The uppsala model a poor guide

The Uppsala model is one of the best known models of how firms set about the internationalisation process. It presents a sequential approach, meaning that the firm internationalises incrementally. The model assumes that there is a lack of knowledge of the foreign market which is detrimental to internationalisation, therefore it suggests that a firm should firstly establish itself in its domestic market, then increase its commitment and resources in the target country in stages, progressing to the next stage once sufficient understanding and knowledge of the foreign market conditions have been attainted. The four stages identified by this model are referred to as the establishment chain. Step 1 is when the firm has no regular export activity; step 2 is when the firm begins to export to the target country through agents or independent representatives; step 3 involves the establishment of sales subsidiaries and finally the 4th step is starting to produce and or manufacture in the target country.

This framework also relies heavily on the concept of psychic distance, defined as the factors preventing or disturbing the flows of information between firms and markets. (Tayeb, M. International business P141) This suggests that firms are more likely to build international relations with countries which appear to have the most similarities to them. These factors could include language, culture, political systems, educational systems and industrial development. Psychic distance is often linked with geographical distance, but this is not always the case. One example of this is the relationships between United Kingdom with countries like New Zealand and Australia; the countries have a relatively small psychic distance as they speak the same language, have similar cultures and also similar political and educational structures, and yet are geographically far apart.

So how useful is this model, the authors themselves do not state that it can be used in all circumstances.

One of the first criticisms of the Uppsala model is that it can be connected to both the firm and the market. The study carried out by Johanson, J and Wiedersheim-Paul in 1975 highlighted the internationalisation process of the four firms involved, however the model itself tends to the internationalisation of a firm in a specific market. expand

The model suggests an identical step-by-step process for the internationalisation of the firm, which is intended to be repeated for each country that the firm tries to enter into. (Firms tend to enter new markets with successively greater psychic distance) However this view does not suggest a degree of difficulty from step to step, nor from country to country. Furthermore It assumes that the quantity and type of knowledge required is identical in each market, when in fact some knowledge will be transferable and apply to more than one market. On the other hand some markets will be vastly different. The model is a fairly good guide to internationalisation as it encourages incremental learning which reduces some of the uncertainties linked with foreign markets. However it could be criticised because it fails to take in to consideration that some of the information obtained is transferable.

The Uppsala model also fails to consider the specific market environment and industry characteristics in the target country. This includes economies of scale, research and development intensity and also government regulations. expand

Internationalisation can start at any stage – skips stages, an example? Of an FDI W/out export etc. Mixed empirical support, especially ‘ stages’ e. g. evidence of ‘ leapfrogging’, acceleration

SME’s for example often begin the internationalisation process when they relatively small and gradually increase their international presence. The majority of SME’s have a lack of international knowledge, as they are traditionally domestic businesses resulting in limited international experience. Therefore the decision to launch themselves internationally is more risky than that of larger firms, this is also due to the required investment needed to internationalise, inadequate management and lack of brand recognition. For these firms it seems that the Uppsala model allows them to gain this essential experience in stages, increasing their knowledge of the international markets and allowing them to analyse the opportunities and problems which exist. By allowing the firm to familiarise itself with the market, with relatively low risk exports the Uppsala model removes or reduces most of the disadvantages that SMEs face when trying to internationalise, however it does not deal with the potential lack of finance facing many of these firms. The firm may also encounter problems with instability of exchange rates, local laws and regulations or political shocks; however this is not exclusive to SMEs. This suggests that the model is quite an efficient guide for SMEs however with a lack of capital the SME may find it difficult to progress to the 3rd of 4th stages unless the exports have generated them sufficient profits.

Edwards and Buckley (1988) found that most Australian firms who had invested in British factories or facilities had not passed through an export phase. The Uppsala model highlights internationalisation as a slow and steady process of learning through experience, but thanks to the advances in technology, education and travel many new businesses have vast amounts on international knowledge, thanks to relations with MNC'S. This highlights that companies with experience, or entrepreneurial firms would find the Uppsala model a poor guide to internationalisation, as they already have sufficient knowledge and resources to skip stages and invest in a foreign country. The Uppsala model does not consider the use of strategic alliances or joint ventures as pathways to internationalisation. Joint ventures allow firms to share each others skills and knowledge of each others markets, thus reducing the risks. One example of this is NUMMI (New United Motor Manufacturing Inc), this is the joint venture between General Motors and Toyota. Toyota would benefit from access to the US market, and General Motors would benefit from Toyotas technological knowledge and its renowned management structures. (Czinkota, M, Global Business P414)

The rise of born global firms

Maybe some positives?!

Conc. How good/poor is it as a guide…. Why? Refer to arguments

Internationalisation is the process of " increasing involvement in international operations" (Welch and Luostarinen). Welch, D. J./Luostarinen, R., Internationalization: Evolution of a Concept, Journal of General Management, 14(2), 1988, pp. 36-64

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Czinkota, M, Ronkainen, I, Moffett, M and Moynihan, E (2001) Global Business P414, Harcourt College Publishers