Firms operate in a semi-globalized world wherein opportunities and constraints arise at both the country and regional levels; however, extant theories of firm internationalization focus mostly on country-level determinants. We aim to overcome this deficiency by developing a theoretical model that explicates the mechanisms driving firm internationalization in a semi-globalized world. Integrating the organizational learning literature with research on semi-globalization, we argue that firms internationalize through the interplay among three mechanisms: (1) intraregional exploitation; (2) intraregional reconfiguration; and (3) interregional exploration. We define and integrate these three mechanisms to derive two ideal typical internationalization trajectories that firms follow in a semi-globalized world: home regionalization and multiregionalization. We then elaborate on how macro-level contingencies moderate these two ideal types and conclude with implications for future research. Copyright © 2015 Strategic Management Society.
sociocultural proximity, as well as supranational political arrangements (e.g., North American Free Trade Agreement (NAFTA)), offer an integrated platform for firms to operate on a regional basis (Buckley and Ghauri, 2004; Enright, 2005). Thus, MNEs may gain substantial synergies at the regional level by leveraging their assets and capabilities within a well-integrated group of nation-states without having to incur a high degree of LOF (Ghemawat, 2003). But, semi-globalization also means that internationalizing firms face an additional layer of constraint when expanding beyond their home regions as they encounter liability of regional foreignness (LORF), the extra cost of doing business in a foreign region (Asmussen, 2009; Asmussen and Goerzen, 2013). The presence of LORF means that the ‘liability of intra-regional expansion . . . is . . . much lower than the liability of interregional expansion’ (Rugman and Verbeke, 2007: 201), making home-regionalization an attractive solution to the question of appropriate MNE geographic scope.

Building on these insights, a growing number of scholars have explored how regional dimensions influence various facets of MNE activities, such as foreign location choice (Arregle et al., 2013; Flores and Aguilera, 2007), geographic scope (Banalieva and Dhanaraj, 2013), MNE performance (Li, 2005; Qian et al., 2010; Qian, Li and Rugman, 2013), and subsidiary-level strategies (Nguyen, 2014). These efforts have significantly advanced our understanding of how MNEs operate and perform in a semi-globalized world. However, extant research has not yet met the important challenge of formalizing a theoretical framework that explicates how the process of firm internationalization unfolds in a semi-globalized world. The original Uppsala model (Johanson and Vahlne, 1977, 1990), arguably the most influential theory of internationalization process, is inadequate for this task since it focuses on how firms manage constraints and opportunities arising at the country level through a single mode of organizational learning—experiential learning of country-specific knowledge (Axinn and Matthyssens, 2002). An internationalization process model based on a single organizational learning mechanism is not comprehensive enough to account for the complexity involved in building and managing foreign operations in a semi-globalized world (Forsgren, 2002).

Against this backdrop, the aim of the current article is to propose a new theoretical model that encompasses the key mechanisms involved in the process of cross-border diversification in a semi-globalized world. In constructing our model, we retain the key assumptions of the original Uppsala model: bounded rationality, uncertainty, incremental adaptation, and experiential learning as the main engine driving firm internationalization (Johanson and Vahlne, 2009). Yet, we expand the organizational learning involved in the firm internationalization process into three distinct mechanisms: (1) intraregional exploitation—exploit old certainties and leverage capabilities within the region; (2) intraregional reconfiguration—recombine accumulated region-specific knowledge; and (3) inter-regional exploration—explore new possibilities in a foreign region. We develop these concepts by integrating research on semi-globalization (Ghemawat, 2003; Rugman, 2005; Rugman and Verbeke, 2004) with insights from the organizational learning literature (March, 1991; O’Reilly and Tushman, 2008; Siggelkow and Levinthal, 2003) in order to demonstrate how the internationalization process in a semi-globalized world unfolds through the dynamic interplay among these three mechanisms.

The rest of the article is structured as follows: we begin by summarizing the Uppsala model and highlighting its shortcomings within the context of semi-globalization. We elaborate on the need for an updated model that incorporates a more expansive set of learning mechanisms. Next, after defining the three modes of organizational learning, we integrate them in order to derive two ideal typical internationalization trajectories. We then illustrate the utility of our proposed framework by applying it to the case study of Hyundai Motors’ European expansion. In the penultimate section, we further specify our proposed model by identifying boundary conditions and important contingencies that may moderate the internationalization trajectories explicated in the two ideal types. We conclude by highlighting our contributions as well as assessing the implications and potential application of our theoretical framework for future studies.

INTERNATIONALIZATION AS A CYCLE OF LEARNING AND COMMITMENT DECISIONS

The Uppsala model draws its basic assumptions—uncertainty, incremental adaptation, and bounded rationality—from the behavioral theory of the firm.
(Cyert and March, 1963) and the theory of the growth of the firm (Penrose, 1959). The model posits that internationalizing firms gain experiential knowledge from their current operations and then gradually dispel uncertainty, broaden their opportunity horizons, and incrementally adjust their commitment decisions in the foreign market (Johanson and Vahlne, 1990). Thus, firm internationalization becomes a path-dependent process in which experiential knowledge accumulated in one stage of the foreign expansion guides the decisions made in subsequent stages (Barkema, Bell, and Pennings, 1996; Chang and Rosenzweig, 2001; Nachum and Song, 2011; Vermeulen and Barkema, 2002).

In the Uppsala model, experiential learning is the main mechanism through which firms overcome psychic distance, defined as country-level differences in language, culture, and political systems that make it difficult for firms to identify and pursue business opportunities in the foreign market (Vahlne and Wiedersheim-Paul, 1973). Since a firm’s initial body of knowledge is built from and bears the imprints of the home country environment (Kogut, 2005), an internationalizing firm experiences fewer constraints stemming from LOF when expanding into foreign markets that are psychically proximate vis-à-vis the home country. Firm assets typically have higher fungibility—‘the extent to which (firm-specific) resources can be deployed for alternative uses at low cost’ (Sapienza et al., 2006: 924)—than in more distant foreign locations. High fungibility of firm assets in particular locations reduces the degree of organizational learning and resource commitment required when establishing cross-border operations. Therefore, following the principle of local search (Levitt and March, 1988; Nelson and Winter, 1982), internationalizing firms are expected to begin their expansion in psychically proximate markets before they move into progressively more distant markets. Swedish firms, for example, are expected to begin their expansion into other Nordic countries while Japanese firms are predicted to select other proximate East Asian markets as the starting point of their cross-border expansion (Johanson and Vahlne, 1977).

Semi-globalization and the limits of the Uppsala model

The continuing relevance of the Uppsala school notwithstanding, the world has transformed dramatically since the model’s debut nearly four decades ago. The global economy has become significantly more integrated across borders with the spread of foreign direct investment and trade linking formerly segregated markets into a heightened degree of economic interdependence. Yet, the world has hardly become the flat or borderless world that some had envisioned (e.g., Levitt, 1983; Friedman, 2005); instead, the contemporary global economy can best be described as being in a state of semi-globalization, characterized by incomplete and uneven integration, and that has created groups of nation-states that are well integrated with each other into regional schemes (e.g., European Union (EU), NAFTA) while the world as a whole remains far from the hypothetical state of complete integration (Ghemawat, 2003). As visualized in Figure 1, the semi-globalization perspective interprets the world as being situated in between the theoretical extremes of full ‘global integration,’ where firms can freely leverage their assets on a global scale, and ‘national isolation,’ where there is no synergy potential between different national markets (Ghemawat, 2003; Ricart et al., 2004). The main normative message then is that IB scholars should move beyond the classic dilemma between global integration and local responsiveness (Bartlett and Ghoshal, 1989; Ghoshal, 1987; Hout, Porter, and Rudden, 1982; Prahalad and Doz, 1987) and pay more attention to how MNEs arrange and manage their corporate activities at intermediate geographic units to tackle the challenges and opportunities offered by the semi-globalized world (Ghemawat, 2003; Rugman, Verbeke, and Yuan, 2011).

Specifically, in terms of opportunities, MNEs neither replicate their value chain activities on a country-to-country basis through the sequential expansion of the establishment chain (Johanson and Vahlne, 1977) nor fully integrate their activities on a global level to maximize scale economies (Levitt, 1983). Instead, semi-globalization presents opportunities for firms to flexibly treat countries, regions, and the world as complementary spatial interfaces in accessing and utilizing location-specific assets embedded across geographies (Rugman et al., 2011). Therefore, MNEs that successfully navigate the semi-globalized world can service an entire region by establishing operations in one or two countries (Enright, 2005) and increase efficiency by organizing their value chain activities on a regional basis (Arregle, Beamish, and Hebert, 2009). Hence, realizing the synergy potential inherent at intermediate levels of geographic units between the local and global is an increasingly important component of...
international business strategy in a semi-globalized world (Ghemawat, 2003, 2007).

However, semi-globalization also imposes an additional layer of constraint on MNEs. Specifically, MNEs expanding into foreign regions incur LORF and are forced to devote substantial organizational resources to managing regional-level constraints (Rugman and Verbeke, 2007). These disadvantages include the difficulties in coping with differences in customer taste and national culture in a foreign region as well as the lack of connection within the regional production network that impedes the firm’s ability to operate on a regional scale (Rugman and Verbeke, 2007). Furthermore, MNEs expanding to a foreign region must face local competitors who already operate on a regional basis, making it harder for MNEs to overcome the competition and establish themselves in the foreign region (Collinson and Rugman, 2008). The presence of LORF, therefore, explains why the vast majority of MNEs confine their cross-border activities within their respective home regions (Rugman, 2005; Rugman and Oh, 2012) and experience negative performance in the initial phase of their cross-regional expansion (Qian et al., 2010).

The original Uppsala model, however, cannot adequately account for how firms internationalize in a semi-globalized world because, implicitly, the model operates in a world akin to that of ‘national isolation’ (as depicted in Figure 1) wherein the LOF arising from psychic distance among countries is the only constraint that matters in realizing the benefits of foreign operations. Furthermore, the model does not account for the synergy potential of aggregating similar activities in particular locations to maximize scale economies and arbitraging different value chain activities across borders to reduce redundancies and increase efficiencies (Ghemawat, 2003, 2007). As Johanson and Vahlne (2009: 1421) acknowledge, ‘the domestic market may not be the most relevant unit in terms of psychic distance’ and ‘(psychic distance) is a firm-level concept that may relate to a network within a country, or to a wider region.’ We wholeheartedly concur with this point.
and propose that the next step is to theoretically establish the mechanisms through which MNEs learn to transition from operating primarily on a country-to-country basis to a regional basis. In order to achieve this goal, we need a theoretical model of internationalization in the context of semi-globalization that explicates the process through which firms cultivate national, intra-, and inter-regional capabilities. We turn to this task in the next section.

BUILDING THE INTERNATIONALIZATION MODEL

Before we begin our theory-building process, we need to clarify an important assumption to set up the appropriate boundary conditions of our model. Specifically, we adopt the strong form of semi-globalization that assumes that each region is composed of equally well-integrated countries and that firms will expand into foreign regions only after exhausting all opportunities available in the home region (Sammartino and Osegowitsch, 2013). In reality, of course, regions are not clean substitutes, as they vary in terms of the degree of integration among member countries along economic, political, and sociocultural dimensions (Banalieva and Dhanaraj, 2013). Furthermore, many MNEs do not wait until all opportunities are exhausted within their respective home region and often expand simultaneously into home and foreign regions (Sammartino and Osegowitsch, 2013). In fact, firms exhibit significant degrees of heterogeneity in terms of their actual internationalization trajectories due to country-, industry-, and firm-level contingencies (Sammartino and Osegowitsch, 2013). If the MNEs do not wait until all opportunities are exhausted within their respective home region and often expand simultaneously into home and foreign regions (Sammartino and Osegowitsch, 2013). In fact, firms exhibit significant degrees of heterogeneity in terms of their actual internationalization trajectories due to country-, industry-, and firm-level contingencies (Sammartino and Osegowitsch, 2013).

Despite these obvious caveats, we adopt the strong form of semi-globalization, as it enables us to derive ideal types, which are categories that describe ‘relations specified to hold under highly purified conditions between highly idealized objects or processes’ (Nagel, 1963: 215). Ideal types based on strong assumptions are useful for theory building not because of their correspondence with reality, but because they describe the relationship between two or more concepts if it were ‘unaffected by numerous factors . . . whose effects generally vary in magnitude with differences in the attendant circumstances under which the phenomena actually recur’ (Nagel, 1963: 216). Ideal types are abstractions from reality that reveal critical elements underlying real-world phenomena and assumptions are devices that enable scholars to distill such abstractions into sufficiently parsimonious general statements. These ideal types can then be used to infuse a degree of existential realism by formulating additional statements that explicate how the relationships reflected in ideal types may alter in relation to contingencies that were previously absent. Indeed, setting ideal types based on strong assumptions and then discussing the specific conditions under which a class of phenomena may deviate from the ideal type is a powerful method of codifying the real-world phenomena (see Weber (1948) for example).

Based on this rubric, the model-building process proceeds as follows: first, we define three learning mechanisms that constitute the engines driving our model: (1) intraregional exploitation; (2) intraregional reconfiguration; and (3) inter-regional exploration. Each mechanism represents a distinct mode of organizational learning that MNEs adopt in order to achieve different goals at different points in time within the larger process of building their foreign operations. Next, we integrate the three mechanisms and derive two ideal types: (1) home regionalization; and (2) multiregionalization. Each type describes an ideal typical path through which firms may internationalize in a semi-globalized world. In the later section, we set these two ideal types as base models and then incorporate several contingencies that may moderate the sequence explicated in these trajectories.

Organizational learning: exploitation, exploration, and reconfiguration

In his seminal paper, March (1991) introduced the concepts of exploration and exploitation to describe two distinct modes of organizational learning. Exploration refers to ‘experimentation with new alternatives’ that leads to ‘uncertain, distant, and often negative returns’ (March, 1991: 85) and focuses on planned variation, which requires greater departure from the firm’s prior stock of knowledge. It is chiefly geared toward learning for generating future rather than immediate returns and deviating from the familiar routines to create new possibilities. Exploitation, however, refers to the ‘refinement and extension of existing competences . . . that leads to positive proximate and predictable returns’ (March, 1991: 85) and is driven by ‘current wisdom associated with existing actions while, at the same time, engaging in small degree of search for superior alternatives’ (Gavetti

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and Levinthal, 2000: 116). Exploitation involves local search processes and reusing the preexisting knowledge base to generate incremental learning. The two concepts are, thus, differentiated by the type and degree of learning involved in acquiring and integrating new knowledge (Gupta, Smith, and Shalley, 2006).

Within the context of semi-globalization, the shifting balance between exploitation and exploration describes the mode of organizational learning through which firms manage LOF and LORF, respectively (Barkema and Drogendijk, 2007). Specifically, when firms expand to psychically proximate markets within the home region, the relative balance shifts toward exploitation since the absorptive capacity or the ability to ‘recognize the value of new, external information, assimilate it, and apply it to commercial ends’ (Cohen and Levinthal, 1990: 128) is high, enabling firms to expand based on incremental modification of their preexisting knowledge base and ability to perform semi-automatic replication of prior routines in foreign locations (Sapienza et al., 2006). Exploitation, therefore, is consistent with the mechanism driving the internationalization process described in the original Uppsala model (Johanson and Vahlne, 1977), in which firms move from psychically proximate countries by exploiting their extant knowledge base and replicating value chain activities in each foreign location through gradual increases in resource commitment (Pedersen and Petersen, 1998). We label this first mode of organizational learning 

intraregional exploitation, defined as the ‘incremental modification of prior knowledge to expand on a country-to-country basis within the region.’

In contrast, when firms initially expand into a foreign region, the relative balance shifts from exploitation to exploration, as the prior stock of firm-specific knowledge must be substantially modified to cope with LORF and identify new business opportunities in an unfamiliar environment (Barkema and Drogendijk, 2007). Such long leaps from the prior body of knowledge require firms to commit more organizational resources, unlearn old knowledge, and internalize new knowledge that is distant from the extant body of knowledge (Casillas et al., 2009). This is a difficult task since firms face inertial tendencies to revert to familiar routines and overlook longer time horizons (Levinthal and March, 1993). In addition, exploration and exploitation compete for scarce organizational resources and firms tend to overinvest in exploitation at the cost of exploration (Autoio, Sapienza, and Almeida, 2000; Levitt and March, 1988). But learning how to adapt to a new region requires exploration, as firms need to develop the body of knowledge necessary to meet new customer demands, establish relationships with the relevant regional production/distribution networks, and compete with local firms that already possess the capabilities to operate on a region-wide basis. We label this mode of organizational learning as interregional exploration, defined as the ‘exploration of new possibilities and learning of distant knowledge in order to build the necessary capabilities to operate in a new region.’

The final piece of the puzzle is the mode of learning that enables firms to shift from operating on a country-to-country basis to organizing their corporate activities on a region-to-region basis. One of the key prescriptive insights of the semi-globalization perspective is that MNEs can maximize the advantage of regional economic integration by adopting the entire region rather than individual countries as their main spatial unit of operation (Buckley and Ghauri, 2004; Ghemawat, 2005). But in order to take advantage of this opportunity, MNEs need to learn how to ‘rethink their extant portfolio of value chain activities within the region . . . seeking to access the location advantages of the most attractive countries or areas within the trading and investment bloc, and to bundle these external resources with internal competences in order to maximize efficiency’ (Rugman et al., 2011: 265). The transition from operating on a country-to-country basis to a regional basis, however, cannot be achieved through the interplay between exploitation and exploration. Rather, shifting the spatial unit of operation from countries to regions requires learning how to ‘configure and reconfigure organizational resources to capture existing as well as new opportunities’ (O’Reilly and Tushman, 2008: 189) and ‘change the way in which the components . . . are linked together’ (Henderson and Clark, 1990: 10). The purpose of reconfiguration, therefore, is not to explore new knowledge or to exploit old certainties, but to find a configuration or ‘fit’ of firm activities that is internally consistent and appropriate given the firm’s current environment (Siggelkow, 2002; Siggelkow and Levinthal, 2003). Firms must not only bring in new knowledge from outside the firm boundaries, but also rearrange the extant knowledge that resides inside firm boundaries to derive new organizational outcomes (Kogut and Zander, 1992; Rosenkopf and Nerkar, 2001).

When applied to the context of firm internationalization, reconfiguration captures the mode of learning
that enables firms to link hitherto isolated country-level operations and to remove redundancies in order to optimize firm activities at the regional level. The priority in reconfiguration is to learn how to integrate country-level operations and develop coordinated responses on a regional scale in order to maximize the benefits of operating in a semi-globalized world (de la Torre, Esperanca, and Martinez, 2011; Piekkari, Nell, and Ghauri, 2010). Thus, reconfiguration at the regional level entails aggregation—clustering certain value chain activities in one area within the regions—and arbitrage activities—divesting and reallocating foreign operations within the regional boundaries (Arregle et al., 2009; Ghemawat, 2003). By learning how to engage in regional-level aggregation and arbitrage via reconfiguration, firm operations that used to be dispersed in each country become part of an interrelated and cohesive configuration of location and an entry mode portfolio at the regional level (Asmussen, Benito, and Petersen, 2009; Hashai et al., 2010). We label this final mechanism intraregional reconfiguration, defined as ‘search for a superior configuration of value chain activities and coordination of interdependent activities in order to avoid redundancies and increase efficiency within the regional boundaries.’

Figure 2 summarizes the discussion. Exploration and exploitation are differentiated in terms of how distant the knowledge to be internalized is from the focal firm’s extant body of knowledge, with the former requiring longer leaps from the extant body of knowledge than the latter (March, 1991; Gupta et al., 2006). Within the context of semi-globalization, the distinction between exploration and exploitation is analogous to the different learning mechanisms required to cope with LOF within the region and LORF between regions, respectively (Barkema and Drogendijk, 2007). Based on this logic, we derive the first two mechanisms of our model: intraregional exploitation and inter-regional exploration. The final leg of our model, intraregional reconfiguration, describes the mode of learning through which extant knowledge that resides within firm boundaries is altered in order to generate new organizational outcomes (Galunic and Rodan, 1998). Reconfiguration enables firms to elevate the spatial unit of operations...
from the national to the regional level through aggregation and arbitrage; therefore, learning through reconfiguration is integral to maximizing the advantages semi-globalization offers. Based on this logic, we define the final mechanism of our model: intraregional reconfiguration. The general argument then is that the dynamic interplay among the three mechanisms—intraregional exploitation, inter-regional exploration, and intraregional reconfiguration—drives firm internationalization in a semi-globalized world.

**Internationalization in a semi-globalized world: two ideal paths**

In this section, we discuss two ideal typical paths of firm internationalization based on the three mechanisms we derived earlier. The first ideal type, home regionalization, illustrates a typical process through which firms become home regional MNEs and limit their firm growth within their respective home regions. The second ideal type, multiregionalization, illustrates a typical process through which firms expand beyond their home regions and become multiregional MNEs. As described in Figure 3, each ideal type is composed of distinct phases driven by different mechanisms that MNEs adopt in order to manage the challenges and opportunities that arise at different points in time. We begin by explaining the first ideal type, home regionalization, and then move on to the second ideal type, multiregionalization.

A firm typically begins its internationalization process by expanding into proximate countries within the home region, incrementally exploiting the knowledge it had developed in the home country. At this stage, intra-(home) regional exploitation is the primary mechanism driving the expansion process. Knowledge developed in the home country is incrementally modified and exploited as firms cope with relatively low degrees of LOF present in each proximate foreign market within the home region. The spatial unit of operation is at the country level, and the priority is to expand from country-to-country within the home region, similar to the process described in the original Uppsala model (Johanson and Vahlne, 1990). This process is the ‘intra- (home) regional exploitation’ phase, as described in phase 1 of the ‘home regionalization’ ideal type in Figure 3.

Yet, maximizing the advantages of home regionalization requires firms to shift their spatial units of operation from the country to the regional level. To achieve this shift, firms must learn how to...
reconfigure their foreign operations by reorganizing their extant portfolio of location and ownership choices and realizing the synergy potential inherent in regional economic integration. In this second phase of home regionalization, the dominant mode of organizational learning switches from ‘intra-(home) regional exploitation’ to ‘intra-(home) regional reconfiguration,’ as depicted in phase 2 of the ‘home regionalization’ ideal type in Figure 3. Through ‘intra-(home) regional reconfiguration,’ the entire home region turns into an extended home market as country-level operations become integrated as components of a larger home regional operation. Hence, the first ideal type, which we label ‘home regionalization,’ traces the process through which a domestic firm becomes a home regional MNE by expanding through the sequence of intra-(home) regional exploitation and intra-(home) regional reconfiguration. Therefore, we propose:

Proposition 1a (home-regionalization): A typical process of building a home-regional MNE moves through the sequence of: (1) intra-(home) regional exploitation; and (2) intra-(home) regional reconfiguration.

The second ideal type traces the process through which firms become multiregional MNEs. The process is a continuation of the first ideal type, as when firms exhaust all opportunities in their respective home regions, they may look for opportunities in a foreign region (Rugman and Brain, 2003). As a first step, MNEs must learn new and distant knowledge necessary to operate in a foreign region via ‘inter-regional exploration’ (see phase 3 of ‘multiregionalization’ in Figure 3). Once MNEs successfully develop the knowledge base to manage the LORF in a foreign region via exploration, they can switch back to ‘intragregional exploitation’ and expand to each national market within the foreign region in a sequential manner by incrementally exploiting the body of knowledge they built through the previous phase. Thus, phase 4 of ‘multiregionalization’ is analogous to phase 1 of ‘home regionalization,’ but it is executed within the foreign region. Finally, after going through phase 3 and phase 4 of ‘multiregionalization’, MNEs can then engage in ‘intragregional reconfiguration’ (phase 5) by elevating the spatial unit of organization to the foreign regional level, effectively becoming bi-regional MNEs that are able to exploit existing competences and explore new opportunities in multiple regions. Synthesizing this discussion, we derive the second ideal type, ‘multiregionalization,’ which illustrates the typical path through which MNEs establish their presence in multiple regions:

Proposition 1b (multiregionalization): A typical process of building a multiregional MNE moves through the sequence of: (1) intra-(home) regional exploitation; (2) intra-(home) regional reconfiguration; (3) inter-regional exploration; (4) intra-(foreign) regional exploitation; and (5) intra-(foreign) regional reconfiguration.

To reiterate, our main point is that the two ideal types of internationalization (home regionalization and multiregionalization) unfold by MNEs adopting different modes of organizational learning at each stage of the sequence, as depicted in Figure 3. The process of cross-border expansion in a semi-globalized world is nonlinear and involves shifts between multiple spatial units and different learning mechanisms at different points in time; therefore, it is necessary to explain the internationalization process in terms of the interplay among exploitation, exploration, and reconfiguration. By expanding the learning mechanisms, we infuse more existential realism without compromising theoretical parsimony in explaining the main features of the firm internationalization process. To further demonstrate the model’s utility, we apply it to analyze the internationalization process of Hyundai Motors Europe based on the three concepts we have defined.

ILLUSTRATION: HYUNDAI MOTORS EUROPE (1977 TO 2013)

Hyundai Motors, a Korean automobile manufacturer, was founded in 1967 by Ju Yung Chung. After ending a largely unsuccessful venture with Ford Motors, Chung obtained a technical licensing agreement with Mitsubishi Motors and managed to develop the Pony, the first Korean-made car, in 1975. The Pony was a great success in the domestic market and, to a lesser extent, in developing country markets in Asia, the Middle East, and Central America. Chung’s ambition, however, was to go beyond the

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1 Information for this illustrative case was obtained from annual reports, company materials, and interviews with the retired senior company manager who was involved in Hyundai’s European expansion.
developing world and establish Hyundai Motors as a global company. Hence, Chung decided to expand Hyundai’s operation into Europe, and he managed to export 300 vehicles to the Greek market in 1978. Soon after, the company established its first European sales subsidiary in Leidschendam, The Netherlands, in 1979 under the name ‘Hyundai Motor Holland B.V’ to fulfill its ambition of gaining a foothold in Europe. The company also opened branch and liaison offices in major European markets. However, lack of experience in the region, image challenges as a third world producer, and low-quality products led to great difficulties in penetrating the European market. Consequently, Hyundai’s initial foray into European markets was limited to exploring new possibilities with uncertain prospects for tangible returns, as described in our concept of ‘inter-regional exploration’ (phase 3 in Figure 3).

Hyundai’s fortunes in Europe took a turn for the better in the late 1980s, as it found some moderate success in the low-price niche in Southern Europe where Hyundai managed to sell some models that fit the local taste and did not compete head-to-head with established European automakers. Buoyed by this success, the company established sales subsidiaries in Germany and Belgium as well as a complete knocked down (CKD) plant in Turkey over the next several years. Sales in Europe continued to rise throughout the 1990s as Hyundai’s reputation and technological prowess grew, and the company was able to penetrate a wider range of geographic segments by picking up some of the lower-end niches left open by the rising prices of Japanese and European automobiles. Through trial and error, Hyundai managed to develop and exploit its managerial and technological capabilities to compete in Europe as it engaged in ‘intraregional exploitation’ of the capabilities that it had built up previously through ‘inter-regional exploration’ (phase 4 in Figure 3).

The next turning point came in 1999, when the dust of the Asian financial crisis settled and Hyundai merged with Kia Motors. Hyundai elevated its Frankfurt subsidiary to a regional headquarters and upgraded the CKD manufacturing plant in Turkey to a full, independent manufacturing plant capable of autonomous vehicle production. Shortly after, the Frankfurt regional headquarters, equipped with a full regional service (by 2000) and R&D center (by 2004), took on the role of coordinating the firm’s regional downstream and service components of the regional value chain activities. Branch offices throughout Europe were divested and consolidated, while managers were reallocated through this restructuring process. On the upstream side, the Turkish (1997), Slovakian (2006), and Czech (2010) production plants became regional production hubs where different parts of the upstream component of the value chain activities were distributed between the three locations. In other words, the upstream activities were ‘fine-sliced’ and dispersed into the three locations that became increasingly interlinked over time to service the entire European region. The establishment of the regional center in Frankfurt led to further consolidation of downstream activities while the two plants in Eastern Europe and Turkey became the production hub to service the region. The simultaneous rearrangement and expansion or aggregation and arbitrage of firm activities effectively elevated the spatial unit of organization from the country to the regional level, as described in ‘intraregional reconfiguration’ (phase 5 in Figure 3).

INTERNATIONALIZATION CONTINGENCIES

As we have discussed, our proposed framework is based on strong assumptions regarding the internationalization process within the domain of semiglobalization. We assumed that regions are perfect substitutes composed of homogenous countries and that expansion into the foreign region will occur only once opportunities in the home region are fully exhausted. In reality, however, regions are not strict substitutes, as certain regional groupings are better integrated than others while MNEs often seek opportunities in foreign regions at an early stage of internationalization. The purpose of the current section, therefore, is to explicate how and why four contingencies may moderate the two ideal typical sequences of internationalization described in Propositions 1a and 1b.

Contingency 1: regional institutional diversity

Institutions refer to the ‘humanly devised constraints’ (North, 1991: 97) composed of coercive (regulative), mimetic (cognitive), and normative
forces (Scott, 2008) that compel organizations to follow the informal and formal ‘rules of the game’ that govern societal transactions. The relationship between institutions and firms is especially important for MNEs which, by definition, are embedded in multiple institutional environments (Kostova and Zaheer, 1999), and a rich body of IB literature concerns how institutional differences across borders influence various facets of MNE activities (Berry, Guillén, and Zhou, 2010; Pajunen, 2008; Slagen and Beugelsdijk, 2010).

Three findings from the literature on the relationship between institutions and internationalization are particularly germane to our theoretical model. First is the fact that MNEs generally prefer to keep the institutional profiles of the foreign countries in which they operate as homogenous as possible. This is because institutional similarity among locations reduces the aggregate cost of doing business abroad that MNEs must incur in adapting to the demands of the multiple institutional environments (Eden and Miller, 2004; Hennart, 2007; Flores and Aguilera, 2007; Rangan, 2000). Second, MNEs minimize the impact of LOF stemming from cross-border institutional differences by incrementally building up their capabilities to adapt to unfamiliar institutional environments through sequential learning (Hutzschenreuter and Voll, 2008; Hutzschenreuter, Voll, and Verbeke, 2011; Nachum and Song, 2011; Vermeulen and Barkema, 2002), much in line with the spirit of the original Uppsala model (Johanson and Vahlne, 1977). Last and relatedly, the general propensity for MNEs to avoid dissimilar institutional environments is significantly moderated depending on the depth and content of the MNEs’ prior experience (Cuervo-Cazurra, 2006; Guler and Guillén, 2009; Holburn and Zelner, 2010). MNEs that have previous experience in a wider variety of institutional environments tend to be less risk averse in terms of establishing firm operations in new institutional environments (Delios and Henisz, 2003; Henisz and Delios, 2001).

These findings have important implications for our theoretical model since cross-border integration has not progressed at the same pace in all regions and the degree of institutional heterogeneity differs between regions. When the institutional profiles of countries constituting a region are relatively homogenous, firms from such a home region can execute intraregional exploitation with relative ease; in contrast, when there is significant institutional heterogeneity within the region, knowledge learned in one country may not transfer easily into other countries within the home region (Banalieva and Dhanaraj, 2013). At the same time, firms from institutionally heterogeneous regions have more opportunities to accumulate capabilities to operate in various types of institutional environments within their home regions (Bonaglia, Goldstein, and Mathews, 2007). Regional institutional heterogeneity, therefore, is both a constraining and enabling switch; it constrains MNEs from reaching the full potential of home regionalization, yet provides more opportunities to learn how to operate in multiple institutional environments. Both factors prompt MNEs from institutionally heterogeneous regions to expand into foreign regions before fully exhausting the opportunities within the home region. In contrast, MNEs from institutionally homogenous regions should, ceteris paribus, exhibit a higher tendency to remain within the home region due to the relative ease of staying in the region as well as the lack of opportunity to accumulate experience in diverse institutional environments within the home region. Therefore, we propose:

**Proposition 2a:** Firms from home regions with high institutional heterogeneity are less likely to remain home regional than those from home regions with low institutional heterogeneity. Such firms are, thus, more likely to go through the sequence of multiregionalization rather than home regionalization.

**Proposition 2b:** Firms from home regions with high institutional heterogeneity are more likely to exhibit simultaneous expansion into home and foreign regions than those from home regions with low institutional heterogeneity. Such firms are, thus, more likely to deviate from the sequences of home regionalization and multiregionalization.

**Contingency 2: cross-cultural differences in learning**

National culture is a qualitatively different dimension from the more tangible institutional traits we have discussed so far. Culture refers to ‘the shared motives, values, beliefs, identities, and interpretations of meanings of significant events that result from common experiences of members of collectives that are transmitted across generations’ (House et al., 2004).
Harald Hofstede, 2001, 2006; House et al., 2002; Javidan et al., 2006; Kirkman, Lowe, and Gibson, 2006). Hence, an important contingency for our proposed internationalization model relates to understanding how national cultures shape differing national learning styles (Hayes and Allison, 1988) and the distinctive ability of each learning style to absorb and transfer knowledge across countries within a region and across regions.

Research drawing on experimental learning theory and the Learning Style Inventory (Kolb, 1984) applied to the cross-cultural setting shows that across countries, individuals exhibit differences in learning styles such as their preferences for abstractness over concreteness or their preferences for action over reflection observation due to their cultural inclinations. These learning styles combine into distinct learning abilities: accommodating, diverging, converging, and assimilating. Following this line of research, Joy and Kolb (2009) demonstrate that national culture and formal education have an impact on national learning styles. For example, they uncover that ‘individuals tend to have a more abstract learning style in countries that are high in in-group collectivism, institutional collectivism, uncertainty avoidance, future orientation, and gender egalitarianism’ (Joy and Kolb, 2009: 69) relative to learning through concrete experiences. Yamazaki (2005) further demonstrates that national culture indeed explains different country-level learning styles. In sum, we can assert that countries vary in their learning styles and that part of this variation is explained by their respective national cultures.

Studies on the implications of different learning styles are grounded mostly in the context of international joint ventures (Lane, Salk, and Lyles, 2001) and cross-border M&As (Brannen and Peterson, 2009; Reiche et al., 2009), showing that differences in learning styles have an effect on the outcomes of cross-national ventures. Applying this insight to internationalization in a semi-globalized world, we acknowledge different degrees of heterogeneity in learning styles within regions. This can be treated analogously to the argument offered earlier regarding institutional national diversity within regions. In the learning context, the main idea is that heterogeneity in learning styles within regions might better equip MNEs to engage in multiregional expansion, in part because there is not an ex ante home region advantage and because MNEs might reinforce this learning disparity by acquiring new further ‘cultural capital.’ In this regard, Taylor and Osland (2003) point to a key dimension within the organizational learning literature: intercultural communication. The basic concept is that for MNE cross-national organizational learning to occur, whether in our model this is exploration, exploitation, or reconfiguration of knowledge, there has to be effective communication across its national subsidiaries. National culture at the subsidiary level will have a different impact on the transfer and dissemination of knowledge within MNEs depending on the differences in ethnic and national cultural patterns of communication. MNEs with high levels of cultural intelligence—i.e., degree of readiness and potential for organizational learning—will be more equipped to overcome cross-national barriers of inter-cultural communication. Thus, we propose:

Proposition 3a: Firms from home regions with high learning style heterogeneity are less likely to remain home regional than those from home regions with low learning style heterogeneity. Such firms are, thus, more likely to go through the sequence of multiregionalization rather than home regionalization.

Proposition 3b: Firms from home regions with high learning style heterogeneity are more likely to exhibit simultaneous expansion into home and foreign regions than those from home regions with low learning style heterogeneity. Such firms are, thus, more likely to deviate from the sequences of home regionalization and multiregionalization.

Contingency 3: industry structure

IB scholars have long noted that the ‘globalization potential’ of each industry has a significant influence on determining how and to what extent firms organize their activities across borders (Ghemawat, 2007; Hennart, 2007; Porter, 1986; Yip, 1989, 2003). Industry traits such as ‘concentration, research intensity, tangibility of the products, and the existence of clusters’ (Grøgaard, Gioia, and Benito, 2013: 81) influence the degree and trajectory of firm internationalization. Recent empirical evidence demonstrates that industry structure explains a substantial portion of the firm-level variance in terms of
the appropriate degree of internationalization/regionalization (Rugman and Oh, 2012).

A useful way to incorporate global industry structure into the current analysis is Porter (1986)’s typology of multidomestic and global industries. The main argument underlying this typology is that the essential structural characteristic that determines the optimal scale, scope, and strategies of MNEs is the degree to which competition in one country influences that in another (Jarillo and Martínez, 1990). When the competitive inter-relationship is high (i.e., the competitive position in one country affects that in another country), the industry is labeled ‘global,’ whereas industries where the competitive inter-relationship is low (i.e., competitive position in one country does not affect that in another) are classified as ‘multidomestic.’ In the former case, the potential to increase efficiency by aggregating activities in few locations and coordinating firm activities through centralized control is high, since MNEs do not need to customize their operations to the individual needs of each national market. But, firms active in multidomestic industries operate as federative MNEs with authority delegated to the country level for a high degree of responsiveness since the potential for scale economies through cross-border aggregation is limited.

Applying this line of reasoning to our model, we can hypothesize in terms of how differences in industry competitive structures would moderate the internationalization trajectories in the two ideal types, home regionalization and multiregionalization. First, because firms in multidomestic markets operate in a context that is essentially closer to ‘national isolation’ illustrated in Figure 1, the synergy potential from regionalization of firm activities will be harder and slower to realize. 3 Thus, firms active in multidomestic industries will be more likely to remain within the home region because LORF in multidomestic industries is harder to cope with than that of global industries. In addition, the extent to which expansion occurs simultaneously across regions will be restricted for firms operating in multidomestic industries due to the difficulty inherent in conducting isolated national operations in distant countries across regional boundaries. In contrast, firms active in global industries will more easily become multiregional MNEs and simultaneously enter foreign and home regions since the world is closer to ‘global integration,’ as illustrated in Figure 1 for firms in global industries. That is, MNEs are more likely to move across national and regional borders to protect their extant market positions and gain an upper hand in the competition when competitive position in one country is influenced by that in another (Prahalad and Doz, 1987). Therefore, we propose:

Proposition 4a: Firms in global industries are less likely to remain home regional than those in multidomestic industries. Such firms are, thus, more likely to go through the sequence of multiregionalization rather than home regionalization.

Proposition 4b: Firms in global industries are more likely to exhibit simultaneous expansion into home and foreign regions than those in multidomestic industries. Such firms are thus more likely to deviate from the sequences of home regionalization and multiregionalization.

Contingency 4: value chain activities

The fine-slicing and dispersion of value chain activities around the globe are the most salient features of the contemporary global economic geography (Buckley and Ghauri, 2004; Gereffi and Fernandez-Stark, 2011; Krugman, 1995). Subsidiaries no longer perform a complete set of activities but specialize in a narrow sliver of the total value added activities and are governed by increasingly sophisticated governance strategies (Aguilera, 2011). The macro consequence of these firm-level changes are the simultaneous spatial dispersion and concentration of firm activities. For example, while MNEs are conducting labor-intensive production activities in ever more distant locations to take advantage of factor cost differentials, they are also concentrating knowledge-intensive supply-side activities (e.g., R&D) in select few areas around the world (e.g., Silicon Valley) to realize agglomeration economies (Dunning, 1998, 2009). Hence, the global topography of value added activities is characterized by wider distribution of certain value chain activities combined with ‘spikes’ or disproportionate spatial concentration of other activities in select few locations around the world (Florida, 2005). Therefore, how each value chain

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3 One may ask why firms in multidomestic industries would engage in intraregional reconfiguration to begin with if synergy potentials are absent. From a strictly theoretical standpoint, this is correct; however, in reality, except for nationally protected industries, there are very few industries that are completely isolated, and most industries increasingly exhibit some synergy potentials at the regional level (see Oh and Rugman, 2012).
activity is differently affected by semi-globalization has important implications for understanding the firm internationalization process (Malnight, 1995). In particular, the varying levels of location boundedness across the value chain are critical parameters in determining whether, how and to what extent each value chain activity should be located across national and regional boundaries (Rugman et al., 2011).

The starting point of incorporating the value chain dimension into our framework is again Porter (1986), who divides corporate activities broadly into those involved in the ongoing production, marketing, delivery, and servicing of the product (primary activities) and those providing purchased inputs, technology, human resources, or overall infrastructure functions to support the other activities (support activities). Primary activities can be further segmented into two categories: (1) upstream—related to production-oriented activities such as inbound logistics, operations, and parts of outbound logistics; and (2) downstream—related to end customer-oriented activities such as marketing and sales, after sale service, and parts of outbound logistics. Past studies have applied this framework to the analysis of firm internationalization and found that each function within the value chain has its own unique method of combination for an effective degree of integration and responsiveness in the process of cross-border expansion (Alcacer, 2006; Kim, Park, and Prescott, 2003; Malnight, 1995, 1996).

Within the context of semi-globalization, Rugman and Verbeke (2007: 201) argue that downstream activities are subject to a higher degree of LORF and LOF than upstream activities across borders because the former requires ‘products and services . . . to be marketed to buyers . . . (and is) a set of one-sided commitments without equivalent commitments from potential purchasers, and therefore carrying substantial risks,’ a claim that received empirical support in subsequent works (Oh and Rugman, 2010). In a related analysis, Rugman, Li, and Oh (2009) find that while confining downstream activities to the home region improves firm performance, dispersion of upstream activities beyond the home region does not have any impact on firm performance. In general, past studies show that MNEs incur a higher degree of location specificities for downstream activities, which require more extensive interaction with end consumers in a foreign location, than for upstream activities, which rely more on the cross-border transfer of non-location bound assets, such as superior technological capability and financial resources (Moon and Kim, 2008).

Integrating this discussion into our theoretical model, we posit that MNEs with a focus on downstream activities are more likely to remain more home regional compared to MNEs specializing in upstream activities. Achieving simultaneous expansion in more than one region is easier for firms focusing on upstream activities, as they are less bounded by regional and national differences. Therefore:

Proposition 5a: Firms focusing on downstream activities are more likely to remain home regional than those focusing on upstream activities. Such firms are, thus, more likely to go through the sequence of home regionalization rather than multiregionalization.

Proposition 5b: Firms focusing on downstream activities are less likely to exhibit simultaneous expansion into home and foreign regions than those focusing on upstream activities. Such firms are, thus, less likely to deviate from the sequences of home regionalization and multiregionalization.

DISCUSSION AND CONCLUSION

In this article, we set out to provide a dynamic theoretical framework that captures the process of internationalization in a semi-globalized world. By distilling the core insights from research on regionalization and fusing them with recent advances in the organizational learning literature, we introduce three mechanisms: (1) inter-regional exploration; (2) intraregional exploitation; and (3) intraregional reconfiguration. We integrate these three mechanisms to explicate the forces driving internationalization in a semi-globalized world, where firms must deal with opportunities and constraints at both the country and regional level. We also identified two ideal typical internationalization trajectories—home regionalization and multiregionalization—and discussed how several contingencies may moderate the sequence proposed in these two ideal types.

We believe that our internationalization model pushes the debate of regionalization away from the ontological question of whether regions matter (see the exchange between Dunning, Fujita, and Yakova, 2007, and Rugman and Verbeke, 2007) and toward the more fruitful question of how regions matter for internationalizing firms (Flores and Aguilera, 2007).
In particular, past studies have not met the challenge of developing a theoretical model that explicates the process of internationalization in a semi-globalized world, and we sought to fill this gap. In addition, we shed light on how two classic organizational learning concepts, such as exploration and exploitation, as well as newer concepts, such as reconfiguration, can be activated in the global strategy field. An important criticism of the original Uppsala model is that the conceptualization of organizational learning underlying the model is overly simplistic, as it relies on a single mode of organizational learning (Forsgren, 2002; Petersen and Pedersen, 2002). By integrating advances in more recent organizational learning literature with research in semi-globalization, the theoretical model we present addresses this concern to a significant extent.

We further believe that the internationalization model presented can be a foundation for fruitful avenues of future research in various streams of inquiry. First, as it relates to the quintessential relationship between multinationality and firm performance, this literature can benefit more by looking at how the internationalization process works—i.e., how a firm builds its multinational operation—rather than focusing on simply the association between the extent of multinationality and performance. As Vermeulen and Barkema (2002) show, the relationship between multinationality and performance is better explained by the process of how internationalization unfolds than by the extent of cross-border expansion. Applied to the current context, the interesting question becomes ‘do MNEs that follow a more sequential pattern of regionalization achieve higher performance than those that do not?’ Extant research has explored how the degree of firm regionalization influences its performance, but few have studied the relationship among the process or sequence of firm internationalization, regionalization, and performance (see Qian et al., 2010, 2013, for recent efforts).

The next potential application of our model is at the global value chain level. Many scholars have argued that globalization occurs at the value chain level (Defever, 2006; Malnight, 1995, 1996; Moon and Kim, 2008) and that semi-globalization alters the functional division of MNE subsidiaries (Benito, Grögaard, and Narula, 2003; Buckley and Ghauri, 2004). Indeed, there is a need for more longitudinal studies exploring how different subsidiary types adapt to regionalization of firm operations (see Piekkari et al., 2010). With subsidiaries becoming specialized in an increasingly narrower set of value chain activities within the context of semi-globalization, analyzing how subsidiary activities evolve over time in response to regional economic integration could yield important insights for IB scholars (Li, Yu, and Seetoo, 2010). Our proposed model can be applied to examine how different parts of the firm’s value chain expand across nations and regions over time.

Another line of future inquiry would be to apply our framework in the context of emerging market multinational enterprises (EMMNEs). Since EMMNEs face a much more integrated global economy at the early stages of their internationalization than MNEs from developed economies, they have significant incentives to acquire foreign assets and engage in partnership in locations that are quite distant from their respective home countries before accumulating experience in proximate foreign markets or developing strong proprietary firm assets (Luo and Tung, 2007). As Guillén and Garcia-Canal (2009) note, EMMNEs exhibit significant differences in terms of the speed, trajectory, entry modes, and motivations of internationalization than their counterparts from developed economies, and the distinctiveness of EMMNEs’ internationalization is corroborated by multiple empirical studies (e.g., Bonaglia et al., 2007; Lyles, Li, and Yan, 2014). The nexus between semi-globalization and EMMNEs, however, remains an under-researched topic (see Rugman and Li, 2007, for an exception); an appropriate starting point for future researchers would be to explore whether, and to what extent, EMMNEs’ internationalization processes follow or deviate from our proposed framework.

Finally, a promising line of future inquiry pertains to foreign location and entry mode choices. How do MNEs’ locations and entry-mode portfolios evolve at the regional level as they increasingly develop their capabilities to cope with LORF? Past research on location and entry-mode choices has typically looked at these choices based on dyadic interaction between firm and country. This approach neglects the fact that each country is a member of a larger regional grouping and that the foreign operations firms establish in each location are related to the past decisions they have made within the same region (Arregle et al., 2013; Barkema and Drogeendijk, 2007; Nachum, Zaheer, and Gross, 2008). As such, location and entry mode choices need to be thought of not as isolated decisions but as interconnected components within a larger regional portfolio of...
location and entry mode choices (Asmussen et al., 2009). Therefore, a relevant puzzle to be solved is ‘how does the location and entry mode choice of MNEs evolve at the regional level over time as they move from exploration to exploitation to reconfiguration?’ As Siggelkow’s (2002) inductive study shows, the evolution toward a configuration of activities or fit involves moving through distinct phases, each driven by different logics and goals. Similarly, IB research has a long tradition of explaining how internationalization unfolds and evolves over time as a strategy process (Malnight, 1995, 1996; Melin, 1992). Studies such as Vernon (1966) and Stopford and Wells (1972) have become anchors in IB research because they offer a vivid illustration as to how a firm’s evolution toward attaining a certain configuration and fit among activities, policies, structural elements, and resources involves passing through certain distinct processes at multiple levels. We believe that our proposed internationalization model can provide a blueprint to trace how internationalizing firms achieve this fit and configure their portfolios of location and activities within the context of semi-globalization.

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