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The Development of the Uppsala Model

A Study of Samsung Electronics

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Abstract:

Based on an explorative case study approach, this thesis investigated whether the Uppsala model functioned in Samsung Electronics Corp. (SEC) case. The purpose of this study was to upgrade the Uppsala model by using a representative case of SEC. This thesis found that there are two dimensions derived from the Uppsala model. The first dimension is the sequential nature of the internationalization process in terms of psychic distance (from the market with close psychic distance to the market with remote psychic distance). The second dimension is a “market commitment” dimension, which means the form of market operation established from low-level commitment to high-level commitment.

Two hypotheses derived from the two dimensions of the Uppsala model will be applied in SEC case. The first hypothesis is that the shorter the psychic distance between SEC’s home environment and target markets, the earlier will SEC establish foreign activities in those markets and vice versa. This hypothesis will be tested on a the macro-level with regards to the geographical distribution of Korean\textsuperscript{1} outward FDI and will be tested again during the internationalization process of SEC in two target markets-China and the US, to estimate how psychic distance functioned in SEC internationalization process. The second hypothesis will be tested by SEC’s actual operations in Europe. The conclusion will summarize the whole study, discuss research questions and provide some suggestions for future studies on the internationalization process of firms.

Key Words: the Uppsala model, Samsung, Internationalization, Psychic distance, Commitment
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I would like to say thank you to Ms. Zhaka Pranvera, my coordinator in Waseda University. She taught me how to conduct research regarding the situation of Korean business by analyzing the data and preparing the questionnaires about the interviews.

Many thanks to all my friends who gave me ideas, answered my endless questions and helped me correct my data and any detailed information, Zhou Yuan, Li Jing and He Manli, Tania etc. I want to say thank you to my friend who work in Samsung China Unit, he helped a lot with the interview and answered my endless questions.

I love Sweden. It is an amazing and friendly country. Lund is such a small, quiet, beautiful and fantastic city. During the one year and a half time in Sweden, I met a lot of very good friends from different parts of the world and wonderful experience with my friends, which I dreamed of for many years, and I am sure no matter where I will be in the future, Sweden will always stay a very special place in my heart.
<table>
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<th>Full Form</th>
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<tr>
<td>SEC</td>
<td>Samsung Electronics Corporation</td>
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<tr>
<td>CTV</td>
<td>Color TV</td>
</tr>
<tr>
<td>VCR</td>
<td>Video cassette recorders</td>
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<td>JV</td>
<td>Joint Venture</td>
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<td>TI</td>
<td>Texas Instrument</td>
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<td>CE</td>
<td>Consumer Electronics</td>
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<td>ABK</td>
<td>American Born Korean</td>
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<td>MNCs</td>
<td>Multi-national Corporations</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>M&amp;A</td>
<td>Merger and Acquisition</td>
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<td>TCT</td>
<td>Transaction Cost Theory</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<td>EME</td>
<td>Emerging Market Economy</td>
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Terminology

Psychic Distance

Psychic distance is a consequence of perceived differences between a firm’s domestic environment and target markets. The larger the perceived differences, the less probability will the markets be target and vice versa (Johanson & Vahlne, 1977).

Internationalization

Inspired by existing explanations on internationalization (Johanson & Vahlne, 1977; Zhang & Filippov, 2009; Dunning, 1988 & 2000), the following definition of internationalization is appropriate:

Internationalization is considered as a process of growing involvement in international markets through Foreign Direct Investment (FDI), which includes any forms of investment that could make profits and lead to the establishment of overseas subsidiaries or affiliates.

Foreign Direct Investment (FDI)

FDI means that a firm invest in a county that is different from the firm’s home country. FDI is in forms of a direct Merger and Acquisition (M&A) in a foreign country or investment in Joint Venture (JV) etc (www.EconomyWatch.com & OECD, 2001). Currently, FDI has a broad definition which includes any forms of investment to a foreign country. FDI also comprises two types: outward FDI and inward FDI. The former means that domestic firms invest abroad while the latter refers to capital flows move in the opposite direction.
Original Equipment Manufacturer (OEM)

OEM is defined that manufacturers sell their equipments to resellers who will resell or integrate the equipments into a new product under the reseller’s brand name. For instance, SEC sells its semiconductors to Sony and Sony will resell the semiconductors under Sony’s brand name (www.webopedia.com).

Organizational Inertia

Every firm tends to find some stability during their development process, e.g. market share or revenue etc. Firms are easy to get satisfied when this stability is achieved. However, they are reluctant to admit when they lose their stability. This sort of phenomena is called Organizational Inertia (CiteHR.com).

Cost Advantages and Cost Disadvantages

Some firms are able to deliver same benefits at a lower cost than their counterparts. This sort of advantages is called Cost Advantages. Firms obtain their cost advantages through e.g. access to cheap materials, favorable locations or advanced technologies. The firms who do not have these kinds of advantages are called Cost Disadvantages (www.businessdictionary.com).

Emerging Market Economies

Compared with advanced economies e.g. the US and Europe, emerging market economies are defined as the countries with low or middle level per capita income e.g. China and India. However, economic growth in emerging markets economies is higher than advanced economies (International Monetary Fund & BusinessWorld.com). Therefore, emerging market economies are the driving force for the global economy.
1. Introduction

1.1 Research Background

The studies on the internationalization process of firms have been on the rise. For instance, Dunning’s (1988, 2000) Eclectic Paradigm; Johanson and Vahlne’s (1977) Uppsala model and Coase’s (1937) Transaction Cost of Theory etc. The post World War II period saw this tremendous increase on the studies of internationalization due to progress of economic globalization, technology advances and intensified competition, etc, MNCs and their international activities expanded increasingly in a global context, which provided empirical opportunities for studying the internationalization process of firms.

This thesis employs a classical Western theory – the Uppsala model, which depicts a basic mechanism of internationalization. The Uppsala model focuses on the accumulation of knowledge and commitment of foreign markets during the internationalization process of firms (Johanson and Vahlne, 1977). In fact, the studies of internationalization are greatly influenced by the Uppsala model in a global context (Forsgren, 2002; Erramilli, Srivastava and Kim: 1999; Pedersen, 1999; etc).

At this moment, there are two competing theories of the Eclectic Paradigm and the Uppsala model. The Uppsala model is a sequential process of the accumulation of knowledge and commitment of foreign markets and the Uppsala model is trying to figure out the general motivating force in the continuous internationalization process (Johanson and Vahlne, 1977). However, compared with the Uppsala model, the Eclectic Paradigm concentrates on the selective factors during the internationalization process of firms (Pedersen, 1999 & Dunning, 1988, 2000). For the reason of general motivating forces behind SEC’s continuous internationalization process will be
focused in this study. Therefore, the Uppsala model is selected as the theoretical foundation. More details will be discussed in chapter 2.

1.2 Problem Description

Some researchers found that several MNCs e.g. Swedish firms first internationalized under the 1977 Uppsala model, but soon after, the internationalization process of other firms turn into more differentiated way than the Uppsala model (Hansson, Sundell & Öhman, 2004; Tang, 2007; Pedersen, 1999).

The emergence of a number of MNCs from East Asia has been witnessed after the World War II e.g. South Korea’s electronics giant SEC started from small OEM business in 1969. It was largely unknown even in the beginning of 2000 (Urquhart, 2010). Surprisingly, SEC became international successful in such a short time e.g currently, SEC is one of the top suppliers in home appliances (The Korea Times, 2009). However, the Uppsala model employed a sequential approach of knowledge and commitment accumulation, thus firms usually take a long time to become extensively international and global brands. Therefore, SEC’s internationalization process does not closely correlate with the Uppsala model.

1.3 Research Questions

The Main research questions are formulated as follows:

1) Whether the Uppsala model works in SEC?
2) What are the new variables should be added to the Uppsala model?

In order to answer the research questions sequentially, this research will follow the sequence of a. understanding the context and significance of the Uppsala model; b. developing the analytical framework of how to test the Uppsala model c. applying the
Uppsala model to SEC case

1.4 Structure of the Thesis

Chapter 1 Introduction: this chapter provides the research background and problems, discusses research questions, and deals with the disposition of the thesis, limitation of this research and ethical consideration.

Chapter 2 Literature Reviews: this chapter explores the study of the internationalization process of firms, two current competing theories of the Uppsala model and Eclectic Paradigm will be compared and the reasons why the Uppsala model was chosen as the theoretical foundations will be concluded. Additionally, the relations between the Uppsala model and Korean MNCs’ international strategies will be referred.

Chapter 3 Research Method: this chapter concentrates on the methodological framework. It consists of four parts: research objective, research strategy, and the overall research design and data collection.

Chapter 4: Testing the Uppsala Model: this chapter will draw two dimensions to test whether the Uppsala model works in the SEC case.

Chapter 5: Empirical Analysis: this chapter will apply the Uppsala model to SEC case. The single case study approach is applied to gain a deep insight into the internationalization process of SEC.

Chapter 6: Conclusion: the conclusion will be organized in three parts. The first part is a summary from the previous chapters and second part will answer the research questions. The third part will draw several suggestions for the future study on the Uppsala model.
1.5 Limitations of the Research

First, only one case will be employed to test the Uppsala model, making generalization difficulties. Since SEC is a rare successful MNC that could compete with Western MNCs in a global context (English.chosun.com, 2011). The experiences derived from the SEC still have significance for other MNCs from emerging markets.

However, the experience derived from SEC probably cannot wholly apply to the other cases. For instance, SEC has strong financial capabilities and government support. Thus, SEC is able to recruit high-talents (Hoesel, 1998: 127). While other firms such as SMEs could not afford such a high cost on human resources recruitment system (interviewed with Paul).

Secondly, the whole internationalization process of SEC is a long history. I cannot include every detail of this process. Therefore, certain cases derived from SEC’s whole internationalization process will be targeted. For instance, the first hypothesis will be tested during the internationalization process of SEC in two target markets-China and the US. The second hypothesis will be tested through SEC’s actual operations in Europe.

1.6 Ethical Considerations

Semi-structured interview was conducted during data collection process. Because of the business secret concerns, the interviewee’s name will keep confidential in this thesis.
2. Literature Review

In this chapter, several prevailing theories of internationalization will be referred. A critical evaluation of the extant literature on the study of internationalization will be provided. More specifically, two current competing theories of the Uppsala model and the Eclectic Paradigm will be compared. The reasons why the Uppsala model was chosen as the theoretical foundation will be discussed as well.

2.1 Major Theories of Internationalization

There have been tremendous prevailing studies on the internationalization process of firms after the World War II by reasons of the progress of economic globalization, technology advances, intensified competition, etc. The major seminal contributions on internationalization process of firms, e.g. Transaction Cost Theory (Coase, 1937), the Theory of Foreign Direct Investment (Hymer, 1960), the Behavior Theory of the Firm (Cyert and March, 1963), the Theory of the Growth of the Firm (Penrose, 1959) and Vernon’s Product-Cycle Theory (1966), etc.

Several business scholars have synthesized existing internationalization studies while creating new theories, for instance, the Uppsala Model (Johanson & Vahlne, 1977, 1990); the Eclectic Paradigm (Dunning, 1988). Therefore, the studies of internationalization also revealed an ongoing process in need of constant assessment and theoretical advancement.

2.2 Two Current Competing Theories

The understanding of internationalization process of firms has been numerous. At the moment, one competing study is the Uppsala model (1977). The Uppsala model employed an incremental learning approach and consisted of several steps which reflected the accumulation of knowledge and commitment process. The second
competing study is the Eclectic Paradigm (Dunning, 1988). Dunning (ibid) argued that if a company wanted to compete in foreign markets, it must have access to some sort of firm specific advantages.

2.2.1 Overview of Dunning’s (1988, 2000) Eclectic Paradigm (OLI model)

This part will focus on the development of the Eclectic Paradigm. Dunning integrated some previous theories e.g. Coase (1937) and Hymer (1960) into Eclectic Paradigm’s framework.

The Transaction Cost Theory (TCT)

To begin with, a transaction cost is a cost that occurs in economic exchanges. (www.investopedia.com). Coase (1937) elucidated how to save the transaction cost in his TCT. He (ibid) also elaborated the cost of economic exchanges would be lower within a firm's border. This means economic exchange could be done cheaper through firm’s internal activities than exchange with external environment. TCT implied that a firm tried to minimize the costs of exchanging resources with external environment. Later the TCT was evolved as the “Internalization advantage” in Dunning’s Eclectic Paradigm.

The Traditional Classical Macroeconomic Theory of FDI

The assumption from the traditional classical macroeconomic theory of FDI is that the profitability has shown a decreasing tendency in advanced economies due to high competition and high labor cost. Therefore, firms tend to invest in developing countries for cheap local labor (Cantwell, 2000).
Hymer (1960): the Existence of Firm Specific Advantage

Hymer proposed a micro-level theory, which was the existence of firm specific advantages. He (1960) raised a critical question of how a foreign firm could compete successfully in a foreign market with local firms. Hymer (ibid) claimed that those firms which could excel in competition with local firms must possess some sort of specific advantages, for instance, a better access to raw material, intangible assets such as trade names, patents, superior management, etc. Firms’ specific advantages are prerequisite for counterbalancing the disadvantages compared with indigenous firms (ibid). Later the specific advantage was evolved as the “ownership advantage” in Dunning’s Eclectic Paradigm.

Eclectic Paradigm (OLI model)

Dunning’s Eclectic Paradigm has been synthesized with numerous previous studies on internationalization (e.g. Hymer’s specific ownership concept and the Transaction Cost Theory).

The eclectic framework has categorized as ownership, location and internalization advantages (OLI model). In this sense, ‘O’ stands for ‘ownership’, it conforms explicitly to Hymer’s firm specific advantage. Many MNCs own firm-specific advantages such as patents, technologies, brands and good reputation. More importantly, these types of advantages can be reproduced in different countries with original value and internalized within the firm without high transaction cost (Dunning, 1979; Johanson C, 2002; Tang, 2007).

‘I’ stands for ‘Internalization’ advantage. The internalization advantage was inspired by the Transaction Cost Theory (Coase, 1937), which embodied the internalization advantage through the firm’s internal activities instead of e.g. producing through a partnership such as licensing or joint venture.
‘L’ stands for ‘Location’, which aims at describing the location preference. For instance, to reduce transport costs, or jump trade barrier, firms would prefer the place close to final consumers (Pitelis, 2002).

2.2.2 Overview of the Uppsala Model (Johanson & Vahlne, 1977)

Business scholars at Uppsala University are well known for the study of internationalization. In their empirical studies of four Swedish cases, Johanson and Wiedersheim-Paul (1975) distinguished four different stages as the establishment chain during the internationalization process:

1) No regular export activities;
2) Export through independent representatives;
3) Sales subsidiaries and
4) Production and Manufacturing

Based on the empirical studies of four Swedish firms, Johanson and Wiedersheim-Paul concluded the characteristics of the internationalization process of the Swedish firms were a sequential process rather than large and extravagant foreign investment (ibid). This empirical study is the foundation of the Uppsala model.

There are four actors in the basic mechanism of the Uppsala model (See Figure 1): market knowledge, commitment decisions, current activities and market commitment.
Figure 1: The basic mechanism of the Uppsala model


As can be seen from Figure 1, market knowledge is a key element in the Uppsala model. More specifically, market knowledge is a perception of the objective existence of the market. The extent of perceived market knowledge reflects a firm’s resources and its potentials during international expansion process. On contrary, the lack of market knowledge is a risk to firm’s international expansion (Johanson and Vahlne, 1977). In their studies, Johanson and Wiedersheim-Paul (1975) observed that Swedish firms developed their internationalization process slowly and conducted market commitment decisions incrementally due to risk aversion. Risk aversion means that firms try to avoid or minimize risks and uncertainties when they invest in foreign countries.

According to the basic mechanism of internationalization, when the knowledge of
target markets increased, the investment to the markets would continually expand. Furthermore, further market knowledge could also generate through firms’ current activities in target markets, which could contribute to the next step’ international expansion. Based on Johanson and Vahlne’s opinion, foreign investment is actually a commitment to foreign markets. Therefore, the internationalization development process is an interaction between market knowledge accumulation and commitment expansion. To sum up, knowledge and commitment are mutually impacted and promoted in this recycling process (Johanson and Vahlne, 1990; Tang, 2007).

Johanson and Vahlne (ibid) also explained the reason why internationalization was a sequential process on the considering of risk aversion. When a company starts to plan a potential subsidiary in a target market, risks and uncertainties of operations will be taking into consideration. The potential subsidiaries with high uncertainties of the operation must be replaced with correspondingly low uncertainty market. Likewise in the establishment chain, export through independent representatives means a low level of commitment and therefore risks are controlled in an acceptable level (Johanson and Vahlne, 1977; Pedersen, 1999). In addition, firms invested in the countries from close psychic distance to remote on the considering of evade risks and uncertainties (Johanson and Vahlne, 1977).

According to Johanson and Vahlne’s study, there are two dimensions derived from the Uppsala model (ibid). The first dimension is the sequential nature of the internationalization process in terms of psychic distance (from the market with close psychic distance to the market with remote psychic distance). Johanson and Vahlne (1977) argued that a firm first gained experience from the domestic market before entering foreign markets. After that, the firm would target the market with shorter psychic distance (from the firm’s home environment) and then expanded into countries within greater psychic distance. The second dimension is a “market commitment” dimension, firms began their foreign operations by using low-level commitment modes (e.g.exports) and move to steadily by using intensive and
demanding high-level commitment modes (e.g. production and manufacturing) (See the establishment chain above).

2.3 A Critical Comparison between the Uppsala model and the Eclectic Paradigm

In this part, the two theories are compared to point out why the Uppsala model was chosen as the theoretical foundation.

2.3.1 Dynamic vs Static (Margardt, 2007)

The Eclectic Paradigm generally concerned the static nature of internationalization because the Eclectic Paradigm focuses on selective factors in the single changes during the internationalization process. While the Uppsala model is a dynamic process since the Uppsala model embodied a recycling process and changes in terms of knowledge and commitment accumulation (Margardt, 2007).

2.3.2 Different Types of Applications: inexperienced firms vs experienced firms

In their study of contrast between the Eclectic Paradigm and the Uppsala model, Johanson and Vahlne (1990) argued that the Uppsala model based on incremental learning process, whereas Dunning (1988) presupposed that the management team already have access to market knowledge during their foreign activities. Therefore, the Uppsala model is more applicable in firms’ early stage internationalization process, whereas the Eclectic Paradigm is appropriate for experienced firms.

To sum it up, the practical meaning of the Uppsala model is different from the Eclectic Paradigm and two theories are inconsistent since the basic assumptions and applications are different. The Uppsala model is trying to figure out the general motivating force in the continuous internationalization process. However, compared with the Uppsala model, the Eclectic Paradigm concentrates on the selective factors
during the internationalization process of firms (Pedersen, 1999 & Dunning, 1988, 2000 & Johanson and Vahlne, 1977). For the reason of general motivating forces behind SEC’s continuous internationalization process will be focused in this study and SEC’s whole internationalization process will be traced. Therefore, the Uppsala model is chosen as the theoretical foundation.

2.4 The Significance of the Uppsala Model

The Uppsala model was developed based on previous theories and knowledge about internationalization. For instance, the incremental learning and knowledge accumulation process was based on Penrose’s The Theory of The Growth of the Firm (1959), Cyert & March’s The Behavior Theory of the Firm (1963). Aharoni’s the foreign investment process (1966). The sequential process from domestic market to countries with shorter psychic distance, and then to psychic distance remote markets is inspired by Vernon’s Product-Cycle Theory (1966, cited by Pedersen, 1999).

The significance of the Uppsala model is embodied in two dimensions. The first dimension is the sequential nature of the internationalization process in terms of psychic distance (from the market with close psychic distance to the market with remote psychic distance). The second dimension is a “market commitment” dimension, the form of incremental market operation from low-level commitment to high-level commitment.

More importantly, the Uppsala model cannot be considered separately in each phase. Different levels of commitment in a target country cannot be separated from the firm’s previous activities and experience that a firm has already gained (Johanson & Vahlne, 1977; Pedersen, 1999).
2.5 The Uppsala model and Korean Multinational Corporations

In their study of the relationship between the Uppsala model and Korean multinationals, Erramilli, Srivastava and Kim (1999) employed Korea direct investment data from 1973 to 1990 and argued that the Uppsala model does offer some starting point for developing the strategies of international expansion and it also works in explaining the internationalization process of firms in Korean context.

Erramilli, Srivastava and Kim borne out that the psychic distance was a crucial driver during the market selection process in the early waves of investment. They also proved that Korean MNCs first invested from the market with close psychic distance to the market with remote psychic distance. In addition, the establishment chain has been largely applied to the initial stage of Korean firms’ international expansion. However, globalization and good market potential also enable Korean MNCs leapfrog some steps in the traditional establishment chain of the Uppsala model. For instance, no regular export or independent representatives, sales subsidiary, some firms directly set up manufacturing subsidiaries. However, they also confirmed that it would be more beneficial to add other economic and strategic factors in the Uppsala model.

Since Erramilli, Srivastava and Kim targeted Korean MNCs as a group instead of individual firm, Chapter 5 will describe and analyze an individual case-SEC to test the Uppsala model and figure out which economic factor should be added in the Uppsala model.
3. Methodological Framework

This study examines whether the Uppsala model works in SEC case and what are the new variables should be added to the Uppsala model. To solve these research questions, appropriate research methods should be employed.

The research design is generally characterized as qualitative research method. Specifically, case study approach is employed throughout the whole research since the main aim of this research is to test whether the Uppsala model works in SEC case.

3.1 Research Objective

This thesis is aiming to upgrade the Uppsala model with theoretical advancement through a typical case from emerging markets. SEC is selected and some new variables derived from SEC will be added to the Uppsala model in the light of changes in business practice. The Uppsala model described a gradual process of internationalization with risk aversion. However, MNCs face a lower risk when entering into a new foreign market, with the reason of increased accessibility to market knowledge of foreign markets (Margardt, 2007).

3.2 Research Strategy

A research strategy is a general orientation to conduct research systematically (Bryman and Bell, 2003: 25). In this study, a deductive process in qualitative research has been chosen as the major research strategy.

Bryman and Bell (2003) distinguished between “theory and research, qualitative and quantitative, epistemological consideration and ontological consideration” (See Table 1). However, the categories of distinction are rather ambiguous (Bryman & Bell, 2003: 25). More specifically, research strategy can be either deductive or inductive (See
Table 1). Deductive approach is going to test a theory, while inductive is the
generation of new theory (ibid). In this research, on one hand, whether the Uppsala
model works in SEC will be tested. This process falls into a deductive approach.

Table 1: Fundamental differences between qualitative and qualitative research
strategies

<table>
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<tr>
<th>Principal orientation to the role of theory in relation to research</th>
<th>Quantitative</th>
<th>Qualitative</th>
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<tr>
<td>Deductive; testing of theory</td>
<td>Inductive; generation of theory</td>
<td></td>
</tr>
<tr>
<td>Epistemological orientation</td>
<td>Natural science model, in particular positivism</td>
<td>Interpretivism</td>
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<tr>
<td>Ontological orientation</td>
<td>Objectivism</td>
<td>Constructionism</td>
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(Source: from Bryman & Bell, business research method 2003: 25)

Based on the process of deduction (Bryman & Bell, 2007: 11), hypothesis will be
derived from the Uppsala model, and then data will be analyzed. At last, the result
from the empirical analysis will be discussed. There are two theoretical hypotheses
derived from the Uppsala model, these hypotheses will be tested through analyzing
SEC case, the evidence will be found to either confirm or reject the hypothesis.
Therefore, a qualitative type of method would be helpful to interpret the empirical
case studies.
3.3 Research Design-Case Study

A qualitative case study method based on the analytical approach will be employed in this research. Saunders, et al (1997, cited by Tang, 2007) described that case study is an advisable way to explore and test the existing theories. Therefore, the case study will be employed to test whether the Uppsala model works in SEC. Case study would be helpful to gain a deep understanding of the fast-changing business environment and the internationalization phenomena. Since the single case of SEC will be focused, it is possible to investigate this case as deep as possible when testing the Uppsala model (Yin, 2002: 39).

3.3.1 The Selection of Case

SEC is selected to test whether the Uppsala model works in the firms that from emerging economies. There are two reasons to select SEC as a case:

First, since Samsung is the brand representing Korea and it changed the whole status of Korea in a global context. SEC is the flagship subsidiary of the Samsung Group, even though Samsung had been dedicated to other types of industries, there is no doubt that SEC is the core subsidiary, having a dominant position in Samsung Group and semiconductor business in a whole world, even exceeding the world leader Intel in terms of investment for 2005 and becoming the largest electronics company with revenue of 154.63 trillion won in 2010 fiscal year (around 142.27 billion USD), up to 13 percent over the previous year. Therefore, Samsung’s brand strength has greatly developed in the past few years (www.Samsung.com).

Secondly, SEC is selected based on the data availability and accessibility. Data are limited in this business studies because of fast-changing business environment and business secrets. Therefore, most resources are not available to outsiders. The data for SEC are relatively rich compared with other MNCs in the emerging markets.
3.4 Data Collection

This thesis is designed to be a qualitative case study research, which combines secondary data and primary data. Yin (2003) emphasized that it was encouraged to use multiple sources of evidence to conduct case study research since multiple sources of evidence can maximize data collection (p. 97).

The secondary data include data from literature, journals and internet. An extensive secondary research was conducted on the Uppsala model and other internationalization theories to on the study of internationalization process of firms, Korean business, SEC's internationalization process and SEC's actual operations in Europe. The primary data is collected through an interview with an experienced senior executive who is a friend of mine from Samsung China Unit. Semi-structured interview was conducted for collecting primary data in this business studies (Arbnor & Bjerke, 1997: 226). I also had an opportunity to talk to several professors in Japan, who inspired me for the background of SEC and Korean business.
4. Testing the Uppsala Model

As mentioned above, the Uppsala model has two dimensions:

-1st dimension is the sequential nature of the internationalization process in terms of psychic distance (from the market with close psychic distance to the market with remote psychic distance).

-2nd dimension: The Uppsala model argued that there was a sequential growth model of commitment in the target market. The firm will start from low-level commitment to high-commitment market operation, like the establishment chain.

This research is based on SEC’s previous foreign activities. In order to test these two dimensions, this thesis will follow the sequence of 1) hypothesis will be stated based on the above dimensions 2) measurement methods on how to test the hypothesis will be put forward 3) analysis results will be discussed.

5. Applying the Uppsala model to SEC Case

In this chapter, the way how the Uppsala model is applied to the SEC case will be analyzed. The single case study approach is used to gain a deep insight into the internationalization process of firms. Based on the secondary and primary data analysis, tentative conclusion will be drawn about whether the Uppsala model functions in SEC case and what are the new variables derived from SEC internationalization process.
5.1 The General Overview of SEC and SEC’s Internationalization

5.1.1 The Initial Stage Internationalization (from 1978 to 1980s)

SEC was founded in 1969 and started internationalization process in 1978. During the early stage of international expansion, the overseas sales subsidiary was first set up to support SEC’s export activities, acting as a connecting agency between headquarters’ export division and OEM buyers (Kim, 1998: 85).

After the 1970s, production plants were established in the US and Europe. The main reason to invest in the US was to stay away from protectionist actions and strong trade barriers. Furthermore, SEC’s biggest competitor-LG set up a color TV (CTV) manufacturing plant in the US in 1984. Subsequently, SEC established its first outward FDI in Portugal a few months after LG’s threatened expansion. Afterwards, SEC set up a CTV production plant in the US in 1984 (Ibid: 86). The company also set up a new factory in Mexico in 1988 and later in South-East Asia.
5.1.2 The Second Stage of Internationalization (After the 1990s)

The internationalization process of SEC increased significantly after the 1990s. The reason for this greatly international expansion was due to the organizational transformation.

Under the executive of Lee Kun-hee, Samsung had undergone one significant transformation named as the ‘Frankfurt Declaration’ in 1993, when the Chairman Lee told their employees to “change everything but your wives and children”. This transformation was concentrated on addressing organizational inertia. The thorough organizational changes involved three important strategic concerns: Firstly, quality-oriented growth; Secondly, internationalization; thirdly, multifaceted integration. Multifaceted integration refers to promote and improve cooperation between affiliated companies. After this major organizational change, the efficiency was extremely high in necessary circumstances within Samsung Group. Therefore, the speed of overseas investment has accelerated after this transformation (Kim, 1998: 87 & 88; www.Samsung.com).

5.2 Hypothesis and Testing

5.2.1 Hypothesis 1

Based on the first dimension of the Uppsala model, firms will first target their potential markets with advantage of the nearest psychic distance. Therefore, the first hypothesis is formulated as below:

\[ H_1 \text{ the shorter the psychic distance from SEC’s home environment to target markets, the earlier will SEC establish foreign activities in those markets and vice versa.} \]

Testing the hypothesis is absolutely not a straightforward matter. There are two issues
that should be taken into consideration in advance. First and foremost is available data. In this research, the secondary data are limited because of business secrets and fast-changing business environment, thus the resources are not available to outsiders. Secondly, due to psychic distance is hard to quantized, quantitative analysis could not give strong supports to how psychic distance functioned in SEC’s internationalization process. Therefore, only qualitative research method is employed.

Furthermore, psychic distance does not only relate to geographic distance, it also consists of many other elements, e.g. business environment and political system. But most of previous studies (Pedersen, 1999 & Erramilli, Srivastava and Kim: 1999; Pedersen, 1999 & Johanson and Wiedersheim-Paul, 1975) considered “psychically close countries are often geographically proximate”. Hence previous studies are not absolutely complete.

Based on the above considerations, the hypothesis will be first tested from the macro-level, taking geographical distribution of Korean outward FDI as a whole. Secondly, this hypothesis will be tested again through SEC’s two target markets-China and the US in order to figure out the extent of psychic distance.
5.2.1.1 Testing On a Macro-level

![Geographical distribution of Korea outward FDI](image)

1978 Total: 71.6 million USD  
1995 Total: 10.224 million USD

Figure 2: Geographical distribution of Korean outward FDI


First, geographical distribution of Korean outward FDI during two periods will be analyzed (See Figure 2). The bar chart compares the proportion of Korean outward FDI in these regions within the year of 1978 and 1995.

The above bar chart illustrates Korean outward FDI in five regions over a span of 17 years, namely from 1978 to 1995. The Figure 2 demonstrates that the outward FDI has become “less of a regional phenomenon” (Hoesel, 1998: 110). However, the
situation varies within regions. More specifically, the percentage of Korean outward FDI generally increased in Europe, North America and Latin America while the opposite regions were Asia and Oceania.

As can be seen from the Figure 2, Asia took the highest percentage of Korean outward FDI in both 1978 and 1995, accounting for 52.5% and 44.7% respectively. The figure shows a slight downward trend for Korean outward FDI in Asia. Secondly, when it comes to the second largest group North America, mainly the US had attracted the most Korean outward FDI (Hoesel, 1998: 110). Furthermore, with reference to Europe, the changing trend is the most striking. In 1978, the European region only took 2.8% of Korean total outward FDI and percentage increased to 15.1% in 1995. Thus, Europe is the region with the highest growth rate in a global context.

In conclusion, the chart shows a vivid picture about the changing trends of Korean outward FDI in a whole world. Figure 5 supports that the shorter the geographical distance from SEC’s home environment to target markets, the earlier will SEC establish foreign activities in those markets and vice versa. The geographical distribution of Korean outward FDI gives a general picture of the internationalization process of Korean firms. It also outlines SEC’s foreign expansion during these periods since SEC is a representative during the internationalization process of Korean firms (Hobday, 1998: 48-83; Kim, 1998: 84-108; Hoesel, 1998: 109-129).

The Reasons for the Changing of Internationalization Process

According to previous studies on reasons for rapid expansion and large presence of Korean firms after the mid-1980s (Moon, 2007; Kim and Rhe, 2009; Hoesel, 1998: 109-111), three major factors are concluded: limited domestic market, cost disadvantage and competition. In the meantime, Korean government policies played an important role in Korean firms’ internationalization process. Table 2 demonstrates Korean government’s related policies which have evolved from 1968 to 2004. Before
the 1980s, Korean outward FDI was still restricted since the government insisted on investment in domestic markets (Hoesel, 1998: 110). After the 1980s, Korean outward investment have increasingly expanded and therefore accelerated SEC’s internationalization process. To sum it up, Korean outward FDI evolvement was closely related to political factors.

Furthermore, the year of 1987 marked a critical turning point in Korean history. The Democratization Movement and its consolidation resulted in the establishment of radical democratic labor union and also led to increased employment rights and wage. Thus, firms would suffer from high labor costs if they continuously invest in the domestic market. As a result, they began to invest in other countries with cheap local labors (Hoesel, 1998: 110).

Thirdly, SEC with its origin in Korea, where the domestic market volume is limited, internationalization is a key tactic for Korean domestic firms’ long-term survival (Ojala and Tyrväinen, 2009).

Last but not least, Korean electronics markets are competitive since other electronics giants e.g. LG Electronics struggled severely with SEC in the cramped domestic market. Therefore, SEC has no option but to invest abroad.

To overcome the disadvantages in domestic market, SEC had speeded up its foreign expansion to achieve an optimizing model of international portfolio investment. For instance, SEC invested in developing countries e.g. South East Asia for cheap raw material and local labors to overcome the cost disadvantage (Mocie, 2002, cited by Kim and Rhe, 2009).
Table 2: The policies on Korean internationalization process

| Stage 1: Introduction (1968-1974) | In 1968, the Korean government introduced four articles on foreign investment law under the foreign exchange regulation (Rhim 1975). Article 131 refers to the approval of foreign investment. It states the establishment of overseas subsidiary as an exception. To acquire foreign stock, real estate or bond, approval of the Ministry of Ministry of Finance is required. The investor must submit required documents, including contract paper, permission by the host government, business plan, acknowledgement, and other required documents. |
| Stage 2: Growth (1975-1979) | Due to an increase in outward FDI activities, the Korean government revised the laws on outward FDI in 1975 and 1978. In 1975, the Ministry of Finance enacted foreign investment approval and pre-management council and in 1978 the Bank of Korea established the by-laws on foreign investment approval operations. The approval requirement was needed. Investing companies had to get prior approval of their business plans by the president of the Bank of Korea before concluding a joint contract or acquiring the warrant by the host Government. The attempt of the Government to control capital flight from the country pushed the introduction of controls. |
| Stage 3: Encouragement (1980-1985) | During this period, the Korean government liberalized the law relating to outward FDI. Revisions were made in 1981, 1983 and 1988. Many restrictive conditions for outward FDI were relaxed. In July 1981, the requirement of three-year business experience and host country’s condition were relaxed and streamlined, and pre-approval process for outward FDI plan was abolished. In July 1982, the rate of investment was relaxed and in December 1983, restriction on the credit limit of profit reservation was also relaxed. |
| Stage 4: Openness (1986-2004) | Since 1986, the Korea economy has recorded trade surpluses and thus outward FDI was more actively encouraged. Increasing wage costs and deterioration of labour-management relations also drove firms to go abroad. The Korean government has relaxed most of the outward FDI-related regulations including the investment ceiling for venture capitalists. In 2000 a new enforcement ordinance in foreign trade law was established, which included support for outward FDI by Korean firms by solving obstacles faced by Korean firms operating abroad. |

Source: Modified by authors based on Moon (2007)


5.2.1.2 Testing On the Individual-Level

The tendency in geographical distribution of Korean outward FDI only gives one dimension of psychic distance. Even though the psychic distance is hard to quantized, it would be more accurate and precise if the exact extent of psychic distance to be
formulated. Therefore, two target countries will be selected to estimate possible impacts of psychic distance to the internationalization process of SEC.

The Design of Hypothesis Testing

Based on previous studies (Yin, 2003 & Bryman and Bell, 2007), the framework of hypothesis testing process was draw as below (See Figure 3). Firstly, the extent of indicators that impact psychic distance will be defined. The next step is going to identify the appropriate units. SEC’s two target markets-China and the US is designed to test how psychic distance works in SEC case. Third, such indicators will be applied into practical case. Finally the finding from the empirical analysis will be confirmed or rejected the second hypothesis (See Figure 3).

![Diagram of Hypothesis Testing Process]

Figure 3: The process of how to test the hypothesis

The Extent of the Psychic Distance

Psychic distance is a consequence of perceived differences between a firm’s domestic business environment and target markets. The larger the perceived differences, the less probability will the markets be targeted and vice versa (Johanson & Vahlne, 1977; Brewer, 2007). Clearly, firms prefer the countries with less difference from their home environment (Ojala and Tyrväinen, 2009). However, how to measure psychic distance is ambiguous since there is no common measurement (Ojala and Tyrväinen, 2009).

Many researchers have been trying to measure the psychic distance in empirical studies (Ojala and Tyrväinen, 2009; Dow & Karunaratna, 2006; Child, Wong & Ng, 2003; Brewer, 2007). One hot debate was whether psychic distance should be measured from macro- or micro-level. The former related to external environment, such as language, culture and religion etc. The latter referred to the decision-maker’s personal background and experiences, which would impact him/her understanding on macro-level psychic distance indicators.

Some of previous studies only employed cultural indicators to measure psychic distance between firm’s home environment and target countries (Hofstede, 2001, cited by Ojala & Tyrväinen, 2009). Other researchers (Dow & Karunaratna, 2006; Brewer, 2007; Sousa & Bradley, 2006, cited by Ojala & Tyrväinen, 2009) have added extra indicators to measure psychic distance, such as language religion, legal issues, economic conditions and business practices, etc. More importantly, Dow and Karunaratna (2006) also added micro-level indicators, such as decision-maker’s personal background. He emphasized that decision-makers’ education, international experience and age would affect his/her perception of macro-level psychic distance. Furthermore, some researchers (Sousa & Bradley, 2006, cited by Ojala & Tyrväinen, 2009) have stated that psychic distance should be estimated no more than micro-level since the foreign expansion was based on the decision-maker’s perception, which was closely related to decision-makers’ personal experience and skills instead of
macro-level differences between countries.

To conclude, on the one hand, it is deficient if only macro-level indicators are employed to estimate psychic distance in lights of such clear evidence of the importance of micro-level indicators. On the other hand, it is probably too subjective if only micro-level indicators are applied, since the psychic distance is the perception and translation from macro-level factors into commitment decisions. Therefore, both macro-and micro-level indictors are employed to measure the psychic distance between SEC’s domestic environment and two target markets (China and the US). Indictors created by Dow and Karunaratna (See Figure 4) will be employed in this testing.

Figure 4: the framework of how to measure the psychic distance

As can be seen from Figure 4, the macro-level indicators actually equal to the market knowledge in the basic mechanism of internationalization proposed by Johanson and Vahlne (1977) (See Figure 1). Therefore, the first hypothesis is the upper part of the mechanism.

Select the Appropriate Unit of Analysis

China was taken as the case within the individual level. First, China is the crucial location for Korean outward FDI since China is geographically close to Korea; Second, China's extraordinary economic development during the past three decades enable Chinese domestic market particularly attractive to foreign MNCs (Kim, 1998: 90). In addition, China becomes the world’s second largest economy in 2011.

The US was chosen for another case since the US is geographically far from Korea and US is the world's largest economy. Furthermore, Korea is somehow diplomatically close to the US because of the US helped Korea to establish capitalism type of state after the World War II (Kim, 2003).

Empirical Analysis

After indicators and the analysis units are determined, the next step is how to translate these indicators and the analysis units into practical case. Due to the macro-and micro-indicators are hard to be quantized, quantitative analysis could not give strong supports to how psychic distance functioned in SEC’s internationalization process. Therefore, qualitative interview method will be employed (Child, Ng and Wong, 2003).

During the research process, semi-structured interview was conducted with a senior executive Paul (fictive name) in SEC China Unit, who had comprehensive knowledge of SEC’s international expansion in China and the US. The relevance of psychic
distance and SEC’s internationalization in China and the US was focused during the interview with Paul.

To shorten the psychic distance between SEC’s home environment and target markets and accelerate SEC’s internationalization, SEC invested heavily on human resources in order to employ high-potential talents, assimilated them into Samsung culture and sent them to different overseas markets.

Paul depicted Samsung’s recruitment system in a global context:

“Every year Samsung recruits hundreds of young graduates from American universities. The new employees will be trained in Korea for a while to become familiar with the company policies and organization culture. After that, they will be sent to target foreign markets to learn the language, culture, related polices in that country, etc. After one year’s learning, they will take leadership positions. Even though these elites are high-talented, they still need to work from the basic level of leadership.

Paul also told me that most of these graduates are American Born Koreans (ABKs), who combine Western and Korean cultural background together. As can be seen that the decision-makers are aware of business environment, culture, language differences etc. in both countries, not only the target market. Since the new recruits’ graduates have both Korean and American background, they are preferably to be appointed to the US after a short training in Korea. Therefore, SEC’s human resource recruitment strategies greatly shorten the psychic distance between SEC’s home environment and the US market and adapt the American environment quickly.

The highlighted recruitment criterions for SEC’s management team China Unit are as follows:
All the top managers in SEC China unit are original Koreans and most of them have no Chinese background. The reason is that compared with the US, China is geographically and culturally more close to Korea. Even though current Korean society has become westernized, Chinese culture still has deeper influence on Korean society than Western culture. Therefore, the top managers (original Korean) could adapt to the Chinese local practice and society merely through communication with their underlings.

I asked Paul to express his assessment of the psychic distance between SEC’s home environment and two target markets-China and the US (See Table 3). Although Table 3 just represents a personal judgment, it still reveals a number of interesting insights.

In Table 3, the total points of perceived psychic distance from SEC’s home environment to China and to the US are neck to neck. The perceived psychic distance between SEC’s home environment and target markets are relatively the same. However, in the US, SEC established its first investment in 1984, whereas SEC started to invest in China only until the beginning of 1990s. Why the outward FDI in China was so behind compared with the US?
Table 3: the measurement of psychic distance between SEC’s home environment and target markets

<table>
<thead>
<tr>
<th></th>
<th>The US</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macro-level indictors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Culture</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Language</td>
<td>-3</td>
<td>1</td>
</tr>
<tr>
<td>Education</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Economic development</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Political System</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Religion</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Time Zone</td>
<td>-3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td><strong>Micro-level indicators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(decision-maker’s background and their perception)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>International experience</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Age</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6</td>
<td>-1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

-3=very long distance
-2=long distance
-1=relatively long distance
0=neutral
1=relatively short distance
2=short distance
3=very short distance

The first reason is that the quantified perceived distance from Table 3 is merely an estimated value, which cannot accurately reflect the real psychic distance.

Secondly, in terms of macro-level indicators, diplomatic relations between Korea and target countries play an important role (Interviewed with Paul). More specifically, China is geographically and culturally close to South Korea than the US. However, China-Korea built the diplomatic relations after the 1990s, while Korea-US
relations have been established since 1948. Therefore, SEC preferred to invest in the US rather than China based on the stability of external environment. In conclusion, some key macro-level indicators may play significant role in certain period during the sequential process of the firms’ internationalization.

Another example to reveal the importance of diplomatic relations is the case between South Korea and North Korea. Even though North Korea and South Korea are more geographically and culturally close than China or the US, however, the conflicts on the Korean peninsula exists since the Korean War (1950-1953). Therefore, only until 2000, SEC embarked on the mass-production of CTV, cassette recorders and telephones in the North Korea (www.Samsung.com).

Thirdly, with respect to micro-level indicators, SEC’s recruitment strategies play a crucial role to offset the psychic distance between SEC’s home environment and the US. Therefore, according to Samsung’s recruitment criterion, ABK recruit graduates’ (potential decision-makers) international experience exactly from the US obviously shorten the macro-level psychic distance between the US and Korea.

Finding from the Empirical Analysis

How decision-makers understand and identify macro-level indicators is important to estimate the psychic distance. Micro-level indicators concerning the background of decision-makers (e.g. age, education and international experience) will impact their perception on how to identify the macro-level indicators and then impact on market commitment decisions. In summary, the relationships between macro-and micro-level indicators and market commitment decision are concluded in Figure 8.

The inextricable relationship between macro-level indicators and market commitment decisions (See Figure 8) explains the reason why SEC pays much attention on human resources recruitment. Micro-level indicators are decisive to estimate the psychic
distance and therefore correspondingly impact market commitment decisions. Therefore, SEC was not able to cope with a psychically distant country without recruiting employees with adequate knowledge from both target country and SEC’s home environment.

All in all, the empirical analysis confirms the second hypothesis. The perceived psychic distance between SEC’s home environment and the US is relatively shorter since their intimate diplomatic relations from the macro-level. Additionally, SEC had employed the high-talented ABKs with high language proficiency and international experience exactly from the US, which was an important strategy to shorten the psychic distance.

Figure 5: relationship between macro-and micro-level indicators and international
expansion.


Summary of Hypothesis1:

The first hypothesis describes the upper part of the basic mechanism of internationalization in the Uppsala model (See the colored part of Figure 7). The knowledge generated from macro-level factors e.g. culture, language and business environment is equal to the market knowledge, which impacts market commitment decisions.

![Diagram of the 1977 Uppsala model]

Figure 6: The 1977 Uppsala model

5.2.2 Hypothesis 2

The Uppsala model also argues a sequential pattern of commitment in target markets. A firm will start from low-level to high-level market commitment sequentially and will follow the establishment chain which put forward by Johanson and Wiedersheim-Paul (1975): no regular export activities; export through independent representatives; sales subsidiaries; production and manufacturing. Therefore, the second hypothesis is formulated as below:

H₂: The market commitment is gradually established from low-level to high-level during SEC’s internationalization process.

This hypothesis is tested in SEC’s actual operations in Europe (See Table 4). The data was based on the secondary data.


The Table 4 compares SEC’s major operations in European countries. SEC first built headquarters in Germany (1982) since some preceding relationships existed between SEC and some German companies. SEC had imported advanced technology from Germany during the early stage development.
Table 4: SEC’ operations in Europe (Spring 1995)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>1982</td>
<td>Headquarter, warehousing</td>
</tr>
<tr>
<td>UK</td>
<td>1984</td>
<td>Sales</td>
</tr>
<tr>
<td>UK</td>
<td>1987</td>
<td>Production, service</td>
</tr>
<tr>
<td>France</td>
<td>1988</td>
<td>Warehousing, sales</td>
</tr>
<tr>
<td>Hungary</td>
<td>1989</td>
<td>Production, service</td>
</tr>
<tr>
<td>Turkey</td>
<td>1989</td>
<td>Production, service</td>
</tr>
<tr>
<td>Spain</td>
<td>1989</td>
<td>Production, service</td>
</tr>
<tr>
<td>Spain</td>
<td>1990</td>
<td>Warehousing, service</td>
</tr>
<tr>
<td>Italy</td>
<td>1991</td>
<td>Warehousing, service</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1991</td>
<td>Production, service, 44.8% ownership JV with Caltex</td>
</tr>
<tr>
<td>Sweden</td>
<td>1992</td>
<td>Warehousing, sales</td>
</tr>
<tr>
<td>Portugal</td>
<td>1993</td>
<td>Warehousing, sales</td>
</tr>
<tr>
<td>Portugal</td>
<td>1994</td>
<td>Warehousing, sales, 38% ownership JV with Texas instruments</td>
</tr>
</tbody>
</table>


Table 4 illustrates the internationalization process of SEC, which did not follow the establishment chain in Hungary (1989), Turkey (1989), Spain (1989) and Slovakia (1991). SEC’s international expansion in these countries started with manufacturing, which is a high-level commitment. Because these four countries are relatively low
cost site within Europe, they owned low cost advantages e.g. cheap local labor and raw material.

More importantly, the 1987 Democratization Movement and its consolidation resulted in higher wages for Korean local labor. However, firms prefer cheap labor in order to increase their profit. Therefore, Korean companies began to invest on a large scale in foreign countries. Compared with West European countries, Eastern and Southern European countries e.g. Hungary, Spain, Turkey and Slovakia are regarded as low cost site within Europe (Hoesel, 1998: 114-116). Consequently, SEC established high-level commitment operations in these countries by same reason of the cost advantages.

SEC have shifted manufacturing sector from domestic to Europe not only because of the cost advantages in Europe, but also for the fear of European Union (EU) protectionist measures. EU often threatened Korean electronics business in order to discourage European imported goods dealers and protected EU local Consumer Electronics (CE) industry, e.g. Philips, Grundig. Furthermore, SEC also aimed at gathering the knowledge of European market (Hoesel, 1998:115 & 116).

Based on the establishment chain that proposed by Johanson and Vahlne (1977), sales and warehousing fall into low-level commitment category. The countries such as France, UK, Germany and Sweden are considered as relatively high cost countries, they conducted either warehousing or sales (See Table 4). Therefore, SEC employed low-level commitment in Western European countries.

To sum up, the empirical analysis points out that SEC’s actual operation in Europe takes a noticeably different way from the Uppsala model. From the Uppsala model, production or manufacturing belongs to high-level commitment. SEC started with production activities in Eastern European countries since these countries owned the cost advantages. Obviously, the SEC’s actual operations leapfrogged some steps of the establishment chain. Therefore, the second hypothesis was rejected.
Furthermore, the second hypothesis depicts the lower part of the basic mechanism of the internationalization from the Uppsala model (See the colored part in Figure 9). The current activities are the commitment to the target market and the commitment was established from low-level to high-level during this process. However, SEC leapfrogged several steps based on individual the country-specific environment.

![Diagram](image)

Figure 7: The 1977 Uppsala model

5.3 Discussion

These hypotheses derived from the Uppsala model have been employed for the testing of internationalization process of SEC. Empirical materials were applied to test two hypotheses. The testing results are concluded as follows:

Firstly, SEC did not begin their internationalization in culturally and geographically close markets from the domestic market. However, the political system and business environment of the US and Europe are close to SEC’s home environment. Furthermore, diplomatic relations were established earlier between Korea-US and Korea-Europe. SEC’s case also indicates that through recruiting high-level talented elites with international experience could minimize the impact the remote macro-level psychic distance.

Secondly, the sequential process of establishment chain derived from the Uppsala model is not well supported by SEC’s actual operation in Europe (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977), because SEC leapfrogged some steps in the establishment chain in several Eastern European countries e.g. Slovakia and Hungary.

It can be concluded that the Uppsala model is only a limited explanation of the internationalization process due to the light of changes in the business environment. A more general study of internationalization would also include the factors, such as cost advantages which are also important forces in the internationalization process. Furthermore, the two hypotheses have formed the basic mechanism of internationalization in the Uppsala model.
6. Conclusion

This chapter consists of three parts. The first part is a summary of the thesis; the second part is a discussion on the research questions; the third part provides some implications for further studies on the internationalization process of firms.

6.1 Summary

This thesis focuses on the theoretical test of the Uppsala model in SEC case. The Uppsala model is a dynamic theory that elucidated the internationalization process. The Uppsala model consisted of two dimensions. The first dimension is the basic mechanism of internationalization process: the accumulation of knowledge and commitment (See Figure 1). These two elements are closely connected and constitute a dynamic process with risk and uncertainty aversion. The second dimension is the sequential mechanism of the internationalization process in term of psychic distance (from the market with close psychic distance to the market with remote psychic distance) and commitment expansion.

In the Uppsala model, market knowledge is a decisive factor in establishing the firm’s commitment. In this thesis, the market knowledge is exemplified as the macro-level psychic distance indictors (See Figure 6).

Since psychic distance is an abstract definition, how to translate the abstract notion into concrete case is a difficult job. Therefore, how to apply the Uppsala model into SEC case requires many pages in this thesis.

6.2 Discussion on Research Questions

The macro-level data analysis from geographically distribution of Korean outward FDI confirmed the Korean firms expanded their international activities from the
geographically close countries to remote countries. However, psychic distance is a broad definition than geographical location. Hence, the case study of the internationalization process of SEC in two target markets-China and the US has certified more varied elements than the elements provided by the Uppsala model. SEC invested earlier in the US than in China which is geographical close to SEC’s home environment. The main reason for SEC invested in the US rather than China is the US-Korea diplomatic relations. US-Korea diplomatic relation is close because US helped Korea establish capitalism type of state after the World War II. Therefore, SEC decided to invest in the US since US-Korea diplomatic relation is imitated and stable.

The data analysis of SEC actual operation in Europe is poorly supported by the sequential process of the commitment expansion in the internationalization process, because SEC leapfrogged several stages in the traditional establishment chain.

It can be concluded that the Uppsala model is only an incomplete study of the internationalization process of firms due to the unpredictable business environment and all the theories on a process of improving. Johanson and Vahlne have been extremely meticulous with limited elements in the Uppsala model, e.g. knowledge and commitment. Data analysis has been emphasized the variables e.g. cost advantages, target market potential through testing and assessing SEC case. However, these new variables can be concluded into the market knowledge category. Since knowledge is too broad definition, I elucidate the abstract “knowledge” with the elements which impact psychic distance and make the “knowledge” concrete as the following elements: culture, language, education, economic development, political system, religion and time zone. How to translate these objective elements into decision-makers’ perception is important. How the decision-makers understand the psychic distance will impact the market commitment decisions. Therefore, decision-makers’ backgrounds such as their age, international experience and education will impact their perception on the understanding of psychic distance. Therefore, the Uppsala model is formulated as follows:
Figure 8: The Uppsala model


6.3 Implications

There are a few suggestions on the study of internationalization process of firms to future research are provided.

First, Johanson and Vahlne revisited the Uppsala model in 2009. It would be
interesting and important to compare the old Uppsala model and the revisited Uppsala model.

Second, this study has tested the issue of internationalization of SEC from emerging economies. The Uppsala model actually based on the experience of MNCs from developed countries, it would be interesting to conduct comparative case studies between the firms from developed countries and emerging markets.
Note:

1. From now on ‘Korea’ is used as shorthand for South Korea

2. The internationalization is this thesis refers to the internationalization process of firms.

3. SEC is one of the Samsung Group’s affiliated companies (www.Samsung.com). When people refer to Samsung, they are usually talking about SEC, which is the most widely known Korean business internationally. In my research, I applied the case study of SEC.
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