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The Internationalisation Process------The Study of Strategic Change

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ABSTRACT: This study describes the "outward movement in a firm's international operations." It includes the action follows in the form of a geographical expansion process, in which firm's gradually increase their international involvement, which affects the entire organization , rendering the relevant organizational environment more international and calling for organizational adaptations.

KEYWORDS: Introduction , The internationalization process mode---THE UPPASALA MODEL, ICT-Technology and its impact, The role of new technological and systematic change in distribution and logistics, The role of culture

I. INTRODUCTION

World economies are becoming increasingly borderless and interlinked allowing companies to expand their business beyond their domestic boundries.(Cullen and parboteeah 2005). Companies internationalise their activities in attempt to improve competitiveness and capture greater shares in more geographical markets worldwide (delios and beamish 2004). Globlisation key trends ,falling borders , sophisticated information technology , growing cross border trade and investment among other force companies to become more multinational in order to survive and grow.(Cullen and parboteeah 2005).

Globlisation strengthens the perspective of companies as globally uniform organizations, increasingly worldwide convergence and standardization of corporate practices and process.

Much of the research relating to MNC include studies focused at firms internationalization process, entry mode decisions , foreign subsidiary, and expatriate management (Werner 2002).also areas such as inter unit communication , knowledge sharing and transfer, cross cultural teams, mergers and acquisitions , social capital just to name a few, have been explored the focus of recent research has largely been on the scope and coordination subsdiaries..these networks are made up of multiple economic,social,and cultural environments, which create cultural and physical distance within the organization(ghosal and Bartlett 1990).

By virtually every measure – growth in international trade, foreign direct investment and cross-border flows of technology – internationalization is becoming increasingly pervasive (Gupta and Westney 2003, p. 1). Geographic expansion abroad offers the vast potential benefits of a much larger market arena, spread risk, scale- and location-based cost efficiencies, and exposure to a variety of new product and process ideas. Emerging markets especially constitute the major growth opportunity in the evolving economic world order (Arnold and Quelch 2003, p. 107). Globally active companies have been on the rise and substantially extending their impact,particularly in the last three decades (Ietto-Gillies 2002, p. 11). Whether to internationalize, and how to internationalize, have become two of the most burningstrategy issues for managers around the world Simultaneously, academic research over the last three decades has been assiduously investigating the relationship between corporate internationalization and performance with partly disillusioning and partly contradictory results (Annavarjula and Beldona 2000, p. 48; Ruigrok and Wagner 2003, p. 64). Diversifying internationally often turns out to be a double-edged sword, as it forces organizations to cope with often drastically increasing levels of complexity and uncertainty (Sanders and Carpenter 1998, p. 158; Welch and Welch 1997). On the one hand, the greater diversity of cultures, customers, competitors and regulations (Gomez-Mejia and Palich 1997; Hofstede 1984) multiplies complexity (Bartlett and Goshal 2003, p. 163).

Every corporate function is confronted with a rising level of challenge owing to the added international dimension (e.g., Wunderer 1993, p. 2). On the other hand, competitive pressures cause geographically expanding companies to extract more synergies across products and regions along their value-chains (Kogut 2003, p. 32). For these reasons, international firms often represent the most complex managerial decision-making environment (cf. Conference Board 1995).

The question arises for managers and researchers alike as to which ways best enable one to cope with this augmenting complexity, while capturing benefits and minimizing costs and risks. Internationalization is likely to require *different horses for different courses*, encouraging a creative destruction of existing configurations toachieve lucrative headway (cf. Schumpeter 1934). Nonetheless, enhancing globalreach creates the obvious need for a centripetal force holding the expandingorganization together. Organizational culture has been proposed as such a muchneeded“glue” (Albert and Silverman 1984, p. 13). However, organizational theoristsare just embarking upon the serious study of multinational companies, and have asyet not had much time to devote to organizational culture (Van Maanen and Laurent1993, p. 275). Perlmutter’s (1969) typology suggests fundamental shifts in orientation

The internationalization process mode---- UPPASALA MODEL

To explain the sequence of development, it was hypothesized by Johanson & Vahlne(1977, 1990) that firms would enter new markets associated with successively greaterpsychic distance. Psychic distance was defined as the factors preventing or disturbingthe flow of information between a firm and its markets, including factors such aslanguage, culture, etc. To explain the incremental nature of the process, Johanson &Vahlne (1977) further formulated a dynamic model, in which the outcome of onecycle of events is seen as providing the input for the following cycle. They establishedfour stages of firm internationalization process. They posited that first are preoccupiedwith home market at initial stages and no regular export activities. After consolidatedtheir presence in the home front, they extended their activities across border throughexporting via independent representative or agents. The third stage involved firmcommitting their resource in the international market by establishing oversea salesubsidiary, while the final stage entailed establishment of foreign manufacturing/production facilities. This preposition has been improved upon and integrated in theirwork in 1990 which is presented below. The basic structure of the model is providedby the distinction between state and change aspects of internationalization. Theformer include foreign market commitment (i.e., resource commitment) andknowledge about foreign markets and activities. The change aspects include thedecisions to commit resources and engage in foreign activities, as described below.The basic assumption is that market knowledge and market commitment affect bothcommitment decisions and the way current activities are performed which, in turn,affect market knowledge and commitment. (Andersen 1993.)

The Model Basic Concept

Figure 1, Source: Johanson and Vahlne, 1977

1.1 State aspects -----market knowledge and market commitment

1.2 change aspects------current activities and commitment decisions

1.1 State aspects

Infer from above, the state aspect is separated into market knowledge and marketcommitment.

Market commitmentThe market commitment concept is according to Johanson and Vahlne (1997)composed of two factors- the amount of resources committed and the degree ofcommitment. The first factor, resources committed, could be described as the size ofinvestment in the market, including investment in marketing, organization, personnel,and other areas. The other factor, the degree of commitment, is not that easy to grasp,but could be explained as the difficulty of finding an alternative use for the resourcesand transferring them to this other alternative. The more specialized the resources areto the specific market, the greater the degree of commitment.Market knowledgeThe market knowledge referred to the level of appreciating the market environment.The knowledge might be general or specific. The general knowledge is aboutmarketing methods and concept, involves common characteristics of certain types ofcustomers in term of their taste, attitude, and perception. While specific knowledgeconcern peculiar characteristics of the specific national market expressed asîÖ itsbusiness climate, cultural patterns, structure of the market system, and. Mostimportantly, characteristics of the individual customer firms and their personnel.î(Johanson & Vahlne, 1977, in Johanson & Associates, 1994, p. 57.) Marketknowledge also lay emphasis on the different way how firm acquired through learningfrom personal experience or being taught (Penrose, 1995). In the Uppsala model, theexperimental knowledge is emphasized and it is assumed that this kind of knowledgemakes it possible to perceive and formulate opportunities.Both general knowledge and market-specific knowledge are needed when enteringand making commitments to a market. The latter kind of knowledge can mainly beacquired through experience in the specific market, whereas general knowledge canbe taught and transferred from one market to another. The Uppsala model ispostulating a direct relation between market knowledge and market commitment.Knowledge is considered as human resource and the better knowledge a firm hasabout a market, the more valuable the resource and consequently, the firm will have astronger commitment to the specific market. (Johanson & Vahlne, 1977, in Johanson& Associates, 1994.)

1.2 Change aspects
From the figure 1 above, the change aspects that influence the state aspects are currentactivities and commitment decisions.

Current Activities
The model stated that current activities are of great importance for these reasons.Firstly, knowledge can be acquired through experience from the currentbusinessactivities. And as stated above, it is through experience the firm can perceive andidentify opportunities that may lead to market commitments. The model laid moreemphasis on current activities as the impetus for the firm to forge ahead. Therefore, itwas expected that the success recorded in the current activities in the market willguide the firm in making further attempt to enter other market. However, the otherways of gaining experience are not considered in the model. Hence, this is one of thereason s why the internationalization is a slow process. Finally, if the activities arehighly production-oriented, or if there is a low need for interaction between theactivities and the market environment, the easier it will be to start new operationswhich are not incremental additions to the current activities. It will also be easier tosubstitute advice from outside and fromhired personnel(Johanson & Vahlne, 1977, inJohanson & Associates, 1994).

Commitment Decisions
The second change aspect is the degree of involvement decisions, which are decisionsto commit resources to a market. It presumed that decision is determined by the levelof threat and opportunity in the market, while awareness of these threats andopportunities are assumed to be dependent on the experience from activities on thespecific market. The decisions are also dependent on the existing market risk and theexisting market uncertainly i.e., the decision-makerís inability to estimate the presentand future market and market influence factors, perceived by the firm. The existingmarket risk is composed of existing market commitments to the market until itsmaximum tolerable risk is reached (Johnson & Associates, 1994). Consequently, thereis indirect relationship between market risk and uncertainty, and the marketcommitment.Exception to the modelA firm will internationalize in accordance with the model, which is to make smallincremental steps both in the market commitment dimension as well as in the culturaland geographical dimension with three exceptions:
1). When firms have large resources, the consequences of commitments are small. 16Consequently, large firms or firms with surplus resources can make largerinternational steps.
2). When market conditions are stable and homogeneous, relevant market knowledgecan be gained through other ways than experience.
3). When the firm has considerable experience from markets with similar conditions itmay be possible to generalize this experience to the specific market (Johanson &Vahlne, 1990, in Johanson & Associates, 1994).

UPPSALA MODEL AND NETWORK PERSPECTIVE
Based on the Uppsala model, Johanson & Vahlne (1990) continue examination of theprocess of internationalization by applying a network perspective. They defineinternationalization as developing networks of business relationships in othercountries through extension, penetration, and integration (c.f. Johanson & Mattson1988). They posited that extension entailed investments in networks that are new tothe firm, whereas penetration means developing positions and increasing resourcecommitments in networks in which the firm already has positions. Integration can beunderstood as the coordination of different national networks. Thus, if therelationships between firms are seen as a network, it can be argued that firmsinternationalize because other firms in their international network are doing soDegree of internationalization of network:Low HighLow The early starter The late starterDegree of internationalizationof the firmHigh The lonelyinternational the internationalamong others
Table 1 source: Internationalization and the network model: to be analyzed (Johanson& Mattson 1988)The strength of the network model of internationalization is in explaining the processrather than the existence of multinational or international firms. From the networkperspective, the internationalization strategy of a firm can be characterized by the 17need to
1) minimize the need for knowledge development, 2) minimize the need foradjustment, and 3) exploit established network positions (Johanson & Mattsson 1988),for example agents or

consultants. For an early starter, these demands causesignificant pressure, since the firm is among the first to develop the network, and the costs of overcoming the problems and developing the needed knowledge may be high.For the lonely international, external pressures are lower than for early starters.However, pressures of resource adjustment may be higher, because of the increasedgathering of possible resource adjustments. In addition, the co-ordination ofinternational activities plays a more important role in the case of the lonelyinternational.

The third component is the late starter. The problems encountered by the late starterdiffer from those of the early starter and the lonely international. On the one hand,firms already within the established network structure may resist the latecomerísefforts to enter the internationalized market. On the other, the customers and/orsuppliers in the network may be ìpullingî the firm into the international network.Thus, the need for resource adjustment may be high, while co-ordination ofinternational network activities may also be important. If a small firm is exposed tothis kind of market structure, it should be highly specialized and adjusted to specificsections of the industry. In addition, the customersí or suppliersí role may play animportant role in directing the process.The international among others operates in a developed and competitive network, inwhich national differences gradually recede in the face of globalization. As a result,internationalization through external resources may emerge as the best strategicoption available to small firms. Thus, merges and acquisitions, co-operation, allianceand joint ventures may become a major source of international network instability forwhich firms in the network have to be prepared. (Johanson & Mattsson 1988

ICT- Technology and its impact-

Does IT and Communication technology have a profound impact on the internationalization of the firm? One can argue that this could be the case when barriers for movement of ideas,information and e.g. services are provided through the Internet and increasingly through otherdigital means. Large multinational organisations should have better control possibilities andtrading on the capital- as well as other markets would be eased through new informationtechnologies.

On the other hand, moving into new markets can be replaced through new technologies, e.g.when the infrastructure and learning abilities are lacking in planned host countries.Concentration of production and global sales can also be the result in some cases, especiallyconcerning new service industries. Through learning effects this can be dispersed as well.Microsoft's use of computer engineers for software programming in India is one case inpoint. Outsourcing of work within the service sector due to developments in remote computerwork is still waiting to take off – if it is taking off at all.

THE ROLE OF NEW TECHNOLOGICAL AND SYSTEMIC CHANGEIN DISTRIBUTION AND LOGISTICS

In large cross-border activities and in international business it seems that the classical "ringson the water principle" still holds, but in a different manner. The principle states that firms gostepwise further afield in searching for new trading and investment/market opportunities.This principle is, in the globalising economy based on new logics in the sense that firms areintensifying both territorial as well as market and outsourcing functions across the globe. TheMobile phone giant Nokia is a good example in point. In order to produce mobile phones indifferent continents and in order to build up efficient systems of deliveries of inputs to thedifferent production units across the globe and across countries it needs a huge supply andlogistics system and network. This is increasingly more difficult due to rapid growth of themarkets for mobile phones and due to rapid and intensive R&D and new product launches.Technology-driven firms like Nokia need constantly to have just-in-time systems withpossibilities to quickly respond to changes in its supply network due to the needs of thechanging technology and product developments taking place in the value chain.Distribution and logistics systems are eased by the new technologies both within theinformation systems and because of developments in the infrastructure in many parts of theworld together with more free-trading principles in the contemporary world economy. FDIand the successful implementation of FDI and international marketing, production andcompetition is to a larger extent than before based on the input side of things as well as theoutput/market side.

THE ROLE OF CULTURE

Culture is a grand concept embracing human beings relations towards life. Culture is a way totry to cope with the environment in order for human groups to survive in the ecosystemthrough specific means of communication and relationships between the sexes and groups ofpeople concerning power mechanisms and division of labour among them.Hofstede (1980) has defined culture as the "mental programming of the human mind".Culture

is belongingness and understanding among groups of people. Culture is based onbasic values and assumptions concerning communication and understanding among specifichuman groups.Culture is embedded into different types of cultural settings or contexts. National culturebeing one decisive aspect (language, power relations within nations, and specific ways ofdealing with problems within the nation states.)Business culture is a part of a national culture stating in a specific culture or within a culturalgroup the codes of business conduct and the ways of doing business. This comprises all theaspects about how to negotiate, manage organisations, market products and services and whatnetwork connections to have and how to handle relationships.Corporate culture is a part of business culture. Corporate culture is dealing with the specificorganisation in a culture and how to manage an organisation and especially what culturalvalues and basic assumptions guide the organisation and how it can be managed andorganised.Concerning internationalisation culture and corporations play an important role.Schoenberger (1997) is taking culture as one of her main points in understanding why certainlarge firms lose their competitive position and why others gain or strengthen theircompetitive positions. (For example Swiss watches and American & British motorcycles vs.the Japanese competing products in the sixties and the seventies).Some new cultural norms seem to have come into being in contemporary societies. Ethicsand ethical codes of conduct are gaining more ground in many affluent societies especially.This closely relates also to the internationalisation of the firm. Ethical considerations such asproduct safety, renewability, user friendliness and used raw materials etc. are becomingimportant. Using children in the labour force in producing goods is condemned andscrapping and using dangerous or ecologically harmful products or scrapping processes arebeen observed and reacted against recently.The United Paper Mills (UPM) Corporation – one of the Finnish giants in the production ofpaper and board has been criticised of its internationalisation strategy Indonesia. The firm hasbeen engaged in collaborative interaction with the local actor April Inc. April has beenaccused of having caused problems for local tribes and destroying the rainforest and pollutingthe water.
Collaborative action is therefore not only business – it is a part of ethical and culturalconsiderations. In the informative society the role of worldwide corporate image is crucial for success in the eyes of the public, political actors as well as in the eyes of investors and themarket.In thinking about internationalisation and global aspects of business one has to think aboutsocietal questions in order to be competitive (the Swedish multinational brand names ofIKEA and Hennes & Mauritz, are two good examples concerning the use of children as a partof their production systems. They have experienced this even if these firms often were noteven informed about this fact.)

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