



# The Internationalization of Companies: Structural Comparison Analysis between Behavioral Models and Economic Models

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## ABSTRACT

A large number of theoretical publications and empirical studies are devoted to the analysis of the internationalization of companies. Many conceptual frameworks have been adopted to understand this phenomenon. The internationalization of enterprises is a field of research that has shaped several developments in the last decade. Several authors have developed different models with the objective of analyzing factors of international development. This article deals with a literature review of the main models of internationalization. Two typologies of models are analyzed. Models qualified as behavioral and models qualified as Economics.

**Keywords:** Internalization, Economic Model, Behavioral Model, Comparative Analysis

**JEL Classifications:** F11, F20, F21, F2

## 1. INTRODUCTION

The transaction costs approach views internationalization as an attempt to minimize costs and increase internalization (Buckley and Casson, 1998). The eclectic paradigm (O.L.I.) “Enterprise, Localization and Internalization” emphasizes the objective of maximizing the benefits of internationalization (Dunning, 1988; 1998). Since the mid-1970s, based on the sequential analysis of the internationalization process, this model has been the subject of numerous theoretical critiques and empirical verification tests.

Some authors have condemned its certainty and its analysis of the irreducible “progressive” (Andersen, 1993). Other authors have criticized “the linearity, irreversibility and contingency of the model,” while others have underlined the limits of this structure because it cannot explain the current globalization and the behavior of large companies. in the context of globalization.

However, there is a division between economic models and behavioral models. On the one hand, economic models or classic models focus on the economic logic emitted by these models on a company X that wants to internationalize. In this sense, by using

basic economic models, an unprecedented logic takes hold and thus focuses on elements that are almost mathematically sound (Coughlin and Cartwright, 1987).

On the contrary, behavioral models focus on the behavior of human elements within the company and therefore these elements result in decisional and even economic volatility depending on the behavior of each decision-maker within the company who wants to internationalize. Following no logic, behavioral models sometimes lead us to make decisions that are neither optimal for us nor for the general interest. First, “emotional biases” such as jealousy or envy, which by comparing us to others and to the social group to which we belong, anchor our decisions in relation to a specific frame of reference. Then the “social preferences,” such as a taste for cooperation, fairness, reciprocity that make us conform to social rules and norms.

## 2. ANALYSIS OF INTERNATIONALIZATION BEHAVIORAL MODELS

Most of the early empirical work dealing with the process of internationalization finds its foundations in the behaviorist or

“behavioral” theory of the firm, considering internationalization as the product of a series of incremental decisions (Johanson and Vahlne, 1977). By postulating the principles of limited rationality, satisfaction and social and political organization in order to understand the decision-making processes present within companies, this work marks a significant divergence from previous theories where the economic principles of profit maximization, perfect knowledge of markets and rational decision-making processes.

Models dealing with the process of internationalization of companies have focused on the characteristics of the firm (such as the decision-making process, the manager, etc.) to understand its behavior internationally (Andersen, 1993). Given the large number of models dealing with the process of internationalization of companies, it is obviously difficult for us to develop them all in detail. However, among all of this work, two avenues of analysis can be identified.

The models originally developed by (Johanson and Vahlne, 1977) known as the Uppsala model, and the work initiated by (Bilkey and Tesar, 1977), grouped under the name of Innovation models emphasize internationalization as a process for any company. All of these models relating to the internationalization process (Uppsala model and Innovation models) emphasize the essentially incremental and cumulative nature of this dynamic. Based on behaviorist theory, they analyze this strategy as a learning process comprising stages (for example, three in number in the model developed by (Johanson and Wiedersheim-Paul, 1975) or six in the model developed by (Bilkey and Tesar, 1977) through which the company passes.

In each of the models, the gradual nature of the firm’s internationalization process can mainly be attributed to the lack of knowledge of the firm on the one hand and the uncertainty associated with the decision to internationalize (Andersen, 1993). One of the major contributions of these models is therefore the highlighting of an “internationalization path,” of an evolutionary process comprising stages or stages that the company goes through successively.

### 2.1. The Uppsala Model

The Uppsala model finds its origins, according to (Cheriet, 2010), in the theory of the growth of the firm and that of the behavior of organizations and s’ contrasts with the trends that maintain that companies can have an international dimension when they are created (Cheriet, 2010). This model considers that the development of business activities abroad takes place incrementally and sequentially. Doing this this way, companies could reduce the uncertainty inherent in foreign markets and build on a broader “experiential” knowledge of international operations. The “U” model links the learning effect, the psychic distance, the mode of internationalization used and the network effect (Cheriet, 2010).

In the mid-1970s, researchers in the Department of Business Studies at Uppsala University made empirical observations that contradicted the established economics and normative literature on international affairs of the time. According to this literature,

companies choose, or should choose the optimal mode of entering a market by analyzing their costs and risks according to the characteristics of the market and taking into account their own resources.

However, empirical observations from a database of Swedish affiliates abroad, as well as a number of sectorial studies of Swedish companies in international markets, indicated that Swedish companies frequently began to internationalize with ad hoc exports (Vahlne and Wiedersheim-Paul, 1973).

They would then formalize their entries through agreements with intermediaries, often agents who represented the focal companies in the foreign. Usually, as sales increased, they replaced their agents with their own sales organization and as growth continued, they began to manufacture in the overseas market to overcome trade barriers that were still in place after the Second World War, we have qualified this dimension of the internationalization model of the establishment chain. Another feature of the pattern was that internationalization often started in foreign markets close to the domestic market in terms of psychic distance, defined as factors that make it difficult to understand foreign environments. Firms would then gradually enter other markets more distant in terms of psychic distance. This process has its origins in foreign liability, a concept that originally explained why a foreign investor had to have a specific advantage in the company in order to more than compensate for this liability. In addition, the researchers present internationalization as a process ranging from a simple “export” corresponding to a strong perception of risk and a low resource commitment to the establishment of a “production subsidiary” combining a low perception of risk and a strong commitment of resources going through the intermediary stages of “agent” and “commercial representation.”

The “U” model has met with a number of criticisms, even calling it into question. It has mainly been criticized for its deterministic character and its analysis, in stages, not generalizable (Cheriet, 2010). The model has also been the subject of empirical invalidations (Cheriet, 2010). For their part, (Boutary and Monnoyer, 2014) support the relevance of the model, but propose to revisit it to assess, in a contextualized manner, the process of internationalization of companies from developing countries.

Despite these numerous empirical confirmations, the U model has been severely criticized by international economics and management scientists during these three decades, both in terms of theoretical foundations and associated empirical constructs.

On the other hand, 40 years after the publication of the primary Uppsala model, (Johanson and Vahlne, 2017) firmly presented their latest model as a general model. During this edition, they emphasized the key features of recent firms: “process instead of structure-oriented, a network instead of a stand-alone unit, pro-active and entrepreneurial instead of passive” (Johanson and Vahlne, 2017). We argue however that the Uppsala model’s recent application to the trendy business world may miss the main focus of the dynamic combination of business networks, specifically ignoring the connection between the supplier and

therefore the buyer. There's little doubt that the capabilities and knowledge development processes from Uppsala's general model become even more relevant for keeping the end-to-end of companies configuration alive. Firstly, to define them as a sense-making development during the internationalization process for both MNEs and EMNEs, the authors combine these two variables of capabilities and knowledge development as "dynamic capabilities" to confirm these development processes can catch up with the dynamic changes of the business environment. Secondly, we reaffirm the importance of commitment at a private firm level or a network perspective.

The extent of commitment is subject to the dynamic capability accepted by the firm's counterparty. Here the concept is to retain the "commitment processes" united of the variables to drive the change for opportunity development in terms of resource allocation for every finely-sliced economic activity. Third, the authors borrow the link commitment from Uppsala's business network model for illustrating the supplier and buyer relationship. The intention is to upgrade this variable as "relationship development processes," within which all participants inside the company can re-negotiate the deliverables and subsequent developments thereafter, like how organizing or re-allocating the investments may help to boost the performance or maybe enhance the end-to-end efficiency.

Following technological advances, the firm may enter the network with a relevant field or a full new industry to diversify its business portfolio and sustain overall profitability. Considering its dependence continues to be on network effects, here we propose a replacement variable of "ecosystem position" to hide more of the worth capture process. Ecosystem is defined because the collaborate arrangements through which the firms recombine their individual offerings into a coherent and buyer-oriented solution. It's seen as open communities comprised of various actors, like direct suppliers, complementors, regulatory authorities, policy makers, or related actors.

Another extension of the ecosystem has emerged due to the generativity of an enabling technology or digitalization platforms by aggregating heterogeneous alternatives to the external actions. The proposed conceptual model is supposed to supply a general model depicting the cumulative processes of internalization between the suppliers and therefore the buyers and further complement the company's transformation, even beyond the efficiency considerations.

The Uppsala internationalization mechanism model remains much-quoted and much-criticised. It has also been revised by its original authors, remaining up-to-date with these revisions. Its importance to the IB cannot be understated.

## 2.2. The Strategic Decision-making Model

Decision-making is the main driving force behind company policy, since through this process, the ideas and ambitions of the manager and other company actors are transformed into strategic actions. It is also the least visible facet of company policy. In this sense, any decision that converges towards the internationalization of a company is intended to be a strategic decision that companies

adopt to expand their activity into new successful markets. However, relocating or creating a subsidiary in a foreign country presents a major challenge for the activity and the organization of the company due to the lack of knowledge to manage in foreign markets.

Thus, to fill this gap, in his article "The internationalization of the firm: are the theories of organizational learning obsolete?" Started by identifying what organizational knowledge is in an international environment and what are its aspects, to then analyze how organizational knowledge has been developed and how cognitive and behavioral learning approaches contribute to this development. This current was developed later by (Johanson and Vahlne, 1977), these two authors recognize a primordial role in knowledge, in their view, and knowledge brings together an objective component and an experiential component. And so organizational knowledge, according to Basley, consists of getting an idea of the situation in the international market through two main processes: the first process consists of acquiring knowledge of the target market (s) and the second process consists of to develop organizational knowledge of internationalization.

Knowing why this market and not others is very important for identifying opportunities and threats in foreign markets, and distinguishing between operational knowledge relating to foreign operations and local stakeholders, and institutional knowledge which encompasses everything.

Organizational knowledge, shows how to proceed with our activity in another country, it is an organizational competence based on the capacity to absorb and accumulate knowledge from our first-hand experience. This abundance of information will serve as a database when the company finds itself in a situation where it must make an irreversible decision.

Consequently, we cannot neglect the contribution of each of this knowledge for the organizational development of a company internationally, and therefore market learning and organizational learning are complementary and essential to have reliable organizational knowledge. However, there is little work that transposes organizational knowledge and learning into the field of internationalization. Two modes are used by companies to develop organizational knowledge internationally.

The first, which is mainly cognitive, gathers all explicit qualitative and quantitative information that we can have on a market through several tools such as market studies for example.

The second enshrines a tacit behavioral logic in which the company accumulates its knowledge through its first-hand experience, which is information that is transmitted through direct communication between directors and managers.

These two modes of knowledge development seem independent, but they are both important for developing a global organizational knowledge of the situation. For market knowledge, cognitive information is important for decision making and forecasting. But the longer the company stays in a foreign market, the more

experience and tacit knowledge it gains that helps it solve problems. As for organizational knowledge, tacit information which will later be translated into explicit knowledge will help to face different organizational challenges.

### 2.3. The Network Model

A number of studies have demonstrated the role of networks in the internationalization of companies. Coviello and Munro conducted in 1995 empirical studies on the internationalization of small software companies. They found that on-network relationships have an impact on the selection of foreign markets as well as on the mode of entry into the context of ongoing network processes.

Their results led them to develop a model combining the process model and the network approach. In a study of the international expansion of Japanese automotive component suppliers, (Martin et al., 1998) found that the inter-organizational relationships of suppliers, especially those with buyers, affected their pattern of international expansion. Other researchers have studied networks in studies of internationalization strategy, the location of foreign direct investment, the internationalization of companies, the internationalization of companies in emerging markets and rapid internationalization.

The research that has been done to date has generally looked at how networks influence internationalization, without discussing how these networks were created and without taking into account the structure of the network in the country or countries where companies have entered. Based on case analyzes, (Coviello, 2006) developed a model of “how do networks of new international companies evolve?” during the first phase of internationalization. Our focus differs from Coviello in that we focus on business networks as the market structure in which the internationalization firm is anchored and on the corresponding business network structure of the foreign market (Coviello, 2006).

If our objective is to develop a more general corporate network model for the internationalization of companies, the work of (Coviello, 2006) is nevertheless of great interest, because it shows that the “insidership” in networks, developed before the he entry into a new market, even before the company was founded, contributes to the specific internationalization process underway. The studies on which the 1977 model was based indicated that received theories about markets and marketing were not helpful in trying to understand the market situation of individual firms. An international business-to-business marketing research program began in Uppsala in the mid-1970s to develop a better understanding of business and marketing markets.

Early observations that firms develop long-lasting relationships with important customers were an important input to this research program. An interaction approach focused on adaptation and exchange between suppliers and customers has been used as a theoretical framework for the study of commercial relations. A large-scale empirical study of the international marketing and purchasing of industrial products (the IMP project), carried out in the late 1970s and early 1980s by researchers from Sweden and four other European countries, was based on the ‘interaction

approach. The work carried out during the project demonstrated that close and lasting commercial relationships between suppliers and customers are indeed important, whether within a given country or between countries.

Since then, a number of studies have shown the importance of relationships in the internationalization process. Studies of the IMP project have also shown that such relationships usually involve a number of managers who coordinate the activities of different firms and together create interrelated routines. Moreover, these relationships seem to develop through social exchange processes in which the companies involved implement the relationship in an interactive and sequential manner.

Since these firms are in turn involved in a number of additional business relationships, the firms operate in networks of connected business relationships. The term connected means that the exchange in one relationship is related to the exchange in another. These networks of connected relationships are called business networks. The company can create new knowledge through exchanges in its network of interconnected relationships. Knowledge creation is the result of the confrontation between the knowledge of producers and the knowledge of users.

The process of knowledge creation is not distinct from other activities in business relationships; rather it is integrated into it. Knowledge does not arise only from the company’s own activities, but also from the activities of its partners, and since these partners also have other partners with whom their activities are coordinated, the focal company is indirectly engaged in a process of knowledge creation that extends far beyond its own horizon. Thus, a network of business relationships provides a company with an extensive knowledge base. The resource-based view (RBV) assumes that resources are heterogeneous and that these idiosyncratic sets of resources lead to the creation of value, regardless of market conditions. The corporate network view begins with these same assumptions and adds that exchanging within a network enables a business to gain knowledge about its relationship partners, including their resources, needs, capabilities, strategies, and more relationships.

## 3. THE ANALYSIS OF THE ECONOMIST’S MODEL

The latest developments in the world economy, such as the strengthening of international trade, the rise of emerging economies and the speed of economic progress, are enabling companies in emerging economies to catch up with their technological backwardness and to innovate. And compete on the international stage. Firms in emerging economies are increasingly international and face competition from foreign firms (Dunning and Lundan, 2008). For these companies, internationalization can bring many benefits, but also challenges. On the one hand, internationalization allows these companies to generate innovation, increase their productivity and acquire new points of sale and new technologies.

In this sense, economic modeling has thus been able to provide economic analysis with experimental bases: the model appears as

an experimental framework which is equivalent to that which can be found in laboratory sciences.

For the past 15 years, economic modeling has given rise to significant methodological literature. In particular, this enabled the specificity of models to be established as instruments of “mediation” between theory and reality. From this literature clearly emerges the complex positioning of models vis-à-vis the real: they can sometimes be radically disconnected from the real (they are then totally abstract models), and in other cases they can maintain relations of various orders with reality - reproduction of data, forecasting, definition of ideal types, preparation of economic policies (Ghauri et al., 2005). But, like any representation, they necessarily stand out from reality: they constitute constructions based on hypotheses (implicit or explicit) and, as experimental frameworks; they are based on conditions of isolation. Even if they have a relationship with reality, they are only a representation of it, partial or ideal.

### 3.1. The OLI Model (Eclectic Paradigm)

The theory developed by (Dunning, 1977) constitutes a first major contribution to the analysis of international investment flows in the 1970s, although the first multinational firm developed in the middle of the 17th century under the name of “East India Company.” “Eclectic theory is conceived as a synthesis of the theories of internationalization and the theory of transaction costs, each of which provides only partial explanations of the location of firms. In this approach, Dunning was inspired by the work of (Hirsch, 1976) relating to arbitration carried out by a firm between the three methods of exploring the foreign market: either foreign direct investment, or export or sale license. By distinguishing the different costs relating to each modality, the simple comparison between these costs determines the choice of the most profitable modality for the firm. Hirsch’s approach thus assumes perfect information on all costs, which cannot be the case on a global scale given the large asymmetry of costs and benefits. In addition, this approach, which is part of the static (non-strategic) models, only considers the choice of an isolated firm for which only the cost matters in the location decision. It is within this arbitration framework that constructs a simple two-country model in which firms choose between the three methods of entering the foreign market (FDI, License or Exports). This choice is made on the basis of the three types of advantages that a firm must have in order to internationalize and summarized by the OLI paradigm. It is:

- Ownership advantage (O) which results in the possession of a specific asset or specific advantage of the firm. It is a product or technology that other firms or companies do not have or do not have access to (patent, trademarks, trade secrets, etc.);
- Location advantage (L) which means that the asset must be durable for the company to operate abroad rather than in the country of origin. This is an advantage of locating abroad. The point here is to look for outlets that minimize the costs of production, marketing, etc.
- Internalization advantage (I) which is explained by the fact that there is less advantage to outsource than to operate this specific asset yourself. This is an advantage to internalization, in order to circumvent or avoid the risk of selling technology to other firms so as not to be exposed to competition.

Dunning distinguishes 2 types of inputs required by any business to produce beneficial outputs: The first type concerns resources within the reach of any business regardless but specific to a precise location (natural resources, market structure, government legislation, etc.). The second type is created by the company itself (like technological innovations) or can be acquired from other organizations as a right of use. The latter plays an important role in the sense that it offers endowments of property which, although linked to the location of firms, their use is not confined to location. These endowments are mobile between countries but not between firms, a phenomenon explained by the theory of direct investment (product differentiation, entrepreneurial capacities and multiplier economies). Thus, rental endowments and property approaches alone cannot explain all forms of commerce.

The final point of the approach concerns the use by the firm of its ownership advantages by internalizing its capital rather than externalizing it. This is explained by the firm’s desire to avoid disadvantages or capitalize on the imperfections of public authorities and the market system. For the buyer, it is about the price of certain resources, their delivery time, etc. For the seller, internalization is encouraged by a market without price discrimination and with high information control costs. Public interventions in the allocation of resources (license of technologies, difference in tax policies) can also encourage the internalization of activities.

Thus, the choice of how to enter the foreign market depends on the conjecture between these three types of benefits. Indeed, a move abroad through FDI is only possible if the three specific advantages (O, L and I) are combined. On the other hand, if the cost advantage of L location does not exist in the presence of the other two O and I benefits, the firm prefers to export to foreign markets. Licensing will be the most favourable choice if it has only one advantage in industry (Dunning, 1988).

However, this theory remains marked by its purely microeconomic approach to the question of location and the absence of a macroeconomic analysis in terms of the comparative advantages of countries. In addition, in the approaches of Hirsch and Dunning, the choice of the modality of market penetration results from a simple static trade-off between costs or benefits, which narrows the framework for analyzing location. This theory is also criticized by the absence of strategic interactions between firms in the isolated choices made by these firms, without taking into account the actions and choices of local and foreign competing firms. However, (Dunning, 1977) himself attempted to go beyond the static framework of his model for a dynamic approach to eclectic theory, by considering the evolution over time of the three types of advantages O, L and I.

### 3.2. The ILCM (International Life Cycle Model)

The international product cycle is a model that structures international trade in products. It focuses on the idea of the main advantages and production characteristics. When a product reaches mass production, the production process tends to shift outside of the country of origin. The country that generates a product idea often becomes the consumer of that product.

Following the failure of the Heckscher-Ohlin model to adequately illustrate the model of international trade, Vernon proposed the theory of the product life cycle. Vernon applies two methods to develop his theory, the labor-saving and capital-utilizing product model that caters to high-income groups.

The author uses the United States to illustrate changes in the commercial market. The products that are produced and consumed at a new stage come from the United States. However, when production reaches the point of mass production, most of the techniques used will be foreign. At the third stage of production, moves to developing countries.

In summary, this model shows the comparative changes in the trading market. The country that benefits the most goes from a country that came up with the idea to the country where the actual production takes place.

According to Vernon, products can be classified into three stages depending on the shelf life of the product and the trading behavior in the international trade market.

- Standardized products,
- New products,
- Maturation products.

The theory of the product cycle then introduces five stages of production: introduction, growth, maturity, saturation, and decline.

#### **Step 1: Introduction**

The first for any producer is to promote a new product in the market. At this point, customers do not know the product; therefore, sales and profits will be lower. Competition will also be weak in the market.

#### **Step 2: Growth**

At this point, the popularity of the product in the market will have increased. The production company needs to increase its promotional budget. The number of sales will also increase, hence the decrease in production cost.

#### **Step 3: Maturity**

Compared with the growth phase, the increase in sales volume and demand level is relatively small at this stage. Many consumers are familiar with the product and it is difficult to find new customers. Even though the number of competitors has increased at this stage, business is still juicy at this stage; everything seems to be favorable to producers. Foreign demand will also increase at this point, especially in developed countries. The increase in foreign demand will see the producing country create similar companies abroad.

#### **Step 4: Saturation**

At this point, competing companies will have taken part of the market. The production companies are doing their best to attract new customers, but there will be no increase or decrease in sales volume at this point.

#### **Stage 5: Decline**

At this point, the product begins to decline in sales which ultimately affects profit margins. The economic viability of continuing to

operate decreases considerably. At this point, the business can choose to stop production or sell the business. Another possible scenario is that the production company transfers its activities to a developing country.

Company-specific knowledge forms the basis of a company's competitive advantage. It is generated by investment in R&D and other proprietary information, which may be hidden from third parties. Company-specific knowledge can be viewed as an intangible asset, which dissipates over time through depreciation, diffusion and obsolescence.

Therefore, R&D is considered the main determinant of competitive advantage, during the introductory and initial growth phases of the product cycle. Marketing takes over as the main determinant of competitive advantage during the growth phase. Production becomes the main determining factor as the product matures.

Distance is introduced into the frame as a factor that affects interactions. The cost of interactions with suppliers, customers, agents and subsidiaries increases with geographic, cultural, legal and other economic distance components. "Distance premium," for example, the difference between the interior distance and the economic distance.

Foreign costs of market services, and other interactions, also vary during the product cycle. Being strongly correlated with service intensity and knowledge intensity, which peak at the start of the cycle and decrease as the product approaches maturity, the distance bonus is an important component of the "responsibility of the company."

R & D, production and marketing activities are a determining factor of competitive advantage, evolve throughout the product cycle. The framework considers the implications of these changes for the internationalization of companies marketing products belonging to different phases of the cycle.

During the introductory phase of the cycle, commercialization is the main determinant, when investment in R&D peaks, technological superiority has a major impact on competitive advantage, and may even grant innovative companies a monopoly position. Production and marketing are of secondary importance in shaping the competitive position during this phase.

## **4. BEHAVIORAL MODELS VERSUS ECONOMISTS MODELS**

The ideals of conventional economics have driven economists through the treacherous forest of the financial world. It has provided them with a template to base everything on which they do. The new and evolving field of behavioral economics however is founded on concepts of its own. Others are equivalent to conventional economics, whereas others are polar opposites. We will explore these similarities and distinctions here.

The center adage of the neoclassical model is the person's egotistical utility augmenting determination among the heap

of elective choices along very much characterized, stable inclinations under a spending imperative. The inspiration is utility amplification; however, utility is just “estimated” by implication: Starting from the saying that people augment their own utility it is presumed that noticed conduct should be utility boosting.

Starting with parallels, the two forms of economy are seeking to achieve a deeper understanding of humanity. Both are attempts to take past experience and use it to predict what people will do next or how they will react to such scenarios. In order to make a good investment, one must try to predict future actions. Here’s where the two methods diverge when one takes a hard left and the other a hard right. Traditional economics works under the premise that all people are rational beings. They can only make decisions based on what is best for them and their condition and “calculate everything when it comes to human rationality, behavioral economics is the very antithesis of traditional economics. Behavioral economics dictates that people are behaving very irrationally. People aren’t perfect. They have urges and customs that they cannot regulate. Only a small percentage of the population would take the time and effort to take only measured risks or try to do some cost-benefit analysis of the situation before diving straight into it. We don’t always learn from our past experiences, so we want to make the same mistakes over and over again.

The irrationality of human nature disallows the concept of developing a single unifying principle that suits all, and instead seeks to construct models that are unique to the specific situation to which they would be applied.

Regarding scientific methods, we can notice that the biggest differences are between the process and the system. Economic models have been trying to capture structural parameters for over 100 years and somehow measure them, particularly for political and corporate governance. Much older behavioral models try to concentrate on individual activity, desires for worth and economic decisions. Systemic parameters are often postmortems, while educated guesses are the subject of action processes.

Presumably the best deviation of behavioral models from the neoclassical models is the assessment of utility relying upon reference focuses, which may rely upon the norm (enrichment impact), the conduct and decisions of reference gatherings (socially implanted utility capacities). Conduct financial aspects found that people assess misfortunes and gains unevenly: misfortunes weight higher adversely on utility than comparable increases raise utility. On the off chance that people assess gains and misfortunes comparative with a reference point – typically the norm - detachment bends change their shape around the reference point. Utility boost is now troublesome in a static however complex world with a heap of decisions, yet unmistakably a lot simpler if inclination bends are steady when they change, and dynamic improvement would be required. Komlos introduced conduct lack of interest bends indicating that even after beginning enhancement (the spending imperative is digressive to an aloofness bend) wrinkles happen at the reference point due to the contrasting valuation of gains and misfortunes.

Numerous neoclassical financial analysts have not ignored the headways conduct financial aspects made during most recent many years and respect the persuasive factors of homo-economicus as excessively thin. Utility of laborers for instance relies upon financial factors yet in addition on decency, work fulfillment and others more. Another expansion to work market examination is reasonableness which appears to be generally acknowledged however it isn’t effortlessly estimated and relies upon reference focuses. Be that as it may, if reasonableness is abused, an individual’s inclination (utility) and profitability will endure. For this situation it will be reasonable for managers to consider the “nonsensical” feeling about reasonableness. Numerous researchers contend that financial aspects turn out to be more practical if the utility capacity is improved by another variable, for example, “personality.” One chance is to accept advancing conduct applying the standard supposition that a higher money related pay is favored over a lower pay (that the utility of higher pay is more prominent than that of a lower pay) run a relapse and attempt to “clarify” portions of the remaining with extra factors like conditions in development book-keeping.

To conclude this comparison seven concepts of Dawney and Shah (2005) will be used to make a final contrast of behavioral and conventional economics. These criteria tend to be the simplest to grasp for an audience who is not comfortable with the concepts and facets of behavioral or conventional economics.

#### **4.1. Principle 1: The Actions of Others Matters**

This first theory applies to Maslow’s desire for acceptance or belonging to the hierarchy of needs where he claimed that individuals must respect themselves as well as be recognized by others and obtains recognition. As a consequence, people’s behaviour is affected by other actions due to the fact that they want to be part of a group as well as telling themselves how a member in my peer group will respond to a certain occurrence. Moreover, according to Dawney and Shah (2005), social learning is a method of learning how to act by using the actions of others as a role model. If a person is an official or a person who trusts or loves a person, they are far more vulnerable to control.

#### **4.2. Principle 2: Popular Behaviors**

If we do anything out of habit, no cognitive effort is required. Regular rituals will easily become patterns like what to eat for breakfast. But even though we dream about modifying our actions, we’re not going to change it. This is because of the possible obstacles to changing habits and the challenges involved with this transition. The old habit might also be strengthened if people get a compensated feeling, such as commuting to work by car, simply because it’s more convenient and simpler than walking to work.

#### **4.3. Principle 3: Do the Right Thing**

The third principle provides that people are driven to do the right thing. On top of that, people feel guilty if they want to do the right thing and fail. Compensation may be caused by a sentence, e.g. a fine, and after this punishment, a sense of payoff and a peace of mind is issued. In the other side, we can accept a charge or a penalty while continuing with bad conduct. The justice aspect can also be discussed here, since a sense of fairness leads us to blame others if their conduct is not as we want it to be.

#### 4.4. Principle 4: Expectations

Conduct is affected by people's self-expectation. They still have assumptions about aspirations and about the actions of other individuals. If behaviour is not consistent with beliefs, attitudes and values, people will modify it until they change their behavior. What is more, it is more important who lays out ideals, behaviors and beliefs. When an entire society is dedicated to high levels of social capital, the impact would be even greater.

#### 4.5. Principle 5: Loss—Aversion

Two prejudices are known when learning about aversion to losing. Second, people would want to minimize costs that may be correlated with large risks, but at the same time, only minor risks are taken in order to achieve something. The second prejudice is the idea of possession. If people understand things as their own, they're going to get that extra benefit. Mainstream economics expects people to prefer risks rather than losses or benefits. Human willingness to pay is believed to be the same as willingness to accept, that is, to sell something they own for the same price as they will buy it. Behavioral economics practitioners include the fact that more effort is being taken by individuals to avoid damages than they are able to gain. They also found that willingness to pay was not the same as willingness to agree.

#### 4.6. Principle 6: Computational Problems

The odds are difficult to quantify by hand and can therefore affect the decision on the issue. Seven biases are listed by Dawney and Hetan (2005): Saliency, Discounting, Framing, Defaults, Intuition, Fundamental Allocation Error, Price can signal meaning. Computational challenges for mainstream economics are not important since it is believed that people have adequate knowledge and are capable of making estimates and making complicated decisions. In general, it can be seen that people are behaving on the theory of estimation on the basis of the rule of thumb, which means that they are influenced by the prejudices described above.

#### 4.7. Principle 7: Engagement and Efficacy

If people have a sense of power, they're strongly driven to change things to the better. However, if there is too much detail, they get an impression of helplessness and inaction. In the other hand, if there are so many decisions that can be made, there will be a daunting feeling and people don't know what to do. As Conventional economics requires people to behave rationally, more knowledge would be assumed to be optimal in order to make the best possible decision. More knowledge and decisions can lead to overwhelming feelings or minimize self-efficacy. Moreover, study has found that citizens in Swiss cantons are happier if they have an expanded capacity to engage in diverse events.

After briefing all these hypotheses, principles, proposals and methods and comparing the normative or conventional economics paradigm and behavioral economics, it has to be said that there are still some shortcomings and limitations on meanings and determinants of the core theory of behavioral economics. However, a few scholars have attempted to solve these issues and have developed their own hypotheses and conceptions of what they understand of behavioral economics.

## 5. CONCLUSION

To conclude this article, the various models that have been invoked have helped us to better understand the various approaches to the internationalization of companies. However, other studies have pointed to some limitations of the models: linearity of the process, non-reversibility, presence of stage jumps or direct implementation of certain firms, lack of analysis in terms of stage duration, etc. These critical studies are reinforced by the multifaceted nature of this type of business and the distinct organizational profiles of multinational firms and companies.

However, several limitations have been observed with regard to behavioral models as well as the economist models used in this research. Several researchers question the sequential and cumulative nature of the internationalization process, especially when it comes to companies developing internationally from the outset. Many companies achieve a significant volume of their sales (25% of turnover) internationally in the 1<sup>st</sup> 2 or 3 years of their creation, without going through the different stages of the Uppsala model. (Andersen 1993) criticizes the Uppsala model, showing that it does not specify the reasons or factors (internal, external) that may influence the process of internationalization of companies, including the brakes related to conservatism. It does not explain the mechanism by which "experiential knowledge" acquired gradually in foreign markets affects the commitment of resources. The model does not explain how the internationalization process will proceed. It does not explain how and why this process is being undertaken; and who would be the facilitators? Similarly, there is a blurring of the reasons and conditions for moving from one stage to another in the process.

On the other hand, the economic models do not objectively clarify the reasons why companies are internationalizing. In this sense, the OLI paradigm seems redundant to distinguish between the benefits of business ownership or the business-specific benefits (competitive advantages or key skills) and the benefits of internalization. In addition, it is also considered static; it does not explain the nature of the interrelationships between the determinants (company ownership benefits, market location benefits and the benefits of internalizing transaction integration), nor the strategic decisions that influence companies' entry choices, nor the change in environmental conditions (impact of social and political changes. Moreover, the applicability of the OLI or OLMA proposals seems low in the case of companies.

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