduction in the domestic market functions as triggers.</li><li>• Inward internationalization: effective import activities can determine successful exports.</li></ul>
External triggers	<ul style="list-style-type: none"><li>• Market demand : international market growth triggers internationalization.</li><li>• Competing companies: competition can work as a trigger to internationalization.</li></ul>

	<ul style="list-style-type: none"> <li>• Trade association: other companies' positive experiences function as triggers.</li> <li>• Outside experts: they provide help, information and useful connections for companies.</li> </ul>
--	---

- a. Have any of these factors influenced your company?
- b. If so,, how have these factors influenced your company?
6. Further our literature states that the internal factors can be devided into proactive and reactive factors:

	internal	
proactive	<ul style="list-style-type: none"> <li>• Managerial urge</li> <li>• Unique production/competences</li> <li>• Marketing advantages</li> <li>• Economies of scales</li> </ul>	<p>The desire, drive and commitment has toward exporting.</p> <p>Unique products or competences facilitate the company's entry entry into a foreign market.</p> <p>Specialized marketing knowledge or access to specific information will give the company advantages over their competitors.</p> <p>When a company starts to export their production will incease and production costs will decrease both for the foreign and domestic markets, this will result in economies of scale.</p>
reactive	<ul style="list-style-type: none"> <li>• Risk diversification</li> <li>• Extended sales of seasonal products</li> </ul>	<p>Company's doing export faces lower risk than company's only operating in the domestic market, this because all markets do not face economic downswings at the same time.</p> <p>Different markets have different demands of products depending on the season.</p>

- a. Do your recognize any of these proactive or reactive factors?
- b. If so, have they influenced your company's choice of export as an entry mode?

7. Are there other triggers to internationalization that we have not mentioned that have influenced your company?
  - a. If so, which and how have they influenced your company?
8. Does your company have further plans to expand in the future?

**Research Question two:**

How can firm approach to market entry mode selection be described?

1. Which entry modes do your company use?
  - a. Why?
2. How did your company select entry mode?
3. Our literature suggested three different rules when selecting entry modes;

naive	Companies use the same entry mode for all markets
pragmatic	Companies use one entry mode for each market but no investigation of the most suitable entry mode is made.
strategy	Companies compare and evaluate all entry modes alternative before making a decision.

- a. Does your company follow any of these rules?
- b. If not, does your company follow any other rule?

**Research question three**

How can the influence of internal factors in shaping firm's export entry mode be describes?

1. Which part of your company's export is largest, direct or indirect export?
  - a. Why?
2. What advantages have your company experienced with exports?

For example low risk, low resource commitment, easy entry mode, lower unit costs etc.

3. What disadvantages have your company experienced with exports?

For example lack of control, little contact with the host country market, inappropriate sales channels and over or under priced products etc.

4. Have your company any specific factors internal to the company that influenced your choice of export as an entry mode?
  - a. Which?

5. Our literature suggest the three following internal factors influencing the choice of export as an entry mode;

Internal factors	
Company size	Companies size is an indicator of its resources, the more resources a company gains the more the international involvement will increase.
Internal experience	Companies' previous international experience influence how companies act when entering a new foreign market.
product	A company with high product differentiation and advantage gives the companies a high degree of pricing discretion over its competitors.

- a. Do you recognize any of these internal factors?
  - b. If so, have they influenced your company's choice of export as an entry mode?
6. Have the any of these factors influencing the choice of export as an entry mode changed over time,
- a. If so, how?

## **Appendix 2: Questionnaire for internationalized firm**

### **Questionnaire**

We have the honor to present to you this questionnaire, I am a student in the EHEC ( school of high commercial studies), I am in the liveliness of the preparing the master thesis in commercial science option international affaires.the thesis titled:

“ the process of internationalization of the Algerian firm beside the hydrocarbon”

Because your point of view and answers is very important for the success of this study we wish from you to answer this questionnaire and we do guarantee that the answers will be used only for scientific research.

⋮

#### **General Information**

Name of the company:

Country of origin:

Position of the Respondent:

Year of Foundation:

Year of Internationalization:

Number of Employees:

Total annual sales:

Products/Services/Field of business:

Website/email/contact

#### **Interview Questions**

1. How would you describe your company's position in domestic market right before going international? Was it important for internationalization?

2. What was the basis or main reason why your company went international?

3. Name and total number of countries your company has international activities with (in order, first to last) and year of internationalization.

4. Percentage of total annual sales coming from international sales:

5. Did the founder/owner of the firm or its management have any previous experience in internationalization or international business activities?

*None, Very little, Medium, High, Very high.*

6. How would you describe the speed of your firm's internationalization process?

*Slow, Medium, High/Rapid*

7. How would you rate the degree of resource commitment during the initial stage of internationalization?

*Very lo, Low, Medium, High, Very High.*

Please state a percentage:

8. What was the role of formulating strategy and methods for internationalization?

*Unimportant , Of little importance; Moderately important; Important; Very important*

9. Which of the following factors helped your company's internationalization process? Please rate them according to importance.

*1 not important; 2 of little importance; 3 Moderately important; 4 Important; 5 Very important.*

Similar market:

Growth opportunity:

Market Opportunity:

Market Knowledge:

Age of firm:

Size of firm:

Similar business culture:

Cultural awareness:

Creativity/Innovation:

Local Network/relationships:

Foreign network/relationships:

Ability to create business networks:

Entrepreneurial activities:

Managerial motivation:

Management's ability to take risks:

Technological advancement:

Previous international experience of the management or entrepreneurs:

Entrepreneurial activities of individuals or management or the firm:

Risk-seeking behavior of entrepreneurs and management internationally:

10. Which of the following best describes the internationalization process of your firm?

- a. Step-by-step, risk averse, slow, cautious process.
- b. Entering into foreign market through networks/contacts/partners.
- c. Through international entrepreneurial activities of management/individual/firm, rapid internationalization.
- d. Combination of a, b and c.
- e. Combination of a and b.
- f. Combination of a and c.
- g. Combination of b and c.
- h. None of the above
- i. Other, please specify:
- j. International from the beginning

11. Which mode of entry best describes the internationalization process of your firm?

Exporting

Turnkey projects

Licensing

Franchising

Joint Venture

Wholly owned subsidiaries

None of them

Other, please specify:

12. Please rate the importance of the following in your firm.

**1**-not important; **2**-of little importance; **3**-Moderately important; **4**-Important; **5**-  
Very important

Business network:

Entrepreneurial activity:

13. How did you gather information about the foreign target market before entering that market?

14. Would you still use the same strategies and methods today to go international that you did during the first time? Why or why not?

**Thank you!**

## **Appendix 3:questionnaire For firms that are planning to internationalize**

### **Questionnaire**

We have the honor to present to you this questionnaire, I am a student in the EHEC ( school of high commercial studies), I am in the liveliness of the preparing the master thesis in commercial science option international affaires.the thesis titled:

“ the process of internationalization of the Algerian firm beside the hydrocarbon”

Because your point of view and answers is very important for the success of this study we wich from you to answer this questionnaire and we do guarantee that the answers will be used only for scientific research.

#### **General Information**

Name of the company:

Country of Origin:

Position of the Respondent:

Year of Foundation:

Target Year of internationalization:

Number of Employees:

Total annual sales:

Products/Services/Field of business:

Website/email/contacts:

#### **Interview Questions**

1. How would you describe your company's position in domestic market right now? Is it important for internationalization? Why?

1. What is the basis or main reason why your company wants to go international?

2. Please name the target country/countries.

3. What are the reasons for choosing this/these particular country/countries?

4. Percentage of total annual sales that you expect from international sales after the first year:

5. Which of the following factors do you think will help your company's internationalization process? Please rate them according to importance.

1- not important, 2- of little importance, 3- moderately important, 4- important, 5- very

important

Similar market:

Growth opportunity:

Market Opportunity:

Market Knowledge:

Age of firm:

Size of firm:

Similar business culture:

Cultural awareness:

Creativity/Innovation:

Local Network/relationships:

Foreign network/relationships:

Ability to create business networks:

Entrepreneurial activities:

Managerial motivation:

Management's ability to take risks:

Technological advancement:

Previous international experience of the management or entrepreneurs:

Entrepreneurial activities of individuals or management or the firm:

Risk-seeking behavior of entrepreneurs and management internationally:

6. Which of the following best describes the planned internationalization process of your firm?

- a. Step-by-step, risk averse, slow, cautious process.
- b. Entering into foreign market through networks/contacts/partners.
- c. Through international entrepreneurial activities of management/individual/firm, rapid internationalization.
- d. Combination of a, b and c.
- e. Combination of a and b.
- f. Combination of a and c.
- g. Combination of b and c.
- h. None of the above
- i. Other, please specify:

7. Which mode of entry do you plan to use for the internationalization process of your firm?

Exporting

Turnkey projects

Licensing

Franchising

Joint Venture

Wholly owned

subsidiaries

None of them

Other, please specify:

8. What would be the degree of resource commitment during the initial stage of internationalization?

*Very low Low Medium High Very High*

Please state a percentage:

9. What would be the role of formulating strategy and methods for internationalization?

*Unimportant Of little importance Moderately important Important Very important*

11. What would be the speed of your firm's internationalization process?

*Slow Medium High/Rapid*

12. Please rate the importance of the following in your firm.

**1**-not important; **2**-of little importance; **3**-Moderately important; **4**-Important; **5**-  
Very important

Business network:

Entrepreneurial activity:

13. How would you gather information about the foreign target market before entering that market?

**Thank you!**

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