The Uppsala model and the internationalization of fast-moving e-commerce companies
The Uppsala model has described the internationalization of a firm as a process of experiential learning and incremental commitments which leads to an evolutionary development in a foreign market. Johanson and Vahlne formulated this approach in 1977, referring to empirical observations on Swedish manufacturing firms from their studies at the international business department of Uppsala University. One of the basic assumptions of the model is that “the lack of knowledge is an important obstacle to the development of international operations” (Johanson & Vahlne, 1977: 23). Hence, the Uppsala model has dealt fundamentally with knowledge acquisition and learning. It has been observed that the absence of market-specific knowledge has forced the Swedish manufacturing firms to develop their international operations in small steps, undertaking incremental commitment decisions and moving at the beginning to psychically close countries in order to reduce the market uncertainty (Johanson & Vahlne, 1977: 24).

Nevertheless, although it still has important relevance within the international business community, the Uppsala model has been criticized due to its inability to describe and explain some rapid and contemporaneous internationalization process such as active online internationalization. E-commerce companies operating in a virtual domain overcome spatial and temporal barriers to undertake international operations quickly and cheaply. The internationalization of these firms has indisputably nothing to do with the operations of the Swedish manufacturing firm of the Uppsala model. The process of knowledge acquisition is influenced by the new virtual domain and consequently the source of information has shifted from the market to the customers. The aim of this paper is to explain the Uppsala model and evaluate its validity and cogency in the new fast Internet economy.

The Uppsala model of internationalization

Internationalisation can be described as “the process of increasing involvement in international operations” (Welch & Luostarinen, 1988: 36). Another definition proposed by Calof and Beamish (1995: 116) denotes internationalization as “the process of adapting firms’ operations (strategy, structure, resources, etc) to international environments”. Kutschker and Bäurle (1997) enumerated three important dimensions which can be used to determine the degree of internationalization of a company: the number and geographic distance of the foreign market entered; the amount of activities that are carried out in the different countries and the level of integration of these activities. Building on this analysis it has been considered equally noteworthy to delineate the drivers which lead some companies to internationalize. Firms undertake international operations for various reasons (Lam & White, 1999). Some companies internationalize due to the fact that their competitors or customers have been globalized (Ohmae, 1990); whereas others are pushed by the idea of multinationalism as a symbol of success and
progress. It also been proven that increased internationalization results in improved profitability (Gerlinger et al., 1989).

The neo-classic perspective emphasizes rationality as the foremost driver of internationalization presupposing that managers behave rationally and base their decisions on economic efficiency (Forsgren, 1989). Both the eclectic paradigm (Dunning, 1980; 1988) and the transaction cost theory (Rugman & Erminio, 1996) propose that the outcome of an action is the result of a rational predetermined plan (Forsgren, 1989).

In contrast to the traditional perspective, Johanson and Vahlne (1977), who theorized the Uppsala model, describe internationalization from a learning and evolutionary viewpoint. The Scandinavian’s approach has its theoretical fundamentals in the behavioural theory which explains the nature of the firm through behavioural actions (Cyert & March, 1992). Moreover in opposition to the neo-classic standpoint, the Uppsala model has been depicted as a dynamic schema whilst the rational perspective is of a more static nature (Andersen, 1997). The Uppsala model deals fundamentally with knowledge acquisition and learning. The foundations and core concepts of this approach must be found in Sune Carlson’s analysis of the foreign decision process (1966). The backbone of his insight is the conviction that the lack of knowledge about how to conduct a business in a foreign market represents a handicap for companies which intend to internationalize (Carlson, 1966).

Hence, one of the central aims of the Uppsala model has been to explain how the organization learns and gains knowledge throughout its international operations. According to Johanson and Vahlne (1977: 23) the necessary knowledge can be acquired but, because of its tacit character, the most efficient solution lies on the firm’s own operations (Johanson & Vahlne, 1977: 12). Penrose (1959) has clearly distinguished and offered an exhaustive description of the two most important types of knowledge: objective or general knowledge and experiential or market-specific knowledge. While the former can be easily taught, the latter can only be learnt through personal experience and can never be transferred or separated from the primary source (tacit knowledge). International initiatives require both kinds of knowledge. However the Uppsala model stressed the relevance of experiential learning, which determines its evolutionary character. Experiential knowledge is crucial because it cannot be easily acquired as objective knowledge (e.g., through marketing researches or reports) and must be gained mainly through direct experience. Consequently, the threats and opportunities in a novel market will be discovered primarily by those people who are working there. Experience generates business opportunities and constitutes a driving force in the internationalization process (Johanson & Vahlne, 1990: 33). On the other hand experiential learning or learning through experience from a firm’s own activities is an important reason why internationalization is often a slow process (Johanson & Vahlne, 1977: 32).
From this perspective, a second salient scope of the model has been to demonstrate how the organizations’ learning affects their investment behavior. Johanson and Vahlne (1977: 26) illustrated that the commitment decisions or foreign investments are made incrementally due to the market uncertainty and perceived risks and opportunities. The lack of experiential knowledge in a new market forces the firm to pursue a gradual process of internationalization characterized by a sequence of stages presented in what has been called “the establishment chain” (Johanson & Wiedersheim-Paul, 1975). The development of operations in individual countries is expected to have an evolutionary, stepwise character, unless firms have large resources which help them to skip intermediate stages; or the conditions of the market are stable and homogeneous so that market knowledge can be acquired in ways other than through experience; or the firm has considerable experience from markets similar to the one that the firm wants to enter (it may be possible to generalize) (Johanson & Vahlne, 1977; 1990). Nonetheless, it has been deemed a clear direct relation between market knowledge and market commitment. The better the knowledge about the market, the lower the perceived market risk will be and the stronger the market commitment. The firm postpones each subsequent step into a certain market until the perceived risk associated with the new investment is lower than the maximum tolerable risk (Johanson & Vahlne, 1977: 34).

A third relevant contribution of the model is the attempt to explain the important factors to take into account in choosing the target market. Building on the exigency to reduce market uncertainty and lower the risks, companies begin their internationalization process in countries that are psychically close before venturing to more distant ones (Johanson & Vahlne, 1992). Yet, according to Benito and Gripsrud (1992: 464): “Firms are predicted to start their internationalization by moving into those markets they can most easily understand, entering more distant market only at a later stage”. The psychic distance has been initially described as set of factors preventing and disturbing the flow of information between the firm and the market, including differences in language, culture, political system, level of education or level of industrial development (Johanson & Vahlne, 1990). Kogut and Singh (1988) showed that entry mode choice varied depending upon the perceived psychic distance between countries. The greater the cultural distance between the investing and host country, the more likely it was that the firm would choose a joint venture to reduce its uncertainty in those markets. On the other hand, O’Grady and Lane’s (1995) empirical study on 32 Canadian retail companies that entered the US market, demonstrated that perceived similarities can cause decision-makers to fail because they do not prepare for the differences. “What appears on the surface to be psychically close may, in reality, be more distant than expected” (psychic distance paradox) (O’Grady & Lane, 1995: 310). The psychic distance concept has been considered to be more complex than is generally recognized in the literature. Business factors such as legal and competitive environments need to be included when defining distance in the internationalization process. Furthermore, it has been pointed out that psychic distance is not
constant and it could change due to development of trade, communication system, etc. (Johanson & Wiedersheim-Paul, 1975). As a result, psychic distance is not the only important factor for international operations. The size and the potential value of the targeted market are also considered primary elements.

**The Uppsala model and internationalization of e-commerce companies**

Even though the innovative contribution and still valid relevance within the international business community, the Uppsala model has been subjected to several different criticisms due to its inability to explain some modern rapid and simultaneous internationalization processes (Nordström, 1991; Forsgren, 1989). The critique has been supported by empirical evidences of firms which have leaped sequences in the “establishment chain” and entered remote markets in terms of psychic distance at an early stage. Furthermore, the evolving phenomenon of “born global” firms (Knight, 1997), which is especially prevalent among high-tech companies, is equally difficult to explain using the Uppsala model. Generally, the pace of internationalization seems to have speeded up and the world has moved towards homogenization over time. Levitt (1983) argued that technology is the underlying force that is driving the world towards one convergent unit. Standardization has been seen as an important factor in lowering psychic distance between countries, and the market uncertainty that companies experience in entering a foreign country. Technology and globalization have together moulded and generate a new market environment with a whole set of market dynamics: the Internet (Kalakota & Whinston, 1997).

The World Wide Web has marked a distinction between a traditional physical world with touchable and concrete resources and a virtual domain made predominantly of information. Companies have been using the Internet for various reasons, mainly for marketing purposes to build stronger brand identity and lately for selling their product online. The power of the Internet is to bypass the temporal and spatial barriers to achieve cross-border commerce. In this respect, electronic commerce (e-commerce) has been defined as “the buying and the selling of products and services over the Internet or other electronic networks” (Mougayar, 1998: 11). E-commerce has offered the opportunity to undertake active online international operations overnight and target unlimited segments of customers quickly and cheaply. This property has been described in terms of the “death of geography” (Castells, 2000) or “death of distance” (Cairncross, 2001). The word *marketspace* has been proposed to underline the shift from a physical domain to a virtual environment (Rayport & Sviokla, 1994). Yamin and Sinkovics (2006: 340) used the term Active Online Internationalization (AOI) to define the strategic conduct of business transactions across national boundaries in a virtual rather than a spatial domain. Firms can virtually and instantaneously have access to multiple foreign markets by simply launching a website (Kotha et al., 2001). Furthermore, electronic commerce has provided a new environment for a more
intelligent, efficient and responsive relationship to customers (Salnoske & Dulow, 1999; Kotha, 2004). Digitalization and interactivity have been regarded as the distinctive elements of the new economy (Van Dijk, 1999). In this respect, the manufacturing firms analyzed by Johanson and Vahlne (1977) have nothing in common with the fast-moving e-commerce companies. The environment in which the firms are operating is utterly different and inevitably influences the way international operations are carried out. Consequently, the Uppsala model cannot fully describe and explain the internationalization process of these online companies.

Following the logic of Johanson and Vahlne’s model (1977), companies should enter a country gradually, starting with a relative small commitment because of the lack of experiential knowledge of the market. In contrast, it has been observed that e-commerce companies do not tend to behave according to the establishment chain but take radical first steps investing large amounts of resources to achieve early competitive positions in new markets (Nordström, 1991). Other empirical evidence has shown that some companies wait only a few days or weeks before entering into a new market (Kim, 2003). Hence, in contrast with the step-wise Uppsala approach, in AOI the sequencing of foreign market entry tends to be much more time-compressed (Yamin & Sinkovics, 2006) and characterized by larger initial commitments. The high-velocity of the online process of internationalization might be seen as an essential strategic issue for some companies in terms of future competition in a fairly unexplored market. Being the first mover (Grant, 2003) or rapidly gaining market shares can represent an advantage for leadership and/or survival in the marketspace. On the other hand, a consequence of the dilution of sequencing and quick internationalization might also determine a relative reduction of time devoted to “learn” the new market (Yamin & Sinkovics, 2006). Whereas in the Uppsala model of internationalization experiential learning is an essential element to acquire market-specific knowledge and take further market commitment decisions along the establishment chain; in AOI, experiential knowledge of the market seems to be less important to advance in international operations. Companies are clearly disconnected from the business environment of the targeted country compared to traditional market entry situations. This isolation from the host markets may be due to the nature and dynamics of the cyberspace (Gibson, 1982) which has facilitated high customer interactivity but low market contact. Physically, the distance between buyers and sellers increases when meeting on the Internet but virtually, technology provides direct access and contact with customers. In the marketspace companies can use one-to-one marketing communication (Peppers et al., 1999), multi-dimensional relationships and community creation (van Dijk, 1999; Peppers et al., 1999) for leveraging customer voice and thus, reducing the marketing gap (Hallén & Wiedersheim-Paul, 1979). The Open source model of innovation enables customers to contribute to the development of new products and services (Thomke & von Hippel, 2002). Dell Computers has based its competitive advantage on a virtual integration of its supply chain which allows the company to communicate with its customers and be more efficient and responsive to the changes in the
business environment (Magretta, 1998). Empirical evidence has shown that the high level of interaction with customers in online internationalization creates insights on consumer preferences and behavior, as well as understandings of the environmental basis of such behavior (Yamin & Sinkovics, 2006). The virtual and decentralized nature of the Internet has made it possible to move the source of necessary knowledge from the market to the customers. The shift has been from experiential learning to “virtual learning” of the foreign market through online interactivity.

In this respect, online internationalization has been also associated with a reduction of psychic distance and perceived risk in market entry due to the learning generated through virtual interactions (Yamin & Sinkovics, 2006). According to the Uppsala model companies tend to move to psychically close countries before venturing to more distant ones. Conversely the gradual learning and incremental commitments in the market that do not occur in the AOI, the psychic distance still seems to play a role. Nordström’s (1991) study for instance, has showed that the majority of the Swedish e-commerce companies analyzed moved firstly to the neighboring Nordic countries such as Finland, Norway and Denmark because of the perceived similarities in customers’ needs and business culture. Nevertheless in AOI, the sole reliability on virtual interactions with customers cannot obviate the need for learning about the target markets through experiential learning – virtuality trap (Yamin & Sinkovics, 2006: 340). In this regard, although the Uppsala model cannot fully describe the internationalization of e-commerce companies, it is valid in emphasizing the importance of a deep understanding of the business and operational environment for successful international operations. To conclude, it can be argue that other factors may be taken into account when an e-commerce company decides to go abroad, such as the size of the market, the company’s specific products, the competitive environment, the distribution system and logistics, Internet penetration and maturity and the percentage of consumers who make purchases online (e-shopping). Because of the reliance on the technology for the business activities, Internet penetration and maturity have to be considered crucial factors for entering a specific market and they may further contribute to the reduction of psychic distance.

Conclusion

This paper has suggested that the Uppsala model of internationalization cannot fully outline the internationalization of e-commerce companies which tends to be more time-compressed and imply larger initial commitments. The nature of the new medium has stimulated the interactivity with customers and therefore modified the process and the source of necessary knowledge for international operations. The shift has been from the market to the customers. Furthermore it has been showed that reliability on customer interactions reduces psychic distance and perceived risk in market entry. On the other hand, the Uppsala model has helped to stress the importance of experiential learning in the foreign market because the sole dependence on customer interactions
cannot guarantee a successful internationalization. In the end it has been argued that the Uppsala model cannot alone explain the complex and hastening international operations of these online companies and that other equally important factors ought to be taken in consideration. Future empirical research should be conducted to analyze the relevance of these additional variables and establish how they affect the company’s international market entry.
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