The Uppsala Model's Applicability on Internationalization Processes of European SMEs, Today

A Case Study of Three Small and Medium Sized Enterprises

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Supervisor: Prof. Thomas Kalling

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Daniel Tykesson 841203
Mikael Alserud 860106

I Abstract

Title: The Uppsala Model's Applicability on Internationalization Processes of European SMEs, Today - A Case Study of Three Small and Medium Sized Enterprises

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Authors: Daniel Tykesson and Mikael Alserud

Tutor: Thomas Kalling

Five key words: Uppsala Model, Internationalization process, SMEs, Entry modes, Networks

Purpose: This paper's purpose is to increase the understanding of the updated version of the Uppsala Model of Internationalization Processes through testing its applicability on European SMEs in the today's environment.

Methodology: This is a qualitative study with a deductive approach based on three case studies. Firstly we develop a theoretical framework based around the Uppsala Model and Entry modes. Secondly empirics are collected by performing semi-structured interviews with top managers at internationalizing firms. In the following we apply the theoretical framework on the empirical findings in order to evaluate the applicability of the selected theory on the studied companies.

Theoretical perspectives: This study's theoretical focus is mainly the Uppsala Model of internationalization, accompanied by entry modes which are discussed as an indicator of commitment. In the theoretical framework we combine the two main theories emphasizing the relation between risk, commitment, uncertainty, and the choice of entry mode in the internationalization process.

Empirical foundation: The empirics are based on interviews of individuals with past and present experience within the three internationalizing small and medium sized firms. The interviews are intended to develop a deeper understanding of what influences a SME's internationalization decisions.

Conclusions:

In principal our empirical findings confirm the applicability of the Uppsala Model on SMEs. However we believe the Uppsala Model to be very general. This is the reason why it fails to explain some complexities in the real world. Simultaneously the model's general approach is also its biggest strength. Since it focuses on explaining the fundamental elements of internationalizing firms it is possible to apply the model to a wide range of situations. Nevertheless in order to increase its understanding we would appreciate to see a stronger integration of entry modes in further developments of the model. Most importantly we want to encourage other researchers to test our hypothesis of "limited commitment" on a greater sample.

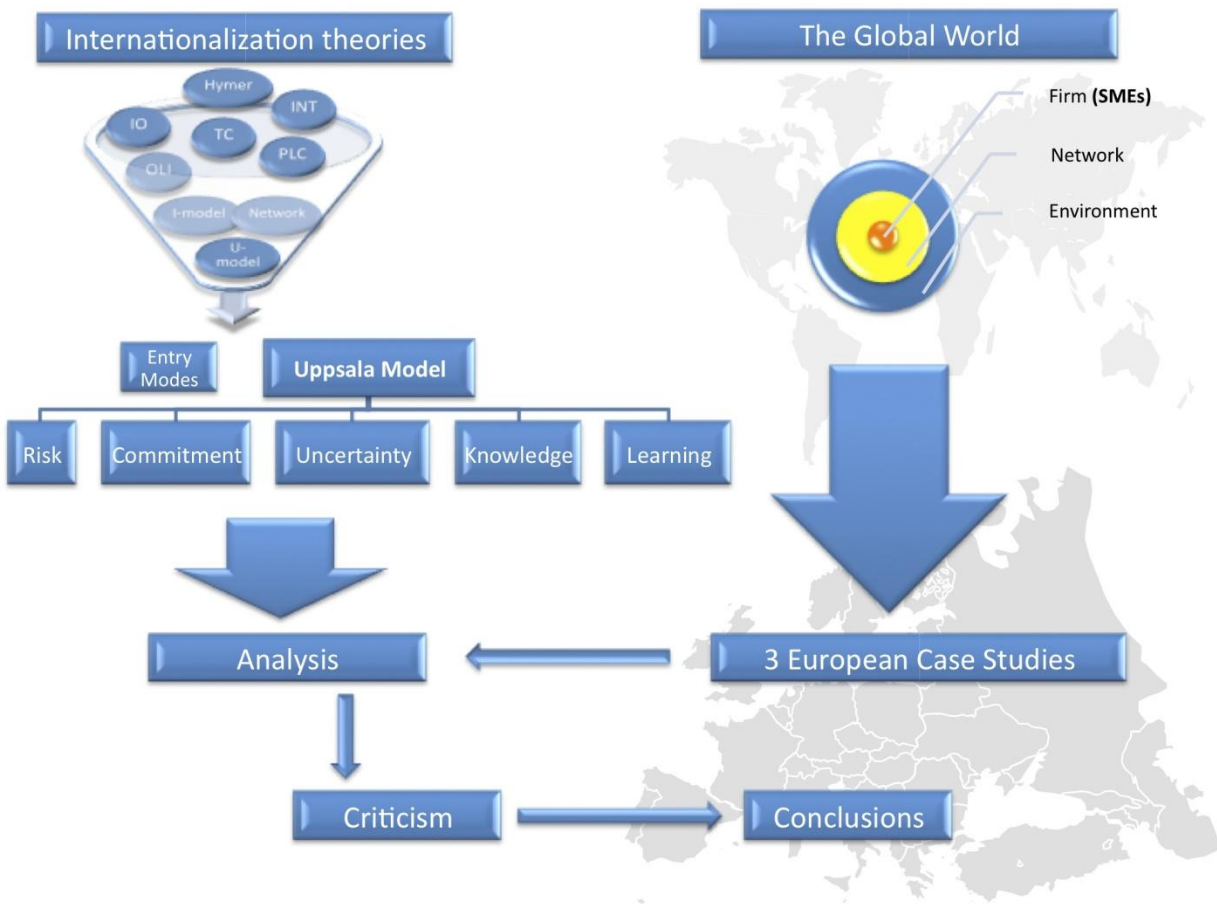
II Preface

We, the authors of this thesis, decided very early in our master program to write our thesis about internationalization theories. Apart from our strong personal interest in this area other reasons to do so were that this research field has significantly been influenced by environmental changes during the last three decades. The impacts of those changes were discussed heavily and the impeachment of existing theories was questioned recently. Some authors are even requiring totally new models of internationalization. Our interest was especially in theories explaining how companies decide which markets to enter and which entry mode to choose. It is no coincidence that we encountered the Uppsala Model since Johanson and Vahlne had very similar research questions to ours when they were building the Uppsala Internationalization Process Model (Uppsala-Model):

“Two research questions that seemed to be of strategic relevance attracted the interest of the researchers. One concerned the choice of country markets the firms entered. The other was the mode of operating in foreign markets.” (Sharma and Blomstermo, 2003 p. 4)

Since so many different updates and criticism, as well as support exist, our first impression of the Uppsala Model was not very clear. Once we got a clear understanding of the whole model and after reviewing as well as comparing several internationalization theories we realized its true potential. Therefore our target became to increase the understanding of the model and investigate its applicability to small and medium sized enterprises in the today’s environment. Since the process of internationalization and entry modes are inseparable from our point of view and *commitment* being one of the fundamental factors of the Uppsala Model, we include the entry mode theory in this paper in order to use them as an indicator of the latter. The following figure illustrates how we approached the topic of this paper and should be used as a road map of this paper.

Figure 1: Road map



Source: Alserud & Tykesson ,2011

III Acknowledgements

While writing our thesis, we were supported by different people. Therefore we would like to take this chance and express our gratitude, to our supervisor Prof. Thomas Kalling who helped us to stay on the right track during our working process. We also want to thank our interview partners, who we can unfortunately not name in this paper. They were standing to our disposal more than once during the time of our thesis and were patiently and kindly answering our follow-up questions. Furthermore we are thankful for the critical review of our thesis which was made by our opponents Ammeli Stigborn and Besnike Bahtiri. Last but not least we want to acknowledge the staff of Lund University Library who helped us to find further literature about our topic.

Contents

1 Introduction

In this chapter we will begin with a broader summary of the changes in the business environment during the last decades and follow with an extensive review of existing internationalization theories. We will continue this chapter by discussing criticism of the Uppsala Model and conclude by presenting the purpose, limitations and disposition of this thesis.

1.1 Background

The terms *globalization* and *internationalization* have been around for quite a while. Taking a deeper look into that research field, one realizes quickly that various authors of different time periods agree on one thing immediately, the world at the time of their publications has never been more global before. The world has become a smaller place more integrated and connected as ever before. Bisson, Stephenson and Vigueri, support this view, according to them globalization and digital technology have created networks that allow firms to benefit from moving between different counties. Additionally trade barriers have been reduced through free trade agreements (e.g. NAFTA, Mercosul) and the World Trade Organization (WTO) has achieved tariff reductions. Further factors that positively influenced globalization are the establishment of a monetary union and the incorporation of new members in the EU. Money, goods, data and people have never crossed boarders more frequently. Compared to 1990, trade flows rose 1.5 times faster than global GDP and the cross-border capital flows rate grew three times quicker than the GDP growth rate. The exchange of information between countries also increased exponentially (Bisson, Stephenson & Vigueri, 2010). Advances in communication technology, transportation and advances in production processes are the main driving forces behind this (Axinn, & Matthyssens, 2002). Of all inventions in the past the discovery of the Internet had indisputably the biggest impact on globalization so far. It formed the world to one single network, consisting of billion minds.

According to the neo-classical theory the overall goal of globalization is to improve the standard of living of the world's population. This is supposed to be achieved through free trade of goods, services and capital between countries. This again, leads to higher productivity and further investments. It seems that this is a goal everyone should share. Paradoxically, significant resistance towards globalization exists. This resistance, raised attention through frequently violent protests at routine meetings of trade officials (Seattle/N30, Washington A16, Washington

G-7 IMF etc.), and publications of respected researchers. J. E. Stiglitz, Nobel Prizewinner in the field of economics in 2001, criticizes how globalization is practiced. His main criticism is tended towards the International Monetary Fund and the Treasury department of the US government. Especially their treatment of developing nations contradicts with Stiglitz views. However he believes that the concept of globalization can be used for good and to enrich the poor and the wealthy people. According to Stiglitz it all comes down to the application of the theory (Stiglitz, 2002). Most criticizers would probably agree with the overall goal of globalization, but they do not believe in the way governments and companies chose to achieve this goal. However, it seems no one can stop the globalization process; even though this process has occasionally been set back by its own supporters, such as the US government, when it implemented punitive tariffs against foreign steelmakers. This unbalance was quickly corrected by the US government after facing pressure from their trade partners. One question remains, is globalization the result of companies striving for growth combined with technological developments or is it a goal, politicians try to achieve? Nowadays every firm is fighting in a global arena, called “the global economy”, exposed to threats and opportunities which appear in the form of competition, as well as in access to new markets. Some companies choose to go abroad, because domestic markets are stagnant, foreign markets are growing faster and others just follow competitors or just ignore their global environment.

1.2 Internationalization of a Firm

In the global arena a company needs to find its place, by planning, testing, implementing and evaluating internationalization strategies. Different researchers have developed different tools and theories to describe internationalization of firms and have made different suggestion of how to cope with this changing situation. Below we will give a brief overview over the landscape of internationalization theories. We do that, in order to give the reader an understanding in which context to put this paper. We start with the neo-classical approach and go on with a concise historical overview. Next we continue with a discussion of the most important theories leading to the process-based theory and discuss existing process-based theories as well as theories further developing the process-based view. On this path we will always mention and explain the most important, competing and overlapping theories in a few words.

1.2.1 Traditional Models

The majority of internationalization theories have their origin in industrial organization and economics, from Coase over Bain and Williamson. S. A. Hymer was the first who strongly criticized the neo-classical theory, which is based among others on the following assumptions: people act rationally, have full knowledge of markets, firms focus on profit maximizing and markets are balanced. Hymer's criticism led to one of the three traditional models internationalization strategies are based on, the *Industrial organization theory (IO)* (Hymer, 1960; Kindleberger, 1969; Caves, 1971; Agmon & Lessard, 1977), the *internationalization theory (INT)* (Coase 1937; Penrose 1959), and the *transaction cost theory (TC)* (Williamson, 1971, 1975; 1981).

The *IO* theory adds factors of imperfect competition such as transaction cost and limited information to the neo-classical model. One basic assumption is that operating overseas is more costly than operating in once domestic market. The *INT* theory rests on Coase's criticism of the neo-classical theory and overlaps partly with the *TC* theory which was mainly influenced by Williamson's extension of Coase's ideas. It assumes that multinational enterprises (MNEs) are able, to successfully place value adding activities in different parts of the world due to market imperfections such as government interference and uncertainty. *TC* and *INT* theory conflict with the *IO* theory since it assumes that MNEs can avoid consolidating with market imperfections. When external transaction costs exceed internal bureaucratic costs, the firm will expand if the opposite is the case the company will downsize (Axinn, & Matthyssens, 2002). The *TC*- and *INT*-theory were then applied to form *MNE and international production theories* by McManus (1972), Buckley & Casson (1976), Teece (1977), Rugman (1981), Caves (1982) and Hennart (1982).

The *eclectic theory (OLI)* (Dunning, 1958, 1977, 1979, 1988) exceeds the traditional model by considering trade as an additional possibility to invest in order to reach foreign markets. He combines the traditional models and adds three factors, *the ownership advantage, the location advantage and the internationalization advantage*. These variables decide whether a MNE shifts production to another country or not. Dunning comes to the conclusion that firms can profit from production in foreign countries (Axinn, & Matthyssens, 2002).

Other models, based on macro-economic features are the *Product Life Cycle theory of international production, investment and trade* (PLC) (Vernon, 1966), *Aliber's theories* (Aliber, 1970, 1993), Pitelis (1991) and Cowling & Sugden's work (1987). Since the PLC- theory belongs also to the process-based theories we will start with discussing Aliber's theory and get back to the PLC in the process-based theory section.

Aliber in his work from 1966 focuses on financial flows between countries and the trade barriers between them. According to him countries with high entry barriers will be a magnet for foreign direct investments (FDIs) since companies could overcome trade barriers this way. Moreover he believes that firms in countries with a strong currency invest in countries with weak currencies to profit from deviations from the Fischer Parity. In his work from 1993 he shifts his focus from the financial aspects to the real economy by looking at growth rates of national production.

Pitelis, Cowling and Sugden deal with the lack of effective demand in *monopolistic structures* and its effect on national growth (Pitelis, 1991 and Cowling & Sugden, 1987). *Monopolistic advantage theory* stresses that multinational firms have superior knowledge due to superior manufacturing, brand awareness, patents, talents and a wider product portfolio. As soon as firms have established this superior knowledge, they can use it abroad, without any additional costs (Hymer, 1976; Caves 1982). According to *Oligopolistic reaction theory* firms go international, following the strategy of other members in the oligopoly, thereby reducing the risk of being dissimilar (Knickerbocker, 1973). Knickerbocker and Graham are authors who both focus on *oligopolistic market structures*. Knickerbocker developed the PLC-model further by looking at the deviation between the firm's actual choice of FDIs and the choice suggested by the PLC-model. He points out risks and uncertainty factors for firms, operating in oligopolistic markets. Graham comes from a similar background. He searched for explanations of the *transatlantic reversal*[1] (Knickerbocker 1973 and Graham 1978, 1985).

During the 1970s researcher's focus shifted temporarily from process-based theories to investigating transnational firms (TNFs), investigating the link between transaction cost theory and TNFs as well as the relationship between states and TNFs (Jansson, Saqib & Scharma, 1995; Scharma 1983; Williamson, 1975; Hennart, 1982; Buckley and Casson 1976). Porter (1985) and

[1] Describes the change of the US being a net outward investor to being a net inward investor.

Stopford & Wells (1972) took a close look at TNF applying manager's view to the strategy and structure of TNFs (Blomstermo & Scharma, 2003).

1.2.2 Process-based Theories

In the following we focus on the differences between the process-based theories, by comparing the Uppsala Model to other existing process-based models. Moreover we finish with presenting the network theory since several researches show that market knowledge is established through networks of interrelated business relationships (cf. Håkansson 1982; Håkansson & Snehota 1995; Blankenburg Holm, Eriksson & Johanson, 1999, Blomstermo & Scharma, 2003).

The process-based view was first introduced by Vernon (1966) and took a major step forward through Johanson &Vahlne's (1977) work, which continued Wiedersheim-Paul's (1972) publications on uncertainty and economic distance. Other authors, who contributed to a better understanding of process-based theories, are: Burenstam-Linder (1961), Aharoni (1966), Bilkey and Tesar (1977), Cavusgil (1980) Czinkota (1982), and Reid (1981). To get a closer look at the differences between the single internationalization process models take a look at Appendix 1.

The *PLC-theory* was the result of research carried out by Harvard University which studied internationalization of companies simultaneously with the Uppsala University (Uppsala Model). The main idea behind this theory is that developing new products and processes requires intensive two-way communication between producers and users. Therefore they need to be localized close to each other. This implies that products and processes are developed in counties where the demand for these products arises first. Therefore the model assumes, that new products were more likely to be developed and produced in advanced countries with a high per capita income level and a highly skilled labor force (early-, growth-phase). When the domestic market is saturated and mass production as well as economies of scale is reached in the mature phase, the company starts exporting competitively to less developed countries. As soon as competition rises in the home market and demand becomes more price elastic and rises in the developing countries, it is more profitable to move the firm's production to less developed countries. When these countries become big enough for large-scale production, products will be exported to the original domestic market (Vernon, 1966, 1979).

1.2.3 Taking it One Step Further

The *Uppsala Model of Internationalization* by Johanson & Vahlne, (1977, 1990), rests on the resource-based view that has its source in the classical theory of the firm (Penrose, 1959). It was based on research on the internationalization process of large Swedish manufacturing firms in the 1970's. The main accomplishment of their research was that firms tend to enter a new market incrementally depending on their market knowledge. It also points out the affect entry mode decisions have on time. The model is divided into two basic aspects, state (market commitment, market knowledge) and change (Commitment decisions, current activities. Fundamental concepts of the Uppsala Model are knowledge, learning, uncertainty, risk and commitment. The Uppsala Model is also the only adaptive approach of the process-based models, Bilkey & Teasar's and Cavusgil's are both reactive models, whereas Czinkota's model is proactive (Blomstermo & Scharma, 2003).

1.2.4 Differences between the PLC-Theory and the Uppsala Model

Both Vernon's and Johanson and Vahlne's observations researched international developments that were the result of firms' learning processes. However it must be noted, that the PLC-model is based on American observations whereas the Uppsala Model is based on observation of Swedish firms. The size of the two domestic markets is the main distinction. American firms were able to build an international competitive advantage before entering international markets, due to its large domestic market; Swedish firm had to enter international markets earlier in order to generate the same economies of scale. As mentioned above the model explains the influence of income and cost levels in different countries on export and FDIs and does not consider the strategy of individual firms. Further it concentrates on knowledge about products and process development, while the Uppsala Model focuses on market knowledge as the main factor influencing the internationalization of a firm (Blomstermo & Scharma, 2003).

1.2.5 Differences between the Innovation-based Model and the Uppsala Model

The *Uppsala Model of Internationalization* (Johanson & Vahlne, 1977) and *the Innovation Model* (Bilkey & Teaser, 1977; Cavusgil, 1980, 1984 and Czinkota, 1982) are behavioral oriented theories. They indicate that firms go abroad in a slow and incremental manner and take the environment as an unchangeable factor. Their samples consist both out of manufacturing firms and follow Penrose's resource-based view, focusing on market knowledge, high risk aversion, market commitment, uncertainty and their influences on the internationalization processes of a firm. Both models are dynamic, in the sense that the outcome of one decision about foreign market entry determines the input for a consequent decision. Experiential knowledge is both input and outcome in the internationalization process. It is gained by operating abroad and grows a long with time (Madsen & Servais, 1997, (Blomstermo & Scharma, 2003).

The difference between those models is that the Uppsala-Model interprets the internationalization process of a firm as an involving and time consuming organizational learning process, where as the Innovation-based model analyses the internationalization process as an innovative decision process adapting new ways of doing business (Madsen & Servais, 1997). Johanson and Vahlne view experiential knowledge as a factor that reduces uncertainty and creates foreign business opportunities. Bilkey and Tesar explain the internationalization process as an even more incremental development, classifying companies into various stages and focusing on numerous explanatory factors. The Innovation Model differs also between authors, mainly in the number of steps (5-6) and the different motives for export. Some authors distinguish between pro active and reactive motives, they say it makes a difference if a company is forced to go international by its environment or it decides that on its own.

1.2.6 Network Theory

The network theory implies that relationships are investments in assets and therefore argues for a stronger consideration of a firm's networks. Firms no longer compete on an individual level; they compete on network level, including domestic or foreign suppliers and customer as well as their customesrs and their suppliers (Johanson & Mattsson, 1988). The "market-versus-firm" distinction central to transaction cost-based theories is challenged by the network theory, looking more at the intra relationships in a whole network (Weisterfelder, 2001).

The network approach has currently been integrated into the latest version of the Uppsala Model (Johanson & Vahlne, 2009). It appears that the Uppsala-Model is more general and further developed than the other process-based models, due to its frequent updates.

1.3 Problem Discussion and Critical Review of the Uppsala Model

As discussed earlier, the majority of the prevailed internationalization theories describe a firm's internationalization as an incremental process of increasing commitment. It stuck out that the theories focus on explaining the internationalization of large manufacturing firms. The Uppsala

Model, being one of the more recent theories of internationalization, was mainly based on empirical findings of the internationalization process of large Swedish Industrial firms (Johanson & Vahlne 1977. This raises the question, if the Uppsala Model can be applied to small and medium sized enterprises SMEs[2] as well, according to Blomstermo & Sharma (2003) this is the case. Unfortunately they do not name specific reasons for that (Apendix 1). Since the invention of the original Uppsala Model the business landscape has changed, the service sector has out grown the production sector and new technologies have influenced the day-to-day business extremely. These changes are challenging less current models and inventors, who have been trying to adapt and update their models such as Johanson and Vahlne.

1.3.1 The New Environment

As a result of increased globalization the number of international opportunities and internationalization strategies have increased significantly as well as the threat of not expanding into foreign countries, missing out on new opportunities. Forsgren (2002) mentions this when criticizing the Uppsala Model. He argues that firms might intentionally invest internationally; despite of low market knowledge, if the perceived risk of *not* investing is higher than actually investing. One reason for this can be fierce competition and low growth rates in the home market. One could argue that this observation does not contradict with the Uppsala Model, since the model is not built to explain why a firm chooses to enter a market. Instead it focuses on the activities after the decision to go abroad has been made (Johanson & Vahlne 1977, 2009; Figueira-de-Lemos, Johanson & Vahlne 2010).

1.3.2 Psychic and Physical Distance

The original Uppsala Model suggests that the order of which market a firm enters depends on *psychic distance* and *physical distance*, beginning with countries closer to its home market (Johanson & Vahlne 1977). The world has become more global, which has not decreased *physical distance,* but made it less of an obstacle. As people travel more and companies become more global, different cultures encounter more frequent, which makes intercultural management a present issue. At the same time digitalization and more convenient travelling makes it easier to nurse long distant relations and to participate in global networks. This has also made alternative distribution channels possible such as selling and delivering products over the Internet. Hence, as

[2] In accordance with the European Commission (2009) we consider firms as SMEs if they have less than 250 employees, less than 50 million EUR turnover and a balance sheet total of less than 43 million EUR Appendix 2).

the world has changed, old theories might overestimate the implication of both physical and *psychic distanc*e in the internationalization process both in the case of which market to enter and which entry mode to chose. This change has been recognized by Johanson & Vahlne (1990, 2009) and their focus on psychic distance has been moved towards the risk of not being a member of desirable networks. Psychic distance is still regarded as an important factor determining the level of uncertainty, but one that can be overcome or reduced by being part of the right network. A subject noted by Axinn & Matthyssens (2002) when criticizing the Uppsala Model is e-commerce. Internationalizing in this way makes it possible for firms to enter a large number of markets, without following the incremental steps suggested by the Uppsala Model. It is also argued by the authors that this speeds up the internationalization process and reduces issue of psychic and physical distance. However, one could argue that the effects of the phenomena e-commerce are in accordance with the Uppsala Model's risk equation based on market commitment and market uncertainty.[3] The level of commitment when using e-commerce is arguably low. This makes it possible for the firm to take on a higher level of uncertainty without exposing it self to an excessive total level of risk, even though physical distance is of a larger extent. Hence, the e-commerce phenomenon is not contradicting the assumptions of the Uppsala Model but rather confirms them. Firms will enter markets with less commitment when there is high market uncertainty.

1.3.3 Small and Medium Sized Enterprises

Nowadays threats and opportunities from globalization are not only relevant to large companies but also to SMEs, start-ups as well as established companies. SMEs might seize the opportunity to reach a larger market, taking advantage of technological progress. Crick and Jones (2000) found in their research that SMEs chose very different ways when going abroad. Furthermore they discovered that SMEs often feel an urgent need to internationalize as quickly as possible. Studies of SMEs' internationalization processes have led to some criticism of the Uppsala Model. Knight (1997) highlights the phenomenon of *"born-globals"*. He defines born-globals as firms that instantly internationalize. He also points out the difficulty to explain the phenomena using present theories of internationalization. Johanson & Vahlne (2009) answered this criticism when they added the network view into the original model. In the updated version they use the findings of Welch & Welch (1996), Chen & Chen (1998), Ellis (2000), Chetty & Blankenburg Holm

[3] The risk equation: Uncertainty X Commitment = Total Risk. This concept is discussed more in depth in Part 2 Theory

(2000), Elango & Pattnaik (2007) and Loane & Bell (2006), implicating the importance of existing networks in a firm's internationalization process (Johanson & Vahlne 2009). Taking the impact of networks and relationships between firms into account, they recognize a wider range of knowledge acquisition. This partly explains the more rapid pace of internationalization. They also point out that their model does not claim, internationalization necessarily being a slow process. However, there needs to be a sufficient amount of time to accumulate enough knowledge in order to decrease uncertainty.

1.3.4 Services versus Products

Business organization and character differs substantially between service and manufacturing firms. In most cases it is not possible to create a service in one country and to consume it in another, since services are considered to be created and consumed at the same time and place, in cooperation with the customer (Grönroos, 2002). However there are some exceptions such as call centers, where the service is provided over the phone or Internet which allows different locations between service provider and customers. A firm active in the service sector will take different internationalization steps than a manufacturing firm. There will be differences in the kind, the amount and the reversibility of invested resources. For instance a firm in the service sector will not be forced to invest in factories and does not need to take transportation of finished goods in to account. Though, it might be more important for a service provider to overcome cultural barriers such as foreign language and customs when establishing its business abroad.

1.3.5 Determinism

Another point of criticism regards the higher speed of internationalization leaving the Uppsala Model as too static (Andersen 1997) and deterministic (Petersen et al. 2003). Johanson and Vahlne (1990, 2009) argue that their model is not static but instead dynamic. Further, they argue, "[…] our model focuses on the processes driving continuous change of those [*the firm*] boundaries." (Johanson & Vahlne, 2009 p. 1426). Regarding the accusation, of the model being deterministic Johanson and Vahlne agree on the causal relationship between experiential learning and commitment of resource. Their definition of causal, though, does not suggest that one factor is determining the other, but rather that there is a relationship where the factors influencing each other. They also admit that there usually are several factors, other than experiential learning and commitment that also have an impact on the causal relationship (Johanson & Vahlne 2009). According to Andersen (1997) and Petersen et al. (2003) the accusation of being too deterministic also implicates that the Uppsala Model neglects managerial action. Axinn and Matthyssen (2002) continue by stating that today's firms have flatter hierarchies and that inter-firm relations and structures are more flexible. In the light of these arguments they claim that: "[…] managers play an increasingly important role in the development of firms' internationalization strategies." (Axinn and Matthyssens, 2002 p. 445). This is especially true for SMEs which are likely to share these characteristics due to their smaller size. Johanson and Vahlne (2009) agree in that management's opinions and perceptions are important, although they state that they believe managers will be biased by path dependency making them favor certain alternatives to other ones. They end by simply adding "[w]e also think that the model can easily incorporate managerial discretion and strategic intentions." (Johanson & Vahlne 2009, p 1417). The authors of this paper would have preferred a deeper discussion by Johanson and Vahlne of *how* it could be integrated into the model.

1.3.6 Concept of Learning

One of the major reviews of the Uppsala Model was made by Forsgren (2002) and one of his larger criticisms about the model concerns the concept of learning. In the Uppsala Model learning is considered to take place incrementally as experience increases. Forsgren (2002) however points out that there has been a large amount of research showing that there are more dimensions of organizational learning. It is argued that firms can learn from other firms in their network by having access to their knowledge and thereby not having to experience them self (cf. Forsgren, 2002; Hansen, 1999; Kraatz, 1998; Kumar & Kofi, 1998; Lane & Lubatkin, 1998; Levitt & March, 1988). Imitative learning is another alternative to experiential learning where the firm tries to do as other successful firms do and thereby gaining experience (cf. Forsgren 2002; Björkman, 1990, 1996; Di Maggio & Powell, 1983; Haveman, 1993; Haunschild & Miner, 1997; Huber, 1991; Lewitt & March, 1988). To hire people with experience, acquiring local firms or simply perform a focused research for information are also argued to be alternative ways of increasing knowledge without experiential learning (Forsgren, 2002). Johanson and Vahlne respond to this criticism in 2009. One of their arguments is that for a firm to be able to recognize which firm to acquire, people to hire and firm to imitate, it has to gain some experience of its own even if they admit that recent research forces them to adapt their conclusions on a firm's learning process. They also acknowledge the argument about the possibility of acquiring knowledge from the firm's network in the same article as they integrate the network view. However, Johanson and

Vahlne (2009) point out that theoretical models are usually not considered as an exact reflection of reality, but as an explanation of the most fundamental components of reality. Since the Uppsala Model is more general it will not in a detailed way explain different kinds of occasionally relevant situations. Referring to studies on organizations' learning processes, (cf. Argote, 1999; Nelson & Winter, 1982; Cohen & Levinthal 1990) they argue that experiential and accumulative learning is fundamental even if it most certainly can and will be complemented by various kinds of additional learning processes (Johanson & Vahlne 2009).

1.3.7 Stages of Internationalization

A substantial part of the criticism that has been directed towards the original Uppsala Model focuses on the stages of internationalization (Hedlund & Kverneland, 1985; Oviatt & McDougall, 1994; Zahra, Ireland, & Hitt, 2000; et al). Johanson and Vahlne respond in 2009 pointing out "[…] that the establishment chain is not part of the model, but rather a summary of the empirical observations on which we based our inductive theoretical arguments." (p. 1420). The exact way of entering new markets is not the focus of the model, even if it suggests that the commitment to the market will increase incrementally. Moreover, it is the relationship between knowledge accumulation, management of commitments that is central. The changes observed in firms' behavior is considered rather to be a result of changes in the business environment than changes of the mechanism of internationalization (Johanson & Vahlne 2009).

1.3.8 Research Discussion

Researchers have tried to adopt their models in order to update them in accordance with environmental changes. Those researchers have been criticized for integrating theories which premises are not perfectly compatible (Axinn & Matthyssens 2002). Even if the Uppsala Model was originally based on empirics of large Swedish multinationals, recent research has successfully used the Uppsala Model to explain internationalization processes of SMEs. Since then Johanson and Vahlne have made substantial changes of their original model by integrating the network view in order to increase its applicability (cf.. Su & Poisson 2000; Chetty & Blankenburg Holm 2000). The last update was made in 2009, as a response to criticism as well as new empirical and theoretical findings.

1.4 Purpose

This paper's purpose is to increase the understanding of the updated version of the Uppsala Model of Internationalization Processes through testing its applicability on European SMEs in the today's environment.

To achieve this we formulated the following research questions, which are based on the criticism mentioned in the problem discussion above:

***Research question 1**: How does psychic and physical distance influence internationalization strategies of SMEs in today's environment?*

***Research question 2:** How does top management's background and network affect the choice of internationalization strategies and markets?*

***Research question 3:** How do commitment and, uncertainty influence the choice of entry mode of SMEs?*

Research question 4: What *steps do SMEs take in the internationalization process and is there a difference of start-ups and established companies?*

***Research question 5:** Does the internationalization process of a firm differ, depending on the product's nature?*

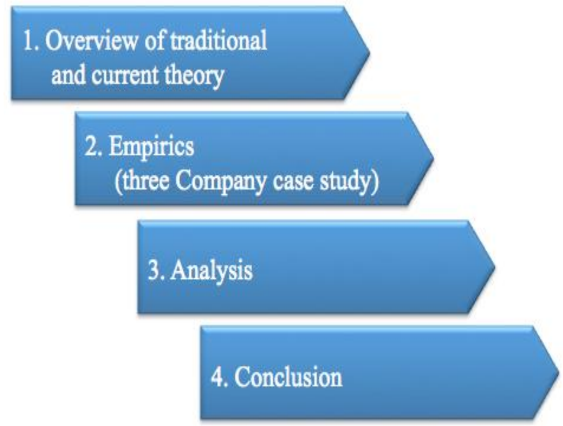
1.5 Limitations

This paper's conclusiveness is limited, to three specific cases. Therefore it is not meant to be representative from a statistical point of view. Due to the limited range of studied companies and their characteristics, German or Swedish origin and their size (SMEs) as well as their European sales structure, the results of the interviews need to be interpreted in this very specific context. Yet, the results can possibly be applied to other similar cases of internationalization processes. Motives considering the choice of the different cases are laid out in the method part of this thesis. Moreover this paper focuses heavily a process-based internationalization theories, namely the Uppsala Model of Internationalization Processes. Additionally we include entry modes to increase the understanding of the Uppsala Model. We discuss other internationalization strategies in the introduction of this paper very briefly. A further discussion would exceed the scope of this paper. However the discussion shows the reader the landscape of the existing internationalization theories and hopefully makes appetite for further readings.

1.6 Disposition

This paper will follow its purpose by illuminating the different versions of the Uppsala-Model, increasing its understanding and discussing its criticism. Then the paper continues by explaining different entry modes, linking them to the Uppsala Model; ranking entry modes in terms of their market commitment. Based on that a theoretical framework will be built, which is together with the research question the foundation of the empirical study and will lead to an empirical answer to our purpose. However, before we show our empirical findings we explain our research methodology. The next step is the analysis, which relates the empirical results to the theory. We analyze our empirical findings and evaluate the applicability of the Uppsala Model to European SMEs in the today's business environment. Finally we will sum up our developments, made in the progress of writing this paper, in a conclusion (Figure 2).

Figure 2: Disposition



Source: Alserud & Tykesson, 2011

2 Theory

In this chapter we guide the reader through the Uppsala Model, starting by presenting the original Uppsala Model from 1977. We then continue by adding the changes made by the authors over time. Subsequently we increase the understanding of the Uppsala Model by illuminating certain parts of the model which we think are not explained thoroughly enough by Johanson and Vahlne. Since the process of internationalization and entry modes are undividable from our point of view, we proceed by explaining entry mode theory to use it later as an indicator of a firm's commitment to a market. This results into the theoretical framework of this paper which surrounds our empirical research and analysis.

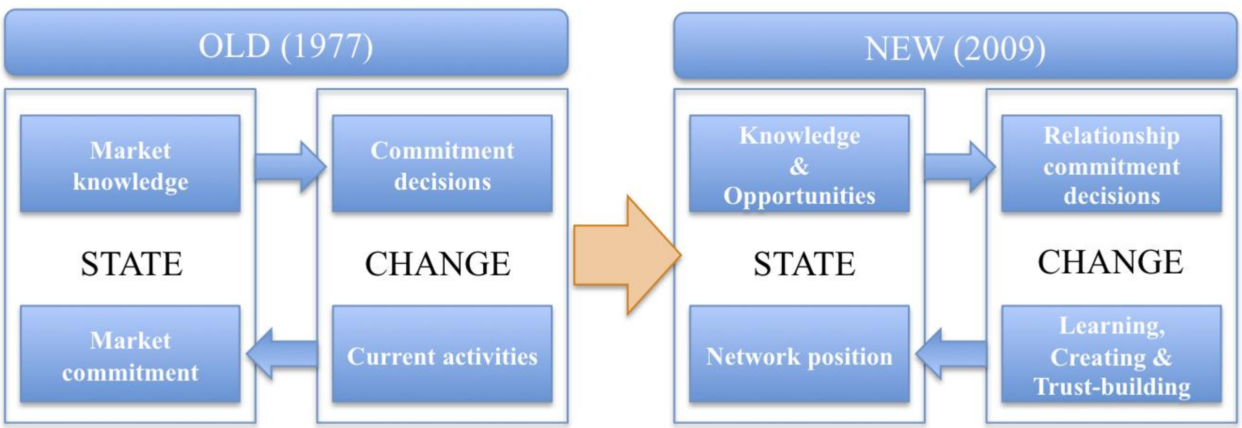
2.1 The Uppsala Model

The Uppsala Model of internationalization processes was first published in an international academic review in 1977 (Johanson & Vahlne). It has since then been revised a number of times (Johanson & Vahlne 1992, 2002, 2006; Figueira-de-Lemos, Johanson & Vahlne 2010). The authors Johanson and Vahlne founded their model on empiric findings of Hörnell, Vahlne & Wiedersheim-Paul, (1972); Johanson & Wiedersheim-Paul, (1975); Johanson, (1966); Forsgren & Kinch, (1970). It is based on the process and order that several Swedish firms seemed to follow during their internationalization processes in the late sixties and seventies. The findings suggested that firms in their internationalization processes incrementally increases their commitment on a foreign market by increasing their presence as time passes and knowledge of the market grows. Firms began expanding to markets that were most similar to their domestic market (Johanson & Vahlne, 1977). These findings were contradicting with the present truth about internationalization at that time (Johanson & Vahlne 1977, 2009). In the first article of the Uppsala Model, it was argued that companies entered new markets with a low level of commitment, e.g. exporting via agent, establishing a sales subsidiary and launching a production facility. As their knowledge of the market increased, more resources would be invested. The increased presence would then lead to an increase in knowledge and further commitment (Johanson & Vahlne 1977, 2009). Although Johanson and Vahlne focus on specific entry modes in the original paper from 1977, in more recent papers they point out that the model is not about entry modes, but instead about the processes of internationalization (Johanson & Vahlne 1992). The model aims to explain management's decisions, on opportunity and risk taking, based on the firm's level of commitment to a foreign market. Furthermore it explains how the experience and learning processes within the firm affect management's decisions.

2.1.1 The Internationalization Process Model

The Uppsala Model of internationalization processes consists of four stages, which explain how the learning- and opportunity perception affect, and is affected by the current environment of the firm. The model is considered to be dynamic by its authors; the result from one process is the input for the next step of the process, which will provide input for the next one, and so forth. The circular relationship between the concepts states that the process does not have a beginning or an end. The model distinguishes between the *state* and *change* variables each is divided into two aspects. In the original model the focus was laid on a specific firm and its activities in the foreign market and that market's level of uncertainty (Johanson & Vahlne 1977). In the new model from 2009, relationships and networks are taken into account more extensively (Figure 3).

Figure 3: The internationalization process model



Source: Johanson & Vahlne, 1977 Source: Johanson & Vahlne, 2009

2.1.1.1 State-side

The state variable considers aspects that are temporarily fixed by its nature, as for example a current situation or position. Since the internationalization process takes place within the firm's network, the current *network position* is an important aspect. Previously this aspect only considered market commitment. In the updated version it is argued, that market commitment is too narrow, therefore the model includes the firm's current relations. The relations are characterized by the level of knowledge, trust and commitment (Johanson & Vahlne 2009). It is within this position the firm can develop knowledge and seize opportunities on the market.

The second aspect on the *state side* of the model is *knowledge and opportunities. Knowledge* regards the current amount of knowledge, about the foreign market, within the firm. To make it even clearer that this knowledge is critical in order to recognize opportunities, the concept of *opportunities* was added. In contrast to the resource-based view and in accordance with the network view, the Uppsala Model from 2009 argues that the firm can recognize opportunities outside of its boundaries, i.e. in the context of its network. Hence, knowledge about internal capabilities is as important as knowledge about resources within the whole network (Johanson & Vahlne, 2009).

2.1.1.2 Change-side

In the original model, the *change aspects* included *commitment decisions* and *current decisions* (Johanson & Vahlne 1977). The word *relationship* has been added to *commitment decision* in order to clarify that it regards the firms' decisions of further commitment to relationships within a specific country (Johanson & Vahlne 2009).

In the updated version the term *current activities* has been replaced by *learning, creating and trust-building.* Current activities are still central but more focus has been put on the outcome of current activities. Experiential learning is part of both versions of the model; in the later version more forms of learning processes are added. However it remains the most important type of learning. Trust-building is important, since the network view has been added. Commitment to a network or to relations has to include a mutual trust in order to be rewarding (Johanson & Vahlne 2009).

All aspects in the internationalization process model are interlinked. A firm's current *network position* is the fundament on which the firm gathers its *knowledge*. The total amount of knowledge is determining the firm's ability to perceive *opportunities* upon which *relationship commitment decisions* are taken. The decisions again lead to the firm's *learning, creating and trust-building* which, will form a new position within the network of the firm as time passes. This cycle of actions and events is how the internationalization process is understood by the authors of the Uppsala Model, starting with low commitment and high uncertainty, incrementally increasing commitment as knowledge increases (Johanson & Vahlne 1977, 2009).

2.1.2 The Network Theory within the Uppsala Model

The network perspective was added to the original Uppsala Model, due to increasing globalism and new information and communication technologies (Johanson & Vahlne 1990, 2009). Research has shown that the choice of country and entry mode is affected by the firm's network and its position within it (Coviello & Munro 1995, 1997; Martin, Swamminathan & Mitchel 1998; Ellis 2000). In the updated version of the Uppsala Model the business environment is considered as an international network of relations, due to the fact that boundaries between firms and markets became vaguer over the last decades (Johanson & Vahlne 2009). The following core arguments by Johanson and Vahlne are based on the network theory. Companies take part in different networks and are linked in ways that differ in complexity and closeness to other firms. To be successful in foreign markets it is necessary to be part of a strong network. A firm's relations are created out of the social engagements with other firms, in which the involved firms sequentially and interactively develop their relation. As the relation evolves, firms accumulate knowledge and build trust. By participating in networks firms will expand their knowledge of markets and hence reduce uncertainty (Johanson & Vahlne 2009).

2.1.3 Key Concepts

In the original Uppsala Model, uncertainty and commitment are the two factors determining the level of *risk* associated with entering new markets, both of which are still fundamental to the updated model. *Uncertainty* represents a firm's lack of *knowledge* about a market. *Commitment* embodies the resources that a firm invests in a foreign market. The firm is risking losing these resources by operating and investing in this market. Hence, to affect the level of risk a firm faces on a certain market, it needs to change its level of commitment or market knowledge (Johanson & Vahlne 1977; Figueira-de-Lemos, Johanson & Vahlne 2010). The relationship of these factors is illustrated by Johanson & Vahlne (1977) as:

R = U x C

R = Total risk associated with the market

U = Uncertainty

C = Commitment

The level of risk might change independent of a firm's efforts, for example when additional competitors enter the market, a new technology is introduced or political turbulences appear (Figueira-de-Lemos, Johanson & Vahlne 2010).

2.1.3.1 Uncertainty

Risk and uncertainty are often used as synonyms; yet, Johanson and Vahlne keep them separated but dependent. In their framework they divide the concept of uncertainty into two parts, *contingent uncertainty* and *pure uncertainty*. It is impossible to reduce or eliminate pure uncertainty since it is based on the uncertainty that automatically follows the existence of a future. The firm on the other hand can influence contingent uncertainty. The more managers know, learn and understand, the better they get at managing contingent uncertainty. For example the more alternatives management perceive, the less ignorant managers become. Hence, contingent uncertainty depends on the knowledge base while pure uncertainty does not. Since contingent uncertainty can be influenced, the authors of the Uppsala Model focus on this type of uncertainty (Figueira-de-Lemos, Johanson & Vahlne 2010). When discussing "uncertainty" in this paper, it is defined as "contingent uncertainty" if nothing else is referred to.

In the early version of the Uppsala Model uncertainty is dependent on *physical* and *psychic distance* between the home market and the foreign market (Johanson & Vahlne 1977). Physical distance is the geographic distance between the two markets. They define psychic distance as "[…] as the sum of factors preventing the flow of information from and to the [foreign] market." (Johanson & Vahlne 1977, p 24) Such factors can be, for example: language, education, culture and industrial development. As the network perspective was introduced into the Uppsala Model, less focus has been put on psychic distance and instead the main factor creating uncertainty is considered to be "outsider ship", i.e. not being part of a knowledge accumulation network.

2.1.3.2 Knowledge

Increasing the firm's knowledge about the market can reduce uncertainty. The most critical factor constraining internationalization is considered to be lack of knowledge (Johanson & Vahlne 1977, 2009). This statement is in accordance with results from an observation undertaken by the European Union (EIM Business & Policy Research, 2010), which shows that firms find the lack of knowledge to be the greatest obstacle when expanding into foreign markets. According to Penrose (1966), knowledge is divided into two classifications, the first being *objective knowledge* and the second *experiential knowledge*. Objective knowledge can be acquired through books and lectures and it is possible to be passed from one individual to another. Experiential knowledge on the other hand can only be acquired through the individual's own experience. Experiential knowledge is also the most critical form of knowledge according to the Uppsala Model, because it is much harder to gain and incorporate within a firm. It is also considered the type of knowledge that makes it possible to perceive and react to market opportunities (Johanson & Vahlne 1977).

Johanson & Vahlne (1977) also make a distinction between *general knowledge* and *market specific knowledge*, where the former is more associated with objective knowledge and the latter with experiential knowledge. General knowledge is more connected with, for example, how the firm is interacting with other firms, theories on marketing business-to-business or to end customers and how to market a premium product versus a mass-produced product. This type of knowledge is easier to transfer between different markets. Market specific knowledge is more closely connected to the characteristics of a specific market such as business climate, culture and the structure of a market, but also to the characteristics of individual actors and stakeholders within the market (Johanson & Vahlne 1977). Even though there is a distinction between general and market specific knowledge, they are both important and "[…] knowledge accumulation should not be seen as a sequential process, but rather as the amalgamation or interplay among objective and experiential knowledge." (Figueira-de-Lemos, Johanson & Vahlne 2010, p 146). Moreover, knowledge within the updated version of the Uppsala Model is not only considered to be the existing knowledge within an individual firm. Instead it is the sum of the individual knowledge of a firm and the knowledge within a firm's network. To make the exchange of knowledge possible trust needs to exist between the counterparts in a relation. Since knowledge is a determining factor of uncertainty, being part of a network is critical to reduce the company's risk level (Johanson & Vahlne 2009).

Increasing experience can be a time consuming process. Therefore the payoff, of an increase in market knowledge through further market commitment will not be achieved straight away. Besides acquiring knowledge through increased experience, there are basically two ways of improving a firm's knowledge: hiring workers with market specific knowledge and perceiving counseling from market experts with experience and knowledge about the market. However acquiring a local company or buying services from a consultant agency does not eliminate the lime-lag described above. Therefore Johanson & Vahlne (1977) introduce the concept of *firm* *specific knowledge*. According to them, just as there is tacit knowledge about a market, there is tacit knowledge about a firm that needs to be experienced in order to apply it. This implies, that in order to transfer market specific knowledge, individuals in possession of the market specific knowledge also need to posses firm specific knowledge in order to transfer it. Without firm specific knowledge, market specific knowledge will not lead to satisfying opportunity recognition.

To sum up, knowledge and uncertainty are evidently and closely linked. As market knowledge increases, uncertainty decreases. This implicates that the total level of risk will also decrease, allowing an increase in the second risk determining factor *commitment* without exceeding the tolerable risk limit.

2.1.3.3 Commitment

A firm's commitment to a market has two dimensions. Firstly commitment is measured in terms of resources invested into the market. Secondly, the irreversibility of those resources must be taken into consideration. For example investments that are simply reversed, with a close to full value return, present a lower commitment than investments in very specific assets with no secondary market (Figueira-de-Lemos, Johanson & Vahlne 2010). Vertical integration is almost always considered as a larger commitment than horizontal. The original model from 1977 focuses on one-way commitments and on more physical commitments, such as investments in factories (Johanson & Vahlne 1977). When the network view was integrated (Johanson & Vahlne 2009), a "softer" definition of commitment was used. Johanson & Vahlne (1990 & 2002) go as far as arguing that a successful internationalization process demands a reciprocal commitment between a firm and its partners. Commitments can be made either in tangible or intangible assets. Tangible assets are easier to evaluate in terms of costs and revenue and includes for example trucks, equipment and plants. Intangible assets in contrast are harder to measure, and concern attempts to increase the knowledge and control of market conditions. To create a working relation both time and monetary resources are required, making it a large commitment since the investment is not easily reversed (Figueira-de-Lemos, Johanson & Vahlne 2010).

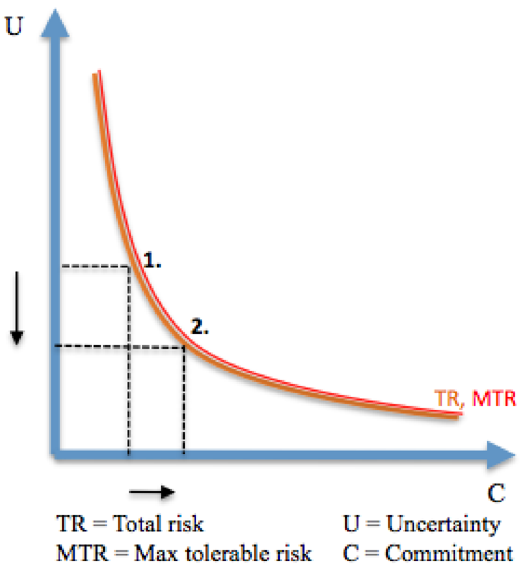
2.1.4 Risk Management

In 2010 Figueira-de-Lemos, Johanson & Vahlne presented a paper focusing on the risk management implications found in the Uppsala Model. They proceed from the definition of risk, R = U x C, from 1977 by further explaining how the model can be used to understand manager's risk behavior in the internationalization process. Basically they argue that management can adjust the firm's commitment to the market, thereby handling the risk exposure of the firm.

2.1.4.1 Uncertainty and Commitment a Trade-off

The total risk a firm will be exposed to is the product of uncertainty and commitment (R=U x C). There is a trade-off between those two factors. An increase in commitment leads to a higher total risk but will also result in a lower degree of uncertainty and therefore to an unchanged level of risk in the end, see Figure 4. As the firm enters a new market their knowledge will be low and hence the uncertainty high. Therefore the company will commit resources to a certain level that together with the given level of uncertainty, will result in an total risk level (TR), that should be equal or less than the predetermined maximum tolerable risk level (MTR) the company is willing to take (Figueira-de-Lemos, Johanson & Vahlne, 2010).

Figure 4: Total risk curve



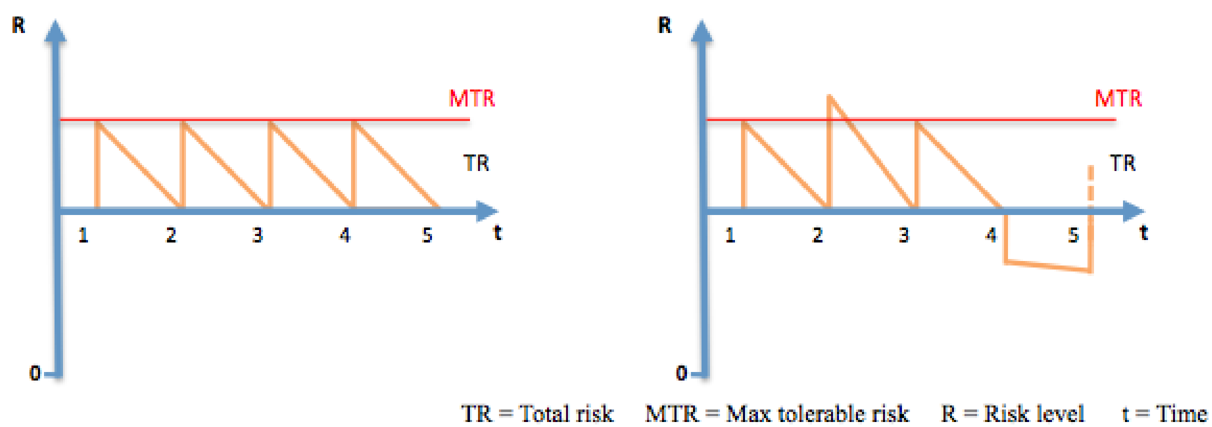
Alserud & Tykesson 2011 based on Figueira-de-Lemos, Johanson & Vahlne, 2010

However, this process is not as simple as indicated in Figure 4 due to the existence of a *time-lag*. According to Figure 4 an increase in commitment leads immediately to a decrease of uncertainty. This is a strongly simplifying assumption since it takes time for increased commitment to generate knowledge, see Figure 5. Furthermore it is unrealistic to believe that knowledge acquired through an acquisition can be used entirely, and straight away. Even though the acquired firm possesses *market knowledge*, the lack of *firm specific knowledge* does not allow full access to market knowledge. Johanson & Vahlne (1977) briefly touch this topic in the original Uppsala Model and further elaborate on that issue in their most current update of the Uppsala Model (Figueira-de-Lemos, Johanson & Vahlne, 2010). To increase the understanding of Johanson and Vahlne's rather short discussion about the issue we continue by improving the presentation of the time-lag in the Uppsala Model below. The orange line in Figure 5 represents the total risk of a firm at different points in time. According to Figure 4 this line would be a parallel to the x-axis.

The *left graph* in Figure 5 shows how an increase of commitment immediately raises the firm's risk level since there are more resources at risk. The risk level decreases only slowly back to the original level, as the firm acquires more knowledge. This process repeats itself, when the commitment to a foreign market is increased again. The *right graph* in Figure 5 shows a more realistic description of the fluctuating total risk level (TR). The maximum tolerable risk level (MTR) can be exceeded through too high commitment on a certain market. Additionally the total risk can instantly be reduced, to a desired level of risk. This is the case, when a company decides to decrease its commitment, e.g. by divesting from a foreign market. We call this the *time-lag of the Uppsala Model*.

The time-lag will occur since the learning process is not instant but requires time (Figueira-de-Lemos, Johanson & Vahlne 2010). As previously discussed there are several ways of gaining knowledge. They differ in the time it takes a company to absorb and use the knowledge in order to decrease uncertainty and total risk. E.g. the use of agents, in a foreign market, leads to a low experiential knowledge but allows fast access to the agent's knowledge. M&As provide much more experiential knowledge but it takes significantly longer to achieve this knowledge due to the existence of firm specific knowledge.

Figure 5: Time-lag



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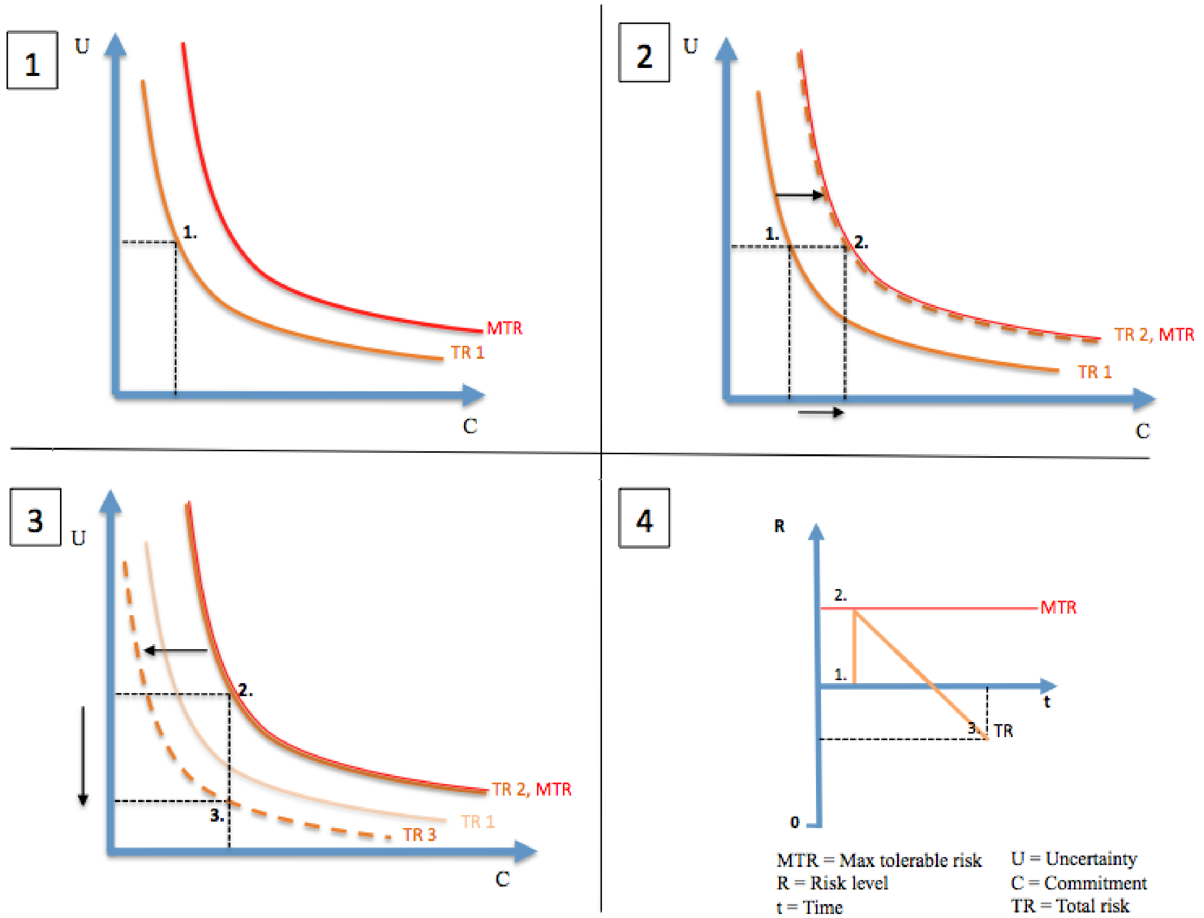
2.1.4.2 Ways of Managing Risk

A firm's presence on a certain market, as well as belonging to a strong network, will lead to new experiences and the accumulation of greater knowledge, consequently reducing uncertainty (Johanson & Vahlne 2009). This leaves management two options to decrease the risk level:

1. Reducing the level of commitment
2. Increase the level of knowledge, either through increased commitment or by waiting for present commitment to pay off in increased knowledge.

Commitment is an internal variable and can therefore be controlled by the firm. Uncertainty on the other hand is dependent on external changes or the firm's knowledge about the market. (Johanson & Vahlne, 1977; 2009) The *first option* named above, a decrease of commitment, will lead to a more or less immediate reduction of total risk since invested resources (commitment) in the market are reduced and no longer at risk. The *second option*, an increase in commitment, is expected to lead to a reduction of uncertainty, ideally resulting in a lower level of total risk as shown in Figure 6. Starting at point 1, the firm faces less total risk than its maximum tolerable risk level allows, since TR1 is left of MTR (Graph1, Figure 6). If acting in accordance with the second option of risk management, the firm will increase its commitment on the foreign market (Graph 2, Figure 6). The fourth graph in Figure 6 illustrates that the increased commitment will immediately lead to a higher level of total risk. Therefore, the firm's risk level will change from point 1 to point 2, as illustrated in the second graph in Figure 6. The total risk-curve will then change from TR1 to TR2, where TR2 equals the maximum tolerable risk level, MTR. As time passes, uncertainty will slowly decrease due to increasing knowledge about the market (Graph 4, Figure 6). The third graph in Figure 6 shows how the risk level changes from point 2, to point 3, resulting in an inward shift of the total risk-curve, from TR2 to TR3. Since TR3 is located to the left of TR1 the firm has reduced its risk level through the use of the second option. To sum up, the firm first increases its commitment, which automatically leads to an increase of the total risk level. As time passes and knowledge is acquired, the firm ends up with a lower risk level than initially.

Figure 6: Increasing commitment leading to a lower level of total risk



Alserud & Tykesson 2011 based on Figueira-de-Lemos, Johanson & Vahlne, 2010

2.1.5 Figueira-de-Lemos Johanson and Vahlne's Hypotheses of Risk Management

Figueira-de-Lemos, Johanson & Vahlne (2010) present different hypotheses, which explain how management balances the relationship between uncertainty and commitment in the internationalization process. Johanson and Vahlne (2010) argue that firms will behave differently depending on how heavily they have committed to a certain market.

A firm entering a new market with *low knowledge, high uncertainty and low commitment* might have gathered objective knowledge but lacks experiential knowledge. Therefore it tries to find as many relationships and business opportunities as possible. Commitments tend to be more about intangible assets, i.e. relations, than tangible assets (Figueira-de-Lemos, Johanson & Vahlne 2010). If risk is reduced firms in this position will commit more resources to intangible assets. In the opposite case, the firm will likely exit the market, possibly due to a low commitment in tangible assets.

Further Figueira-de-Lemos, Johanson & Vahlne (2010) argue that a firm that is *more committed* to the market will react differently to changes in the level of risk. If risk is reduced the firm will commit more resources to tangible assets. If risk is increased the firm's response depends on its knowledge base and its existing network. However the firm tends to delay tangible commitments and increase intangible commitments when risk is high.

Finally, firms with *great knowledge* about a specific market and *substantial commitment* know how to react when uncertainty levels fluctuate. The firm might engage in takeovers and efforts to extend its network even further, deepening its understanding and readiness to change. If risk is reduced the firm will increase its commitment in both tangible and intangible assets. In the opposite case the firm will reduce tangible commitments (Figueira-de-Lemos, Johanson & Vahlne, 2010).

The hypotheses are based on the original Uppsala Model and the updated version from 2009. They were created to anticipate and explain the effects contingent risk has on a firm's commitment in different stages of internationalization. Key elements are uncertainty and commitment and their relation to risk. Additionally the model of processes plays an important role where an increased commitment at one point in time leads to increased knowledge, which in turn leads to experienced based decisions about new commitments. This process repeats itself over and over again. The authors of the hypotheses admit not having tested them thoroughly but encourage future researchers to take on such a task (Figueira-de-Lemos, Johanson & Vahlne 2010).

2.2 Entry modes

In the following we will name, summarize and discuss advantages as well as drawbacks of different entry modes. We are aware of the fact that the choice of entry mode depends on many variables such as: past experience, psychic distance, political/trade barriers, regulations, competition, size and growth of the target markets, control, distribution, committed resources, resources transferred and motivation as well as time limitations. Some of these variables can be influenced by the firm some of them are given by the environment of the firm. Root (1998) divides those factors into external (target country market factors, target country environmental factors, target country production factors, home country factors) and internal factors (company product factors, company resource/ commitment factors).

2.2.1 Exporting

Exporting is recognized as the least risky internationalization strategy. It is a good strategy to test demand in a foreign market especially when available funding is limited. The *Internet*, often a missing market entry mode in older models increased its importance significantly over time. This was a fortunate and unexpected surprise for many companies, since Internet-marketing started out as a distribution channel for the domestic market. Necessary support for using the Internet as a distribution channel came from credit card and delivery companies (Cateora, Gilly & Graham, 2009). However it must be stated, that certain products can be sold easier over the Internet than others and therefore it is not a panacea to go abroad.

Indirect exporting: A company's products are offered in foreign markets, but the firm itself does not engage in international trade. Sale efforts are carried by *distributors* or *importers* located in the same country as the exporting enterprise.

Direct exporting: The firm itself undertakes the effort and invests resources for exporting. Products or services are sold: via agents or distributors located in foreign market, company export salesman or through a sales subsidiary (John, 1997). This strategy is most frequently used by companies taking their first international step. The aim is to minimize risks of financial losses (Cateora, Gilly & Graham, 2009). However it should be kept in mind that exchange rates and implementation of tariffs are risks which come along with this strategy. The efforts are now borne to a much larger extent by the exporting company itself. The company has to construct contracts, undertake market research, handle export documentation and transportation set prices and provide a marketing and distribution structure. The choice for direct exporting shows a stronger commitment to foreign markets than indirect exporting and facilitates greater control and information feedback (Young, Hamill, Wheeler & Davies, 1989).

Direct sales is one form of direct exporting that takes the commitment to foreign markets even further, by establishing an own sale force with local and/or expatriate managers (Cateora, Gilly & Graham, 2009). It is the logical, next step for a firm who had been able to increase market knowledge to cut out agents or distributors and increase its profit margin. Country-specific knowledge hold by agents or distributors is lost, but can be regained through employing local staff. Moreover direct export through a partly or wholly owned sales subsidiary increases the company's commitment and risk in the foreign market. On the other hand it overcomes problems arising from the cooperation with agents or distributors. E.g. the agent sells competing products or lacks financial strength which limits sales and could influence product/ service quality.

2.2.2 Contractual Agreements

Contractual agreements are long-term, non-equity associations between an international acting company and an entity in a foreign market. Contractual agreements usually involve the transfer of knowledge such as technology, processes, trademarks and human skills (Cateora, Gilly & Graham, 2009).

Young et al (1989) as well as Root (1998) include licensing, franchising, technical agreements, management and service contracts, construction and turnkey contracts, contract manufacture and co-production agreements. In consistency with Cateora et al (2009) and John (1997) we will focus on licensing and franchising only.

Licensing is a contractual arrangement between two companies located in different countries. The foreign licensor transfers rights or resources (patent rights, trademark rights, copyrights and product or process know-how) to the local licensee in exchange for a royalty, based on the amount of products sold. The licensee usually gains the exclusive rights to create and market a product/ service within an agreed geographical area for a certain time period (Young, Hamill, Wheeler, & Davies, 1989). The licensor avoids development costs and risks associated with an own establishment in a foreign market. This makes licensing a good strategy for companies who want to gain a foothold in a foreign market without taking on huge financial commitments. According to Cateora et al (2009) licensing is especially favored by small and medium sized companies and is often a supplement to exporting or manufacturing not a substitute. Licensing is particular effective in low rated countries where risks such as expropriation and implementation of trade barriers are high and opens markets which are closed to export and foreign direct investments (FDIs). This makes it a very quick and uncomplicated way to enter a new market since many governments favor licensing over other entry modes. Additionally Licensing allows the licensor to profit from the licensee's market knowledge. Licensing maybe the least profitable way to enter a market but requires also the lowest commitment (Cateora, Gilly & Graham, 2009).

Drawbacks of this entry mode are: loss of control and proprietary technology or knowhow. This could end in losing a unique competitive advantage and create a competitor. Finding, supervising and inspiring the licensee are the biggest challenges (Cateora, Gilly & Graham, 2009). Furthermore licensing slows down experience-curve effects and location economies by shifting the production and responsibility to outsiders.

Franchising: A form of licensing agreement, in which the franchiser provides a standard package of products, systems and management services for a franchise fee, usually including a lump-sum payment and a share of the franchisee's profits. The franchisee on the other side brings market knowledge, capital and man power to the table. The franchisor often assists with design, equipment, organization and marketing of the business (John, 1997). The success factor of this form of licensing is the combination of skills, which allows local market adjustments based on cultural differences and control retention to a reasonable degree. The idea behind franchising is to combine the franchiser's unique product/ service knowledge with the franchisee's local market knowledge and entrepreneurial spirit. The main advantage compared to the pure form of licensing is an increase in control and commitment of the franchisee versus the licensee. (Cateora, Gilly & Graham, 2009). The franchisee also profits from training and development of management skills incorporated in the franchising contract. Franchising is also a common strategy in domestic markets; this experience can be helpful when going abroad (Young, Hamill, Wheeler, & Davies, 1989). However the time effort is higher than for licensing agreements and the franchisor's agreement is at risk since the franchisee is using the same brand name.

2.2.3 Strategic International Alliances

Strategic international alliance (SIA) is a business relationship between two companies or more created out of mutual interests. Those shared interests are formulated into a common goal, which the strategic alliance tries to accomplish, by combining each other's value chains. The partners share benefits such as control and risk of the joint task and complement each other by reducing weaknesses and increasing competitive strength. Reasons for joining a SIA are: fast market entry, access to new technology and overcoming political entry barriers.

International Joint Venture (IJV) is a cross boarder long-term alliance (Dunning, 1993). The main difference compared to a strategic international alliance is the establishment of a separate legal entity and the fact that all partners are incorporated legal entities (companies, chartered organizations or governments). Moreover a JV is defined by the intent of all involved parties to contribute to management and the equity positions held by each partner (Cateora, Gilly & Graham, 2009). The partners own a sufficiently large share of equity, so that each of them has some degree of influence (Dunning, 1993). An IJV can facilitate the acquisition of technology, allows access to resources and knowledge of the host country's environment and business practices, improves a firm's competitive advantage and reduces political risk through a strong partner. Moreover it provides local capital, personal relationships with local suppliers, banks, customers, and government officials. The most common reason for IJV is the prohibition of FDIs in some developing countries, which makes it a strategy dictated by the government. Furthermore an IJV can lead to frustration, when the foreign partner's strategy conflicts with the local partner's strategy. Therefore picking the right partner is essential, but very difficult (Root, 1998).

Consortia: The main differences between a consortia and an IJV is that a consortia involves a larger number of participants and that they often formed to enter into a country in which none of the partners is currently active.

2.2.4 Ownership

Foreign Direct Investments (FDI) describes the market entry of a firm in a foreign country through investments. FDIs can appear in the form of acquisitions or *greenfield investments*. Which strategy to chose, depends extremely on the market experience and on the firm's time pressure. FDIs are often chosen in order to profit from low-cost labor, it also reduces transportation costs, it bypasses import taxes and gains access to technologies or raw material (Cateora, Gilly & Graham, 2009). Investors can be divided into three groups: Extractive investors, sourcing investors and market investors. *Extractive investors* invest in the chosen country in order to get access to resources, most of their raw materials output is not sold in the host country, but to third countries or the home country. *Sourcing investors* are manufacturing products which are, to a large part, exported back to their home country or third countries. The main purpose for that are the benefits of cheap labor, energy etc. The *Market investors'* goal is to penetrate a market through a production facility in the target country (Root, 1998).

One of the most obvious benefits of full ownership subsidiaries is that the parent company has 100 percent control and can follow its own strategy without any compromises, which allows the company to exploit its competitive advantage to a greater extent. This comes to a high price, in terms of time and money required. The additional resources increase the company's risk exposure and show a higher commitment to the host country. Other drawbacks are high startup costs, a long payback period and high exit barriers. However, local production also benefits marketing goals such as adapting to local preferences and purchasing power, quicker and deliver more reliable product service.

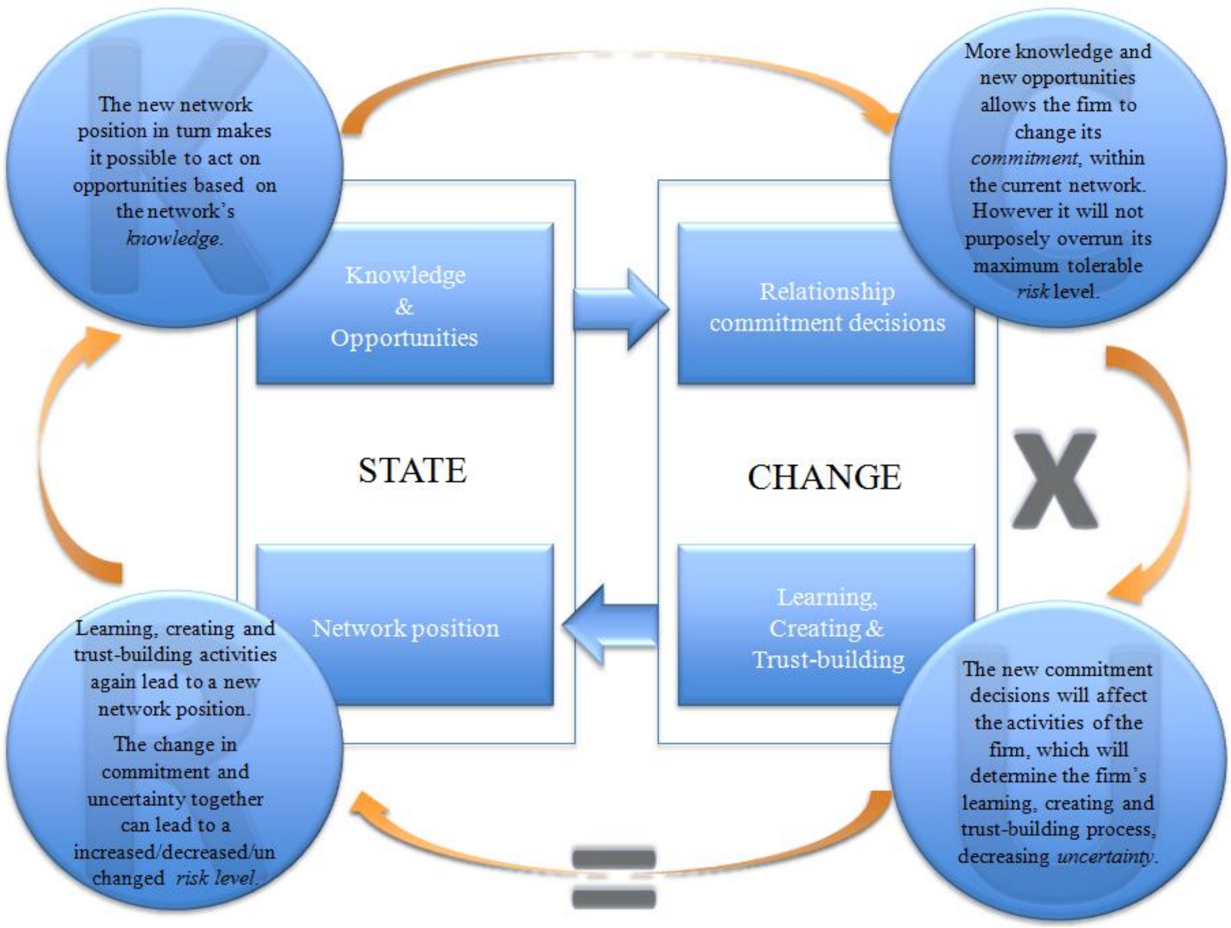
2.3 Theoretical Frame Work

We have developed a theoretical framework based on the Uppsala Model and the theories of different entry modes presented above. The purpose of the framework is to clarify the critical parts of the Uppsala Model and entry modes. The framework forms the analytical tool that we use when we analyze the applicability of the Uppsala Model on European SMEs' internationalization processes. To begin with there are five central concepts in the Uppsala Model:

1. Learning
2. Knowledge
3. Uncertainty
4. Commitment
5. Risk.

Learning affects the firm's *knowledge (K)* about a new market, which in turn affects the perceived level of *uncertainty (U)*. As a decrease in uncertainty lowers the firm's total level of *risk*, it is likely that it will increase its *commitments(C)* in both tangible and intangible assets. This will again increase the total *risk level (R)* but at the same time provide a larger base from which new knowledge can be acquired. This is how Johanson and Vahlne (1977, 2009) explain the incremental order in which they claim firms internationalize. We have combined the *risk equation (R = C x U)* with the new internationalization process model into one chart in order to clearly illustrate the relationship between these two parts of the Uppsala Model (Figure 7).

Figure 7: The combination of the internationalization process model and the risk equation

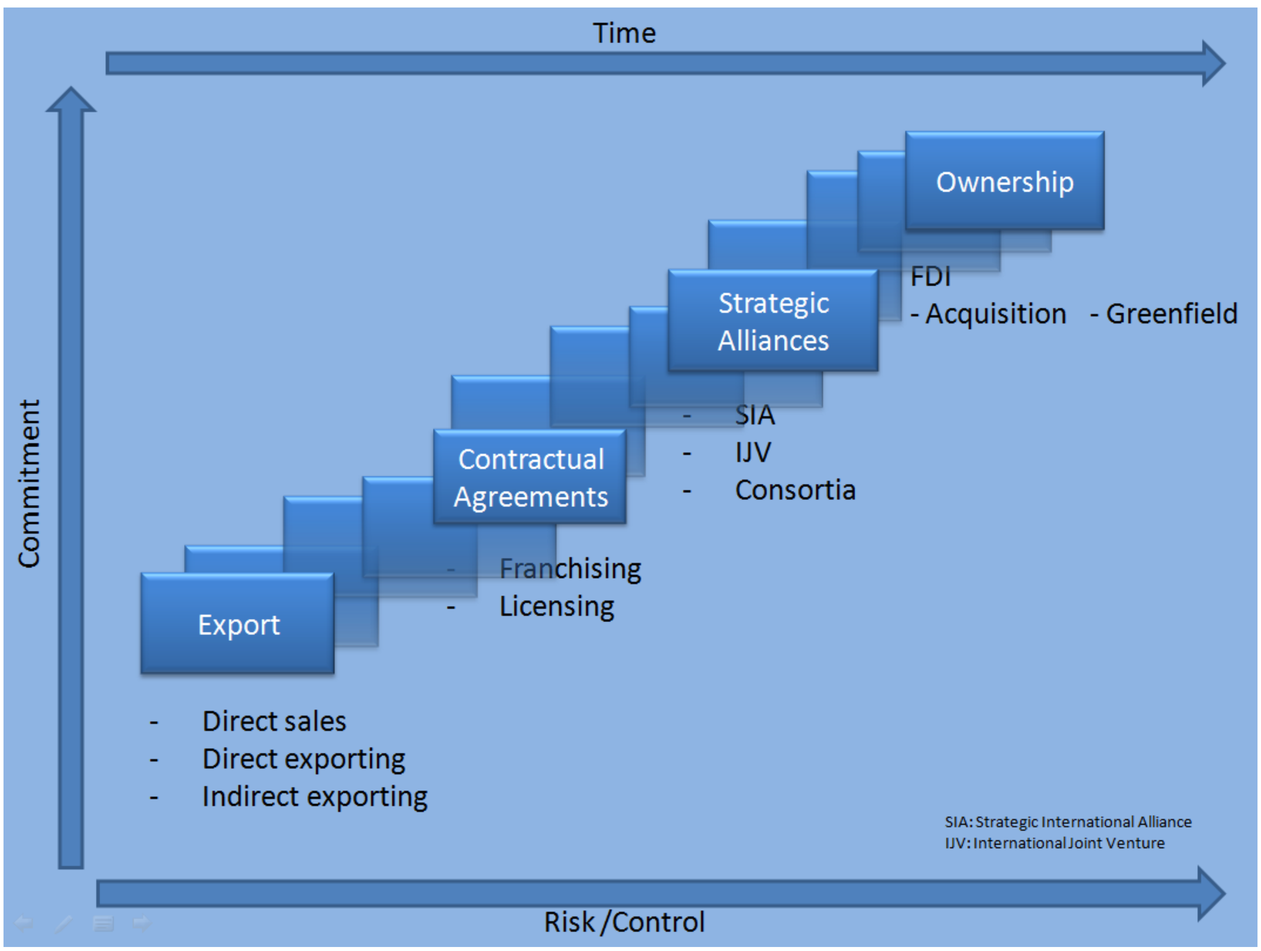


Alserud & Tykesson 2011 based on Johanson & Vahlne, 1977, 2009

Other important concepts in the Uppsala Model are *psychic distance* and *insider ship* in relevant *networks*. In the first version of the Uppsala Model more emphasis was put on cultural barriers and language barriers between the domestic and foreign market. In the updated model the emphasis was shifted, since Johanson and Vahlne believe now that the firm's network plays a key role in the internationalization process of a firm.

We decided to give the reader a deeper theoretical explanation of the different entry modes, since the choice of entry mode is closely linked to a firm's internationalization processes. Moreover we indentified the type of entry mode as a good indicator of commitment, which is a fundamental part of the Uppsala Model's risk equation and the internationalization process model. In the past entry modes have been classified in many different ways by different researchers. However there is a common tendency between experts to rank the international market entry strategies within a certain spectrum. Beginning with simple exporting and ending with the establishment of wholly-owned subsidiaries. Entry modes are further classified in at least three different classes: *export, contractual agreements,* and *sole investments*. Our classification presented in sub chapter 2.2 Entry modes, is based on Cateora, Gilly and Graham who divide entry modes in 4 different classes: *Exporting, Contractual agreements, Strategic alliances and Ownership* (Cateora, Gilly & Graham, 2009). The classification could have been chosen differently but to us this seemed to be the best fit, since we distinguish between Joint Ventures and wholly owned subsidiaries. To summarize our findings from relevant theory, we have plotted the different entry modes on a chart, taking into account the *degree of commitment*, the *time* required to fully enter the market and the *risk/control* associated with the entry mode in Figure 8. Risk /Control as well as Time increase from the left to the right. The level of commitment increases bottom-up.

Figure 8: Entry modes, Risk/Control, Commitment and Time



Alserud & Tykesson, 2011 based on Root, 1998

To sum up, by combining the *Uppsala Model* and E*ntry Modes Theory* we aim to increase the understanding of the Uppsala Model through implementing a more practical view by using entry modes as an indicator for commitment. By using this framework and combining it with our empirical findings we intend to answer our research questions mentioned in sub chapter 1.4 Purpose.

3 Research Methodology

In this chapter we will explain which methods we have used in our research and critically discuss why those methods were chosen. We will also have a detailed discussion about the data collection process.

3.1 Research Approach

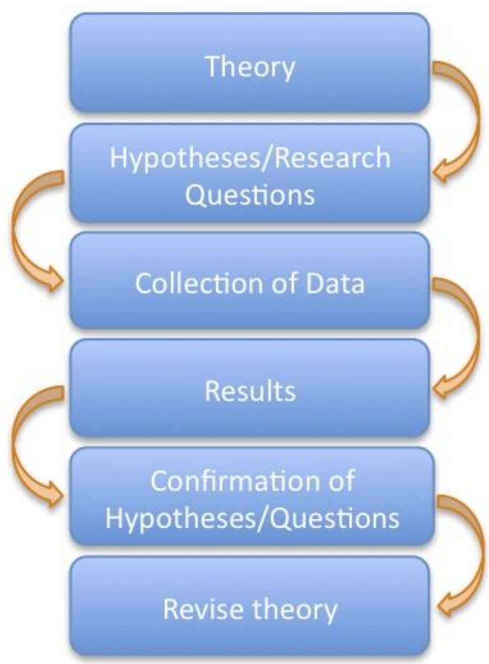
Our research approach when assessing the applicability of the updated Uppsala Model consists of three steps:

1. To create a theoretical framework based on the Uppsala Model and theories on entry modes. This step is necessary to develop and present a fundamental understanding about the theory Uppsala Model.
2. To gather empirical data through interviews that represent the reality of SMEs today and their internationalization processes.
3. To assess the applicability of the presented theory on the empirical findings to increase the understanding of the model.

3.1.1 Deductive Approach

Theory of research methodology suggests two general approaches, *inductive* and *deductive*. When performing inductive research the researcher starts by studying the reality and then tries to develop new theory based on the empirical findings. The deductive approach implies that the research process begins with the study of existing theory. Then the researcher tests the applicability of the theory on empirical findings as shown in Figure 9 (Bryman & Bell, 2003).

Figure 9: The deductive approach



Bryman & Bell, 2003

The approach of this paper described in the previous section implies that the method used is deductive. First we have looked into existing theory about internationalization processes in general and then deeper into the Uppsala Model. We then developed research questions based on the knowledge gained from reviewing the theory and existing criticism of the theory. The research questions specify the aspects of the theory that have been tested. In the next step we collected data of firms' internationalization processes. After the data was collected and summarized, it was compared with the theoretical predictions resulting in a conclusion about the applicability of the theory.

3.2 Data Collection

When doing research, data is commonly divided into primary and secondary data depending on the nature of the source. Primary data is collected directly from the original source whilst secondary data has been collected and presented by someone else. This paper mainly relies on primary data collected from key actors working in SMEs that are internationalizing. As the studied objects are SMEs, access to secondary data is limited. However this has not caused great disadvantage to this paper as the purpose relies mainly on information from primary sources.

3.3 Primary Data

Primary data have been collected through a number of semi-structured interviews. The three SMEs chosen operate on different markets and are no competitors. A total of five interviewees and eight interviews create the foundation of the empirical findings on which the analysis is based.

3.3.1 Qualitative Case Studies

In order to collect the data needed to answer our research question and the purpose of this paper we use a qualitative approach. We have chosen to use case studies in our research when gathering empirical data. What distinguishes case studies from other methods is that the researcher wants to enlighten unique aspects of a specific case, which is well suited to the qualitative approach (Bryman & Bell, 2003). As we want to increase the understanding of the Uppsala Model by investigating its applicability on SMEs today, we believe case studies to be a well suiting method of collecting empirical data about the internationalization process. A quantitative approach would, in a greater extent, focus on statistics and it would be harder to capture the softer, cultural elements (Bryman & Bell, 2003) of learning, knowledge and uncertainty, which are the fundaments of the Uppsala Model.

All strategies of research include strengths and weaknesses; hence it is central to be aware of the difficulties when choosing the approach suiting best to the study (Merriam, 1998). According to

Yin (2006) the main criticism of case studies is the lack the rigor of the strategy. It can, for example, be a result of carelessness, unsystematic procedures, ambiguous or dubious evidence and the findings and conclusions are affected by subjective opinions of the researcher. To enhance the credibility of the case study, researchers should therefore be open when reporting sources and evidence to avoid the influence of subjective values. There is also a potential difficulty of generalizing the findings from case studies. In this thesis we have chosen to use a multiple case study including one main case and two smaller ones that will be used to create a wider perspective. This will to some extent reduce the risk of non-valid generalization due to a higher number of cases. Case studies have often been criticized of being time consuming and results being hard to understand. Today there are new technologies and methods that make the execution of the studies more convenient and less time-consuming (Yin 2006; Merriam, 1998).

It is difficult to conduct a qualitative case study, but Merriam (1998) argues, however, that the pros outweigh the cons. Case studies allow the analysis of complex phenomena in which several variables come into play. Further studies are also based on real events and situations which often results in a detailed and holistic description of the phenomenon that can develop the reader's experience and knowledge (Bryman & Bell 2003, Merriam 1998). Despite criticism, we have chosen to apply the case study research strategy because in our opinion the strengths outweigh the weaknesses. Furthermore we believe it is the best choice in order to answer our purpose.

3.4 Interviews

Since we want to find out what factors have led to the studied firms’ processes of internationalization, we believe it is necessary to collect information about the individuals’ reflections, opinions and personal experiences of the process. To be able to access this kind of information interviews are considered a suitable method (Thyer, 2009). Interviews can be structured into three levels of structure, unstructured, semi-structured and structured. The degree of structure affects how much the interviewer will influence the interviewee and her answers, e.g. through the choice of questions. In a more qualitative approach of research the researcher is interested in the opinions and interests, and therefore the topics, or sub-topics, of discussion will be left to the interviewee to decide on to a greater extent. If the interviewee deviates from the interview guide or predetermined order of questions we consider this as good since the answers are more natural and less affected by the researcher’s agenda. During the interview there is a possibility of coming up with new questions making qualitative interviews more flexible. In a quantitative approach of research, structured interviews are used. Questions are then predetermined and answers that fall outside of the researchers interests are considered as noise. Questions and answers have to be standardized, otherwise reliability and validity will be at risk (Bryman & Bell, 2003).

We are making a qualitative study and therefore we can choose between unstructured and semi-structured interviews. Unstructured interviews are more like an ordinary discussion where the interviewer does not guide the interviewee but instead lets the interviewee associate freely to a more general theme. This approach is better fitted if the researcher wants to get a general view or an increased understanding of the thoughts of the interviewee without affecting him or her. However, if there is a predetermined theme and a more narrow focus, semi-structured interviews are more suitable. Also if there are several interviewers involved in the research, semi-structured interviews secure comparability (Bryman & Bell, 2003). Since we know what questions we want the interviews to focus on and we divided the interviews between us, we will perform semi-structured interviews.

3.4.1 Structure of Interviews

An interview guide (Appendix 3) has been created to direct the interviews to cover the relevant topics. The interview guide is based on the purpose of the paper and supported by the research questions listed in the introduction. As one of our case study companies differ from the other two by being an established international SME, some additional questions have been added to the interview guide connected to that company. Besides those additional questions the guides are identical to secure comparability. When formulating the questions we have focused on covering the relevant aspects of our topic but without forcing any opinions upon the interviewees or affecting their perspective when discussing the internationalization process of their company.

Because of practical restraints, the interviews have been performed both face-to-face, over telephone and e-mail. The interviews done face-to-face and over telephone lasted between 1.5-2.5 hours each. The total duration of the interviews was approximately ten hours. All telephone and face-to-face interviews have been recorded to assure that important information was not lost. We took notes during and after all interviews, except the ones via e-mail. The interviews are presented in Appendix 4a, 4b, 6, 7. In most cases we did one introductory interview, which was followed by a second one and one last complementing interview to secure the quality and depth of the answers. In accordance with the recommendations in Bryman and Bell (2003) it has been our goal for all the interviews to be performed during calm circumstances where the risk of interruption and distraction were minimized. In all the interviews the native language of the interviewee has been used to assure their comfort and accuracy in their answers. There is always a risk of important points being lost when translated. We believe to have kept this risk low by thoroughly discussing the translations. Additionally, to ensure that the answers have been understood correctly, we have e-mailed follow-up questions and the translated versions of the interviews to the interviewees for confirmation. In this way we have attempted to assure that the initial points are well understood even after translation.

One of the interviews was done via e-mail due to the interviewee's preferences. The interviews consist of an exchange of eight e-mails the final answers are attached in Appendix 5. The first e-mail was introductory with basic information about the scope of the thesis and the goal of the interview. The second e-mail included a list of important definitions and basically the same questions as in the interview guide. We then sent a third e-mail to collect complementing information that was not included in the prior answers and one additional e-mail confirming the answers.

By request of the companies in our case study we have chosen to anonymize the companies and interview partners. Consequently we avoid a leak of sensitive and firm specific information. The companies are named Company X, Y and Z. The interviewees are presented under fictitious names to make the interviews easier to follow while keeping the real names protected.

3.4.2 Selection

The selection of our companies is based on a fundamental element of this paper's purpose, namely *internationalizing SMEs*. Our case study consists of three companies. The first company (Compnay X) in our study is a large SMEs with international presence. The other two companies (Company Y and Z) that have been studied are small and recently founded, but also in the process of internationalization. The material of Company X is the most extensive due to the fact that the company, compared to the other two companies in our case study, has the longest history of internationalization and the largest international exposure at present time. Company X is therefore the main focus of this paper. Findings from the two other companies will have a supportive function. They will support, show differences and add nuances to the empirical finings. Clearly all of the objects in our case studies are relevant to our purpose as they are all SMEs and are all internationalizing. Naturally there is also an element of accessibility in the selection of case study companies. This being said, we firmly believe that the selected companies fit our research area and the purpose of our paper perfectly and thus the credibility of the paper is not hurt.

3.4.3 Presentation of the Companies in the Case Studies

Company X is a Swedish based family owned company. Producing and selling light fixtures since the early 1940's, the company entered into many international countries and grew to become a successful and quiet big SME, with total revenues of around 50 million EUR and 100 employees worldwide. Company X is currently selling their products to 18 European countries. Their main markets in terms of sales are: Germany, Sweden and England. Since the sales in Germany exceeded the sales in the home country of Company X and significant sales portion come from other Scandinavian countries as well as England. Therefore we can truly speak of a very international company. The company started out with producing in Sweden and shifted its production a couple of times around the globe, which makes it interesting from an internationalization point of view (Company home page, 2011 and Appendix 4a, 4b and 5).

Company Y is a Swedish consultancy firm offering courses in leadership. In 2008 one of the entrepreneurs came to the conclusion that his previous company, selling the same service as Company Y, did not serve the demand in an optimal way. Together with two partners he started the new company in 2009. Together they form the executive team responsible of all strategically and practical decisions and actions of the company. The company owns patented programs of education, which are the foundation of the services sold by the consultants. The consultants are educated by the executive team and then work independently, selling and performing courses in leadership. The income from their sales is the divided between the consultants and the company. Courses are held at the offices of the customers and take between 8-12 months. According to the vision published on the website of the company, the firm aims to be considered as one of the top five actors in educating leaders on the Swedish market. Company Y has license agreements with partners in Belgium, France, Germany and Norway. The French licensee is besides France, also responsible for educating consultants in Brussels as well as for the establishment of a licensee agreement in Germany. The licensee in Norway has the right to sell their services in Norway and on the boarder between Norway and Sweden. They also have the right to follow their customers into Sweden (Company home page, 2011 and Appendix 6).

Company Z is a German based family owned start-up company. The company founded in 2009, currently has ten employees. The company's revenues are moving within the lower area of the European Commission's definition of SMEs. Company Z sells road vehicles in Germany and four other European countries, namely: Austria, Switzerland, Spain and Sweden. The company is still in the beginning of their internationalization process since the firm's main revenue flow comes from the home market. Production is located in Asia; Company Z works together with different contracted factories on this continent. When taking a look at the management their international heritage, education and working experience sticks out. All key managers own a business degree in international management (Company home page, 2011 and Appendix 7).

3.4.4 Interviewees of Companies X,Y,Z

3.4.4.1 Company X

The interviews undertaken in order to get a deeper inside into Company X were made with Mr. Brolin and Mr. Ravelli. *Mr. Brolin* became the CEO of the German sales and storage subsidiary in 1990 after working in the same company as a general manager for seven years. He has owned this position for 21 years today and has been with Company X for 28 years in total. Before that, he worked for different companies in Sweden and Germany as a Sales Manager and Head of Sales for a couple of years.

Mr. Ravelli owns a degree in Business Administration (Högre Företagsekonomisk Examen). After he graduated in the beginning of the1960's Ravelli worked in different companies in various management positions. Before he was employed by Company X as a controller in 1986, he worked as a CFO for another Swedish company. In 1989 Ravelli was appointed Executive Vice President and in 1992 CEO of the whole concern. He stayed CEO until 1996, then left the company and came back as CEO for another three-year period (2001-2003).

The long affiliation with the company and their positions within the company make both Ravelli and Brolin ideal interview partners. Moreover they complement each other in terms of time, location and position. Ravelli, who steered the internationalization process, being the CEO of the concern and Brolin quite autonomously within this framework putting strategy into action.

Brolin's task was also to expand in further countries from Germany. Moreover Brolin was heavily involved in all internationalization processes of the firm except for Scandinavia.

3.4.4.2 Company Y

We interviewed Mr. Dahlin, the executive chairman and informal CEO of Company Y. As the informal CEO he is the one in control of the internationalization decisions. Due to the small size of the company he is in charge of both the development of all strategies and their implementation. This makes the most suitable person working at the company to interview. He has been working at the company since the establishment in 2009 and is one of the owners. Mr. Dahlin own's a MBA and has been working in leading positions in both the Swedish public and private sector, mostly in the fields of finance and vocational training. He has also been a board member of several European organizations with members from all across Europe.

3.4.4.3 Company Z

At Company Z we interviewed the CEO Patrik Andersson and the Marketing and Sales Director Daniel Andersson, both in their mid twenties. Each of the two brothers owns a business degree in International Management and additionally has a very international background. Both are in charge of the internationalization process and are therefore the right contact persons. They worked in other companies in middle management position during and shortly after their studies and now took over positions of high responsibility.

3.5 Secondary Data

The information gained from secondary data is not central in our research. It has been used mainly to serve the purpose of providing background information of the companies that have been studied and to ensure that they fit into the definition of SMEs. The background information was collected from the companies' websites and annual reports or from the interviews and there should be no reason for this information to be inaccurate.

3.5.1 Criticism of Sources of Theory

The main theory used in this paper is the Uppsala Model by Johanson and Vahlne. Most sources of the Uppsala Model are written by the original authors and publicized in major European business journals. In addition we have looked into some of the more influential reviews criticizing the model. This has made us more aware of the shortcomings of the model and gave us a more complete understanding of the model. The vast majority of our sources are from highly respected business journals leading us to trust in their credibility. Other sources for information are various textbooks in the relevant field, of which credibility we find no reason to doubt.

3.6 Choice of Presentation of Empirical Findings

The findings from the interviews have been presented in order of topic and divided by company. As the companies differ in character we believe this to be important. If the presentation instead would have been based only on specific topics areas and companies, this would have resulted in a lower traceability of our empirical findings. Even if the chosen way of presenting the results makes it more difficult to make an immediate comparison between the different companies' answers, we do believe to solve this issue, by a comparing discussion in the analysis.

We have not presented the answers in their actual order due to the fact that several answers repeated important points and were closely linked to each other. As the interviews were only semi-structured the interviewees often also returned to a previous answer. This made it appealing to merge some of the answers since they are closely correlated. To make the results gathered from the answers more structured, they were assorted to fit the order of a broader topic. Finally, the answers have been rewritten and presented in a story telling form to make them easier to understand. The risk of important points being lost has thereby been minimized.

3.7 Choice of Analytical Method

In the analysis we have applied our empirical findings on the theory to be able to discuss its applicability. Some factors that are discussed only briefly in the theory have been emphasized to stress their importance in the empirical findings. Factors that were not predicted in theory but have been prominent in the empirical findings have been presented to develop the theory. We have chosen this analytical method because it answers to the purpose of our paper.

The structure of the analysis is based on the research questions and the theoretical framework. The disadvantage of this structure is that all points are not discussed and analyzed individually. As a consequence not all critical factors have been discussed equally thorough. On the other hand, the chosen method of analysis allows the reader to follow our discussion easier. Discussing each identified critical factor separately would be very extensive and time consuming for the reader. The aspects of the relationship between concepts would also be less clear and it would result in much repetition, since many items are complementary. For these reasons we believe the chosen method of analysis to be the most suitable.

3.8 Reliability and Validity

When discussing the quality of economic research it is often measured in terms of reliability and validity. Reliability is concerning if the results from the research would be the same if the study was repeated. Validity is possible to divide into different sub groups but the basic idea is that conclusions based on the research should be logical and based on an actual causal relationship. However when using a qualitative approach of research, concepts as validity and reliability are difficult to apply since they suppose a possibility to find one complete picture of the social reality (Bryman & Bell, 2003). In qualitative research there is no such thing as a complete picture and instead Bryman and Bell (2003) state that there might be more than one and usually several descriptions of this social reality. Instead of using validity and reliability they (2003) suggest the use of equivalent but better suiting concepts, such as *credibility* and *authenticity*.

Credibility includes several criteria, which are all used in qualitative research e.g. concepts as *transferability, dependability* and *confirmability*. *Transferability* is not the same in qualitative and quantitative studies. In a quantitative study the research will be broader in nature and its results will preferably be easier to generalize. In a qualitative study, however, the research will be more narrowly focused to a specific group in a specific context. In further contrast to the quantitative approach, the results and descriptions of the observations will be fuller and more detailed (Bryman & Bell, 2003). Our research will add to the database of findings about the applicability of the Uppsala Model in different contexts and hence to some degree increase the total amount of understanding of the model. *Dependability* is secured by making a thorough presentation of all the steps in the research process. This includes for example stating the purpose of the paper as well as the purpose of individual interviews and explaining the interview process (Bryman & Bell, 2003). We try to ensure the dependability mostly in this section of the paper by clearly stating our research method and relevant considerations. Regarding *confirmability* it is first of all important to realize that it is impossible to reach a complete objectivity in this field of research (Bryman & Bell 2003). Keeping this in mind, we want to assure that we have acted and executed our research in god faith. We do not believe us to have any predetermined thoughts about the theme of study nor do we believe us to have anything to gain from affecting the results in either way.

Lastly, in addition to the criteria mentioned above, there is the concept of **authenticity**. It regards the question of if the researcher gives a fair picture of the opinions and thoughts of the interviewees. In accordance with the recommendations of Bryman and Bell (2003) we let the persons interviewed confirm that there were no misunderstandings and the results of the interviews were reported in an accurate way. There is also a risk of the findings being biased because of a too narrow and homogeneous group of interviewees (Bryman & Bell, 2003). As two of the studied companies in this paper are small, one employing four persons and the other ten persons, we do not see this as an issue. To further assure the authenticity, we have interviewed two persons each from Company X and Company Z. One present and one former executive of Company X have been interviewed. Since Company Y has only four employees of which the person interviewed is the one dealing with the internationalization processes there was no possibility to interview further qualified persons.

3.8.1 Methodical Ethics

In this paper we have strived to follow recommendations about methodical ethics. Bryman and Bell (2003) lists four categories to consider. The first one is avoiding any harm to the participants. The second is informed consent, which in most cases concerns if the participants are aware of being observed and thus not relevant for this paper. The third is concerning the protection of privacy and the fourth is about false pretenses. We are confident to have avoided any ethical faults in our paper. By keeping the companies and interviewees anonymous they will not have to feel personally exposed in any way. Moreover, the interviewees have approved the questions in our interviews, as well as our presentation of the answers.

4 Empirical Findings

4.1 Company X

Subsequently a review of Company X's internationalization steps from 1970s to today and the presentation of further answers in the interview follow. We thereby focus on the countries of production and main countries of sales.

4.1.1 Production

Company X *produced* its light fixtures in Sweden until the early 1970's. Then the company started to shift its production due to the raising production cost in west European countries between 1980 and 2000. Company X was one of the first within its industry to follow this strategy, taking on a pioneer role. This process was pushed by a manager who was recruited from a big Swedish furniture manufacturer. He used his experience and know-how and persuaded investors and top management to shift production towards the DDR, Poland, and the Far East. After testing different production modes in different countries such as domestic production, fully owned production facilities in Eastern Europe and Joint Ventures, Company X decided to outsource production almost entirely. Today Company X owns only one production facility in Hungary producing 5 percent of its output. The remaining 95 percent are produced in China by using contractual production agreements.

4.1.2 Countries of Sales

As mentioned earlier Company X is selling to around 18 different European countries at the moment. The most important markets in terms of sales are Germany, Sweden, England and Norway.

4.1.2.1 Nordic Countries

Company X early started exporting to other *Nordic markets such as Norway, Finland, and Denmark.* In the late 1970's, early 1980's, Company X introduced agents in Norway and Finland. *Norway* was approached first, due to the closeness in terms of distance, language and culture. The task was to find an agent who would be responsible for the whole country. The appointed Agent had along with some other customers purchased our products for some years before he became our agent. The partnership with the *Norwegian* agency ended in 2000, due to dissatisfaction on both sides. As a response a legal sales entity was created in Norway. Company X founded a legal entity, because of customs issues which appeared since Norway is not part of the EU. Two former employees of the sales agency were hired and put in charge of the sales subsidiary. In *Finland* Company X tried out different sales agents until they established an own sales force in the form of a sales office in 2000.[4] Where as the market entry in Norway was very successful, the results in *Finland* did not fulfill the company's expectations. According to Mr. Ravelli the results were quit bad. Even after changing agents results did not improve. Therefore the decision was made to form a sales office with own sells personnel. The situation in *Denmark* was a bit different. According to Mr. Ravelli this is because, Denmark has an experienced trading culture since many hundred years. Many potential clients were already importing products directly from Asian producers at prices which Company X could not compete with. Some products have been exported from Sweden to Denmark but the sales generated are very low. Because of these reasons an increased involvement in the form of a sales offices or sales subsidiary was never considered.

4.1.2.2 Germany and England

Germany and England were the next markets to enter. Between 1980 and 1983 Company X was working with a sales agent. The products were still stored in Sweden. During that time the company had revenues of about one mil. SEK in Germany, overall sales were 25 mil. SEK at this time. Germany was from all markets in Europe the most interesting to Company X, mainly due to the number of inhabitants, its geographical position and cultural closeness to Sweden. However the firm wanted to keep its investment and commitment low and carefully test the market. Especially since an external advisor made a market analysis which resulted in a discouraging advice not too enter the German market. The German chamber of commerce saw only a little probability for Company X to be successful on the German market. In 1983 a sales subsidiary (GmbH) and a warehouse was opened. Today the company has worldwide sales of around 50 million EUR with most of their sales coming from Germany. "You could say that the German Chamber of Commerce was wrong." (Brolin, 2011). The *German sales subsidiary* had a special role in the internationalization process of Company X. Its task was to gain a foothold in adjacent international markets, such as Holland, Belgium and Austria, and later support the sales agents, sales offices as well as sales subsidiaries by using their experience of the German market. The management of Company X was persuaded that the cultural barriers and distance was easier to overcome from Germany than from Sweden. Just shortly after entering the German market

[4] The difference between a sales office and a sales subsidiary is that a sales office is not a legal entity. The employees are paid by the parent company and the business premises are either rent or owned by the parent company.

Company X started to work with an agent in *England*, who in 1985 became the CEO of the new sales subsidiary (Ltd) a warehouse was acquired too.

4.1.2.3 France

In 1995 the same mode, sales subsidiary (SARL) with warehouse, was chosen to enter *France*. However this time they entered the market without testing it through collaboration with an agent prior to increasing its commitment. In 2002 the SARL was closed and replaced by an agent. After another one to two years the business relation was broken down. Afterwards, a sales office was established and a former employee of the SARL was hired. Since goals still were not met until 2006 the sales personnel is now operating from Germany.

4.1.2.4 Poland and Hungary - from Producing to Sales

Poland and *Hungary* are markets in which the company tried to gain a foothold after first establishing production facilities. However they initially entered those countries in order to decrease production cost. The commitment was higher in *Poland* since a sales subsidiary and warehouse existed between 1980 and 2005. However sales in both markets stayed on a fairly low level and are only generated through simple exporting. In *Hungary* sales is totally independent from the production facility.

4.1.2.5 Sales Offices

The difference between a sales office and a sales subsidiary is that a sales office is not a legal entity. The employees are paid by the parent company and the business premises are either rent or owned by the parent company. In *The Netherlands* Company X worked together with an agent from 1985 to 1988. Afterwards a sales office with show-room was established in 1988. Currently other sales offices exist in *France* and *Finland*. Agents are currently in place in *Italy* and *Austria*. In *Switzerland* Company X had two different agents for nineteen years but is operating from *Germany* since 2009. Additionally to those countries already named sales is generated through exporting to: *The Czech Republic, Slovakia, Romania and Bulgaria*.

4.1.2.6 Countries of Withdrawal

Interestingly Company X only *withdrew* from three markets in their history of internationalization: Belgium, Spain and North America. The firm left Belgium and Spain after an involvement of three years in both countries. According to Mr. Brolin the reasons for not being successful in those countries were to a large part the differences in business culture closely followed by trusting the wrong people. Considering the three year involvement in the USA and

Canada, Mr. Brolin identifies the overall market size and the strong need for product adjustments, due to technological differences, as the main factors which influenced the firm's decision to retreat from this market. According to him the trade-off between commitment (money and time), and risk was not in balance. The firm was not willing to increase the commitment sufficiently because this would have exceeded the company's comfortable risk level. The firm decided to focus on the expansion within Europe instead: "We wanted to get stronger in countries in which lower sales, particularly in countries in Eastern Europe, before we enter new markets outside of Europe. Generally we prefer EU members to none EU-members; however this is not a knock-out criterion." (Brolin, 2011). This strategy is still followed by the company.

4.1.2.7 France and Belgium Countries of Special Challenge

Mr. Brolin there are special challenges for foreign companies in France and Belgium. He believes that the French and the Belgian more than other nationalities prefer to purchase products or services from local companies. He therefore suggests the use of a domestic name, the establishment of a legal entity and hiring local employees. In the 90's Company X was considering to by a French company in order to increase their commitment and overcome cultural barriers. He advises others to rather go with an acquisition than a Greenfield investment when entering these markets. Moreover he considers the language and cultural barriers in those markets as high for a Swedish or German based company.

4.1.3 Reasons behind the Choice of Markets

Company X tried to enter close markets, in terms of distance and culture, first. The firm started out with Scandinavian countries and then after obtaining a comfortable size attacked the German and English market almost simultaneously. The German and English market was much bigger than the Scandinavian markets and therefore very attractive. The fact, that English and German were spoken by most of the company's top managers and business owners was facilitating the decision. However the main driving force behind the decision to enter international markets was growth. The top management's international experience pushed them abroad not only to enter new markets but also in order to reduce production cost.

4.1.4 Choice of International Sales Strategy

Usually company X approaches new markets as described subsequently. The company s*tarts* by doing an *internal market analysis*, after demand in a new market arises; export increases or the board of directors decides to investigate new markets due to their attractiveness. Such a market analysis contains: desk research, acquiring knowledge through the Swedish Trade council and local Chambers of Commerce, travelling through the country in order to scan potential competitors and their products as well as querying customers located in those markets. According to Mr. Brolin, the Internet has positively influenced the internal market research. More information about competitors is quicker to access and available to a larger extent, which helps a company to make the right decisions. In some cases *external market analysis* were actually bought from the Swedish Trade council or foreign partners to Swedish lawyers in order to complement the own analysis. The *second step* is to enter the market with an agent, testing the market to a further extend. *Thirdly* the company looks for the right person for the job, ideally a Swedish speaking person who knows the culture and markets of the domestic and foreign country. This person is then either implemented as head agent or CEO of the sales subsidiary. When implementing an agent, most of the contacts were made through the agent himself. It is important to find an agent with a good contact net. When investing in an own sales force, the most important factor at the beginning is to find a reliable person to employ. The next step is to use his or her network and integrate it into the firm.

Using agents to enter a market is a good way to start the penetration of a market without heavy investments. However it must be noticed, that this choice could cause the company higher costs in the future, when it decides to "buy out" the agent in order to create an own sales force, being able to further use the network and contacts created by the agent. Another drawback when working with agents is that your market knowledge growth is limited.

According to Mr. Brolin, under certain circumstances and in specific countries it is better to keep working with an agent than building up an own sales subsidiary. It is not always possible to improve sales figures with an owned sales subsidiary even though investments will be higher. If you end the association with an agent, you will always lose clients, depending on how strong the agent is. It is also not always possible to make the former agent head of a new sales subsidiary, since he might prefer to stay independent. This is especially true, when the agent has a big product portfolio, strong revenue streams and numerous employees.

Mr. Ravelli points out that without looking specifically at a certain market he believes that there are strong benefits coming along with establishing an own sales force. However, a company aiming to enter several markets during a short time normally does not have the recourses to set up an own sales force in every market. He goes on by explaining how important it is for a firm to set priorities, by pooling its resources and focus on the most promising markets, keeping in mind that a trade-off between the number of countries to enter and the chosen entry modes exists. He suggests to first take a look at the size of the market and how quickly the investment is expected to amortize. The pay back horizon of your investments is critical and should be realistically chosen. He expects a company introducing a new product into a foreign market not to break-even before three to five years after their market entry. This depends of course also on the entry mode. Mr. Ravelli concluded this topic with the words: "The higher your uncertainty about a market is, the lower your investments in this market should be."

4.1.5 Critical Issues when Entering a Market

Mr. Ravelli and Brolin point out that a good investigation of potential markets is critical in order to be able to invest carefully. Thereby the following aspects need to be considered: competitors, demand, market infrastructure, payment behavior, price level, competing products, price levels, special traditions and the overall structure of the market.

4.1.6 Focus on the Domestic Market

Both Ravelli and Brolin agree that a company's center of attention should always be its domestic market. Possessing a strong position in the home market is essential when going abroad. It is difficult to fight on many frontiers at the same time. Although many possibilities might seem tempting, only close and unique opportunities to gain foreign sales should be considered detecting. Especially when a company is still in its starting phase it will always take more time to grow sales in foreign countries than in your home country. This is due to translation and adjustments of documents and courses of actions from the native to the foreign language and environment. Examples for that are: home pages, price strategies, price lists, legal issues, marketing campaigns etc. that need to be bended in order to fit the foreign market.

4.1.7 The Impact of Time

According to the two interviewees from Company X, trade barriers in the 70's and 80's made it very difficult to sell products to clients in other countries within Europe, without establishing a legal entity. This has changed a lot due to the strengthening of the EU. Technological development aided to facilitate the communication between different business units, cooperating firms and a firm's clients. Moreover the Schengen agreement and the introduction of low cost airlines have improved the travelling situation enormously.

4.1.8 The Network of a Firm

According to Mr. Brolin, the biggest influence the firm's network had on sales and market choice came from international clients, who made Company X sell products to subsidies or partners of those clients located in foreign countries. Company X did not have any revenue streams from those markets before. Additionally employees who had been acquired through the firm's network had a huge impact on the firm's internationalization strategy, e.g. the manager poached from the Swedish furniture manufacturer.

4.1.9 Physical Distance

The drawbacks of long physical distances between countries have decreased over time. Infrastructure has improved especially in Eastern Europe and it is easier to move goods, capital and people within the European Union and the rest of the world except for the US. Moreover the Internet has become a good substitute to the telephone and fax messaging. All these aspects allow a firm to store goods in fewer countries and decreases the need for setting up companies in every country of sales. However, Mr. Brolin and Mr. Ravelli alert not to neglect or underestimate physical distance. Tax authorities, which can cause issues, are still placed locally and long distance flights remain long distance flights.

4.1.10 Psychic Distance

Mr. Brolin believes that a higher understanding of different cultures exists today and that cultural barriers and other obstacles to trade between European countries are lower than they were a couple of decades ago. However Mr. Ravelli does not believe that the strengthening of the EU had an impact on how business is done between countries. According to him, "All business is local. In order to be successful, you need to know your markets and adapt to their specific rules."

4.1.11 Experiential Knowledge versus Objective Knowledge

The interviewees consider experiential knowledge as more valuable than objective knowledge since it is more accurate. However the downturn with experiential knowledge is that it is more costly to acquire? On the other hand, objective knowledge can help you avoid buying more costly experiential knowledge.

4.2 Company Y

4.2.1 The Internationalization Process

Initially, the management team was not interested in a foreign expansion at this early stage. Instead they wanted, and still want, to focus on building a strong position on the domestic market. Therefore, they have not made any effort to seek opportunities abroad. Instead Company Y began entering foreign markets because individuals who were interested in selling the company's programs contacted them. If Company Y had not been pulled into the new markets, they would have delayed their internationalization process. "The reason we do this now is because it is a cheap and almost risk-free source of revenue." Mr. Dahlin says the executive chairman.

The choice of entry mode has, in all markets, been to license the right to sell the programs in the specific country. Each licensee is responsible of the operations on their market, including e.g. translation, cultural adjustments, sales and execution while. In return, Company Y receives a fixed income for every program sold. By choosing licensing, Mr. Dahlin believes that they take no, or very low risk as they invest very little capital into the market and dedicate very little time to the process of internationalization. He stresses the importance of the fact that they are not tied to the end customer legally and commitment is therefore very low. He explains that money spent on researching foreign markets is practically zero. Company Y has not made any independent assessments of the foreign markets and has almost no knowledge of the new markets, neither objective or from experience. Instead, they rely entirely on the licensees' knowledge of the markets. At several occasions, Mr. Dahlin mentions that the three-member management team does not have the time or resources to enter new markets in any other way than the chosen one, "They are simply to busy establishing the company on the domestic market."

Mr. Dahlin explains that he believes that a subsidiary would have meant that they would have to commitment both more time and money. They would have to spend hours traveling to the different countries to participate on board meetings, meeting employees etc. Also, there is the cost of translating legal documents and financial reports. This makes the costs of both start-up and running of the subsidiary very high. Mr. Dahlin's experience from boards of European organization makes him believe that cultural differences always will make processes more problematic, and even more if they would enter markets through subsidiaries. As the internationalization process would also be more time consuming, it would also require more resources.

4.2.2 The Choice of Markets and the Firm's Network

The Mr. Dahlin explains that "[t]he network of the management team was the only factor influencing the choice of markets to enter." The foreign actors had earlier been in contact with either the management team or the programs. Because they saw great potential in the programs, they became interested in selling them in their native market. Before agreeing to a contract, the potential licensees have been researched and evaluated. If they seemed genuine and showed that they will be able to sell the program in a good and credible, they got the license agreement. The Mr. Dahlin emphasized that the fact that they are familiar with the foreign licensees makes it easier to work together and to trust each other, and hence the internationalization process becomes less complicated. For example, the licensee in France is Swedish but has lived in Paris during the last 25 years. According to the Mr. Dahlin, this is of essential importance, making negotiations more straightforward and the collaboration more effortless.

4.2.3 Physical and Psychic Distance

When discussing the issue of psychic distance, the Mr. Dahlin first explained that the programs they sell are almost independent of cultural differences that might exist between markets. To be able to use them in new contexts, they only need to be translated and a couple of examples need to be replaced in order to increase local understanding. This makes the cultural barrier, caused by the nature of the programs low. Their choice to use licensing as they enter markets makes cultural barriers less important. Since the licensee is responsible of her own market and performance, the degree of interaction between actors on different markets is kept low. If they however, were to actively search for new markets they would most likely begin in countries close to Sweden because of convenience. Consequently, Mr. Dahlin argues that cultural barriers and long distances has a low impact on the operations when choosing licensing It would however affect the choice of markets to enter when approaching markets that they are not pulled into.

4.2.4 Future Strategies

The EC believes that the best strategy for entering new markets in the future is the same as the one they use today, namely to begin with licensees. Even if they in the future have enough ability to commit more resources when first entering a new market, licenses enable them to test the market without taking any risk. In this way they also get to know the individual partners and to build trust without creating any legal ties.

Mr. Dahlin believes that they might buy into the foreign licensees in the future the. This would allow them to get greater access to the licensee's networks and profits. He realizes that the cost of buying a part of a licensee might make the acquisition unprofitable and that it would require less of an initial investment to co-finance the licensee in the phase of start up. However, he believes the risk of committing resources early on to be too high.

4.3 Company Z

4.3.1 The Network of a Firm

Company Z is in the beginning of its internationalization process. The first contacts to foreign agents were generated through a friend of the firm's owners, the CEO of another firm. The friend's firm is not operating in the same value chain or located in the same industry still, or maybe due to that fact the CEO was more than happy to help out. Three out of the four foreign countries Company Z is operating in were approached through agents introduced by this contact (Austria, Switzerland and Sweden). In Spain, the fourth country the firm is currently operating in, a leasing agreement exists with a firm, founded only for this purpose. The person in charge of the Spanish firm was called to attention of Company Z by a mutual friend and fellow student of Company Z's owners.

4.3.2 Reasons behind the Choice of Markets and Entry Mode

As mentioned above, according to Daniel and Patrik Andersson Company Z's network had a huge impact on the market selection. Additionally, due to the limited resources of start-ups, Company Z favored entry modes with lower dedication in terms of money and time. Therefore the company chose to enter foreign markets generally through agents and in the case of countries of high potential with leasing agreements. Low commitment in foreign markets is becomes even more attractive since the main focus of the company is still its home market, due to the size of the German market and the firm's competitive position within the market. The company still has potential to gain further market share within its home market, therefore the company's strategy is to approach those countries which are very close and important markets on the long run and only when very good opportunities present themselves.

4.3.3 Choice of International Sales Strategy

The two brothers interviewed agrees in that it is best to begin entering markets close to your home market in terms of their location, their culture and their language. Further, if entering countries more dissimilar to the domestic market it is important to make sure that you have the knowledge about these markets is available in your firm's network. Patrik and Daniel Andersson generally agree with following an incremental order, starting with low commitment and then steadily increasing commitment as uncertainty decreases. However they doubt that it is always beneficiary to steadily increase the commitment in a market. Since Company Z's production is located in Asia because of the technological head start in Asia concerning these types of products and the lower producing cost, they believe it is very unlikely that Company Z will move production to its home market or other markets of sales even when uncertainty is further reduced. On the other hand they have no interest in selling their products to Asia.

According to the two brothers it is also not necessarily the case that an increase in commitment leads to an increase in revenues or profits. Often changes of foreign engagement are difficult and lead to a loss of clients. Especially in countries which high psychic and physical distance you should be cautious with Greenfield investments, if the company is lacking knowledge. The brothers believe that knowing the right contact person is what has the biggest influence on the decision of commitment. It should preferably be a person who knows both the domestic and the foreign country's culture and language. Being able to trust this person and the other way around is the essential foundation of a long and successful business relationship. If you think that you have found the right person for the job, you are willing to put more effort into recruiting this person. If goals are not met, they first try to help out by increasing their involvement, if that does not help they reduce their time efforts and watch out for new opportunities. Other important sources that influence the decision of commitment are having the knowledge about new markets and the firm's financial situation. They rank knowledge second since enough knowledge needs to be acquired in order to overcome one's natural risk aversion; this is individual to every firm. According to them, how detailed the knowledge needs to be also depends a lot on how good the personal relation to the country is.

4.3.4 Experiential- and Objective Knowledge

Since Company Z is a start-up Patrik and Daniel Andersson believe that their experiential knowledge within foreign markets is limited and can therefore only be acquired costly. Therefore many early internationalization decisions were based on objective knowledge (desk research) and experiential knowledge in the form of their personal networks as well as through investigating the market on site. With unlimited resources available the two would always prefer experiential knowledge to objective knowledge since it is more accrued.

4.3.5 Background of Top Management

The background of our top management has had a huge impact on Company Z's internationalization strategies so far. In all markets they are operating in at least one of the top managers know the domestic language of the market. Moreover they explain that they prefer to enter markets to which they have closer ties gained through: friends, family, business contacts or vacation, even when these markets might not be equally attractive in terms of market size. The reason behind that is that Company Z believes understanding the culture of a country and speaking its language are major success factors when going abroad. They continue by suggesting, "do not try to concur a market being only motivated by sales."

4.3.6 The Impact of Time and the Development of New Technologies

The two brothers believe that the Internet has facilitated the internationalization process of firms in many ways. It is much easier to gain information about competitors and demand in foreign markets. Some products can very easily be sold over the Internet. However other products of higher value are often more difficult to sell over the Internet, in particularly when the products are crossing boarders. Furthermore some business models are not intending to sell directly to the end consumer. For those companies the Internet is not a true distribution channel or entry mode into foreign countries. According to Patrik and Daniel Andersson it is also much easier and cheaper to nurse business as well as private contacts, which allows businessmen to keep and expand their network. This network often leads to unexpected business opportunities in different countries as well as in the home market. Furthermore it helps managers to follow the development in foreign countries.

4.3.7 Physical Distance

According to Patrik and Daniel Andersson, the world has become a smaller place. Therefore they believe that the *physical distance* is less of a problem, compared to a couple of decades ago. However they do not believe that videoconferences, e-mails etc. are full substitutes to face-to-face meetings. They continue by stressing the importance, that the EU keeps the frontiers open for a free movement of citizens and goods. Countries such as Denmark which currently consider re-implementing board controls, risk losing attractiveness. Foreign firms will decrease their involvement in those firms, because of the inconvenience that is created artificially.

4.3.8 Psychic Distance

Considering psychic distance they believe that the world has become of more intercultural place where different cultures more frequently consolidate with each other. This is especially true for multi-cultural cities such as New York and Paris. However there are cities in Asia with a couple of million inhabitants, where white people are looked at as if they were aliens or superstars. Patrik himself experiences that quiet often when travelling through Asia. The opposite seems also to be true in less urban regions in the US or Europe. He concludes this topic by saying, “I guess what I am trying to say is that cultures are more interlinked today but still far from being united. This is probably never going to happen. Many customs and habits from distanced cultures are still very odious to other cultures. Therefore top managers spend much time on learning about country specific habits and customs.”

5 Analysis

***Research question 1**: How does psychic and physical distance influence internationalization strategies of SMEs in today's environment?*

The internationalization process of **Company X** followed the predicted path of the Uppsala Model very closely from a geographical and cultural point of view. The company first entered the Scandinavian markets and then approached the more *psychically and physically distanced* markets Great Brittan and Germany. Mr. Brolin also explains that Company X withdrew from *Spain and Belgium* and reduced its commitments in *France* due to cultural differences. This is in line with the importance of psychic distance suggested in the early version of the Uppsala Model and the firm's ability to manage risk by changing their commitment in markets pointed out in the latest version of the Uppsala Model. In these two examples Company X had misjudged the cultural barriers and therefore decided to reduce the level of commitment to a risk level the company was willing to bare. This meant a full withdrawal out of Belgium as well as Spain and a stepwise retreatment of commitments in France. When entering the *French market* the company decided do deviate from its former internationalization strategy possibly because of its former success in Germany and England, thereby underestimating the importance of market specific knowledge and overestimating its experiential knowledge. When sales figures did not rise in accordance with expectations due to cultural differences, the company saw no other possibility than to reduce its commitment and assets at risk. Mr. Brolin and Mr. Dahlin see special challenges for northern European firms in terms of cultural differences and language in France and Belgium. Mr. Brolin believes that the French and Belgian more than other nationalities prefer to purchase products or services from local companies. He therefore suggests the use of a domestic name, the establishment of a legal entity and hiring local employees to overcome these obstacles.

Company Z also began its internationalization process with markets close to Germany such as Austria and Switzerland. The managements' choice to enter the Swedish market was based on the fact that the management team has strong knowledge about the country. Their knowledge of the Swedish culture and language decreased psychic distance. So far the interviewees seem to agree on the fact that cultural barriers play an important role when picking out markets to enter and which mode to choose. However, our case studies also show some deviations from the predicted importance of psychic and physical distance in the internationalization process. E.g. the psychic distance between *Denmark* and Sweden is generally considered to be short. However the demand for Company X's products in Denmark was much lower than in other Scandinavian markets or even Germany and England. After trying to enter the market for a while through exporting, the company relinquished to enter the market since the market attractiveness was too low. Mr. Ravelli leads the low attractiveness of the Danish market back to cultural differences between Denmark and most other European countries. The Uppsala Model neglects to point out that only small cultural differences between two countries can make a market unattractive even though the overall psychic distance is low.

Furthermore, Company Z's choice to enter the Spanish market was primarily based on its positive rating of the market, by classifying it as a very attractive market and the owner's network. Patrik and Daniel Andersson point out the importance of trust to the person in charge and the network of a firm. In the case of Company Z the psychic distance is reduced through its network and language skills of the management.

The markets **Company Y** chose to enter are not the closest to its domicile when it comes to cultural and geographical distance. This is in dispute with older version of the Uppsala Model. Mr. Dahlin explains that the choice of markets is based solely on the network of the firm. This is in consistent with Patrik and Daniel Andersson's view and backs up the latest version of the Uppsala Model and the implementation of the network view. We conclude that psychic distance is less important than the management team's network for an internationalizing firm and support the implementation of the network view into the Uppsala Model postulated by many authors before the implementation. Further it seems that the combination of market knowledge within the organization's network and the expected demand for the company's product or service in this market is primarily influencing the market choice decision.

The interviewees in our case studies do not consider *physical distance* to be of great significance. According to **Company X**, the importance of physical distance has decreased during the last decades due to the effects of globalization and technical developments. Company X's experience show that free trade embargos and the creation and strengthening of the EU have made it less inconvenient for firms to enter markets further away from their domestic market. **Company Y** does not see any significant obstacles when expanding to markets far away from its domicile. They have already been in contact with potential partners in India and on the North American west coast. Even though our interviewees consider the impact of physical distance on the firm's internationalization process to be limited, all three companies acknowledge traveling long distances to be time consuming. Moreover they classify engaging in a market located on another continent as a large commitment. Mr. Dahlin Executive Chairman of Company Y informed us that avoiding travelling time was one of the reasons why the company decided to go with licensing as their choice of entry mode. This entry mode requires less presence of the domestic management team then many others. The fact that Company X and Company Z, two companies with an exclusively European sales structure manufacture their products in Asia, is strengthening the argument of low importance of physical distance in the today's world. This is also interesting from a psychic distance point of view, since the commitment associated with setting up a joint manufacturing facility or finding contractual manufacturers is considered as high by the Uppsala Model. To sum up it seems that physical distance and psychical distance can be overcome by the choice of entry mode, through technological developments and the network of a firm.

Research question 2: *How does top management's background and network affect the choice of internationalization strategies and markets?*

As already scratched on in the discussion of the previous research question our empirical findings confirm the decision of Johanson and Vahlne to implement the network perspective in the updated version of the Uppsala Model. In our interviews we found out that networks but also the backgrounds of managers play an important role in the internationalization process of firms. Especially in the cases of company Y and Z the firms' networks substantially influence the choice of foreign markets. **Company Y** would not have entered foreign markets at all if it would not have been for its network. Mr. Dahlin explains that the management team of Company Y has very limited knowledge about the foreign markets. Instead they rely on the knowledge of the licensees. **Company Z**'s international expansion is also heavily influenced by its network. Without the owners' family friend Company Z would probably only be operating in one other country than Germany today. The background of the management team, their international experience and language skills were critical in their choice of markets. This can be illustrated by the company's choice to enter the Swedish market. Patrik and Daniel Andersson admit that the market is less attractive than others, from a market size and market growth perspective but the low cultural barriers and the high market knowledge decreased uncertainty of the Swedish market, which made it more attractive than others. The interviews with **Company X** also strengthen the proposed importance of management's background. The cultural barriers between Great Brittan, Germany and Sweden were lower for Company X than for other Swedish firms due to the fact that there were many employees within the company who spoke English and German. These findings clearly show how the concept of uncertainty is related to the knowledge that exists within the organization and how this affects the choice of foreign market.

Trust in the updated version of the Uppsala Model is considered to be the key to build strong relationships. This is supported by the findings from our interviews, as all the interviewees emphasize the importance of identifying trustworthy partners. Mr. Brolin partly blames the withdrawal from the Belgian and Spanish markets on the fact that they trusted the wrong people. Trust is has also been an issue **for Company X** when entering the Norwegian market. The company's first agent was a previous customer, and the managers of the sales entity established later on were previous employees of the former agent. According to the Uppsala Model every step of increased commitment leads to an increase in trust between network's partners and therefore to stronger but also new relationships. The Norwegian example also shows that the relationship between increased commitment and trust is complex. Increasing commitment can also result in a worse relationship with less trust than before or even a break up. However as the Norwegian example implies the firm's network increases and new possibilities can appear.

Patrik and Daniel Andersson mentioned that they positioned their company in a niche market with an environmentally friendly target group. Therefore gaining a position inside a "green-thinking" network was crucial for Company Z. Being an "insider" of a strong environmentally friendly network allows the company to improve its products and attract further customers through spillover effects.

Research question 3: *How do commitment and, uncertainty influence the choice of entry mode of SMEs?*

According to our interviewees, the intended degree of commitment and the uncertainty concerning the market influence the choice of entry mode in internationalizing firms. Mr. Ravelli and Mr. Brolin point out that a good research of potential markets is critical before entering a new market. This is in perfect accordance with the Uppsala Model since it states that firms try to decrease *uncertainty* to be able to *commit* to a market without taking on too much risk. Further, interviewees from all three companies agree on the usefulness of agents or licensing agreements when entering a new market. Thereby taping important information from the market and thus decreasing uncertainty. However the knowledge a company can gain through these modes is limited according to Mr. Ravelli.

Company Y uses licensing as their entry mode so far, since this mode requires low investments and is easy to reverse. The choice between agents or license agreements might also be correlated with the type of product or service of a company. Both producing companies in our sample are mainly using agents abroad the service company uses exclusively licensing as its entry mode. These findings are perfectly in line with the Uppsala Model, entering foreign markets with low commitment when facing high uncertainty. The accuracy of the Uppsala Model's statement becomes even more obvious when looking at a quote of Mr. Ravelli: "The higher your uncertainty about a market is, the lower your investments in this market should be." The interviews with Company X and Company Z back up the statement of the Uppsala Model that commitment will lead to more knowledge and a stronger network of relationships, followed by lower uncertainty. This will in turn make further commitments possible. Company X follows this pattern both when entering Germany and Great Brittan. Even though Company Z has not yet increased its commitment in foreign countries, the company experiences that the company's knowledge of the foreign markets increase due to its presence within the market. However Mr. Ravelli also mentions the draw backs of using agents, pointing out that those agents need to be bought out when establishing an own sales force. This could have been one main reason why Company X decided to enter the French market with a higher commitment in the form of a sales subsidiary and a warehouse, instead of implementing an agent first. This decision was made straight after the company successfully entered the German and English market. We therefore believe that the recent success at this time period led the company to overestimate the applicability of its experiential knowledge gained in other countries and neglected the importance of market specific knowledge. The difficulty in choosing the right entry mode and degree of commitment lies within defining the degree of uncertainty correctly. This example shows the significance of distinguishing between actual and perceived risk.

Research question 4: What *steps do SMEs take in the internationalization process and is there a difference of start-ups and established companies?*

In our case studies, it appears that established companies have more resources, which gives them a greater freedom when choosing which entry mode they will use. Even if **Company Y and Company Z** state that they believe it is suitable to use entry modes that require low commitment when first entering a market, they also state that they are left with little choice due to their scarce amount of resources. This implies that it is not only uncertainty and knowledge about a market along with a firm's network that determines the choice of entry mode, but also the available resources.. The Uppsala Model with its general approach misses this aspect.

In the case of **Company X** commitments in relationship within several countries seem to follow the *Internationalization Process Model* (Figure 3). Entering Great Brittan, Germany and Norway, they began with low commitment through agents and then proceeded by establishing sales subsidiaries. Using the reasoning in the *Internationalization Process Model*, the companies first recognized opportunities within their existing network position and decided to increase the commitment by entering the market using agents. The decision to increase the commitment then resulted in a new network positions and from this position they recognized new opportunities and increased their commitments by setting up sales entities.

Our case studies also describe a more complex reality. For example, in Norway Company X's choice to end the contract with the agent and instead establish a sales entity was not merely based on a decreased level of uncertainty. Company X was dissatisfied with the agent and therefore decided to end the relationship. They then chose to start a sales entity, which is considered to be an even larger commitment. However this was due to the fact that Norway is not a member of the EU, which led to complications with the customs. Company X had difficulties after they entered the French, Belgian and Spanish markets. The difficulties led to a desired decrease in commitments on these markets. At present time they therefore rely on an agent in France and have no representation in Belgium and Spain any more. The example of Company X shows that the firms' commitment may sometimes decrease due to unforeseen complications like cultural differences or the overestimation of the company's market specific knowledge in France due to high experiential and general knowledge gained in Germany and England. We come to the conclusion that this does not contradict with the Uppsala Model; on the opposite it rather confirms it, since the model acknowledges the possibility of firms to reduce their commitments in order to manage risk *(R = U x C)*. The present network position will create opportunities and increase knowledge. However this will not necessarily lead to an increase in commitment; the Uppsala Model merely predicts that it might lead to a change in commitment.

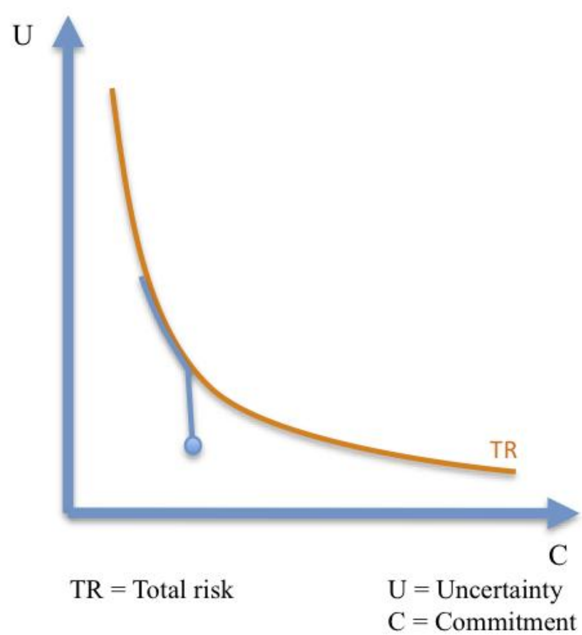
The fact that companies enter countries in order to reduce production cost has not been taken into account by the Uppsala Model neither in the first nor in the latest version of the model. Instead establishing production facilities in a foreign country is considered a late step in the internationalization process of a firm.

Our empirical findings, especially from Company X and Z, show that companies started to shift their production to countries of lower production costs already in the late 1970's, due to an increase of production costs in Western European countries. During that time Company X established production facilities or closed contractual production agreements in Poland Hungary and later on in China. After producing in Poland and Hungary for a while they started also selling their products in these countries. In Hungary sales was totally autonomous of the production facilities. In Poland however a sales subsidiary was established. However after about ten years all legal entities were closed and their engagement in Poland buried. Since then products are exported to some new and remaining clients from Germany. In the case of Poland Company X took the exact opposite way of the Uppsala Model and started with high commitment and then slowly decreased its commitment over time. Company X did initially not intend to sell its products in these markets (Poland and Hungary). For more than 20 years products have been produced mainly in Asian factories, first in a joint production facility and later only through contractual agreements. The company however does not intend to distribute their products on the Asian market in the foreseeable future. The only motive of moving production was to reduce production cost. Company Z is following the exact same strategy.

This phenomenon of moving or outsourcing production to countries of lower production costs is not new but started to take off in the 1980's. However it did not find any consideration of Johanson and Vahlne when they updated their model. The differences between our findings and the Uppsala Model lies with in the fact that today shifting the production to different countries is often not connected to the sales side of the value chain but instead to the cost side. We challenge the assumption of the Uppsala Model that firms steadily and incrementally increase their commitments while uncertainty decreases until companies establish production facilities in each foreign country of sales, since this stands in conflict with our empirical findings.

Our hypothesis is that many manufacturing firms, especially SMEs, will not increase their commitment in a foreign market infinitely or up to a point at which they start producing in the same market just because uncertainty decreased. Instead they will stop increasing their commitment at an earlier stage, at a commitment level they feel comfortable with e.g. sales subsidiary or agent and use their resources to increase their commitments in other markets (Figure 10).

Figure 10 Limited commitment



Alserud & Tykesson, 2011

We admit that companies can increase their commitment in a foreign market in other ways than changing the operating mode in a country. For example through hiring additional sales personnel or increasing the number of show-rooms. However based on our empirical findings, we believe that this is not an infinite process and that a company is not heading towards its maximum tolerable risk level in each foreign market on the long run. As mentioned earlier **Company X** has increased its commitments on some markets from agents to sales subsidiaries, but in most cases they kept using agents or sales offices associated with a lower degree of commitment. The interview with Mr. Dahlin at **Company Y** also leads us to believe that this process applies to service companies as well since they will probably keep using licensee agreements in the future as their foreign operating mode and not increase their commitment even though uncertainty decreases. However we leave this question unanswered for further research.

Research question 5: *Does the internationalization process of a firm differ, depending on the product's nature?*

The Uppsala Model does not take into account any differences in the nature of the products that are sold by firms. Even though the nature of the studied firms' products and services differ, we have not found any evidence suggesting that service companies and manufacturing companies should be treated differently in their internationalization process. However, the choice of market does depend on the nature of the product. The most important aspect is the possibility and the severity of adopting the product to a foreign market. Company X exited the USA because of substantial technical differences between Europe and USA. On the other hand, Company Y is according to Mr. Dahlin not concerned about differences between countries, since the company's service is applicable almost regardless of cultural differences.

6 Conclusion

After extensively reviewing the Uppsala Model we realized some minor obscurities fogging the clarity of the model, which we described and ironed out in chapter 2.1.4 Risk Management. The main problem is that Johansson and Vahlne miss pointing out the time-lag in a more extensive way when presenting the risk equation (R = U x C) and the risk curve. Part of the contribution of this paper is visualizing and explaining the importance of time, when discussing the relation between a firm's commitment, uncertainty and risk in its internationalizing process (Figure 5 and 6). An increase in commitment will immediately lead to an increase in total risk; but uncertainty will decrease with a lower rate of speed. This is due to the fact that acquiring knowledge is a time consuming process for a firm.

However the main purpose of this paper is to increase the understanding of the Uppsala Model through testing its applicability on European SMEs. In principal our empirical findings confirm the applicability of the Uppsala Model on SMEs. Due to these findings, we fully agree with the integration of the network perspective into the updated version of the Uppsala Model by Johanson and Vahlne. When investigating the case studies we consolidated with the importance of network effects. In a direct comparison it becomes clear that network effects play a more significant role then psychic distance. Nevertheless we continue to believe that psychic distance is still an important factor of uncertainty. However we argue that this obstacle can be overcome by being part of a strong network and trustworthy partners. The background of a firm's management can also aid to shorten psychic distance and influences the choice of foreign markets.

We are also in consent with the authors of the Uppsala Model regarding the trade-off between commitment and uncertainty. Firms tend to enter markets of high uncertainty using entry modes of low commitment such as agents and licensing. However this also depends on the available resources of firms. Moreover our empirical findings endorse with Johanson and Vahlne's opinion, that companies can manage their risk level by actively modifying their commitment. Yet, we challenge the assumption that firms will steadily and incrementally increase their commitments because the uncertainty of a foreign market decreases. This results in our hypothesis, that many manufacturing firms, especially SMEs will not increase their commitment in a foreign market infinitely or up to a point at which they start producing in it. Instead they will stop increasing their commitment at an earlier stage, in which the firm feels more comfortable with its level of commitment. Further the authors miss the fact that companies strive for low production costs and therefore do not aim to move their production to countries of sales (Figure 10). In contrast those firms significantly increase their commitment in countries of low production costs without aiming to gain any revenue streams from these countries in the present or the future.

To sum up, we believe the Uppsala Model to be very general. This is the reason why it fails to explain some complexities in the real world. Simultaneously the model's general approach is also its biggest strength. Since it focuses on explaining the fundamental elements of internationalizing firms it is possible to apply the model to a wide range of situations. Nevertheless in order to increase its understanding we would appreciate to see a stronger integration of entry modes in further developments of the model. Most importantly we want to encourage other researchers to test our hypothesis on a greater sample.

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8 Figures

9 Appendices

Appendix 1: Internationalisation Process Models

Authors	Johanson & Vahlne (1977)	Bilkey & Tesar (1977)	Cavusgil (1980)	Czinkota (1982)	Reid (1981)
Number of stages	n/a	6	5	6	5
Base theory	Learning theory	Innovation theory	Learning theory	Innovation and management theory	Management theory
Adaptive/Re-active/Proactive	Adaptive	Reactive	Reactive	Proactive	Proactive
Size	All firms	SMEs	SMEs	SMEs	SMEs
Time	Unbounded	Bounded	Bounded	Bounded	Bounded

Blomstermo & Sharma, 2003

Appendix 2: Definition of SMEs

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	Annual balance sheet total
Medium-sized	< 250	<€50 million (in 1996 € 40 million)	<€43 million (in 1996 € 27 million)
Small	< 50	<€10 million (in 1996 € 7 million)	<€10 million (in 1996 €5 million)
Micro	< 10	<€2 million (previously not defined)	<€2 million (previously not defined)

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Appendix 3: Interview Guide

1) What markets is your company operating in?

2) What drives SMEs to enter foreign markets and what steps do they take?

3) When you entered market a, b, c what were your entry modes?

4) Do you think an incremental order is advisable when going abroad? Starting with low commitment and then steadily increasing commitment as uncertainty decreases? (e.g. No export, Export, Agent, Sales subsidiary, Production)

5) How has experiential knowledge and objective knowledge influenced your internationalization decisions? Are they equally important?

6) Did your company change the location of production?

7) How did you approach the new markets?

8) How do you think does the internet influence the choice of entry modes today?

9) Do you think that technological developments such as the Internet, videoconferences transportation has made it easier for start-ups to go abroad, compared to 20 years ago?

10) What were your main driving forces/goals/ strategy when entering market a, b, c? And what aspects influenced the choice of markets?

11) What do you think is critical when going abroad?

12) How, do you think that the background of top management influences the choice of country?

13) Did you during your time working at company X, Y, Z see any changes in the importance of *physical distance* between the domestic and new foreign market, when choosing new markets to enter? If Yes, how?

14) Did you during your time working at company X see any changes in the importance of *physical distance* between the domestic and new foreign market, when choosing new markets to enter? If Yes, how?

15) Would you agree with the statement, that market knowledge decreases uncertainty and therefore allows an increase in commitment?

16) What influence did the network of your firm have on the market choice?

Appendix 4a: Interview I with Mr. Brolin Company X 7th of May

Historical Review of Company X's Production:

1942-1970's	Sweden (domestic, fully owned)	
1980-1989	DDR (external, 15-20% of production)	
1980-1999	Poland (fully owned)	
1987-	Hungary (fully owned)	5% of Sales today

Production in China

1987-	Contractual production agreements	Today 95% of production
1991-2004	JV (50% ownership)	Personal issues lead to break up

The Reasons behind Production Shifts:

- Reducing production cost
- Selling products with not too complicated technology allows having production externally and far away from the domestic market.
- It is not always useful for SMEs to have a production plant in every country of sales especially today, with less trade barriers and different labor costs in different countries.

Historical Review of Countries of Sales:

- *Scandinavia (Denmark, Finland, and Norway):* Started early with export and switched then too agents in the late 1970's early 1980's. When the partnership with the *Norwegian* agency ended in 2000, due to missing satisfaction on both sides, a legal sales entity was created in Norway. This was done mainly due to customs issues which appeared since Norway is not part of the EU. Two former employees of the sales agency were hired and put in charge of the sales subsidiary. In *Finland* we tried out different sales agents until we established an own sales force in the form of a sales office in 2000.[5] We were never present on the Danish market in the form of sales offices or sales subsidiaries.

[5] The difference between a sales office and a sales subsidiary is that a sales office is not a legal entity. The personally is paid by the parent company and the business premises are either rent or owned by the parent company.

- *Germany:* 1980- 1983 the company was working with Sales agents, no warehousing (Revenue 1 mil SEK GER, total sales 25 mil SEK). We wanted to keep our commitment low and carefully test the market especially since an external advisor made a market analysis which resulted in a discouraging advice, not too enter the German market. The German chamber of commerce saw only a little probability for Company X to be successful in Germany. The In 1983 a sales subsidiary (GmbH) with warehousing was opened, to day the company has a world wide sales of around 50 million EUR. "You could say that the German Chamber of Commerce was wrong."

- *England: In the* early 1980's Company X was working together with an agent, who in 1985 became the CEO of the new sales subsidiary (Ltd), with warehousing.

- *France:* In 1995 a sales subsidiary (SARL) with warehousing was opened. In 2002 the SARL was closed and replaced by an agent instead. After another one to two years the business relation was broken down. Afterwards, a sales office was established and a former employee of the SARL was hired. Since goals still were not met until 2006 the sales personnel is now operating from Germany.

- *Poland:* Between 1982- 2005 a sales subsidiary and warehouse existed in Poland.

- *The Netherlands:* In the Netherlands Company X worked together with an agent from 1985 to 1988. After that a sales office with show-room was established in 1988.

Today's Sales Offices[6]

- The Netherlands
- France
- Finland (1995-)

Today's Export:

- Czech Republic, Slovakia, Romania, Bulgaria, Poland, Hungary, Denmark

[6] Not a legal entity, but own sales personnel and offices.

- Austrian agents help dealing with the eastern European countries.

Agents

- Italy (2007-)
- Norway (1980's-2000)
- Austria (1998-)
- Switzerland (1990-2009) changed agent two times, since 2009 operating over Germany

Countries of Withdrawal:

- Belgium (1996-1999) cultural differences reasons for failure
- Spain (2003-2006)
- USA, Canada (1996-1999) market was too big and there is a strong need for product adjustments due to technological differences. There was a need for higher commitment in terms of money and time; the CPY was not willing to take this risk. The physical distance was also an obstacle. As a consequence we shifted our focus back on Europe: We want to get stronger in countries with lower sales (e.g. east Europe) before we enter new markets especially outside of Europe. Generally we prefer EU members to none EU-members; however this is not a knock-out criterion.
- "You should always be strong in your domestic market before you go abroad. Only take close countries with you if a good opportunity arises. In the beginning it will always take more time to grow in sales in a foreign country than in your home country (Translation of and adjustments of documents and course of action (home page, pricing, price lists, legal issues, marketing campaigns etc.)"

Biggest Challenges, which Lead to Withdrawal:

- Different cultures and business cultures as well as trusting the wrong people were the most important reasons for failing goals in foreign markets.
- Trade barriers in the 70's and 80 have made it very difficult to sell products to clients in other countries within Europe, without establishing a legal entity.
- Technological development helped (telephone→ telefax→ fax→ Internet)

Suggestions and Challenges for France and Belgium:

- Domestic name, legal entity and employees
- Communication problems
- "French like to buy from French companies"
- "In France I generally recommend acquisition instead of Greenfield investments."
- In the 90's Company X was considering to by a French company in order to increase their commitment and overcome cultural barriers.

Reasons behind the Choice of Markets:

- German and English were spoken by most of the company's top management and business owners.
- We firstly tried to enter close markets, in terms of distance and culture. Starting out with Scandinavian countries and in a next step aiming on Germany and England.
- We were mostly interested in growth and therefore very interested in the size of the markets. It was no accident, that we first entered smaller and close markets and then attacked bigger and more distanced markets (physically and psychic).
- Top management had international experience, which pushed them abroad.

Further Quotes

"We went from countries with low psychic and physical distance to countries with higher psychic and physical distance."

"Nordic countries have a free trade agreement since a long time."

"In some countries and under certain circumstances, it is better to keep working with an agent and not to built up an own sales subsidiary. It is not always the case, that you increase sales with an own subsidiary. If you end the association with an agent, you will always lose clients, depending on how strong the agent is. It is not always possible to make the agent head of a new sales subsidiary, since this depends on how successful he already is and if he prefers to stay independent. This is especially true, when he has a big product portfolio, revenue and many employees."

Appendix 4b: Interview II with Mr. Brolin Company X and 8th of May

1) *What do you think is critical when going abroad?*

Answer:

A good internal research of the market (Competitor-, product- and demand analysis, infrastructure and payment behavior)

2) *Do you think an incremental order, starting with low commitment and then steadily increasing commitment as uncertainty decreases is advisable (e.g. No export, Export, Agent, Sales subsidiary, Production)? Please justify your answer.*

Answer:

Generally yes, but it is not necessary to go all the steps in each foreign country, sometimes it is better to stop at one step.

3) *What were your main driving forces/goals/ strategy when entering market a,b,c and what aspects influenced your choice of markets?*

Answer: Growth in sales

4) *How has experiential knowledge and objective knowledge influenced your internationalization decisions? Are they equally important?*

Answer:

Experiential knowledge is more important than objective knowledge. However external research can be helpful as well.

5) *How did you approach the new market in terms of making contact, legal advice, location etc.?*

Answer:

- First we made an internal market analysis sometimes even an external (e.g. Germany)
- Secondly we entered the market with an Agent
- Thirdly(could already be done in step 2) we looked for the right person (speaking Swedish and knowing the foreign country's market and culture)

- Not always but often implemented a sales subsidiary
- Germany was after Scandinavia the first choice due to its market size cultural closeness and central location in Europe(Switzerland, Austria, Italy, France). Within Germany a central position was also important to us.

6) *What factors did influence your choice of commitment to new markets and the changes of commitment to those markets as time passed.*

Answer:

The financial position of the parent company is of course important. As the knowledge of the market decreases the willingness to increase commitment rises. This is the drawback working with agents; your market knowledge growth is limited.

7) *In which way did you acquire/gain new knowledge about the new markets?*

Answer:

Internal and external market analysis was used in order to gain further knowledge. Today faster, less costly and a little more acquired then before the Internet existed.

8) *What influence did the network of your firm have on the market choice?*

Answer:

The biggest influence had international clients, who made us sell to their network in countries we did not have any revenue before.

9) *What influence did the environment (public pressure, trends, competitors, etc.) of your firm have on the market choice?*

Answer: The expansion and the strengthening of the EU had an influence

10) *In which way did the background of top management influence the choice of country?*

Answer: It had influence when it comes to language and acquaintances

11) *How do you think does the Internet influence the choice of entry mode today?*

Answer: It makes the internal research quicker and more accrued.

12) *What differences in communication have you noticed due to technological developments such as the Internet (e-mail, video conferences, etc) and transportation (low cost airlines), compared to 20 years ago?*

Answer:

The world has grown closer and communication has become easier.

13) *How did the strengthening and expansion of the EU affect internationalization for the Company you worked for?*

Answer:

It facilitated sales, logistic and infrastructure.

14) *Did you during your time working at Company X see any changes in the importance of physical distance between the domestic and new foreign market, when entering new markets? Please justify your answer.*

Answer:

Became less of an obstacle but needs still to be considered. Infrastructure improved and Internet is a good substitute to telephone and fax messaging. However long distance flights remain long distance flights.

15) *Did you during your time working at Company X see any changes in the importance of psychic distance between the domestic and new foreign market, when choosing new markets to enter? Please justify your answer.*

Answer:

There is a higher understanding of different cultures today. Europe is more open to foreign companies than before.

Appendix 5: E-mail Interview with Mr. Ravelli Company X 12th, 14th 16th of May

1) *When you entered the other Scandinavian markets what were your entry modes and why was this specific entry mode chosen? Did you change the mode during your operations in the different countries?*

a. *Indirect exporting (distributors or importers)*
b. *Direct exporting (Agents)*
c. *Direct sales (Own sales force)*
d. *Licensing*
e. *Franchising*
f. *Strategic international alliance*
g. *International Joint Venture*
h. *Consortia*
i. *Foreign Direct Investments in a production facility(FDI)*
    i. *Greenfield*
    ii. *Acquisition*

Answer:

When entering the Scandinavian market there were different factors affecting the decision?
How we entered different markets:

The first market to enter was *Norway*. In this case the choice was to appoint an Agent being responsible for the whole country. The appointed Agent had along with some other customers purchased our products for some years, over Sweden. Appointing an Agent is a relatively cheap and good way when starting exporting. If they sell badly, you have not wasted a lot of recourses, e.g. personnel and marketing expenditures etc..The big disadvantage is of course that you have no control over the market and not the same access to market specific information compared to self entering the market. You rely deeply on the information you get from your agent.

The situation in *Denmark* was a bit different. Traditionally Danish people are a trading society who gained great experiences in trading over the history. Many potential clients were already importing their products directly from Asian producers to prices we could not compare with. During my time we exported our products from Sweden to Denmark but the sales generated was very low. Denmark has always been a tough market for Company X due to the reasons mentioned earlier. Therefore we never considered entering the Danish market by establishing an own sales subsidiary.

In *Finland*, we started just as in Norway, with an agent. However the results did not fulfill our expectations, to be honest the results were quit badly. After we changed the agent we still could not improve our results. Therefore the decision was made to form a sales office with own sells personnel.

2) *What do you think is critical when going abroad?*

Answer:

Investigating carefully into the market with respect to:

- size
- competition
- price-level
- special traditions
- market structure (wholesalers, warehouses and chains etc.)

3) *Do you think an incremental order, starting with low commitment and then steadily increasing commitment as uncertainty decreases is advisable (e.g. no export, export, agent, sales subsidiary, production)? Please justify your answer.*

Answer:

Without looking specifically at a certain market I believe that there are strong benefits coming with an own sales force. However, a company wanting to enter several markets in a short time, normally does not have the financial recourses to set up an own sales force on every market.

You have to set priorities, when selecting the most promising markets and deciding on the entry mode. A trade-off exists between the number of countries to enter and the chosen entry mode.

Where to start and how:

Look at the size of the market and how quickly you can expect the “pay back” on your investments. You must keep in mind that introducing a new product into a foreign market takes between three to five years, before you "break even". The higher your uncertainty about a market is, the less your investments in this market should be.

4) *Do you think, that it is sometimes better to work with agents, or just export even though the uncertainty of a market decreases? In other words, market knowledge increases but commitment is fixed.*

Answer: This depends on the future prospects and size of the market.

5) *What were your main driving forces/goals/ strategies when entering different foreign markets and what aspects influenced your choice of markets?*

Answer:

As mentioned in question number three, a company must prioritize some markets from others.

In our case Germany was from all markets in Europe the most interesting market to us, right from the beginning, mainly due to the number of inhabitants and its geographical position. Therefore we founded a sales subsidiary in the middle of the 1980th Germany became quickly, just as hoped a base for sales into adjoining countries, such as Holland, Belgium and Austria. Later we created further sales subsidiaries in Great Britain, France and Poland.

6) *How has experiential knowledge and objective knowledge influenced your internationalization decisions? Are they equally important?*

Answer:

My personal experience is that "experiential knowledge" is more costly to get, but also more accurate when establishing an own business in a foreign country? As a base "objective knowledge" can help you avoid buying more costly "experiential knowledge".

7) *Did your company change the location of production? If yes, what were the reasons for that and did you chose to sell products in these markets too?*

Answer:

Our location of production has been repositioned enormously during the last 25 years. Starting out with having production located in only Sweden, it was partly shifted to sub-contractors within the DDR and Poland. After the fall of the "iron curtain" we were increasing the output in Polish factories especially in our own production plant. Parallel, the purchase of goods from the Far East increased and in the beginning of 2000 the production was moved fully to China. The main reason for moving the production was the increasing labor cost in West Europe between 1980 and 2000.

8) *How did you approach new markets in terms of contacts, legal advice, location etc.?*

Answer:

When using Agent, most of the contacts were made through the Agents themselves by using their network. When investing in a own sales force, the most important factor at the beginning was to find a reliable person to employ. The next step is to use his or her contact net. In some cases we used "Exportrådet" or foreign partner to Swedish lawyers to gain information about the foreign market.

9) *What factors did influence your choice of commitment to new markets and the changes of commitment to those markets as time passed. (Examples of aspects: financial situation, knowledge about new market, relations, contacts etc.)*

Answer:

As mentioned earlier, no company has the resources to enter all interesting markets at the same time efficiently. You are forced to set priorities then. Start by identifying the most interesting market for your company, and put all your recourses there. In this situation it could be reasonable to use agents, which is a good way to start the penetration of a market, without heavy investments. It must be noticed, that this choice could cause higher costs in the future, when you decide to "buy out" the agent to create an own sales force, being able to further use the network and contacts created by the agent.

10) *In what way did you (or the organization) acquire/gain new knowledge about the new markets?*

Answer:

We acquired knowledge through contacts with "Exportrådet", travelling in the country, using information from customers or other contacts.

11) *What influence did the network (suppliers, customers, cooperating firms etc.) of your firm have on the market choice?*

Answer: See Q 10 above

12) *What influence did the environment (public pressure, trends, competitors, etc) of your firm have on the market choice?*

Answer:

You always watch what your competitors and try to figure out what it is they are doing this of course has then an influence on your decision.

13) *In which way did the background of top management influence the choice of country? (Languages, relatives, international education/ working experience)*

Answer:

Answer: In our company it had a relatively high influence on the decisions, especially when considering moving production to other countries. Company X employed a former manager from IKEA, he had been working within the production division of a big Swedish furniture producer. He was very familiar with concept of producing in low cost countries, especially the DDR, Poland and the Far East. These countries were the exact same countries we located our production in later on. Concerning the sales side, the chief of our sales office in Germany had a huge impact on our decision to continue expanding in Germany by founding a sales and storage subsidiary.

14) *How do you think does the Internet influence the choice of entry mode today? Do you think that this depends on the type of product or service?*

Answer:

As Internet gives so much easier access to information you can get so much more information, which helps you to make the right decision.

15) *What differences in communication have you noticed due to technological developments such as the Internet (e-mail, video conferences, etc) and transportation (low cost airlines and fast trains), compared to 20 years ago? How does that affect the internationalization process of a firm?*

Answer:

Due to the increased communications such as Internet, many more companies use this media to buy and sell all over the world, this sharpens competition.

16) *How did the strengthening and expansion of the EU affect internationalization for the Company you worked for?*

Answer:

It makes it easier to move goods, capital and people within the union. This allows a company to store goods in fewer countries and decreases the need for setting up companies in every country of sales. However you need to keep in mind that the tax authorities are still located locally, this can cause issues.

17) *Did you during your time working at Company X see any changes in the importance of physical distance between the domestic and new foreign market, when entering new markets? Please justify your answer.*

Answer:

Yes, e.g. in terms of transportation. Nowadays you can use the same transport company all over Europe. The biggest change has happened in counties located in the eastern part of- Europe, such as Poland and the Baltic countries.

18) *Did you during your time working at Company X see any changes in the importance of psychic distance between the domestic and new foreign market, when choosing new markets to enter? Please justify your answer.*

Answer:

I do not believe that the strengthening of the EU had an impact on how business is done between countries. "All business is local. In order to be successful, you need to know your markets and adapt to their specific rules."

Appendix 6: Interview with Mr. Dahlin Company Y 12th and 15th of May 2011

1) *In which markets are Company Y present?*

   Answer:

   - France (also responsible for the Belgian and German market). The licensee in France has priority if entering Austria and Switzerland
   - Norway (Can also sell to customers on the boarder between Norway and Sweden and follow customers into Sweden)
   - They have been in contact with actors from India, Congo and Togo and USA. In the USA every state is considered as a independent market.

2) *Why France?*

   Answer:

   - The person responsible of France knew one of the founders from before and likes the programs.
   - The responsible person in France knows the person responsible for the German market. He is a professor in philosophy.
   - Norway also contacted them because they had previous experience of the programs.

3) *When you entered market a, b, c what were your entry modes and why was this specific entry mode chosen?*

   Answer:

   - They have chosen licensing.
   - They take no risks
     - Does not invest or lock any resources on the foreign market and no legal connections. The French system is difficult.
     - They want to be able to focus on the Swedish market.
     - They do not have resources to enter markets in any other way
     - The licensee is responsible for everything concerning their market. Responsible for translation, marketing etc. The licensees adopts the

programs to fit the cultural surroundings. Company Y then gets a predetermined amount of money for every program sold.

4) *What do you think is critical when going abroad?*

Answer:

- They do not have any real knowledge about the foreign markets that they have entered and they do not need to. Instead it is crucial that the licensee has extensive knowledge and understanding of the market.
    - Company X has 0 percent knowledge
    - Licensee has 100 percent (is the one who is taking all the risk)

5) *What were your main driving forces/goals/ strategy when entering market a, b, c and what aspects influenced your choice of markets?*

Answer:

- Enter markets because experienced actors interested in selling the programs in their domestic market have contacted them. If they had not been contacted they would not have entered foreign markets at this time. "The reason we do this now is because it is a cheap and almost risk-free source of revenue."

6) *What about the future then, would you consider alternatives to licensing?*

Answer:

- Regardless if the Swedish organization grows in number and resources, there are no plans changing the strategy of entering new markets through licensing. They feel confident this being a good strategy since they take no risk and it require minimal effort from their side.
- They might buy into the companies that have the license. They will then get the advantage of the established networks. It is possible that this turns out to be too expensive even if they will then take part of the network and customers.
- The industry is tricky when it comes to buying companies since the crucial value is the relationships and network of key figures in the companies. The buy-in or take-over has to be friendly. Otherwise the key figures might leave and then the

network of customers will follow. This makes it hard to push into a market; it is better to be pulled.

- To stay on friendly terms with the licensee important to avoid future issues related to hostile takeover.

7) *How important is psychic and physical distance in your process of entering new markets?*

Answer:

- Cultural and physical distance is not interesting.
- The programs are unique in the way that they are independent of cultural surrounding. It does not matter if companies are Russian, German or Spanish; the only adjustments needed are translation and the writing of new similes. E.g. changing from an ice-hockey example to a football example when adjusting them from Swedish to Spanish.
- If they instead had chosen to enter markets by starting a sales subsidiary there would have been obstacles connected to both psychic and physical distance. The obstacles are basically costs in terms of money and the need of time they would have to invest. It is costly to travel between countries and it is time consuming. Also there is more bureaucracy due to legal and accountancy matters, associated with starting a subsidiary.
- Licensing makes issues due to cultural differences and distance almost obsolete since they only have to meet very seldom. There is also very little paper work compared to starting a subsidiary. Since it is possible to e-mail drafts of contracts etc., the process is both fast and convenient.

8) *How has experiential knowledge and objective knowledge influenced your internationalization decisions? Are they equally important?*

Answer:

- Since they use licensing they are not particularly concerned with any aspects of knowledge; what is important is that the licensees are driven and suited to sell the programs.

- The executive chairman has experience from board work of European organizations since 1994. He feels that the largest differences between countries are between the south and north of Europe. The northern countries are more oriented towards results while the southern countries can discuss issues for hours without really discussing anything. India seems to be more like the northern European countries.
- If they were to actively seek new markets, it is more important for them to do an extensive market analysis than to have experience of new markets. When an interesting market then is identified, it is important to find a suitable partner who possesses more experience-oriented knowledge. Most likely to begin with markets close to the domestic market.

Appendix 7: Interview P. Andersson and D. Andersson Company Z May 10th 2011

1) *When you entered markets A, B, C what were your entry modes and why was this specific entry mode chosen? Did you change the mode during your operations in the different countries?*

Answer:

Since Company Y is a start-up company all our internationalization efforts are fairly new and there has been no change in entry modes so far.

- Sweden: Agent
- Austria: Agent
- Switzerland: Agent
- Spain: Licensing agreement

- The choice was fairly easy, since we are a start-up without unlimited funds. Those entry modes allow us to test foreign markets and still keep commitment in form of investments and resources low. By choosing this strategy we gain more information about the market compared to just using importers and distributors located in Germany and the commitment is not much higher.
- There were several reason why we decided to go with a licensing agreement in Spain, first of all we found a qualified person speaking both German and Spanish. Furthermore he has lived in both countries and knows both cultures. Secondly the Spanish market is very interesting for us, since the market is bigger and our seasonal product can be sold for a longer time period. We had already analyzed the Spanish market and identified it as a future market to enter, even before we met our contact. Moreover we are aiming for a long-term commitment in this market.

2) *What do you think is critical when going abroad?*

Answer:

- The most important thing is trust; you need to trust the people you work with and the other way around, no matter if it is an agent or an employee we are talking about. This is the only way to have a long and successful business relationship.

- Start with markets close to your home market in terms of their location, their culture and their language. Or make sure that you have the knowledge about these markets in your firm.

3) *Do you think an incremental order, starting with low commitment and then steadily increasing commitment as uncertainty decreases is advisable (e.g. No export, Export, Agent, Sales subsidiary, Production)? Please justify your answer.*

Answer:

- I would generally agree with this statement. However I doubt that it is always beneficiary to steadily increase your commitment in a market. E.g. we located our production in Asia to due to production cost and the technological head start Asia has in our industry. Therefore it will be very unlikely that we will move production to our home market or other markets of sales. On the other hand we are not interested in selling in Asia.

4) *Do you think, that it is sometimes better to work with agents, or just export even though the uncertainty of a market decreases? In other words, market knowledge increases but commitment is fixed.*

Answer:

- It is not necessarily the case, that if you increase your commitment, that you will increase revenues or profits at the same time. Often changes of foreign engagement are difficult and lead to a loss of clients. Especially in countries which high psychic and physical distance you should be cautious with Greenfield investments, if the company is lacking knowledge.

5) *What were your main driving forces/goals/ strategy when entering market a, b, c and what aspects influenced your choice of markets?*

Answer:

- Growth
- International education and working experiences
- Family background
- Trust worthy contacts
- Language and cultural knowledge

6) *How has experiential knowledge and objective knowledge influenced your internationalization decisions? Are they equally important?*

Answer:

- Since we are a start-up company experiential knowledge is limited and can therefore only be acquired costly, therefore many early internationalization decisions were based on objective knowledge or knowledge of our personal network. With unlimited resources we would always prefer experiential knowledge over objective knowledge since it is more accrued.

7) *How did you approach new markets in terms of contacts, legal advice, location etc.?*

Answer:

- We always try to locate our agents or leasing partners in central locations. We do that in order to reach a wide range of people with our products. In this content we also look at the population's distribution and the closeness too major cities in and outside of the country. We also try to use our wide contact-network which we gained through our international education, working experience and our dual citizenship.

8) *What factors did influence your choice of commitment to new markets and the changes of commitment to those markets as time passed. (Examples of aspects: financial situation, knowledge about new market, relations, contacts etc.*

Answer:

The three examples reflect our considerations in a good way. We would rank their importance in the following way.

1. Contact person

   If you think that you have found the right person for the job, you are willing to put more effort into recruiting this person. If goals are not met, we first try to help out by increasing our involvement, if that does not help we reduce our time effort and watch out for further opportunities.

2. Knowledge about new markets

   You need enough knowledge to overcome your natural risk aversion; this is individual to every firm. How detailed your knowledge needs to be also depends a lot on how good your personal relation to the country is.

3. Financial situation

   The balance sheet is a good indicator for, how many resources are available for the internationalization process. Since all resources, also time can be measured in money and costs money in the end.

9) *In what way did you (or the organization) acquire/gain new knowledge about the new markets?*

Answer:

- Desk research, mainly over the Internet.
- Visiting and investigating the market on site.
- Contacting local friends as well as the Chambers of Commerce

10) *What influence did the network (suppliers, customers, cooperating firms etc.) of your firm have on the market choice?*

Answer:

- Important to us was that our logistic partners are present in the country we expanded to. More over personal contacts in the market are always a good starting point for a first market analysis and they help you to overcome cultural barriers. Furthermore all the agents we are operating with in international markets were introduced to us by a dear friend and facilitated our internationalization process. Especially since you reach a deeper level of trust more quickly, compared to building up a business relationship with a total stranger. Our Leasing partner on the other hand approached us through a common friend and follow student. You can see that our personal network had a big influence on our choice of market.

11) *What influence did the environment (public pressure, trends, competitors, etc) of your firm have on the market choice?*

Answer:

- Due to big players in the market we decided to go into a niche market which we identified by analyzing recent trends. One of those trends we identified is being green and became very central to us. Therefore we also consider the ecological awareness of the population within a country.

12) *In which way did the background of top management influence the choice of country? (Languages, relatives, international education/ working experience)*

Answer:

- The background of our top management had a huge impact on our internationalization strategies so far. We are not operating in any market where not at least one of us knows the domestic language of the market. Moreover we preferred to enter markets where we have closer ties to (friends, family, business contacts, vacation) even though they are less big. We do that mostly because we believe in understanding the culture of a country and speaking its language are major success factors when going abroad. "Do not try to concur a market being only motivated by sales."

13) *How do you think does the Internet influence the choice of entry mode today? Do you think that this depends on the type of product or service?*

Answer:

- In general I would say that the Internet has facilitated the internationalization process of firms in many ways. It is much easier to gain information about competitors and demand in foreign markets. Some products can also be sold over the Internet very easily. However other products of higher value are more difficult to be sold over the Internet and even more difficult over the Internet into foreign markets. Furthermore some business models are not intending to sell directly to the end consumer. For those companies the Internet is not a real distribution channel.

14) *What differences in communication have you noticed due to technological developments such as the Internet (e-mail, video conferences, etc) and transportation (low cost airlines and fast trains), compared to 20 years ago? How does that affect the internationalization process of a firm?*

Answer:

- It is much easier and cheaper to nurse business as well as private contacts, which allows us to keep and expand our network. This network often leads to unexpected business opportunities in different countries as well as in the home market. Furthermore it is easier, cheaper and quicker to follow one's developments in foreign countries.

15) *How did the strengthening and expansion of the EU affect internationalization for the Company you worked for?*

Answer:

- The power of the EU has not changed significantly since we founded our company therefore we have not been able to note any affects on our company. However we benefit a lot from the today's situation and would have indubitable more trouble to go abroad without these trade facilitations.

16) *When entering new markets, has the importance of physical distance between the domestic and the new foreign market changed over time? Please justify your answer.*

Answer:

- The world has become a smaller place. Therefore I believe that the *physical distance* is less of a problem, than a couple of decades ago. However long distance flights still take a long time and video conferences are not a full substitute to face to face meetings. It is important that the EU keeps the frontiers open for a free movement of members and goods. Countries which currently consider re-implementing board controls, risk losing attractiveness. Foreign firms will decrease their involvement in those firms, because of the inconvenience that is created artificially.

17) *When entering new markets, has the importance of psychic distance between the domestic and the new foreign market changed over time? Please justify your answer.*

I believe that the world has become a more intercultural place where different cultures more often consolidate with each other, especially in multi-cultural cities as New York or Paris. However there are cities in Asia with a couple of million inhabitants, where white people are looked at as if they were aliens or superstars. I myself experienced that quiet often when travelling through Asia. The opposite seems also to be true in less urban regions in the US or Europe. What I’m trying to say is that I believe that cultures are more interlinked today but still far from being united to a single one. This is probably never going to happen. Many customs and habits from distanced cultures are still very odious to other cultures. Therefore top managers spend much time on learning about country specific habits and customs.