The uppsala model essay

1. Introduction There is an abundance of models and theories which describe and explain internationalization, foreign entry modes and the foreign operations of firms (Elo, 2005). These models can be divided into two different perspectives: behavioural and economic (Elo, 2005, p. 65). It is also suggested that the literature based on economic theory, which focuses on new market opportunities, internationalization, vertical integration and corporate growth, has been dominating.

Whereas, behavioural related theories refer to a firm’s social and organisational side. The business environment has changed considerably in terms of technology such as the internet, business practices, theoretical advances and the reduction of trade barriers due to globalisation, which have all provided new methods of working. But what is internationalization? Internationalization in economics is viewed as a process of increasing involvement of firms in international markets (Susman, 2007).

Whereas globalisation refers to the increase in global relations of people, cultures and economic activity, it is this increase in relations that facilitates a firm’s internationalization process. As already stated there are many theories which try to explain the internationalization of firms. This essay evaluates the Uppsala model as an explanation for internationalization, and contrasts the model with the literature on ‘ born global’ firms and the network model, which are behavioural theories. ? 2. The Uppsala Model

The Uppsala Model is a ‘ stages’ theory developed by (Johanson & Vahlne, 1977) the framework explains how firms proceed towards internationalization. Their research was a longitudinal case study involving four Swedish firms who were already established aboard. The 1977 model suggests that firms tend to internationalize in logical steps first to countries that are psychically close, this does not necessary mean close in nautical miles but close in psychic distance. The firms then move to more psychically distant markets, where the firm will use a low resource-commitment mode such as exporting.

The model assumes that knowledge development is a fundamental factor in the internationalization process, with an emphasis on knowledge from current activities and experience. Forsgren, (2002) state that the lower the perceived market risk, the higher the level of investment in that market. Which Johanson & Vahlne, (1977) describe as the establishment chain, whereby the firms start with low commitment modes, such as middlemen and as trust is built firms switch modes, all the way up to wholly owned subsides showing stronger commitment.

The establishment chain as explained above, which Johanson & Vahlne (2009) state was not part of the model, has, never the less been widely critised (see figure 1) due to the phenomenon of International New Ventures (INV) also referred to as Born Globals (GB) who it is argued ‘ leap-frog’ stages instead of going through an incremental process and so are involved in direct foreign investments with unexpected speed (Oviatt & McDougall 1994). Figure 1

The authors have responded to the critisms, although as previously stated the model was first written in 1977, and the business environment has changed considerably in terms of technology such as the internet, business practices and theoretical advances, which have all provided new methods of working. To take into account the changed environment the model has been revisited in an attempt to move the theory forward. One of the many theoretical advances is the studies into network relationships (Korsgaarf, S. 011; Johanson, J. , Mattsson, L. 1993; Evers, N. , O'Gorman, C. 2011) this has been incorporated into the model, as the emphasis has moved away from psychic distance (foreignness) to network relations and if firms are not in an appropriate network, their internationalization process is said to suffer from (outsidership). Hakeranson suggests that psychic distance is a cognitive category that captures the amount of information and knowledge an individual has (or believes) of other countries.

This in turn may affect the decisions about foreign activities as a manager would perhaps not make economically rational decisions as they are not fully informed. This supports Johanson and Vahlne's (2009) outsidership theory that " a firm's problems and opportunities in international business are becoming less a matter of country specificity and more one of relationship specificity and network-specificity. " Figure 2 The structure has not changed from the original model (Figure 2) but changes ave been made to fit with the business environment of the 21st century. The changes are as follows: State Variables Market knowledge has been replaced with market opportunities (Figure 3), as the authors have added ' recognition of opportunities' which they consider to be the most important to driving the internationalization process. This adding of a tactic knowledge variable adds to the codified knowledge of needs, capabilities and strategies, which are also important components.

The recognition of opportunities is best described by Kirzner (1997) who suggests that a person's prior knowledge and experience is said to influence their discovery of opportunities. The other state variable is the network position which has replaced market commitment which related to the degree of commitment and the amount of resources committed (Johanson & Vahlne, 1977). The authors state that they now believe that the internationalization process is followed within a network. The level of commitment, trust and knowledge characterize the relationship within the network.

The network context of the revised model was added and then demonstrated the firm's embeddedness in an enabling, and at the same constraining, business network. This included actors engaged in a wide variety of interdependent relationships, such as between customers and suppliers (Johanson & Vahlne, 2009), Internationalization now being seen as how a firm strengthens their position within a network. This approach identifies the impact of external and internal actors and their relationship within the process of internationalization.

If a firm does not have a position in a network relevant to the foreign market they are about to enter, it is said to suffer from the ' liability of outsidership' which could stall the internationalization process, as the firm will have a lack of market-specific business knowledge (Johanson & Vahlne, 2009). An example is Krafts acquisition of Cadbury, who had a 40% market share of fast growing emerging markets. The acquisition gave Kraft access to Cadbury's network of customers in those economies and thus, market-specific business knowledge.

This is a move away from the notion of ‘ liability of foreignness’ which Dimitratos (2003) define as firms who are ‘ alien to political, social and economic contexts aboard’. The addition of the importance of network relations within the model builds on the literature within network theory which will be discussed later in the paper. Change variables The revised model has had relationships added to commitment decisions, this is to ‘ clarify that commitment is to relationships or to networks of relationships’ (Johanson & Vahlne, 2009).

The level of commitment is then visible through the chosen entry mode a firm takes in its internationalization process and any change may strengthen or weaken the relationship. The second change variable is the learning, creating and trust building, which was originally current activities, described as the prime source of experience (Johanson & Vahlne, 1977). The authors suggest that a firm’s personnel need a market and firm experience in the internationalization process.

Firms may have one but not the other and therefore go through a learning process in their daily activities or alternatively hire or seek advice, which is why the 1977 model stated that ‘ the internationalization process often proceeds slowly’ (Johanson & Vahlne, 1977). This slow process contradicts the BG literature. The change in the model now seems to answer several questions highlighted in the literature as the speed and efficiency of this variable is dependent upon the existing body of knowledge, trust and commitment amongst the partners within the network.

This not only creates a more efficient creative process but also opens up opportunities. The revised model is still dynamic with changes in one interdependent variable affecting another. As more opportunities are noticed, commitments deepen if the firms learn and create trust, which is paramount; the actors within the network then become embedded. The model suggests the internationalization process is now assumed to be implemented through networks with foreign market entry now studied as position building within a network, rather than entry modes.

What the model fails to discuss is how new firms actually gain entry into existing networks and how effective networks are built. Due to the newness of the updated framework research has yet to be carried out using the model. Figure 3 3. Born Global (BG) The concept of BG firms has received a lot of attention over the past decade, with the most cited definition for the phenomenon used is from Oviatt & McDougall (1994) who suggest that BGs are those firms that from inception ‘ seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries’.

The common theme within the literature is that BGs tend to be SMEs who operate in niche markets, relatively young with an entrepreneurial management structure, which is in contrast to the 1977 Uppsala model which focussed on MNEs that were already established. The majority of studies use the criteria suggested by Knight & Cavasgil (1996) who define BGs as firms that sell their first products in foreign markets within the first 3 years of inception and derive 25% of their turnover outside of their home market.

The authors further suggest that it is those firms that base their competitive advantage on technology that are the ones that operate internationally from their near inception. This description is disputed by Vissak who argues that the theory on BGs is narrow and that it overlooks important issues such as low-technology industries. Innocent Drinks (ID) are a British based company who fits within the common theme of the BG literature previously suggested. The firm achieved international sales within 2 years, and after 12 years has a turnover of ? 65 million, with 96 million from the UK market. The BG paradigm is due to the developments in technology, such as the internet and market conditions, with more countries opening up their markets and reducing barriers to entry, which together have propelled international network relationships. Sarma & Blomstermo (2003) show that it is strong personal networks within international markets, along with prior experiences that are the key reasons for a BG start up, they further suggest that the uniqueness of the network relationship is what provides the firm’s success.

The authors also put emphasize on adaptation, improvisation and spontaneity as key in the start-up phase, with the market entry mode and market being selected through connections in their network, but what is not shown is how people enter networks. A major factor in the success of ID, is their network relationship with their customers who are considered friends not met yet, a relative unique approach. The BG does not necessarily enter the most profitable or largest markets but where it has a connection through a network of some description. What does seem to be a recurring theme is the use of networks.

It is difficult with the revised Uppsala model to understand how the concept of the BG internationalization process cannot be explained using the model. The argument within the literature is that BG firms internationalize intensively and quickly and that the model of gradual internationalization is redundant, with (Cavusgil, 1994) even claiming that the theory is dead. This can be refuted as the BG can internationalize quickly due to the knowledge the owner manger has, be it learned through experience, or knowledge gained from other people that know within a network.

It could be argued that this knowledge building is still a gradual process as the knowledge could have been learned before the firm's inception; the literature on BGs does not seem to take this concept into account. A criticism is the theory and studies of BGs concentrate on outward flows such as exporting, but as argued by Fletcher (2001) a firm can still internationalize through inward driven activities, such as importing. 4. The Network Model

The term ' network' is defined as a set of connected relationships between actors controlling business activities (Forsgren & Johanson, 1992) The emphasis in the model developed by Johanson and Mattsson, (1993) is on gradual learning and the interaction within networks which develops market knowledge. A firm's position within the network is considered from both a firm to firm (micro) and firm to network (macro) perspective. The crucial elements to the process of internationalization within the micro perspective are complementary and competitive relationships.

Networks are said to reduce the time that is spent collecting information and allocating resources about the outside world. (Ford et al, 2006) The model identified four stages of internationalization for firms: the international among others, the lonely international, the late starter and the early starter, which are criticised for having neutral criteria (Bjorkmsn & Forsgren, 2000). The model further suggests that the internationalization of a firm is when a firm establishes and develops a position in a foreign network in relation to other counterparts.

The authors suggest that firms are initially involved in mainly domestic networks and then develop networks in other countries, although it does not state how this is achieved. The assumption is the firm may require resources which are controlled by another firm, and networking allows them to obtain them. This is more apparent for SMEs who generally suffer from limited resources, so being part of a network could provide them with access to knowledge, markets or resources.

If those are not available within one network an actor within the network can introduce the firm to another network. So some decision makers may embed themselves in one network that will not give them the knowledge that they require, but will create a bridge to a more relevant network. This would suggest that the development of network ties is also done in stages as suggested by the Uppsala model. Network theory is not dissimilar to the Uppsala model as discussed above as the model has shifted from an incremental internationalization model to a network internationalization approach.

In Knight & Evers, (2008) research on the role of international trade shows, the outcome was similar to previous studies (Bell, 1995; Majkgard & Sharma,

1998) showing that it is a firms network ties that influence a firms market selection and foreign entry. It could be argued that the majority of literature within the network approach to internationalization overlooks many factors, such as, external factors like government economic policies, how to create relationships within networks, the importance of the decision maker, that there are a lot of variables and uses indistinctive criteria.

This is also true for the state variable ‘ network position’ within the Uppsala model, but as previously stated the model is dynamic with only four independent variables, which could suggest that the model offers a more robust framework for explaining the internationalization process. 5. Further Research The quantitative method dominates the research, which could be slowing down new theory proposals, a use of alternative methodologies may offer a better understanding as to why a greater number of small firms are internationalizing.

Research into the actual decision maker of a firm may prove insightful as to what knowledge and network involvement they had before the firm’s inception. Also, how they go about joining a network could be beneficial to theory development. 6. Conclusion Internationalization is the process of increasing involvement in international operations and is a major dimension of most business forms of ongoing strategy process. The fundamentals of how firms internationalize is still the same today as it was 30 years ago, with the prerequisites being commitment, experiential learning and trust building.

What has changed is the environment that business is conducted in, due to the advances in technology. It could even be argued that psychic distance does not have the same relevance as it did, as networks cancel space and cross border networks are facilitated and strengthened by the improvements in technology. The revised Uppsala model encompasses the theory within the network model and BG literature and appears the most robust theory to explain how firms internationalize, but empirical studies are yet to done using the framework. 7. References Bell, J. , McNaughton, R. , Young, S. 2001) ‘ Born-again global’ firms An extension to the ‘ born global’ phenomenon. Journal of International Management, Vol. 7, pp. 173-189. Bell, J. , Crick, D. , Young, S. (2004) Small firm internationalization and business strategy. International Small Business Journal, Vol. 22(1), pp. 23-56 Carneiro, J. , Rocha, A. , Silva, F. (2008) Challenging the Uppsala internationalization model: a contingent approach to the internationalization of services. Brazilian Administration Review, Chell, E. , Baines, S. (2000) Networking, entrepreneurship and microbusiness behaviour. Entrepreneurship and Regional Development, Vol. 2, pp. 195-215 Coviello, N. , Munro, H. Network relationships and the internationalisation process of small software firms. International Business Review, Vol. 6(4), pp. 361-386 Dimitratos, P. , Johnson, J. , Slow, J. , Young, S. (2003) Micromultinationals: New types of firms for the global competitive landscape. European Management Journal, Vol. 21(2), pp. 164-174 Elo, M. , 2005, SME Internationalization from a Network Perspective: Empirical Study on a Evers, N. , Knight, J. (2008) Role of international trade shows in small firm internationalization: a network perspective. International Marketing Review, Vol. 5(5), pp. 544-562 Evers, N. , O’Gorman, C. (2011) Improvised internationalization in new ventures: The role of prior knowledge and networks. Entrepreneurship and Regional Development, Vol. 23(7-8), pp. 549-574 Forsgren, J. (2002) The concept of learning in the Uppsala internationalization process model: a critical review. International Business Review, Vol. 11, pp. 257-277. Gabrieisson, M. , Kirpaiani, M. , Dimitratos, P. , Solberg, C. , Zucchelia, A. (2008) Born globals: Propositions to help advance the theory. International Business review, Vol. 17(4), pp. 385-401 Gary, A. , Knight, S. , Cavusgil, T. 2004) Innovation, Organizational Capabilities, and the Born-Global Firm. Journal of international Business Studies, Vol. 35(2), pp. 124-141 Gilmore, A. , Carson, D. , Grant, K. , O'Donnell, A. , Laney, R. , Pickett, B. (2006) Networking in SMEs: Findings from Australia and Ireland. Irish Marketing Review, Vol. 18(1-2), pp. 21-28 Hakeranson, L. , Ambos, B. (no date) The antecedents of psychic distance. Department of International Economics and Management, Copenhagen Business School. Hashai, N. , Almor, T. (2004) Gradually internationalizing ' born global' firms: an oxymoron? International Business Review, Johanson, J. Vahlne. J. (1977) The internationalization process of the firm-A model of knowledge development and increasing foreign market commitments. Journal of International Business Studies, Vol. 8(1), pp. 23-32 Johanson, J. , Vahlne. J. (2009) The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. Journal of International Business Studies, Vol. 40, pp. 1411-1431 Johanson, J. , Mattsson, L. (1993) Internationalization in industrial systems-a network approach, strategies in global competition. The internationalization of the firm: A reader.

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