The uppsala internationalization process model business essay

Business

Introduction

This research project reviews the several literatures that have been written regarding to the internationalization in emerging markets. The review mainly explains the various theories of internationalization , motives for internationalization in emerging markets , the strategy that are used by the emerging firms , and the process and benefits that the emerging economies firms gain from having internationalization. Lastly the chapter ends with the conceptual framework of the firms internationalization process from the emerging economies of India and China.

Concept of Internationalization

Internationalization is the process of involving enterprises or organizations in international markets. The concept of internationalization of organization is rapidly increasing in the modern world because many organization of developed and emerging or developing countries taking up the opportunity to do their business transaction internationally. From the historical prospective internationalization of the business and firms starts with the ability of the mankind to travel and do their business across the sea or borders. There are other definitions of Internationalization purposed by many scholars and academics on many occasions using many different prospective and variables. According to Penrose’s (1959) internationalization is the process by which the firm focuses on core competencies and opportunities in the foreign environment. According to Welch and Luostarinen (1998) internationalization is the process by which firms increase their involvements in international operations. Johanson and Vahlne agree with the definition purposed by Welch and Luostarinen. Later on Calof and Beamish defined internationalization as the process of adopting firms operations (strategy, structure, resource, etc) to international environment. So we can conclude that internationalization is the process of make availability of the goods and services to the market that are outside the country of origin where it manufactured or the country where these goods and services are originated. This process of transfer of goods and services from the home country company to the host country for doing business transaction can be possible through the use of effective technology and effective communication which are highly advanced now a day's which allow the labor and technology to be more flexible and stretch across the other countries outside the home countries for doing successful business transaction (Bell, Crick, 2004, p. 35) . Company go international in the aim to compete for the resources that are limited within their country and market their products with the help of the global economy. The organization who are internationalize must be developed their position in such a way that they can compact with the rules and regulation that have been set by the foreign countries, so that they operate their business transaction successfully in addition to showing the ability to deal with the fluctuation and of the currency rate and the conflicting policies of those countries (Bell, Crick, 2004, p. 43). There are several factors need to be consider by the company while going international for the successful business transaction. The most important factors the emerging countries need to be followed as the role of government of the foreign countries that the organization need to do their business transaction and the political situation of the country including the availability of labor also need to be considered. The other three internal factors that has to consider while going international is that good entrepreneur, corporate culture, and the way of human resource management of the company who operates internationally. According to Brockhaus (1980) entrepreneur is termed as a major owner and manager of a business enterprise who has not employed anywhere. Mainly a good and successful entrepreneur characterized primarily by his innovative behavior and well employed strategic management practices in a business. So a high skilled motivated determined entrepreneur is most important for the internationalization of an emerging firm for the successful growth of its economy. Corporate culture mainly represents the value of an organization towards another company and it mainly measures by the activities and behavior of a staff within a particular company. The culture of an organization influences the internal beliefs and value obsessed or shared among the staffs in an organization. Corporate culture helps to create a common value system in an organization. So establishment of a proper and definite corporate culture among the staffs is very crucial in an organization while going international as the company will have to represents its potential for doing goods and service transaction across its national boarder. According to Boxall and Purcell’s study (2008) organizational human resource management (HRM) is an predictable process of an organization which manages both work and people within an organization, or it is an set of activities that intended at structure individual and organizational performance. So a good human resource management is the vital factor for any successful organization. This is one of the most important internal factor which company needs to be consider while going international. www. hh. diva-portal. org/smash/get/diva2: 325757/FULLTEXT01

Theories of internationalization

There are many theories been developed by different researchers and economist in addressing the internationalization of firms in various ways. Initially Adam smith developed the absolute advantage theory which was based on the conventional economic thought that mainly suggests the company to produce those goods which holds the absolute advantage of the country in doing international transaction of that good. Afterwards David Ricardo disagrees with Adam smith and came of with a new idea of competitive advantage. However this theory was unable to give a clear determination and idea of internationalization of firms but they balance each other in understanding of the internationalization of the firms (Masum, & Fernandez, 2008, p. 18).

The Uppsala Internationalization Process Model (U- model)

The Uppsala internationalization process is the model for the firm's selection of market and mode of entry while going international. The theory was first developed by Wanger, 2009 while watching Swedish films. In their model they made an experiment that firms internationalize by following a series of establishment chain. This theory polished later and concentrate its focus into four main aspect that a firm should follow while going international. These comprises mainly the knowledge of the market and commitment, commitment to making decision while entering the foreign market , establishment of a foreign sales subsidiary and current activities of a firm that are divided into different stages and to adopt verity of change aspects while the internationalization of a firm (Wanger, 2009, p. 318). The knowledge of the market commitment from this theory helps the management of an emerging firm to succeed in its business enterprise to become internationalize. According to this model there are two types of knowledge of commitment for going international. These are objective knowledge of an organization which can be transfer from one market to another market in the process of doing international business transaction or searching for international market. The second one is the experimental knowledge that one firm can gain through experience (wanger, 2009, p. 320). This theory conclude that an organization knowledge and commitment to a particular market affects by their decision to commitment and the way the firms has taken its decision on current activities for the internationalization. Commitment of taking decision while entering foreign market that is mainly commitment of resources about the foreign market affects the knowledge of the company about foreign market. Another review of this model says about the step by step growth of the organization towards the internationalization. That means the organization begins their international transaction in the market that are less psychic distance. Psychic distance represents certain factors which includes cultural difference, language difference, and political systems etc. This theory also explains that the firms that do not have any exporting links or business transaction with other foreign market can begin exporting products to the market through an agent or they can enter the market through joint venture or other mode for the internationalization of their firms (De Wit, 2002, p. 214).

Network theory

The first internationalization theory of Uppsala internationalization model or U model was challenged by another model called as network theory model from recent years. Network theory of internationalization argues that the recent modern organization or emerging economies do not follow the step by step process for the internationalization, they internalize their business transaction and other aspects of the firms by the help of availability of resource of network partners (Mitgwe, 2006, p. 109). According to some researchers most of the emerging nation firms that are internationalize are supposed to be surrounded by one or more network via linkages with their suppliers , contractors and customers. According to Masum and Fernandez a business network is defined as the set of two or more interconnected business relationship that connects the business organization together by exchanging information, ideas and goods among the participation organization (Masum, & Fernandez, 2008, p. 22). Again Andexer on 2008 defines networking as the source of information and knowledge about the market which can be kept as a long term use for the firms when there is no longer relationship with the host country. That means networking is a source of doing business transaction and expanding business from home country to host country without the help of the host country as the information has been kept before by the networking process (Andexer, 2008, p. 265). Thus network plays a vital role in doing international business transaction and acts as a bridge for internationalization among the firms. The network theory emphasized the ability of the parties that are involved in the internationalization of the firms by the establishment of a closer relationship with the customers, suppliers, distributors, which facilitate the internationalization of the firms. The relationship which has been created helps the firms that are in the process of internationalization to creates a mutual trust and commitment regarding the market knowledge (Mitgwe, 2006, p. 109). According to (Andexer, 2008, p. 263) the firms who are doing international business transaction usually establish and develop their position in the foreign market with their competitors in the foreign market. Before entering into the foreign market firms involves themselves in different domestic networking within its countries which makes them easy in establishing their relationship in the foreign countries. The involvement in the local networking is important for the company , as it helps the company in measuring its ability to mobilize the availability of the resources in the network. Thus it helps in relating the firms together either local or international (Muhlbacher, Leihs, and Dahringer, 2006, p. 5). The success factor behind internatiolization of the farms is mainly comes from the coordination among the markets which can be possible through the successful interaction among the firms in the network where price is consider as one of the major factor that influences the decision regarding the business transaction (Masum, & Fernandez, 2008, p. 23).

International Entrepreneurship theory (IET)

This theory mainly described the observed trend and behavior internationally concerning entrepreneurship as a major focus on how companies are able to discover, perform, explore and develop opportunities in the production of goods and service. According to Masum, & Fernandez, (2008, p. 25), entrepreneurship nothing but one of the most common form of internationalization which emphasized by the knowledge of the entrepreneur on how to measure the opportunities in the market as well as the ability of the entrepreneur in creating stable relationship with other organizations, consumer, suppliers and contractors in the market. In order to give the competitive advantage for the company the entrepreneur should must have certain characters. The entrepreneur should be objective , determined, risk taker and should be able to commit resources in a more efficient manner. This theory describes that the entrepreneur need to inquire about opportunities in other countries and must be develop by new opportunities that may arise in the market for the successful internationalization of the firms (Sauvant, Mendoza, & Irmak, 2008, p. 658).

Internationalization of emerging market firms. The starting point.

Emerging markets are those markets in the emerging country that are experiencing sustainable economic growth. The emerging economic firm's internationalization of traditional literature review mainly analyzed on the basis of large western multinational enterprises or MNEs. The international motives and behavior of the firms that are in the process of internationalization are largely explained by the eclectic paradigm of dunning. The eclectic paradigm describes that the firms from the emerging markets enter to the foreign markets to exploit their presence competitive advantages (Tsai and Eisingerich, 2010). Most of the early literature on the process of internationalization suggests their view that the emerging internationalize firm gradually expand and make more deeper their commitment and invest while going international because of getting more market experiences in the process of internationalization (Johanson and Vahlne, 1977, 1990). The other review about internalize of the emerging firms suggest that firms from the emerging market economies such as China, Brazil, India, Russia, Mexico are follow their unique methods and process for internationalization rather than the methods developed by the developing countries or the process that are enterprise from the advanced markets (Tsai and Eisingerich, 2010). The central concept of the process theory of internationalization developed by Johanson and Vahlne (1977, 1990) suggests that the firms from the emerging economies do not follow an evolutionary path in selecting the entry modes and location to enter to the international market and do not able to fulfill the incremental approach in the process of internationalization although these emerging firms can recognize the importance of learning and international experiences are the two central concept for the successful internationalization process So it seems that a new frame work should needed to developed the rational, motives, decisions and challenges in the course of emerging market firms(Luo and Tung, 2007). There is a difference between the emerging economic firms market and the advanced or developed economic firms in terms of entry time to the international business as the emerging economies start their international expansion later and facing the challenges and advantages of globalization later than the developed economy. On the other hand the emerging economies firms might be getting benefited in terms of their international expansion through advanced it technology, advanced transportation and access information etc. But simultaneously they have to face the intense competition in the beginning time during the international expands of their firms from international or foreign multinational corporation in both domestic as well international markets. According to Mathews (2002) the emerging market firms are mainly poor with the resources and this will help the emerging firms to go for a searching for the required resources that can be internationalized and transferred into dynamic capabilities for the competing in demanding, technology intensive international as well as domestic market for the internationalization of emerging firms. Several authors put forward the theories about the latecomers international firms (Aulakh, 2007; Child and Rodriguez, 2005; Deng, 2009; Li, 2003, 2007, 2010; Tian, 2008; Luo and Tung, 2007; Mathews, 2002, 2006) and defined as the latecomers emerging firms are those firms which are internationalize very late and has also suffer from competitive disadvantages as compared to the advantages gained by the multinational corporation Early movers (Li, 2010, p. 43). The western model of expansion of the firm internationalization is that the firms from the western countries have already reach with the technology and product related knowledge that required to satisfy the needs of the foreign customers in foreign market and the internationalization process can be established with the help of this existing know how or ownership of rich knowledge of the foreign markets and foreign customers (Dunning, 1988). However the Multinational Corporation and multinational enterprises from the developing countries concentrate mainly the availability of accessible internal advantages whether the latecomers MNCs and MNEs mainly emphasized on the asset exploration. Due to the different in internal and external condition of international transaction these emerging MNEs do not focused more on the exploiting about the resources and internal advantage and their ex ante strength although they have an discriminating need for ex post new advantages (Li, 2007).

The routes to Internationalization

The starting point and motivation of the emerging firms to expand from the domestic economy to foreign economy manipulate the roots or base of internationatilization and the entry mode choice of those emerging market firms who are wants to be internationalize. A paper of young et al. (1996) described that the inward and outward internationalization process facilitate the competitive catch-up for the developing country MNEs. This approach of inward and outward internatiolization process was drawn by the previous studies of the Luostarinen (1979) and Welch and Luostarinen (1993) , which mainly focused on the contribution of inward and mutual mode of internationalization towards the consequent outward business activities. There are several conclusion can be drawn regarding internationalization from the study of the Young et al paper. The main findings from this studies can be described as follows ; According to the Young et al paper there are several factors which are emphasize the inward internationalization. These are mainly include equipment purchase, technology imports which can be done through licensing and the establishment of JV in china with the overseas partner. These factors mainly responsible for the inward transfer and international learning. This theory also describes that inward internationalization can be a factor to facilitate the technological upgrading, development of unique capabilities of the firm during internatiolization which helps in promoting the outward internationalization process. This theory also explains that the factors influencing the mode of choices towards internationalization mainly explain by the home country variables then by the firm level and availability of host country variables (Young et al., 1996).

The process of internationalization of emerging Firms

The success behind the internationalization of emerging economy firms markets is mainly depends upon the process or method of going international adopted by the emerging economies firms. The various theories of internatiolization described above explain the process of internationalization and those theories helps the firms to motivate to engage more in the international business transaction operation. The selection of the process of internbatiolization process or method depends upon the knowledge of the magamanet of the emerging firms economy regarding the foreign market or international market. So the firms should concerned more about the decision of the selection of internaatiolization theory and process before going for international business transction, because this will leads the firm towards the successful expands for its business internationally. There are various way of entry of the emerging markets into the foreign market. These are mainly classified into three types. These are export based method, non equity method and equity method. http://www. ukessays. com/essays/business-strategy/firms-internationalisation. php

Export based Methods

It is the most common and easiest way for the intarenatiolization of the firms in which firms able to create a market of for its product by exporting the surplus products produced in the domestic country to the foreign country market. This export based method of internationalization is divided into two types of exporting that is Indirect exporting and direct exporting.

Indirect exporting

Indirect exporting is the process of exports of goods and services from the domestic country to foreign country which are not handled or control by the manufacture or producer of the home country company but through the exporting agent or intermediary. http://www. businessdictionary. com/definition/indirect-exports. htmlIntermediaries refers mainly to the agents or distributors who sales the goods and services to the other end users of outside of the domestic market based on the target markets and customers. This process of exporting is relatively economical and provides a simple way to enter to a new foreign market. The success of this type of exporting process depends upon the market experience, reputation and contacts of the intermediary in the foreign market in which the company wants to its business transaction. The main disadvantage for this export process isThe direct contact with the foreign customers is not possible by this process of internationalization. In this process of internationalization the intermediary takes the margin of the export profit which affect the economics of domestic firms. For the successful export the mediators or sales agent needs the sales support from the firms sales representatives. There is less control over the actual financial transaction of the firms by this process of Internatiolization. By this exporting process of internatiolization of the firms leads to a very less knowledge of overseas market which would affect the long term plans of the domestic firms. http://www. nzte. govt.

nz/develop-knowledge-expertise/export-guide/ways-of-entering-a-new-market/pages/direct-and-indirect-exporting. aspx

Direct exporting

Direct exporting refers to the process by which the producers or suppliers directly sales its good and services to an overseas market or international market either through different media such as sales representatives, distributors or foreign market retailer or by direct selling the products to the end user. There are various factors which are required to be considered for the successful direct export and thus facilitate successful internationalization process. These factor mainlyA good market research required for the market of the product in the international market. A successful international distribution of the product either through different channels or through direct distribution to the end user. Create a effective link with the consumer and collections of the data about the customers is important for the successful direct exporting. The feasibility of the direct marketing is depends upon the size of the firm, its ability of doing international marketing for its product, preceding export experience, condition of the business in the chosen market and the nature of the product that to be exported to other country. http://www. ehow. com/info_8478132_direct-exports. htmlThere are various modes of direct exporting process followed by the emerging economies of the for the internationalization process. These areExport through home country based department- This is the most easiest way of foreign export in which all the process of exporting activities to the foreign market can be managed and regulated by a department set by the country company. A manager is assigned for this task and well maintained the direct export process. Separate sales department- When company gets more profit and demand for its export of the products then the company may setting up a separate sales department or subsidiary sales department for the growth of the foreign business transaction. This department must be kept closer to the place where the other similar types of business are located. The overseas warehousing or storage facility – This can not be considered as the next step of internatiolization . It is used for the export sales subsidiary and this facility takes into action when management takes decision on investing on foreign countries. The main reason for setting up storage facility is because this process is quite simple and stimulate a more faster secure flow of goods in the foreign market, able to create customers trust and satisfaction regarding the product , allow free flow of trade with the retailers and wholesalers and helps to maintain the brand image of the company. Foreign sales branch- Foreign sales branch is the set up of a separate export sales subsidiaries or sale branch in a target foreign country where the home country company target to market its products. This is not a easy way of internationalization of firms as government is most cases will intervene in different action of sales process. The government can put restriction in various ways , such as restriction on employment , local workers, special tax rates etc. The impose from the government can make the whole process stop from the company. Travelling sales person- Travelling sales person is considered as the first phase of internationalization. In this process a person who will set up for this work by the company will travel to the target foreign countries and perform all the exports activities including keep contacting with the customers and act as a media of connection between the end user and the company. http://elib. kkf. hu/edip/D_13974. pdf

Non equity method of internationalization

This is another process of internatilization of emerging market firms and other market firms in which the firm start internationalize or start international business transction by selling technology or do business in the form of contract, trade marks and copyrights and involving through patents with the foreign markets. This method of internationalization carried out in the form of different types of contractual agreements, licensing and franchising made by the firm that in the process of internationalization (Wall and Rees, 2004).

Walls, S., and Rees, B., 2004, " International Business", 2nd Edition, England: Pearson, pp: 34-64.

Licensing

http://zuggs. net/hsc/Bus/Topic%205_Unit2. pdfThe permission granted by a proprietary owner to a foreign concern or a business in the form of contract or license that would be under the patent protection is called as licensing. Licensing mainly termed as an agreement by which one business can use the intellectual property of another business. The intellectual property includes the disigns, patent, work method and technology of other business firms. The advantage of licensing is that the agreement give a rights to use technical advice and assistance, marketing advice and assistance, the use of trade mark and trade name and information about anew market which save the lost of time and effort for searching a market. The disadvantages are there is no control of the firm over the agreement terms and condition including the standard of the quality of the property that has to be access through this agreement. Another disadvantage is the less control over the geographical distribution of the of the property that can be accessible through the licensing agreement.

Franchising

Franchising is another non equity method of internationalization of the emerging firms. Franchising is termed as a market oriented method in which business services are being sold to the small independent investors those having less business experiences. Franchising allow these small independent investor to use the name of the total business concept in terms of any problem or rights factors. There are mainly two major types of franchising done by the emerging firms. These areProduct and trade name franchising – This is type of distribution system in which the buying and selling of the products has been done through the contract made by the suppliers with the dealers. Here mainly the suppliers buy and sell the products through the dealers. The dealers has the right the trade name, trade mark and product line of the product for which it has the franchise agreement. For example in case of Pepsi and coke company , the buying and selling process can occur by the suppliers through the dealers. Business format package franchising- In this type of franchising the franchiser transfer the package that contains most of the element for establish a successful and profitable business. The package mainly contained the factor that are responsible for a successful business establishment. These are includes copy right, design, trade secret, trademarks and name , know- how about the return of the franchisor in getting a initial fess or continuing fees from the business activity. For example Mac D, Burger king , Pizza hut are having this type of franchising. http://wse103331. web15. talkactive. net/activebuilderfiles/ibaforeningen. se/filer/International_Marketing. pdf

Advantage and disadvantage of franchising

The advantage of this method of internationalization is that overseas expansion can be cost very low by this franchising method. By this process of internationalization the firm able to be familiar with the local culture of the country in which it has the franchise agreement. The disadvantage of this method is that there might be a possibly conflict between the franchisor regarding following the regulations and agreement. The results of these conflict can create a threat that the franchisor can option to go into direct into the culture of he local foreign market and can be a direct competitors of the other firms who made the franchise for the internationalization of their firms (FTMs,)http://www. ftms. edu. my/pdf/Download/UndergraduateStudent/IB%20Year%202%20Week %202%20PART%201. pdf

Equity method Of Internationalization

This is a physical method of investing in foreign market for internationalization of the firms. This is mainly done by the foreign direct investment. In this method the firm obtain different ways to FDI by creating equity joint ventures, by acquiring an existing firm and by merging or establishing a foreign operation by its own (Rugman, A. M & etal, 2003).

Joint venture

Joint venture refers to the partnership regarding business transaction which can be occurs between two or more parties. This process of internationalization allow both the party in formulating strategy and making decision regarding different activities of the firm. It helps the firms to share technology, and reduce the high cost at the time of loss and helps both the participants to gain value added activity from economic from a global prospective. In high technology industry joint ventures are usually takes place by two forms that are specialized joint ventures and shared value added joint ventures. The difference between these two joint ventures are in specialized joint ventures each participants brings a specific skill where as in share value added joint ventures both the participants contribute the same function or value added activity towards the organization (Wall and Rees, 2004).

Merging

This another method of equity based internationalization in which the firms uses FDI for he international expansion by merging with another firm in the overseas nation by purchasing its venture and by sharing appropriate ownership in the form of equity. This method of internationalization helps the country to expand its business rapidly and can use the knowledge, skill, idea, infrastructure, knowledge about the domestic market and different factors strategy that are responsible for the successful business transaction.

Acquisition

Acquisition of an obtainable overseas company gives many advantage for the international expansion of the firms. It permit for the instant present in the market for the local firm which will lead to a quick returns n capital and facilitates the firm to access the knowledge about the local market (Whitely, R, 1994).