

internationalisation process



characteristics

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| author: | Johanson, Jan and Vahlne, Jan-Erik |
| country: | Sweden |
| period: | 1977 |
| type: | model |
| role: | consultant, change agent and manager |
| activity: | analyse and design |
| topic: | org. design & development and culture & internationalisation |
| abstr. level: | organisation |
| perspective: | learning |
| status: | for review |
| module: | classics I |
| comments: | 0 |

related models

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|---------------------------------------|
| entry mode selection |
| globalisation of markets |
| international organisational typology |

description:

Jan Johanson and Jan-Erik Vahlne published their internationalisation process model in 1977 after they had worked with Finn Wiedersheim-Paul at the Uppsala University beginning in the 1960s. They saw internationalisation as a learning oriented process and studied past empirical studies on market selection and entry forms. Their model emphasised the gradual and incremental character of international expansion. Organisations could best reduce their risk level by adopting an evolutionary approach.

The internationalisation process model or Uppsala model was based on four case studies of Swedish companies with operations in more than 20 countries:

- Volvo – automobile and truck manufacturer
- Sandvik – industrial tool manufacturer
- Atlas Copco - compressor and industrial tool manufacturer
- Facit - electro-mechanical office equipment manufacturer.

Johanson and Vahlne found that these firms had built their presence in foreign markets incrementally -- "they often develop their international operations in small steps, rather than by making large foreign production investments at single point in time using two variables:

1. level of commitment in a particular host country
2. level of market knowledge to steer the direction of the geographic expansion

MARKET COMMITMENT

Johanson and Vahlne distinguished four sequential steps where each consecutive step meant an increased resource commitment to a particular market. Their ' *establishment chain* ' consisted of:

1. irregular export activities
2. export via independent sales representative
3. establishment of overseas sales subsidiary
4. establishment of foreign manufacturing subsidiaries.

The more resources a firm committed to a market, the greater their gain in exposure and experience and the trust to commit more resources. Johanson and Vahlne demonstrated that a firm will enter a new market at the lowest resource commitment possible and begin to expand from this level following the establishment chain. The choice of entry mode is dependent on the degree of opportunity, risk association, the size of the prospective market, and the urgency of expansion. Resource commitment is dependent upon two factors:

1. amount of resources committed
2. degree of commitment.

The number of resources committed is determined by the amount of investment in a given market. The degree of commitment is defined as the difficulty of finding an alternative use for resources and transferring them to a new location.

MARKET KNOWLEDGE

Organisations enter those markets that they know best and only move into more distant/unfamiliar markets after feeling that they have gained sufficient knowledge. Johanson and Vahlne introduced ' *psychic distance* ' to measure a market's foreignness. They defined psychic distance as "factors preventing or disturbing the flows of information between firm and market," including variables such language, culture, political, legal and educational systems. The order of the different stages in the internationalisation process is directly related to the relative psychic distance between home country and host country: the 'further' countries are in terms of psychic distance, the fewer resources firms are willing to commit to those particular markets. Organisations that internationalise will enter markets with an increasingly higher 'psychic distance' (choice of target market).

The internationalisation process is composed of the market experience and the market knowledge component. Johanson and Vahlne created a dynamic model by assuming that market knowledge and experience both affect commitment decisions and the way current internationalisation activities are carried out. Current commitment decisions and activities in turn change the level of market knowledge and market experience. This feedback loop creates a learning cycle.

In 1990, Johanson and Vahlne listed three situations when firms do not need to follow the incremental steps of the establishment chain:

1. firms with access to a large pool of resources are less susceptible to the consequences of (bad) commitments and able to step up their internationalisation effort at a faster rate;
2. relevant market knowledge can be acquired in ways other than through direct experience when market conditions are stable and homogeneous;
3. once a firm has gained experience from a market with similar conditions, it may be possible to generalise this experience and apply it to the new target market.

assets:



international process model

ProvenModels • editor PM • version 0.5 • 55 KB

pros:

- It is one of the most influential theories on internationalisation processes where export development plays a central role and is used by both companies and government bodies.
- The model provides a universal explanation of how internationalisation works in the form of sequential stages during its early stages. Firms are often relatively small and do not belong to a multinational company with access to sufficient resources.
- Subsequent empirical studies proved that many firms around the world have followed the incremental process as described by Johanson and Vahlne.

cons:

- The establishment chain is deterministic meaning that once an internationalisation process starts, it cannot be stopped. This claim disregards factors such as the influence of key decision makers who can end an internationalisation process through opportunistic behaviour or power games.
- The gradual nature of the internationalisation is contested. Examples exist where firms leap frog ahead and McKinsey introduced born-global firms that compete in foreign markets from birth. Other research showed that internationalisation paths might be industry dependent.
- Johanson and Vahlne made export the starting point of any internationalisation effort. Internationalisation also includes importing, licensing, and foreign direct investment.
- The model was based on research in manufacturing industries and neglected the services sector. It focused on individual firms excluding the effects of networks.
- The model cannot be used to make predictions. It provides only a partial explanation since it excluded technology, firm size, strategic considerations, economies of scale and other economic variables as factors that affect internationalisation processes.

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