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# **The new modified Uppsala model**

**-Based on an anomalistic case study at Malmberg Water AB**

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## **Foreword**

We would like to thank all the teachers and the people that we have met during our three and a half-years of studies at Kristianstad Business School for teaching us the foundations and concepts of international business.

We specially want to thank our tutor and examiner, who has guided us with suggestions and ideas and put forward useful criticism throughout the process of writing this dissertation, Håkan Pihl. We also want to thank Viveca Fjelkner who has given us feedback and suggestions when it comes to the English language.

Finally, we would like to thank Per Malmberg for taking the time to answer our questions. We would also like to thank him and Jan Svensson for being available during the whole process of the dissertation.

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## **Abstract**

The Uppsala model is one of the theories describing the internationalization process of firms. The model states that firms first choose to enter nearby markets with low market commitment. We found a case where the firm did not follow the model. Thus, it is not applicable to all firms. By conducting an anomalous case study of Malmberg water AB the model has been criticized and modified. Three firm specific aspects have been added to the original model. These are, size of the firm, competitive advantage and the product. By adding these new variables to the original Uppsala model we hope that it can better explain the internationalization process of firms and especially the psychic distance concept. However, this needs to be further tested and evaluated.

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# 1. INTRODUCTION

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*Our interest in the internationalization process and in particular the Uppsala model was the reason for studying this subject. We heard of a firm in the water treatment business, Malmberg Water AB, which had entered foreign markets in a different pattern than the Uppsala model predicts. We chose to conduct an anomalistic case study and our purpose and aim with the research was to criticize the Uppsala model and possibly modify it.*

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## 1.1 Background

There are many different theories describing the internationalization process of firms. During our three years of business studies we became interested in this subject and especially in anomalistic cases that can not be explained by the various theories. We decided to find and study such a case and the theory chosen to criticize and possibly modify was the Uppsala model. The reason for choosing this theory was that we found a firm, Malmberg Water AB hereafter called MWAB, which had chosen to internationalize very differently from what the Uppsala model postulates. The theory predicts that a firm first chooses to invest in nearby markets and gradually increase its commitment and psychic distance. One of MWAB's first investments was in Algeria, which does not correlate with the theory at all.

In most research studies a theory is tested to see how well it corresponds to reality. We have decided to do the opposite. By using a case that does not correspond to the model and consequently diverge from the postulated norm and theoretical thought, an anomalistic research approach was used. This is an unusual and

different way of confronting a problem and it helped us gain very useful information and knowledge.

## **1.2 Problem**

With the background stated above our problem is that the internationalization theory, the Uppsala model, does not seem to fully explain firms' internationalization process and behaviour.

## **1.3 Purpose**

The aim of this dissertation is to study, criticize and possibly modify the Uppsala model.

## **1.4 Research questions**

- Why does the Uppsala model not fully explain firms' internationalization behaviour with emphasis on the psychic distance?
- How does the Uppsala model differ from other internationalization models and what criticism can be found when comparing them?
- Are we able to discover any new criticism based on our anomalous case study?
- Does the Uppsala model require new variables that are not linked to the firm to gain greater explanatory value?
- Can new firm variables increase the Uppsala model's explanatory value?

## **1.5 Limitations**

The one limitation that has been made is the number of firms. Instead of studying many different firms the focus was only on one,

MWAB. Because of limitations in time, the size of the dissertation and other resources it was only possible to conduct one case study.

## **1.6 Outline**

Chapter 2: Here, the chosen dissertation method that has been applied will be presented.

Chapter 3: In this chapter we will present our theoretical framework including the different theories and criticism of these.

Chapter 4: This chapter contains the empirical method used to collect information about MWAB.

Chapter 5: A summary of our interview with Per Malmberg and our secondary information will be presented.

Chapter 6: This chapter contains our own criticism and based on the anomalous case study a new modified Uppsala model will be presented.

Chapter 7: In our final chapter we will present the conclusion of our research and suggestions for further research.

## **2. METHOD**

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*In this chapter the chosen dissertation method will be presented. We have chosen a different approach i.e., an anomalistic approach and this is, to our knowledge, not common when conducting a dissertation. A case study has been conducted based on interviews and secondary data.*

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### **2.1 Dissertation method**

There are different approaches to use in order to conduct a research. “The research process onion”, gives an overview of the different ways in how to write a dissertation. We have used this onion in order to describe how we have composed our dissertation (Lewis, 2003).

### **2.2 Research philosophy**

There are three different types of research philosophies: positivism, interpretivism and realism (Lewis, 2003). Our investigation is mainly based on the principle of positivism but also on interpretivism.

In our dissertation the Uppsala model has been criticized and modified and the information was required through observing a social reality, in this case MWAB. The new modified model is a law-like generalization that can be applicable to all firms. In this sense our dissertation is based on the positivistic philosophy.

However, we are aware of the fact that it is difficult to modify and compose a model applicable to all firms. The business situations are complex and unique and can vary much from firm to firm. Taken this into consideration it is likely that there are exceptions to our modification. Therefore, our dissertation is also influenced by the interpretivistic philosophy.

### **2.3 Research approach**

A research approach can either be deductive (testing a theory), or inductive (building a theory) (Lewis, 2003). Since our investigation has been different it was difficult to decide whether the approach was deductive or inductive or a mix of both. On one hand we wanted to test and criticize the Uppsala model and see why it did not apply to MWAB. On the other hand, before the start of the research we knew that the model was not applicable to the firm. Consequently, it can not be described as a deductive approach.

Qualitative data have been collected instead of quantitative data through an interview and secondary information and as stated above, the Uppsala model has been modified. Thus, no new model was built therefore it is not an inductive approach.

Because of the difficulties to find the right research approach a new one was defined based on Kuhn's theory of anomalism (Kuhn, 1970). He refers to an anomaly as a divergence from the scientific norm and the expected result.

The research approach is different because of the fact that an anomalistic case was used to confront the problem. In our case the scientific norm is the Uppsala model and MWAB is the divergence, the anomaly.

### **2.4 Research strategy**

*“Case study is the study of the particularity and complexity of a single case, coming to understand its activity within important circumstances.”* (Stake, 1995, p. xi)

In our dissertation a case study was conducted by interviewing Per Malmberg at MWAB and through collecting secondary data. There are several advantages with this kind of strategy. First, since the focus was on the internationalization process of only one firm it was important to gather as much information as possible about this case. Second, a survey would not have been appropriate, since open questions mainly were needed. Hence, it is difficult to ask open questions with a survey, therefore a case study was the best way to receive the right information in order to criticize and modify the Uppsala model. One might argue that a case study is “unscientific”. However, a case study is very useful when modifying an existing theory. With the help from our case study we have gained information about MWAB’s internationalization behaviour and from this criticized and modified the model. The new improved model might explain the internationalization process of other firms that, like MWAB, have not followed the Uppsala model. However, it needs to be further investigated, tested and evaluated. This is out of the scope of a candidate dissertation.

## **2.5 Time Horizons**

In our research the anomalous internationalization process of MWAB has been studied. The development of the process was as well as the reason/reasons for choosing the various markets incorporated in the investigation. Therefore, our research has a longitudinal approach. The characteristics of a longitudinal approach are that it studies change and development over time (Lewis, 2003).

Moreover, the investigation is also an explanatory study since the whole process was studied and it explained why MWAB chose the various foreign markets.

## 2.6 Data collection

Data can be divided into primary and secondary data. Primary data is collected through observations and secondary data is data that have been collected and revised (Lewis, 2003). Our primary data was the interview we made at MWAB and also information received through telephone contacts. The secondary data was mostly books and articles about the Uppsala model and other internationalization theories, but also emails and brochures from MWAB.

## 2.7 Summary

The research process onion has been used in order to describe how we have conducted our dissertation and the research philosophy is a combination of positivism and interpretivism. A new research approach was defined based on Kuhn's theory about anomalism. Furthermore, we have chosen a longitudinal approach and the dissertation is an explanatory study. A case study about MWAB was conducted and both primary and secondary data have been used.

### **3. THEORETICAL FRAMEWORK**

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*In his chapter models that we believe have had a great impact on the subject and the understanding of the internationalization process of firms will be presented. The focus will be on the Uppsala model but the Transaction cost analysis model, the Network model and the International product life-cycle theory are also mentioned.*

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#### **3.1 Introduction to theoretical framework**

The widespread interest in the internationalization process of firms has given rise to many different approaches and models to try to explain how firms enter foreign markets. There is a variety of models in the field of internationalization, both descriptive e.g., the Network model and predictive e.g., the Uppsala model, as well as static and dynamic. A few models will be mentioned that we believe have had a great impact on the subject and on the understanding of the internationalization process of firms. The three specific models that will be mentioned below, the Transaction cost model, the Network model and the International product life-cycle theory, will hopefully contribute and help us formulate some useful criticism of the Uppsala model and find the most important differences in the models.

### **3.2 The Uppsala model**

The Uppsala model has its theoretical base in the behavioural theory of the firm (Cyert & March, 1963; Aharoni, 1966). It is also influenced by Penrose's theory of the growth of the firm (Penrose, 1995). The behavioural theory describes the internationalisation of the firm as a process in which the firm gradually increases its international involvement, which is expressed in the Uppsala model through psychic distance and the establishment chain that will be discussed later. The process evolves in an interplay between the development of knowledge about the foreign markets and operations, and an increasing commitment of resources to those markets (Johanson & Vahlne, 1990, in Johanson & Associates, 1994). The central issues of the model are how organizations learn and how their learning affects their investment behaviour (Forsgren, 2002). Another important aspect of the Uppsala model is that it is a dynamic model, it describes the internationalization of a firm as a process.

### **3.3 Assumptions in the Uppsala model**

#### **3.3.1 The establishment chain and the psychic distance**

The Uppsala model can explain two patterns in the internationalization process of the firm (Johanson & Vahlne, 1990, in Johanson & Associates, 1994). The first pattern is that the commitment to engage in operations in a specific foreign market develops according to the so-called establishment chain, which is a sequence of stages that are made in small incremental steps with extended commitment and a higher degree of commitment for every new step. In 1975 Johanson and Wiedersheim-Paul identified four different stages as stated below.

1. No regular export activities
2. Export via independent representatives (agent)
3. Sales subsidiary and
4. Production/manufacturing (Johanson & Wiedersheim-Paul, 1975, in

Johanson & Associates, 1994, p. 34.)

The second pattern explained is that firms tend to enter new markets with successively greater psychic distance, and in most cases also greater geographical distance (Johanson & Vahlne, 1990, in Johanson & Associates, 1994; Hollensen, 2001). The psychic distance is defined as:

*“...the sum of factors preventing the flow of information from and to the market. These include differences in language, education, business practices, culture, and industrial development.”* (Johanson & Vahlne, 1977, in Johanson & Associates, 1994, p. 51)

Consequently, the less a firm understands a market the greater the psychic distance and the perceived uncertainty are. Thus, firms enter markets they understand and where they can see opportunities and where the perceived uncertainty is low. As postulated in the model, the best way to minimize the perceived uncertainty and to see opportunities is through experiential knowledge. That is mainly acquired through personal experience in the specific market. Hence, this is the reason for the incremental steps and the sequential engagement in foreign markets. The relationship between the establishment chain and the psychic distance is shown in Figure 1. below.

**Figure 1.** The psychic distance and the establishment chain

Source: Hollensen, 2001, p. 48.

### **3.3.2 Other assumptions in the Uppsala model**

The authors have also made some basic assumptions in order to generalize and compose the model. First, the firm strives to increase its long-term profit. Second, the firm tries to keep the risk-taking at a low level. Third, the efforts to obtain the first two assumptions are

made at all levels of the firm. Fourth, the state of the internationalization affects perceived opportunities and risks, which in turn affect commitment decisions and current activities (Johanson & Vahlne, 1977, in Johanson & Associates, 1994).

Moreover, the firm is the centre of the analysis and it is seen as a loosely-coupled system in which the individuals have the knowledge. They also have separate interests in and ideas of how the firm should be developed. Consequently, those working in a foreign market will see opportunities and risks in that specific market and try to find and promote solutions that will gain themselves (Johanson & Vahlne, 1977, in Johanson & Associates, 1994).

*“Thus, the model expects that the internationalisation process, once it has started, will tend to proceed regardless of whether strategic decisions in that direction are made or not.” (Johanson & Vahlne, 1990, p. 12.)*

Another implied assumption is that firms have general competitive advantages i.e., when a firm’s product is not dependent on certain market conditions. This is a tacit understanding since the research was based upon larger firms, which had this general competitive advantage.

### **3.4 Introduction to the core concepts**

The Uppsala model is based on four core concepts: market commitment, market knowledge, current activities and commitment decisions. These four concepts are then divided into state aspects and change aspects. The two state aspects are market commitment, which is the resources committed to foreign markets, and market knowledge, which is the knowledge about foreign markets and operations possessed by the firm at a given time. The two change aspects are current activities and commitment decisions. The latter

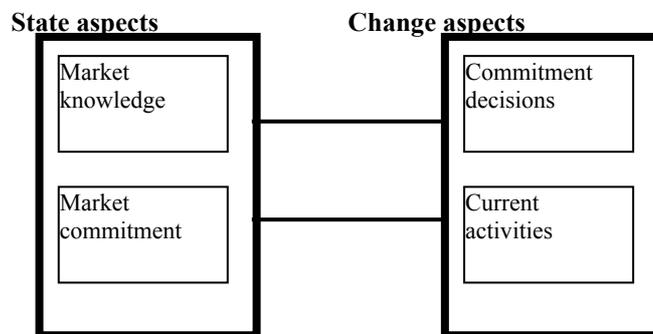
are the decisions to commit resources to foreign operations.

The four core concepts are linked and affecting each other, as well as dependent on each other's existence as stated below.

*“Market knowledge and market commitment are assumed to affect decisions regarding commitment of resources to foreign markets and the way current activities are performed. Market knowledge and market commitment are, in turn, affected by current activities and commitment decisions.”* (Johanson & Vahlne, 1990, in Johanson & Associates, 1994, p. 84).

In this way the process can be seen as casual cycles. The basic mechanism of the internationalization process is illustrated in Figure 2. below.

### **The internationalisation process of the firm**



**Figure 2.** The internationalization process of the firm

Source: Johanson & Vahlne, 1990, in Johanson and Associates, 1994, p. 84.

### **3.5 State aspects**

As stated above, the state aspects are market commitment and market knowledge.

#### **3.5.1 Market commitment**

The market commitment concept is composed of two factors: the amount of resources and the degree of commitment. The amount of resources is described as the size of the investment that may include

marketing, organization, personnel, and other areas. The degree of commitment on the other hand becomes higher the more the resources are integrated with other parts of the organization and when their value is derived from this integration (Johanson & Vahlne, 1977, in Johanson & Associates, 1994). Described in different words, the more difficult it is to find alternative uses for the resources in question and the more specialized these resources are to a market, the higher the degree of commitment is. An example of resources with a high degree of commitment is a marketing department with special product knowledge and established integrated customer relations in a particular market.

### **3.5.2 Market knowledge**

The market knowledge concept consists of general knowledge and market-specific knowledge. The general knowledge concerns marketing methods and common characteristics of certain types of customers. Market-specific knowledge concerns characteristics of the specific national market expressed as:

*"...its business climate, cultural patterns, structure of the market system, and, most importantly, characteristics of the individual customer firms and their personnel."* (Johanson & Vahlne, 1977, in Johanson & Associates, 1994, p. 57.)

There is also a distinction between how the firm obtains the knowledge. It can either be acquired through objective knowledge that can be taught or by experiential knowledge that can only be learned through personal experience (Penrose, 1995). In the Uppsala model the experiential knowledge is emphasized and it is assumed that this kind of knowledge makes it possible to perceive and formulate opportunities.

Both general knowledge and market-specific knowledge are needed when entering and making commitments to a market. The latter kind of knowledge can mainly be acquired through experience in the specific market, whereas general knowledge can be taught and transferred from one market to another.

The Uppsala model is postulating a direct relation between market knowledge and market commitment. Knowledge is considered a human resource and the better knowledge a firm has about a market, the more valuable the resource is and consequently the firm will have a stronger commitment to the specific market.

### **3.6 Change aspects**

The change aspects affecting the state aspects are current activities and commitment decisions.

#### **3.6.1 Current activities**

In the present context, current business activities are important, mainly for three reasons. First, it is through these activities that the firm gets its main source of experience. And as stated above, it is through experience the firm can perceive opportunities that may lead to market commitments. However, the firm can gain experience through the hiring of personnel with experience, through advice from outside the firm or through taking over another firm that has experience. The problem is that there may not be anyone to hire, to get advice from or to take over and if there is, there is still one problem left, to interpret and integrate the experience within the firm. The fact that the needed experience is very hard to get hold of, the firm has to acquire it through a long learning process in connection with the current business activities. The other ways of gaining experience are not considered in the model. Hence, this is one of the reasons why the internationalization is a slow process. Second, there is often a lag between the activities and the

consequences, for example marketing activities. The desired consequences may not be realized unless the activities are performed continuously over some time. By this follows that the longer the lag, the more resources are needed and consequently the higher the commitment is. Finally, if the activities are highly production-oriented, or if there is a low need for interaction between the activities and the market environment the easier it will be to start new operations which are not incremental additions to the current activities. It will also be easier to substitute advice from outside and from hired personnel (Johanson & Vahlne, 1977, in Johanson & Associates, 1994).

### **3.6.2 Commitment decisions**

The second change aspect is commitment decisions, which are decisions to commit resources to a market. It is assumed that decisions are made in response to problems and opportunities on the market on one hand. And awareness of these problems and opportunities are assumed to be dependent on experience from activities on the specific market on the other hand. The decisions are also dependent on the existing market risk and the existing market uncertainty i.e., the decision-maker's inability to estimate the present and future market and market influencing factors, perceived by the firm. The existing market risk is composed of existing market commitment and existing market uncertainty. The firm will make incremental commitments to the market until its maximum tolerable risk is reached and the commitments are made incrementally due to market uncertainty (Johanson & Vahlne, 1977, in Johanson & Associates, 1994).

Consequently, the more the firm/decision-maker knows about the market the lower the uncertainty and the market risk will be. Thus, the incremental approach to commitment.

### **3.7 Three exceptions**

A firm will internationalize in accordance with the model, which is to make small incremental steps both in the market commitment dimension as well as in the cultural and geographical dimension with three exceptions:

1. When firms have large resources the consequences of commitments are small. Consequently, large firms or firms with surplus resources can make larger international steps.
2. When market conditions are stable and homogeneous, relevant market knowledge can be gained through other ways than experience.
3. When the firm has considerable experience from markets with similar conditions it may be possible to generalize this experience to the specific market (Johanson & Vahlne, 1990, in Johanson & Associates, 1994).

### **3.8 Existing criticism**

Since 1977 when the Uppsala model was presented, it has been the object of many empirical tests to further investigate the validity of the model.

*“It has been argued that the model builders apply a more narrow interpretation of learning than that allowed by the literature, which limits the ability of the model to explain certain forms of internationalization behaviour.”* (Forsgren, 2002, p. 257.)

#### **3.8.1 Assumptions and aspects of the existing model**

As mentioned before there are four core concepts that the Uppsala model is based on: market knowledge, market commitment, current activities and commitment decisions. Market knowledge and market commitment is assumed to affect the commitment decisions and

how these activities are performed. These activities will in turn influence market knowledge and market commitment at later stages (Johanson & Vahlne, 1977, in Johanson & Associates, 1994).

On the basis of these four core concepts the following assumptions can be made:

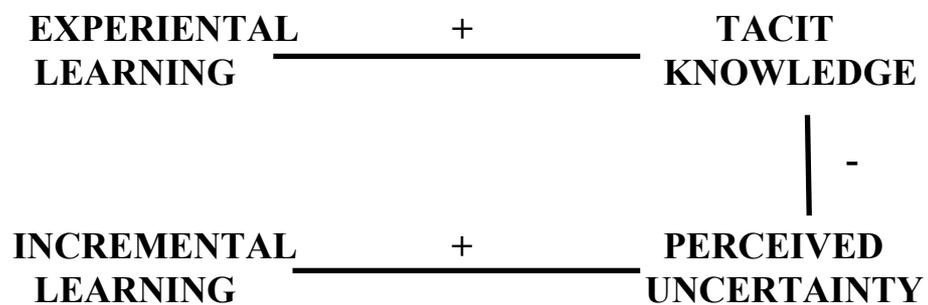
1. A firm's basic internationalization pattern is that the firm starts to invest in one or a few neighbouring markets. The psychic distance will increase successively with every new market.
2. The investment on a market is carried out cautiously in a step-by-step pattern. With this investment a learning process starts (Forsgren, 2002; Johanson & Vahlne, 1977, Johanson & Associates, 1994).

*“The Uppsala Model employs a reactive perspective rather than a proactive perspective of experiential learning.” (Forsgren, 2002, p. 261.)*

Here, reactive learning means acquiring more knowledge about already identified solutions and a proactive perspective of learning focuses on the search for new solutions. The beginning of organizational learning starts with the rising of a problem and the answer to this problem is sought in close existing solutions. The problem is solved when a satisfactory solution is found. The Uppsala model misses out some important aspects when it comes to organizational learning and these aspects also affect the accuracy of behaviour predictions (Forsgren, 2002).

Furthermore, the Uppsala model more or less equates experiential behaviour with incremental behaviour. The problem here is whether or not incremental behaviour is a consequence of experiential behaviour or an independent variable. Incremental behaviour reflects an organization's perceived uncertainty; the greater the

uncertainty, the smaller each step, while experiential learning reflects the tacit (market) knowledge. It does not state whether learning is acquired through activities that are close to existing ones or to entirely new ones. The following figure shows that by implementing experiential knowledge the firm will gain tacit knowledge and this will in turn decrease the perceived uncertainty about the market, which will reduce the need for incremental behaviour. The consequence of this is that there is actually a negative relationship between experiential learning and incremental behaviour (Forsgren, 2002).



**Figure 3.** Tacit knowledge

Source: Forsgren, 2002, p. 262.

### 3.8.2 Imitation and learning behaviour

The main emphasize in the model is on experiential learning through an ongoing activity (Johanson & Vahlne, 1990). This is one reason why the internationalization process very often is a slow one. However, several researches that have been made during the last twenty years put forward that knowledge can be gained not only through a learning-by-doing behaviour but also by the usage of “grafting”. Grafting means acquiring local units that have the necessary market knowledge and by this the slow process can momentarily go faster. This type of learning enables the firm’s internationalization process to take place more quickly and gives the firm many more alternative paths to explore than the one predicted by the Uppsala model (Forsgren, 2002).

Studies also show other ways of gaining knowledge, other behaviours not predicted by the Uppsala model. An example of this is when firms adopt an imitative-learning behaviour. By observing firms and their internationalization actions a firm can reduce its perceived uncertainty and internationalization investments can take place without previous experience. Studies have also shown that learning also can take place through the existing business relationships. A network of business relationships creates opportunities to learn from others (Forsgren, 2002).

There are two other types of learning; learning to increase effectiveness and learning to increase the organization's awareness of different alternatives. These two types differ from the previous view, which emphasises that learning takes place through existing activities. An organization needs both types of learning as mentioned above. Studies show that the Uppsala model misses these views of learning (Forsgren, 2002).

### **3.8.3 Loose-coupling**

One very important assumption of the Uppsala model is that the experiential learning and decision-making are done by the people involved in foreign investment activities and not by the top group of the organization (Björkman & Forsgren, 2000).

*“Groups at the operational level have a profound influence on the internationalization process.”* (Forsgren, 2002, p. 268.)

In reality this assumption is not as straightforward as the model predicts. The relationship between learning and action seems to be better taken care of if a more hierarchical one replaces the loosely-coupled organization. If this is the case, decision making and strategic behaviour are centralized to an individual or a specific

group and their experience influence the internationalization process of the firm (Forsgren, 2002).

#### **3.8.4 Experience, competition and industry characteristics**

Reports have shown an increased tendency of firms investing directly in psychically distant markets. This trend does not correlate with the Uppsala model. An explanation of this behaviour is that experienced firms, those with previous experience from foreign activities, make quicker and more daring decisions than firms with no experience as the model builders mentioned in the third exception. Another explanation is that the world has become more homogenous. Early starters can, if they are willing, directly enter large markets not necessarily neighbouring markets but markets culturally close to the homemarket (Hollensen, 2001).

Another important factor not mentioned in the model is competition. The firms have changed over the years. They have become more global. Only firms successful with their investments are the ones likely to succeed in their internationalization. Not only experience is of importance but also larger human, financial and technological resources. A firm with competitive advantages is a stronger candidate of succeeding in their internationalization actions than companies without the advantages (Nordström & Vahlne, 1992).

Researches have shown that industry characteristics also have an impact on the internationalization process. These characteristics are economies of scale, R&D-intensity, product differentiation, governmental policies affecting the need for local production, transportation costs etc (Nordström & Vahlne, 1985).

#### **3.8.5 Propositions on improvements of the model**

The most important strength in the Uppsala model is its simplicity and because of that, researchers have been very careful with adding

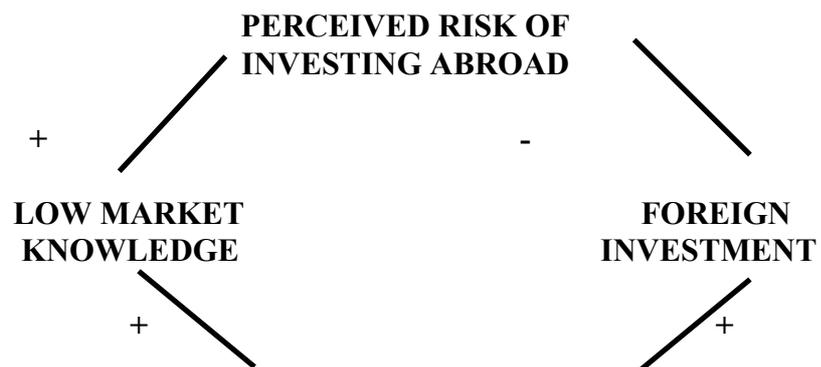
more variables. The first proposition follows the discussion about relationships between experiential learning and incremental learning. As a firm gains more experience, the perceived risk will decrease and this will lead to firms taking larger and larger steps to foreign markets over time.

1. *“Firms invest in a foreign market at an increasing pace”* (Forsgren, 2002, p. 271).

As mentioned before one of the core concepts in the model is market knowledge. As the firm acquires more market knowledge the perceived risk decreases. However, firms can acquire market knowledge in other ways than by own experience. Grafting and imitation are two alternatives.

2. *“Firms sometimes invest in foreign markets without own experiential knowledge”* (Forsgren, 2002, p. 271).

An assumption of the model is that investments are not made if the perceived risk is higher than the tolerable market risk. The risk in this case refers to the risk the firm experience if the investment is actually made. The figure below shows, however, that a firm chooses to invest even if the perceived risk is high due to lack of market knowledge and if the firm considers the risk of not investing to be higher than the risk of investing.



**PERCEIVED RISK  
OF NOT INVESTING  
ABROAD**

**Figure 4.** Foreign investment

Source: Forsgren, 2002, p. 272.

3. *“Firms invest abroad without possessing any substantial market knowledge if the perceived risk of investing abroad is lower than the perceived risk of not investing abroad”* (Forsgren, 2002, p.272).

The model predicts that a group or an individual in the firm handles the collection of market knowledge and makes the decisions concerning foreign investment. If this should not be the case and the firm makes the decisions, there is always a possibility that decisions are interrupted or cancelled in favour for another one.

4. *“Gradual accumulation of market knowledge does not restrain the firm from radical changes in foreign investment behaviour”* (Forsgren, 2002, p.273).

A matrix has been built to show the combination between firm and industry characteristics.

<i>Company Characteristics</i>	<b>Global</b>	3	6	9
	<b>Regional</b>	2	5	8
	<b>National</b>	1	4	7
		<b>Global</b>		
		<i>Industry Characteristics</i>		

**Figure 5.** Company and industry characteristics matrix

Source: Nordström & Vahlne, 1992, p. 20.

Nordström & Vahlne (1992) assume in their report that an expanding firm can choose between two strategies; meet important competitors face-to-face or avoid these competitors by focusing on product or/and geographical niches.

The situation in cell 1 is the internationalization process of a national firm in their early stages of internationalization. The firm enters psychically close markets and trust agents or distributors with the establishment of relationship to local buyers.

In cell 2 the firm is assumed to have strong firm specific advantages. The firm enters a new region and the pattern is still closely related to the Uppsala model.

The firm in cell 3 is global and enters a nationally structured industry. This firm has a very strong competitive position. It also has the previous experience of internationalization and enters psychic distant markets.

The situation in cell 4 is that of a national firm entering a regionally structured industry. This is the case when a firm internationalizes through niches. The firm does not have the competitive advantages it needs to gain market shares without a special strategy.

In cell 5 a regional firm is entering a new region. One nearby market at the time is entered and their position on the market is gradually deepened.

A global firm entering a new region is the situation in cell 6. This global firm is experienced and own strong competitive advantages. The original Uppsala model has very little or no explanatory value in this case.

In cell 7 is the situation of a national firm entering a global industry. This firm is very dependent of its niche-strategy considering both product and geography. The firm focuses on markets that are less important to its competitors.

The case in cell 8 is that a regional firm enters a global industry. A regional firm has not got the strong competitive advantages as a global firm. They have to enter the market quickly and powerfully by acquisitions.

Finally in cell 9 a global firm is entering a global industry. They can choose whatever entry mode they would like. An assumption made is that the industry is rather concentrated.

To conclude this matrix it can be argued that firms with less experience of internationalization and with internationally weak competitive advantages have to consider their competitive considerations of where, when and how they shall enter a new market (Nordström & Vahlne, 1985, 1992).

### **3.9 The Transaction cost analysis model (TCA)**

The TCA model was first introduced in 1937 and it has since then been further developed and simplified. It is focused on costs and how these costs are affecting a firm's choice of market and mode of entry. The theory identifies the transaction cost as stated below (Hollensen, 2001; Williamson, 1995).

**Transaction cost = Ex ante costs + Ex post costs = (search costs + contracting costs) + (monitoring costs + enforcement costs)**  
(Hollensen, 2001, p. 53).

The model states that a firm will expand its operations until the cost of making an extra transaction within the firm is equal to the cost of making the same transaction on the open market (Hollensen, 2001). Put in other words, the firm will continue to grow internally, internalize, until external sources have a cost advantage and then externalize. For example, when a firm is going to internationalize it may find the search costs for a nearby and familiar market more acceptable than for a market further away, and if it finds that it is cheaper to organize the internationalization through an intermediary it will externalize. In addition to the transaction cost there are many other important factors in the model that have an explanatory value e.g., transaction frequency and opportunistic behaviour.

### **3.9.1 Criticism of the TCA model**

The TCA model seems to better relate to multinational firms. In small and medium sized firms the lack of resources and knowledge are the major reason for the externalization of activities. The TCA model also seems to ignore the internal transaction cost when they are assuming a zero-sum situation. Problems may arise in between head office and its sales subsidiary when internal transfer prices has to be settled (Hollensen, 2001).

### **3.10 The Network model**

In the Network model the long-term relationships between business actors in an industry and the context in which the firm operates have the explanatory value when the model describes the internationalization of firms. In this theory the importance of social and cognitive ties in both personal and business relations are emphasized (Björkman & Forsgren, 2000). It is assumed in the model that the network, in which the firm is active, is the main driving force of the internationalization.

All the actors in a network are interdependent and interact with each other in one way or another. This makes it possible for a firm to have a high degree of internationalization without a high degree of assets in a specific foreign market. A basic assumption in the model is that a firm is dependent on other firms' resources within the network, for example customer and supplier relationships.

Johanson and Mattson argued in 1988 that when a firm enters foreign markets i.e., internationalize, it develops business relationships in networks in those markets. This can be achieved in three ways. First, through the establishment of relationships in market networks new to the firm i.e., international extension. Second, through the development of relationships in those networks i.e., by penetration. And finally, through connecting existing networks in different markets (Björkman & Forsgren, 2000).

### **3.10.1 Criticism of the Network model**

One problem that may occur with the Network model is that the actors have a different view on how to structure the network. The more actors involved in the network the bigger the differences (Håkansson & Johansson, 1992, in Johanson & Associates, 1994). When a firm internationalize in accordance with the Network model the risk will increase when it becomes more dependent on e.g., an unreliable supplier (Hollensen, 2001).

### **3.11 The International product life-cycle theory**

The International product life-cycle theory was first introduced in 1966 (Hollensen, 2001). The theory describes the diffusion process of a new product from one country to another and the theory is based on the USA as the innovating nation. The theory states that most of the innovations were developed and produced in the USA. Since the products could be sold at a relatively high price, there was no immediate need for low-cost production in developing countries (Hill, 2003).

In the early stages of a product's life cycle when domestic demand starts to grow rapidly, demand in other advanced nations is restricted to wealthy consumers. Thus, there is no incentive for firms in those countries to start making the product, but it does necessitate some export from the USA. Over time demand grows in other advanced nations and production starts there. As it does, American firms may also start production in these countries and consequently the opportunity to export from the USA is diminishing. When the product reaches maturity in the USA and other advanced nations the more standardized the product gets and the more important the price is as a way to compete. At this point, costs are starting to get very important and producers in advanced nations, with lower costs than the USA, may start to export to the USA. At the end of the diffusion process, developing countries have cost and production advantages and they start to export to advanced countries (Hill, 2003).

#### **Figure 6. IPLC curves**

Source: Hollensen, 2001, p. 406.

Explanations:

IPLC: International product life-cycle

LDCs: Less developed countries

### **3.11.1 Criticism of the International product life-cycle theory**

The theory predicts that most new products are developed and introduced in the USA. This might have been true during that time when the USA had its global dominance, from 1945 to 1975, but there have always been exceptions. These exceptions have become more common in recent years. Today many new products are introduced simultaneously in the USA, Japan and the advanced European countries. This may be accompanied by globally dispersed production; certain parts of a new product are being produced in countries where comparative advantages can be gained (Hill, 2003).

### **3.12 Summary**

The Uppsala model describes, and to some extent predicts, the internationalization process of firms. It is based on four core concepts: market commitment, market knowledge, current activities and commitment decisions. These four concepts are then divided into state aspect and change aspects. The four core concepts are linked to and affecting each other. The internationalization model can explain two patterns in the internationalization process of the firm. First, the commitment to engage in operations in a specific foreign market develops according to the so-called establishment chain. Second, firms tend to enter new markets with successively greater psychic distance. The Uppsala model has been criticized and there are some important parts that the model misses out. There are other theories describing the internationalization process of firms and the ones mentioned in this chapter are the TCA model, the Network model and the International product life-cycle theory.

## 4. EMPIRICAL METHOD

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*The method will be presented in this chapter and it will be used to conduct the empirical evaluation. Our main purpose was to gain information about MWAB's internationalization process and use this information to criticize and later modify the Uppsala model. Selecting the sample, data collection, reliability and finally validity will also be mentioned.*

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### 4.1 Selecting the sample

To be able to answer the research questions, data needed to be collected. This data can be collected in many different ways and is dependent on the purpose of the research. In our dissertation a sample needed to be chosen out of all the people working at MWAB, but also people who have worked there during the internationalization process. Obviously not all people employed at MWAB could answer questions related to the process, but the problem was finding the right people, to find the right sample. One person per market, in which MWAB had been active, was supposed to be interviewed. The project manager for the project in China was contacted. At this point he was the person to be interviewed for the Chinese market. People involved in the internationalization to the African and the Baltic markets needed to be found. The project manager in China, Jan Svensson, gave us the name of the person to contact for these markets, Per Malmberg. This approach to select the

right sample is called snowball sampling. This sampling is highly used when it is difficult to find the right members of the desired population (Lewis, 2003). In our case, to find the right persons to interview. With a snowball sampling one first make contact with one or two persons in the population and then ask these persons to identify further interview objects. This continues until there are no new objects to be given or until the sample is large enough. Snowball sampling was the only possibility for us to use in order to identify the right people to interview.

#### 4.2 The sample

After discussions with Per Malmberg and Jan Svensson it turned out that the only person that could be interviewed for all the markets was Per Malmberg. He was the only person still working in the firm who had been involved in the process of deciding on what markets to invest in. However, the necessary information was collected during a four hour long interview on December the 3<sup>rd</sup> 2003 and supplementing secondary data. Throughout the dissertation we had contact with Jan Svensson and other persons in the firm who gave us useful primary and secondary data. Although the interview is the core in our case study, we received information from the firm throughout the process of writing the dissertation.

#### 4.3 The interview

There are different types of interviews. A semi-structured interview was prepared and a set of themes and questions was to be covered. However, during the interview additional questions were added as it became more of an unstructured one. An unstructured interview is more informal (Lewis, 2003). After a question was asked to Per Malmberg, he spoke freely and covered other questions and areas, which were not asked. Therefore, the set of questions that had been prepared before the interview was not used the way it had been planned.

#### 4.4 Reliability

Reliability in a qualitative research is concerned with whether other researchers would be able to reveal the same information. There are also various types of biases that can be a threat to the reliability of the research. The first threat is interviewer bias (Lewis, 2003). For instance if questions were asked with a special tone or if any non-verbal behaviour of the interviewer would effect the respondent when answering the questions. Bias can also be the way the interviewer interprets the questions. By studying and reading about the Uppsala model and MWAB before the interview we were well prepared. Only one person was asking the questions. In this way the problem of interviewer bias was hopefully eliminated. The questions were sent one week before the interview so that the respondent was prepared.

The second threat is the interviewee or response bias (Lewis, 2003). This means that the respondent may be sensitive to answer questions on certain themes. The respondent might be afraid to give away sensitive information. Therefore the interviewer may not get a clear picture of a subject and important information may be excluded. In our dissertation a sensitive subject was not brought up, only questions relating to how and why they chose to enter the various foreign markets were asked.

#### 4.5 Validity

Validity of a research is whether the findings are really what they appear to be (Lewis, 2003). The validity of the research was a problem for us. Since the first investment abroad was in 1976 it is possible that Per did not remember what happened then or he may not remember it completely right. Some useful information may be missing or be incorrect. Since Per is the owner of the company it is possible that he is more optimistic and his view may be subjective without him knowing about it. Since the interview was the core and

most important source in our case study, it was a problem that we did not have anyone who could confirm the information that was given. However, the secondary data has confirmed the most of the information. As mentioned above, the internationalization process started in the 1970's. Therefore, people involved in the first investments are no longer working for the firm. It would have been useful to interview these people to confirm the information and perhaps get a more objective picture. However, there was no time for this and it would have been too costly for us to find and interview these people.

#### **4.6 Summary**

A snowball sampling was used in order to select the right sample. A four hour long interview with Per Malmberg was conducted and a semistructured interview was prepared. However, it turned out to be more of an unstructured interview. There are two threats to the reliability of the research, interviewer bias and interviewee or response bias. The validity of the research was a bigger problem for us since some important information may be missing or may be incorrect.

## **5. ANOMALISTIC CASE STUDY**

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*This chapter contains a summary of the interview with Per Malmberg and the secondary data, which is used to present MWAB's internationalization process and it is also later visualized on a chronological axis and in a table showing MWAB's establishment pattern.*

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### **5.1 Introduction to the anomalistic case study**

This chapter is a summary of a four hour long interview with Per Malmberg, president and CEO of the Malmberg Group, and complementing secondary data such as emails, brochures and information from the Malmberg homepage. We have also been in contact with Jan Svensson who has given us useful information. He is a part of the project team for the Chinese market. The purposes of this interview were to chart MWAB's internationalization process and compare it with that of the Uppsala model. Moreover, the Malmberg Group has today about a hundred employees and for an international firm we believe this to be a small one.

#### **5.1.1 Scandinavia**

The internationalization process started in 1976 when MWAB entered the Danish market. It was signed to construct a water

treatment project in Helsingör. This was a logical step in accordance with MWAB's strategy and vision. A few smaller projects have also been signed in Norway but Scandinavia, not including Sweden, is not MWAB's strongest market.

### **5.1.2 Africa**

In 1978 MWAB acquired a firm in the construction industry. The firm suffered from financial difficulties but had contracts in Algeria and Tunis, which MWAB after renegotiations took over. These projects involved water treatment and for the first time the firm worked with an agent. In Africa it encountered cultural differences especially with the language and the specific national culture. However, MWAB managed to overcome these differences without any major difficulties. The projects were financed by SIDA, which has a special department for foreign projects. This department gives subsidies and loans to developing countries and in turn they have to give contracts to Swedish firms exclusively. Without SIDA's involvement MWAB would not have been able to enter the African market. The following year it received another contract in Africa, this time in Egypt involving the same kind of projects as in Algeria. This time it was not a contract the firm received through the acquisition, it was acquired through the agent. All negotiations were made by MWAB and it continued to work with the same agent throughout this period. The reason for choosing to internationalize in Africa at this point was due to an estimated economic recession in Sweden and the contracts were rather easy to get. The board members knew that MWAB was not going to sign a lot of contracts on the homemarket. The agents in Egypt and Tunis were lost after they were headhunted by one of MWAB's competitors. At this time Algeria was considered to be a dead market and no further projects were signed there. After suffering from financial difficulties MWAB left the African market and decided to concentrate on the

homemarket. In 1985 MWAB employed a new person with specific foreign experience and knowledge.

### **5.1.3 China**

Several years later in 1992, a Chinese buyer, who was interested in the firm's know-how and water treatment systems, contacted MWAB. At first MWAB was sceptical about the idea to invest in China. China seemed too far away and there were a lot of projects in Sweden at that time. One of the board members traveled to China to make sure that the contact was serious and telling the truth. The firm decided to take on two projects but SIDA only financed one of them and because of this MWAB lost the other. Due to the new project in China five persons were employed, and they were only concentrating on the project. They worked with an agent and at least three employees from MWAB were always in China throughout the negotiations. The Chinese way of doing business was very different from the Swedish way and this felt like a major cultural difference. Chinese businessmen want to build up relationships before signing a contract so the negotiations took a very long time. However, it was worth it because once a relationship was built the Chinese were very loyal. Because of the many differences it was necessary to work with a Chinese agent. Despite having many projects in Sweden, the project in China was an opportunity MWAB could not resist and it has continued to receive projects there in 1994, 1995, 1999 and 2002. The firm has worked with an agent throughout this time and has no plans to develop its commitment i.e., starting a subsidiary.

### **5.1.4 The Baltic States**

To invest in the Baltic States was a part of MWAB's strategy and it had made investigations there when the countries still were a part of the Soviet Union. However, MWAB decided not to do its first project until the countries became independent. The employees in charge of the Baltic States read a lot of reports and other market

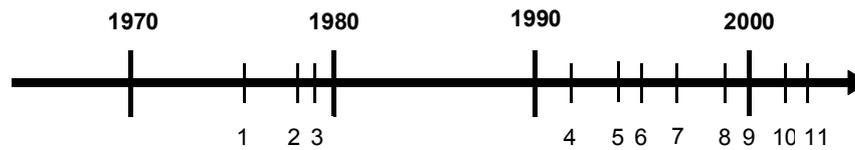
researches made by other firms and market-research firms. The first project was in Estonia in 1995 and this market has not been further developed. In 1997 MWAB signed a contract in Latvia and after its second project in 2003 it opened a subsidiary. In 2000 MWAB signed its first project in Lithuania and the firm opened an office with a part-time employee. As in China and in Africa MWAB worked with an agent and local firms were hired to do the actual construction work.

MWAB encountered cultural differences in the Baltic States too. The people employed to work with the projects did not have very much practical experience and they were afraid of making their own decisions and taking responsibility. All projects in both China and the Baltic States are of the same type i.e., water treatment projects.

MWAB has made an attempt to enter the German market. However, the competition was too strong and there was not much demand for new water treatment systems. Another factor that made it difficult was the fact that MWAB did not have a first mover advantage on this market.

MWAB has gained much experience through its internationalization process. It has a special group of people employed to handle all export questions. The firm has encountered many cultural differences when entering the different markets but the differences have been overcome and given it more knowledge about foreign markets and international business. MWAB has continued to sign new projects in both China and the Baltic States.

## **5.2 The internationalization process of MWAB**



**Figure 7.** Chronological axis of MWAB's internationalization process

1. 1976, Water treatment project in Denmark
2. 1978, Water treatment projects in Algeria and Tunis
3. 1979, Water treatment project in Egypt
4. 1992, Water treatment project in China
5. 1994, Water treatment project in China
6. 1995, Water treatment projects in Estonia and China
7. 1997, Water treatment projects in Latvia
8. 1999, Water treatment project in China
9. 2000, Water treatment project in Lithuania
10. 2002, Water treatment project in China
11. 2003, Water treatment project in Latvia

The chronological axis above illustrates MWAB's internationalization process. As the model predicts MWAB started its internationalization in Denmark, but the rest of the process should have been the other way around i.e., starting with Scandinavia, then the Baltic States, followed by the Chinese and the African markets. Moreover, if MWAB was to follow the Uppsala model there would not have been any gaps in the process or abandoned markets.

**Table 1.** Establishment patterns and entry modes

Markets	NRE	Agent	Sales S	Production S
Scandinavia*	1976-1976			
The Baltics		1995	2003-	
China		1992-		
Africa		1978-1979		

Explanations:

**NRE:** No regular export activity, in our case only sporadic projects

**Agent:** Export via an agent i.e, local agent

**Sales S:** Sales subsidiary

**Production S:** Production subsidiary

———: Leap-frogged directly to the next mode

**Year:** The year MWAB started with the first and the last particular mode

\*: Not including Sweden

The table above illustrates MWAB's establishment pattern and its entry modes to the foreign markets. MWAB was in a sense following the establishment chain, starting with no regular export and going through the stages in the right order, despite the fact that the firm leap-frogged some of them. But if the whole concept of the establishment chain and the Uppsala model had been followed MWAB would gradually have increased its commitment on the foreign markets. Furthermore, the process would not have been broken and markets would not have been left.

## 6. ANALYSIS

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*In this chapter an evaluation of the research will be presented. The analysis has been conducted by evaluating the different internationalization models and the Uppsala model in particular and compare it with MWAB's internationalization process. At the end of the chapter we present a new modified model that better describes MWAB's entry to foreign markets.*

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### 6.1 Differences in the models

There are some important differences in the models worth mentioning. The TCA model and to some extent the Network model are, compared with the others, static in their view of internationalization. The focus is directed towards a specific case, one market at a specific moment in time. The other models, the Uppsala model and the International product life-cycle theory, are

more dynamic in their view. They view internationalization as a process where one occasion/event affects the next and the process is built on sequential patterns. Thus, many events can be analyzed together, how they are related and how they have affected each other. This gives not only a description of the past and present but it can also be used to analyze the future.

Both the TCA model and the Network model are more descriptive than predictive models. They are good in describing why and how a firm internationalize but not so good at predicting what will happen next (Björkman & Forsgren, 2000). In general the Uppsala model and the International product life-cycle theory are more predictive. They have a built-in assumption that the firm/product will follow a specific sequential pattern, and through analysis of on what stage or in what phase the firm is, it can predict what the next stage or phase will be. One reason that the Uppsala model and the International product life-cycle theory are more predictive may be that they see the internationalization as a process with predetermined phases, as mentioned above. Another way of explaining why they are more predictive could be the simplicity of the models. The fewer variables that need to be accounted for the easier it is to generalize and to see patterns.

Moreover, the Uppsala model, compared with the three other models, does not include the environment in the sense that the environment is an explanatory factor. Instead all attention is directed towards the firm and firm aspects. But even so, it does not cover all aspects of the firm and it seems that some important factors are overlooked to keep the model's simplicity.

## **6.2 Criticism based on the other three theories**

The main criticism that we found when comparing the four models will be put forward below. The criticism is based on variables the

Uppsala model is missing and that we consider important. First, the TCA and the Network model are bigger in the sense that they have more explanatory variables and this give them certain advantages i.e., describe the reality better, when analysing a firm and its internationalization process. Nevertheless, the simplicity of the Uppsala model is considered to be its strong point and researchers have been careful with modifying the model and they have not added variables from outside the firm.

Second, the environment is considered to have an explanatory value in the other models and this makes them more reliable when making the analysis in some aspects e.g., it is not only in-house factors that affect decisions but also factors outside the firm. However, if the environment was to be incorporated in the Uppsala model the whole idea with the firm being the focus of the analysis would have been lost.

Finally, in general the other models are more applicable to all industries whereas the Uppsala model is more appropriate for certain industries. One industry that does not apply to the Uppsala model is the service industry (Hollensen, 2001). We also believe that there are certain other industries that may not apply e.g., MWAB's industry, water treatment.

## **6.3 Criticism of assumptions in the Uppsala model**

### **6.3.1 The psychic distance**

MWAB started its internationalization process in Denmark and this was in accordance with the model. However, the next step in the process was completely against what the model postulates about the psychic distance. Instead of further penetrating the Scandinavian and European market the firm entered the African market and later the Chinese market. Thus, the psychic distance may not be as

important as the model postulates. This fact has already been put forward by other researchers on this subject

### **6.3.2 The establishment chain**

If MWAB had followed the establishment chain the firm would have started with export activities. MWAB has leap-frogged this step and started with an agent on all markets except the Scandinavian market. The firm has not developed its commitment on any of the markets and in some cases it has left the market but on the whole the establishment concept is still applicable.

## **6.4 Criticism of state aspects**

### **6.4.1 Market commitment**

During the entire internationalization process the amount of resources and the degree of commitment have been low in general. The first projects in the late 1970's in Algeria, Tunis and Egypt were ad hoc projects with no intention of developing the market commitment any further. The market commitments in China, Estonia and Lithuania have not been further developed, it has more or less stagnated in the market commitment aspect. This may be due to the high risk and the uncertainty of further projects in some of the markets, e.g. Algeria, Egypt and China. Another important factor could be MWAB's size and the amount of resources it could invest in the projects.

### **6.4.2 Market knowledge**

MWAB had no general knowledge about the Chinese market. The Uppsala model postulates that firms need this general knowledge in order to enter and to make commitments to a market. We agree with other researchers that believe this to be wrong. Since MWAB is working with an agent in China, the agent has the general knowledge about the market i.e., grafting. In this way MWAB does not need to obtain general knowledge since it only has contact with

the agent and not with the customers. In the Baltic States however, MWAB has used, to some extent, market reports written by other companies. Consequently, it has gained general and to some extent market-specific knowledge about these markets. This is something that the Uppsala model misses out. MWAB has also adopted what Forsgren refers to as an imitative-learning behaviour, by reading already existing market analyses, and consequently in this way gained knowledge. The model does not consider anything about this type of knowledge.

During negotiations with the agent, market specific knowledge was important in order to understand the cultural patterns and business climate etc. Since MWAB did not have this knowledge the process took a long time. Once they had the contract with the agent no market specific knowledge was needed. When working with an agent the market specific knowledge can be obtained through the agent, who has the specific knowledge about the market and therefore it is not necessary for MWAB to have it. This is another aspect the Uppsala model is missing out.

The Uppsala model states that general knowledge can be taught and transferred from one market to another. In MWAB's case it is difficult because the markets they are operating in are very different from each other. Scandinavia, Africa, China and the Baltic States are very different when it comes to marketing methods and characteristics of certain types of customers. As mentioned above, the Chinese have very long negotiations and business are done in a completely different way than what MWAB was used to. Thus, the general knowledge from one market can be difficult to use on another market.

## **6.5 Criticism of change aspects**

### **6.5.1 Current activities**

The lag between starting the negotiations with a partner and signing a contract is very long in all of MWAB investments abroad. According to the Uppsala model the longer the lag, the more resources are needed and consequently the higher the commitment is. This is not the case with MWAB, even though its lag has been long the commitment has been low and it has not increased. Moreover, the person MWAB hired had experience from foreign markets but he did not have experience and knowledge about the firm. We believe that it was not a problem, that he did not have knowledge about the firm, in this case as postulated in the model. The long negotiations were not due to lack of experience in negotiation skills. Instead it was more dependent on the different business cultures on the separate markets.

### **6.5.2 Commitment decisions**

One of the first important decisions in MWAB's internationalization process was whether or not to operate on the Chinese market. This was an entirely new market and the firm had no previous experience from it. It was MWAB's board of directors that finally made the decision to take the projects and this does not correspond to the loose-coupling aspect in the Uppsala model. The main reason for the decision was that MWAB would have a first mover advantage. The risk of not taking the project was bigger than the risk of taking it (Forsgren, 2002).

If MWAB was ever going to enter China it were forced to make the investment fast, so the first mover advantage did not disappear. As Nordström and Vahlne state in their reports a small firm like MWAB with small financial resources has difficulties competing with larger firms. For instance the firm tried to enter the German market with no great success due to too strong competition. In order to succeed on a market it needs to have a first mover advantage. The

first project in China was successful and MWAB gained new experience.

Since entering the Baltic States was a part of MWAB's strategy the decision-making was not very difficult. As in China it did not have any previous experience, however, some market research was done. The model states that a firm should increase the commitment until the maximum tolerable risk is reached and this might be one reason why MWAB has left the African market.

In MWAB's industry many times the firm receives an offer from the buyer. This is what happened when MWAB chose the Chinese market. The model implies that the firm is the driving force when choosing a market, the buyer/customer is not included at all (Nordström & Vahlne, 1992).

## **6.6 Modification of the Uppsala model**

One of the purposes with this dissertation was to modify the Uppsala model and after our research we have formulated variables that we believe could be added to the model, the most important is selective competitive advantage. We have chosen to call them firm specific aspects. It is implied in Nordström and Vahlne's researches from 1985 and 1992 that certain aspects of the chosen variables are of importance to the Uppsala model and it is put forward as criticism. However, our specific variables with our own definitions and built in meanings have not been defined and expressed in their researches. When we identified the variables in our anomalistic case study we found them to be of such importance and to be so prominent that they could be used to modify the Uppsala model. We believe that the new modified model can better explain firms' internationalization behaviour, with emphasis on the psychic distance. Moreover, we believe these variables to be suitable since they have the firm in focus as the original variables do. Furthermore,

as mentioned above, the Uppsala model does not include the environment, however, we did not want to add it since the model would have been too complex. If the environment had been added to the model, it would have diverged too much from the original theoretical thought. The firm specific aspects will be presented below.

### **6.6.1 Selective competitive advantage**

The most important thing that the model is missing is a firm's competitive advantage, which is also casually mentioned in Nordström and Vahlnes' research. We have however, divided competitive advantage into general and selective. Selective competitive advantage is when a firm is forced to select certain markets in order to sell their products. For instance, MWAB's products can only be sold on certain markets; undeveloped markets are in greater need of water treatment systems than developed markets. Hence, firms like MWAB can only operate on certain markets that have a great demand for its product. The fact that some firms have, what we call, selective competitive advantage forces them to enter markets that do not correspond with the Uppsala model and the psychic distance. Unlike selective competitive advantage, general competitive advantage is when a firm's product is not dependent on certain market conditions, which could be due to a firm's larger resources. We believe that smaller firms tend to have selective competitive advantage while larger firms tend to have general competitive advantage. The latter is already implied in the Uppsala model as mentioned above.

#### **6.6.1.1 The amount of resources**

Another aspect of the selective competitive advantage is the amount of resources a firm possesses. Since MWAB is a small firm in this context i.e., with fewer/limited resources, it is important to have a first mover advantage. It is difficult to enter a market with strong

competition, if the resources are limited. The Uppsala model does not consider the amount of resources as an explanatory variable. Firms with limited resources are forced to choose certain markets where the competition is low. Thus, finding markets with low competition may be a more important factor than psychic distance when deciding on what markets to operate in. Johanson and Vahlne state in the first exception that firms with surplus resources can make larger international steps. We have discovered that firms with fewer resources can also make larger international steps because they are sometimes forced to.

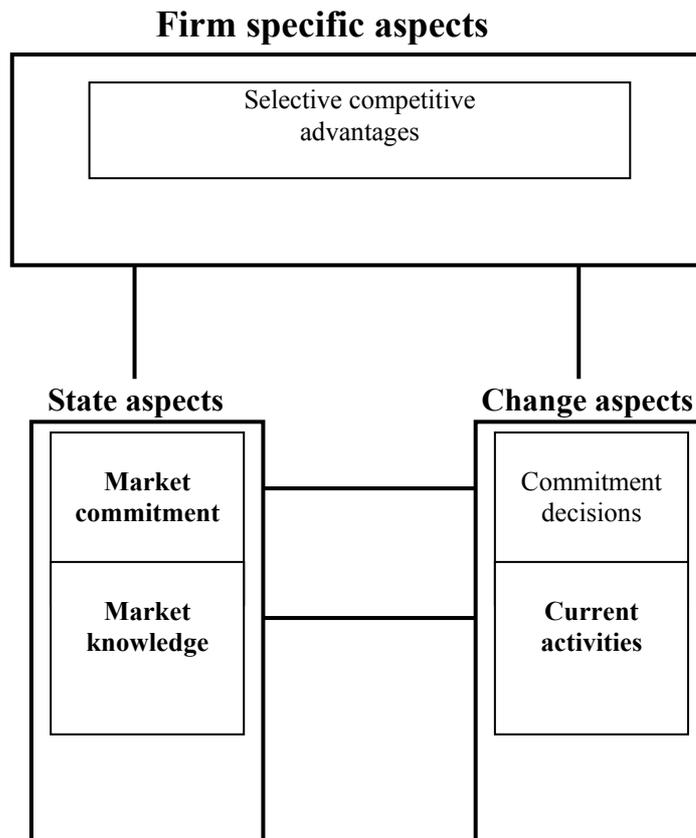
#### 6.6.1.2 The product

The last aspect that could be explained with the selective competitive advantage concept and that we believe the authors have missed is the firm's product. An expanding firm can choose between two strategies; meet competitors face-to-face or avoid these competitors by focusing on product or/and geographical niches (Nordström & Vahlne, 1992). Certain products are impossible to sell on certain markets. For instance, MWAB's water treatment systems are not sold in Germany mostly due to low demand and strong competition in that market. Germans already have high-quality water treatment plants and are in no need for new ones. Undeveloped and growing markets on the other hand are more in need of MWAB's products. Thus, firms with specialized products may overlook the psychic distance and choose a distant market.

### **6.7 The new modified Uppsala model**

We believe that the selective competitive advantage concept that includes the amount of resources and the product are interdependent and linked to each other. Our findings indicate that these three variables affect the Uppsala model and the psychic distance and they are at least one reason why the model is inaccurate in certain

cases. However, we do not know how the firm specific aspects interact with the existing model, we only know that they have a negative affect on it. The new modified Uppsala model will be presented in Figure 8. below.



**Figure 8.** The new modified Uppsala model

## 6.8 Summary

Criticism on the Uppsala model started with criticism on state aspects and change aspect. Furthermore, we have criticized certain assumptions in the Uppsala model. Based on other internationalization theories, the TCA model, the Network model and the International product life-cycle theory, criticism of the Uppsala model has been put forward. We have modified the model based on the criticism and identified firm specific aspects that are

missing in the model, which is included in the selective competitive advantage concept.

## 7. CONCLUSION

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*In this chapter we will answer our research questions and formulate new ones for further research.*

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### **7.1 Answers to the research questions**

**Why does the Uppsala model not fully explain firms' internationalization behaviour with emphasize on the psychic distance?**

We have come to the conclusion that the Uppsala model is missing some important variables, which explain why firms in some cases leap-frog the psychic distance. The most important variables we found from our anomalistic case study are selective competitive advantages, which include the amount of resources and the product.

**How does the Uppsala model differ from other internationalization models and what criticism can be found when comparing them?**

Based on our research and comparison of the internationalization models the most important differences are that the other models except the International product life-cycle theory are more static and descriptive and that all the other models include the environment as an explanatory variable. The Uppsala model is only focused on the firm.

The criticism we found of the Uppsala model are that it is too simple, too firm focused, the environment is not included and it is more applicable to smaller firms with fewer resources.

**Are we able to discover any new criticism based on our anomalistic case study?**

Both yes and no; it is implied in Nordström and Vahlne's researches from 1985 and 1992 that certain aspects of our new variables are of

importance to the Uppsala model and it is put forward as criticism. However, our specific variables with our own definitions and built in meanings have not been defined and expressed in their researches. Moreover, our concept of selective competitive advantage is not found in the literature and was discovered because of our anomalistic case study.

**Does the Uppsala model require new variables that are not linked to the firm to gain greater explanatory value?**

No, we do not believe the Uppsala model requires any new variables that are not linked to the firm to gain greater explanatory value since no indications in that direction were found in our research.

**Can new firm variables increase the Uppsala model's explanatory value?**

Yes, we have found firm specific aspects that could be added to the model, selective competitive advantages that include the amount of resources and the product. These aspects can increase the explanatory value of the Uppsala model and especially the psychic distance concept. Moreover, it is implied that the Uppsala model is built on an assumption that firms have a general competitive advantage. From our anomalistic case study we came to the conclusion that firms can have a selective competitive advantage and this has a great impact on firms' internationalization behaviour.

## **7.2 Suggestions for further research**

By conducting anomalistic case studies of different firms we believe the Uppsala model can be further criticized and modified. One suggestion is to conduct a research study of a larger amount of firms to see if the results correspond to ours.

Another suggestion of further research on this subject would be to test our new modified Uppsala model and see if it can explain the internationalization process of firms.

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[www.malmberg.se](http://www.malmberg.se)

## **Presentation of the Malmberg Group AB**

The history of Malmberg started in 1866 when Jöns Mattisson-Malmberg founded Malmberg AB in the village of Yngsjö on the southeast coast of Sweden. It is a family-owned firm with its registered office in Kristianstad Municipality. Today the fourth generation is running the firm, and the fifth generation is about to take over. The Malmberg Group AB is composed of five subsidiaries where Malmberg Water AB is the largest subsidiary. The others are, Malmberg Borrning AB, Malmberg Original Water AB, Malmberg Entreprenad AB and Malmberg i Yngsjö AB. The parent firm exercises the strategic administrative control of the Group and owns the corporate real estate.

The Malmberg Group AB is today one of the leading firms in new technology for assuring clean water and clean energy, environment-friendly drilling, and component, conscientious service. It is a Sweden based firm with projects both on the home market and the international market. The two large international markets that the firm is operating in are China and the Baltic States. Its vision is;

*“in Scandinavia and the countries around the Baltic Sea, Malmberg shall be the leader in drilling, water treatment and environment-friendly energy systems.”*[[www.malmberg.se](http://www.malmberg.se) 07-12-2003]

The Malmberg Group AB has today a little more than hundred employees specialized in different areas such as technic, economy, construction, service and so on. The firm is working to minimize environmental impact; all Malmberg operations are carried out according to the ISO 9001 and in accordance with Malmberg Environmental Policy. In 2002 Malmberg established itself in the Biogas sector.

Malmberg Water AB works with all types of water treatment. Many commissions are total contracting commissions where it is responsible for the

entire project from the pre-study to the turnkey water treatment plant, including training and education for the client's operators as well as the client's service and maintenance personnel. For other commissions, it delivers process solutions and/or equipment that replaces and/or expands existing water treatment processes and plants.

In 2002 net sales decreased from SEK193.8 to SEK134.1million and showed a loss after financial items of SEK -6.9 million.