Internationalization of a network: An evolution of Uppsala Model

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Abstract
This article aims to study the Uppsala Model, which describes the steps that constitute the internationalization process of an organization. Through a case study on the automotive segment of Latin-American's industry, it is intended to demonstrate the need for creation of a new stage in the companies' process of internationalization can be aggregated to the Uppsala Model.

Keywords: Globalization, International business, Competitiveness.

Introduction

Changes in the world economy between the late 20th century and early 21st century, contributed to a new strategic direction of companies, regardless of their geographical location (Vieira Filho and Souza Santos 2011).

The need to redesign the strategy, in the case of Brazilian companies, was due to the increased flexibility of the barriers of entry of imported products, as well as the changes made in the legislation. This scenario of change has facilitated the access of new entrants to the market that was previously economically closed and protected.

The new strategy based on the internationalization of the business of certain Brazilian companies had as grounds the studies which identified the fragility of the entry barriers to new technologies developed by international competitors (Castells 2005). Thus, realizing the invasion of imported goods and the entry of new competitors, national companies have redefined their organizational structure, in order to sustain the strategy of internationalization of its products.

However, the companies have adopted different strategies with respect to the process of internationalization, because while some companies sought to develop new markets, others sought to know new technologies in certain regions of the world, in order to increase its competitiveness in the local market, or approaching major decision-making centers of its customers.

From the case study of internationalization of Swedish companies, we were able to identify a set of activities which formed a stream of development of the internationalization process (Johanson and Wiederrsheim-Paul 1975). This model, known worldwide as the Uppsala

Model, became the object of study of other authors who seek to explain international development organizations, after the opening up of markets.

Currently, Brazilian companies which adopt the strategy of internationalization, intrinsically, the Uppsala Model with additional activity in this model featuring an evolution in the process of internationalization, as well as the Uppsala model.

The research that gave grounds for the evolution of this model of internationalization was carried out by means of a single case study about a Brazilian company in the automotive segment, which adopted the strategy to expand yours business in different regions of the world.

Theoretical Framework

This section offers a synthesis of the internationalization concepts and of multinational and transnational companies.

Concepts of internationalization

International trade has undergone strong influences with the globalization process, in particular due to changes in the world economy and the creation of the possibility of an exchange of knowledge between companies in the international arena (Vieira Filho e Souza Santos 2011).

According to the authors, such exchanges contributed to the Brazilian companies update their technologies and organizational models in order to give greater efficiency to its processes, and gains in competitiveness.

The growth of international business relations, citing the increase in the total flow of foreign direct investment (FDI) occurred between 1984 and 1998, against the modest growth of world production (Bennett 2007). Figure 1 strengthens the claims and demonstrates that the FDI, even showing oscillations in the first half of the 2000, was consolidated into a new level, above US$1billion, demonstrating that the internationalization process of companies has shown considerable growth after 1996.

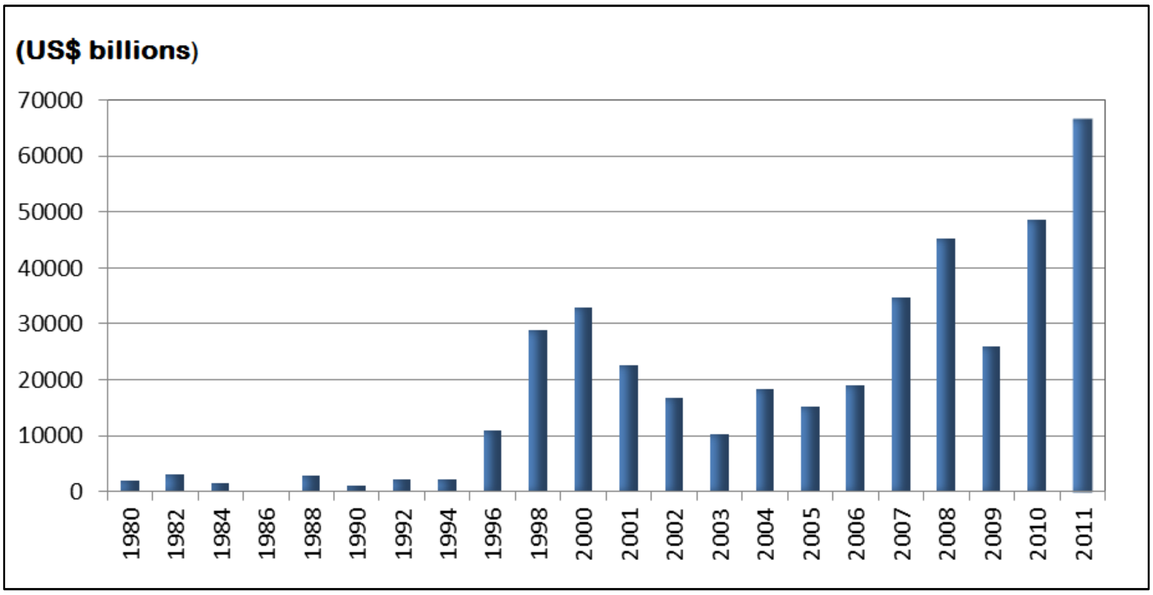

Figure 1 – Evolution of foreign direct investment (FDI) in Brazil

Source: Adapted by authors from UNCTAD - United Nations Conference on Trade and Development Handbook, 2012.

The location of enterprises in the world was one of the major changes in the international economy (Bennett 2007). However, the movement of companies on the world stage may be something relatively new to the Brazilian economy, but this type of strategy was already an object of study since the 1970.

During this period, the Uppsala University studied the strategy of internationalization of Sweden companies, resulting in the publication of several articles and in depth knowledge on the process of internationalization of companies. The studies had such conceptual importance, which became foundations of Nordic School of international business, who succeeded the Uppsala School.

Internationalization is a gradual process of increasing companies' participation in the international market, noting that the economic environment and the issues facing by the company's business are the determining factors to set the pace of internationalization (Johanson and Vahlne 1977). According with these authors:

> *Typically, companies begin to export to a country through an agent, then establish a sales branch and, eventually, in some cases, start the production in the host country.* (Johanson and Vahlne 1977, p. 24)

These authors explain that the process to acquire and master the knowledge of the international market, where it intends to develop the internationalization strategy is the key to the success of strategic action, because, otherwise, this aspect becomes a major obstacle to the development of international operations.

This vision about internationalization is based on the Uppsala Model (Johanson and Wiederrsheim-Paul 1975). The Uppsala Model developed by these authors describes the internationalization process of an company in four stages:

1st Stage: Non-scheduled export activities;
2nd Stage: Exporting through agents located overseas;
3rd Stage: Deploying a sales subsidiary abroad;
4th Stage: Implementation of a production subsidiary abroad.

Thus, on the basis of the studied stages and established in Uppsala Model it is possible to present through Figure 2.

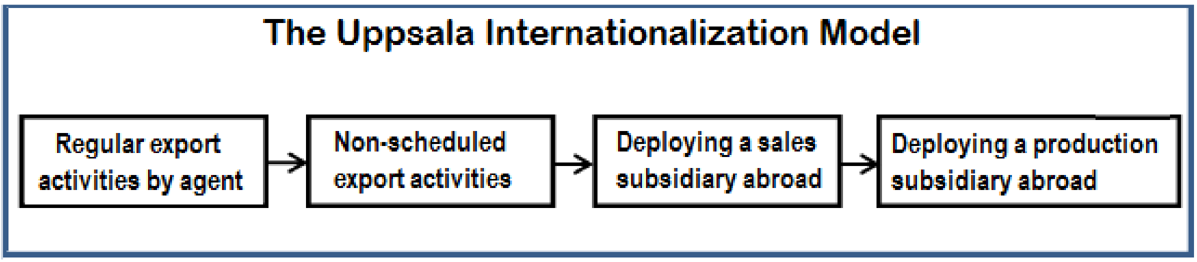

Figure 2 – The Uppsala Internationalization Model

Source: Adapted by authors from Johanson and Wiederrsheim-Paul (1975).

These authors have observed that similar companies were motivated to establish new operations in different countries, as a result of any crisis that would have occurred in the company or in the economic sector. In 100 cases studied, they also have observed that the internationalization process was started from sales made through branches or subsidiaries and was continued by the installation of the company in foreign country (Johanson and Vahlne 1977).

The psychic distance between the country of origin and the foreign country in which you intend to perform the process of internationalization is the main aspect that determines the order of the time to complete this strategy and a process of internationalization does not exercise influence over others.

According to these authors, the psychic distance is the sum of the factors inhibiting the development of the relationships needed to establish the internationalization. These factors may be linked to differences in language, culture and business practice.

The importance of the export process is highlighted by these authors as the following quote:

> *The evolution of the company indicates that the use of sales branches, at an early stage, reduced the subsequent risk of manufacturing abroad.*
> (Johanson and Vahlne 1977, p. 25)

In this way they feature the model described in Figure 3 to deal with internationalization, so common, irrespective of the process or where the implementation of such a project.

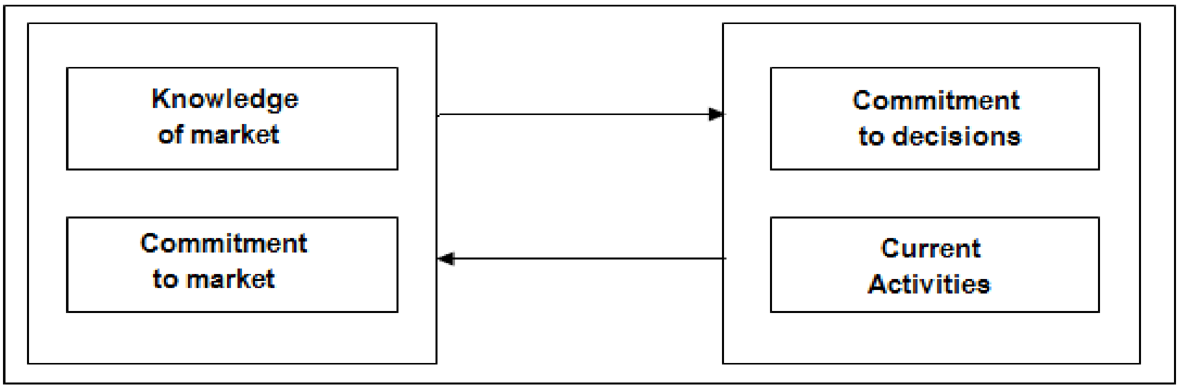

Figure 3 - Basic Engine of internationalization and aspects of changes

Source: Adapted by authors from Johanson and Vahlne (1977).

Based on their research, they defined internationalization as a continuous activity of relationship between companies in international markets. In other words, an internationalization strategy establishes as main feature the drives or interrelationships of the company, individual or collective, with other international markets (Welch and Luostarinen 1999).

The advantage of using a broader definition of this concept is that it allows one to consider both sides of the process, namely, the internal and the external, which are operations developed in foreign markets and transaction flow in the market of origin, involving structures and external agents. Both sides of internationalization are strictly connected as parts of the dynamics of international trade.

In this way, the term refers to a new international attitude of the company or its current concern for external activities. So is there a relationship between attitude and behavior. The attitude is the basis for the decision-making of international ventures, while the experiences arising out of these activities affect such attitudes.

Internationalization shows that companies and countries were not on the front line of competition. (Porter 1989, p.647) highlighted the importance of competing globally. Although the national auxiliary base in modeling business capacity to innovate effectively in technology, methods and in proper direction, points out that by more favorable than are national circumstances, but success is not certain. Some thrive and others fail, in the same country.

Multinational and transnational companies

Since the years 1970, the transnational terminology has been more often used than the multinational, being that "this concept has been linked to transnational corporations from developed countries and operating on a global scale". (Gonçalves 2002) This author states:

> *This distinction arose as a consequence of the debate on the creation of multinational enterprises within the framework of regional economic integration schemes involving developing countries. In this sense, the term "multinational" would be reserved to companies formed by associations between enterprises in development.* ". (Gonçalves 2002, p. 390)

So, initially we will discuss the vision of the multinational, because, as stated in the introductory part of this article, some Brazilian companies sought to react to the onslaught of the great and powerful foreign groups through internationalization strategy. Companies that adopted such a plan started to join, merge and build new plants in different countries.

These business units were established at strategic points, which may or not have distinct objectives, aligning himself, in this way, the multinational design defined by (Ghoshal and Bartlet 1990, p. 603), which establishes:

> *A multinational corporation consists of a geographically dispersed group and with different goals, including headquarters and subsidiaries.*

Multinationals were characterized as immersed and intertwined in a deep relationship of interaction (Ghoshal and Bartlett 1990). These authors also claim in their research that, even showing different characteristics and objectives in each strategic unit, the development of these subsidiaries results in response to different types of dependence and interdependence, as each actor has important link in this country with a key customer, suppliers or Government, which benefits the rest of the group and the central strategy of the company.

They show that in a multinational it is possible to identify important aspects such as interdependence and relationships between the actors, especially between headquarters and subsidiaries (Ghoshal and Bartlett 1990).

According to these authors, these aspects cited recent have aroused the interest of researchers in order to verify if a multinational can be recognized as inter-organizational network. Although a multinational group could have be formed by several companies, each one with its unique features, associated with the culture, which varies according to the environment in which the business unit is inserted, it will always result in a competitive advantage for the group as a whole.

They highlight also a complex problem that can occur in a multinational, resulting from the weak relationship between actors, mainly on account of the geographical distance and cultural differences between the companies that compose it. However, these problems would be minimized by the influence of the existing hierarchical authority, which should be dosed in order not to generate a loss of autonomy of subsidiaries (Ghoshal and Bartlett 1990).

In the microeconomic dimension the transnational company is the main agent of the process of internationalization, and can be characterized for being a large organization that, at least, controls in two countries the assets and is responsible for all investment flows (Gonçalves 2002).

This author points out companies engaged in internationalization projects due to the advantages that the country's companies investment receiver do not have. Finally, he summarizes:

> *In this way, "the costs associated with the international operation-due to lack of knowledge of the new environment, the possible discrimination and other types of risks and uncertainties must be compensated by extra profits derived from these advantages"* (Gonçalves 2002: 393).

Case study

Economic measures related to the opening of the domestic market, institutionalized by the Brazilian Government from 1990 contributed to deep changes in the automotive industry installed in Brazil.

From that moment, the automakers in the country have increased their bargaining power on local suppliers, through the adoption of the strategy for the import of products and services. The big automakers practically forced their domestic suppliers to increase their production and become more efficient and competitive, reducing production costs and improving product quality.

Large international business groups have chosen to install business units in Brazil. In this sense, several strategies were used: since the opening of new plants, mergers and acquisitions of companies, by importing of advanced technology and by processes' adaptations to productive and management. All of these factors contributed to the increase of the competitiveness of Brazilian products, but, in many cases unevenly, because several companies of this segment had no access to new technologies.

Adding, the reduction of rates of investments and the encouragement given to the entry of new competitors, based on import tax reductions, increased bargaining power of automakers. They began to take advantage of the benefits of market opening to press the Brazilians auto parts suppliers in relation to improving the efficiency and effectiveness of its operations, under the risk of importing such products from other country, if the demands remain not met. However, the national industry of auto parts was not in a comfortable situation to compete in the market with foreign competitors, who were in the best technical and economic conditions. The difficulty in importing raw materials and machinery, and the barriers to import technology were hurting its development of Brazilian industry. The auto parts industry suffered falling 36.8 in your billing (15.5 billion to 9.8 billion), from 1989 to 1991, resulting in the closure of 54 thousand jobs (Conception 2001: 107-108).

In this scenario, many auto parts industries failed to react and have become strategic units of foreign groups, or were shut its operations. Other national companies, in addition to react locally, seeking to become more competitive in the domestic market, have devised strategies in search of new markets at international level, with the objective of capturing new opportunities, get access to new technologies and promote the rapprochement with the headquarters of the main customers. The Brazilian multinational, object of this study is a family business of the automotive segment with 50 years of existence and leader in the Brazilian market that survived the changes in this market as venture capital. In 1990, the Organization has initiated the strategy of internationalization by acquiring business units in Argentina and later in Germany. Since 2000, this enterprise started its production operations in the United States, China, and finally an sales office in Japan.

In China, in order to minimize others difficulties, such as the language and bureaucracy, the company have adopted the strategy of hiring a Chinese Executive with the knowledge of how to conduct the installation process of a foreign company in China, and with the ability to make the connection between the Chinese client and its subsidiary in Germany.

In 2008, the Chinese business unit started its operation by assembling imported parts from of German subsidiary and from matrix in Brazil. The completion of the internationalization strategy in China will be completed after the end of the process of transferring production resources that should be dispatched by the German subsidiary. This activity for imports of components for an exclusive operation business unit mounting can be considered as a new stage in the process of internationalization in China, which precedes the stage of manufacture of the product in this new business unit.

So, to identify this Assembly phase in the process of internationalization of this enterprise in the Chinese market, we had to make a relationship of this step with the original model of Uppsala, obtaining a new version of the traditional model, as shown in Figure 4.

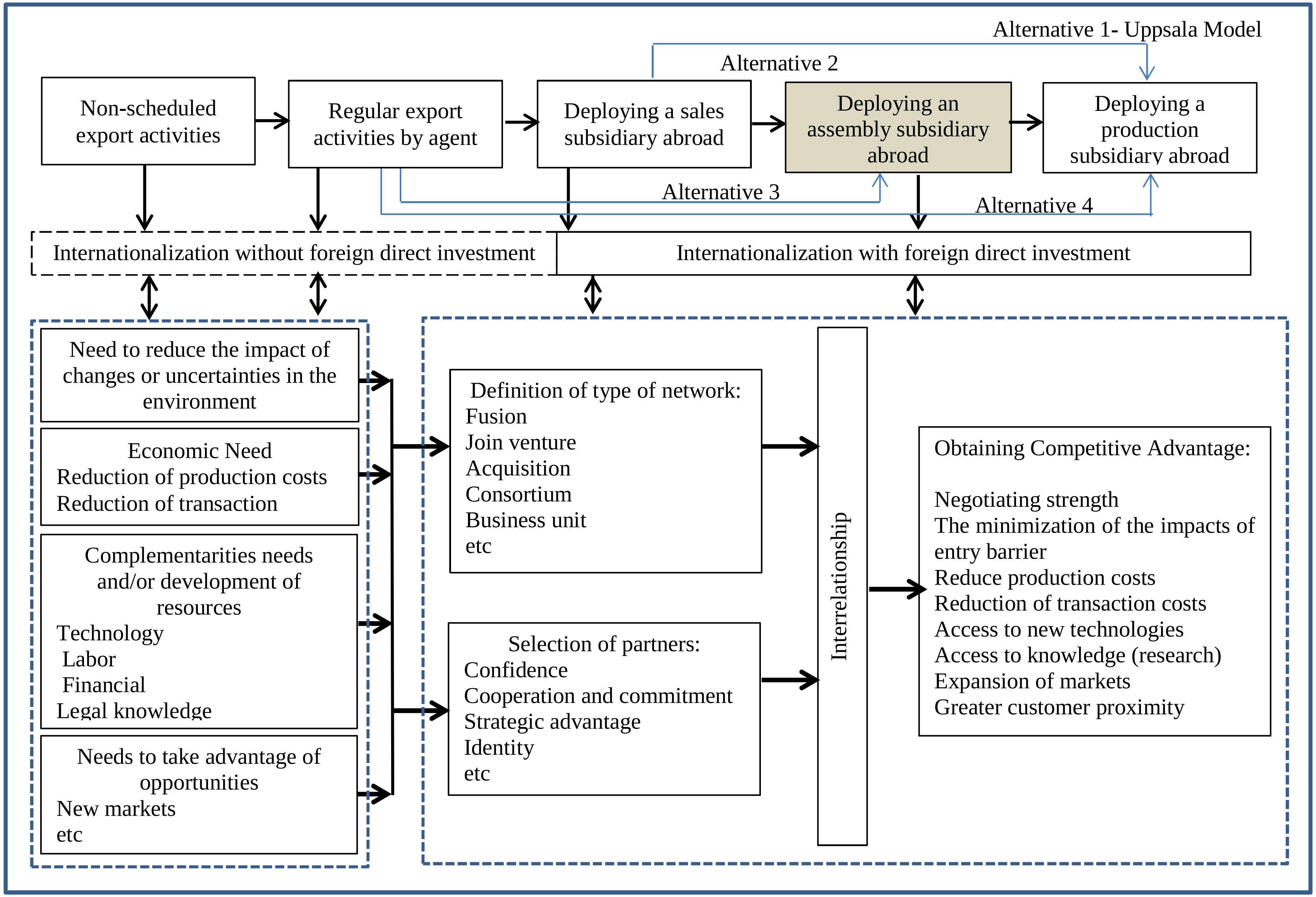

Figure 4 - Proposal for a model of analysis for the internationalization process of large companies

Source: Silva Filho and Souza Santos (2011).

Final Remarks

The case study showed that during the process of internationalization of this enterprise was identified a new stage for the Uppsala Model. The installation of an assembly unit in the target subsidiary can sometimes be an action strategic that precedes the manufacturing process.

The creation of an assembly unit makes it possible to speed up the strengthening of the process of internationalization the company with its target strategic market.

Also it is worth noting that in step related to the deployment of regular export activities via agents, the internationalization process can generate four distinct paths alternatives in Uppsala Model.

The first alternative provides the sequence of Uppsala Model, with four steps. The process begins with non-scheduled export activities, to regular export activities by agent, to deploying a sales subsidiary abroad and finally to deploying a production subsidiary abroad.

The second alternative is composed of five steps and presents the phase of assembly unit creation in the subsidiary before the commencement of manufacturing in this business unit.

The third alternative is composed by four steps where the commercial subsidiary abroad is suppressed in order to avoid mounting costs. The process begins with non-scheduled export activities, to regular export activities by agent, to assembly unit creation in the subsidiary and finally to deploying a production subsidiary abroad.

The fourth alternative is composed by only three steps without the implementation of the commercial subsidiary and of the assembly unit abroad. Therefore the process begins with non-scheduled export activities, to regular export activities by agent, for deploying a production subsidiary abroad.

So, we suggest for next studies to check which alternatives of the process of internationalization are more used, based on the new model and to assess how the several agents and intangible factors may influence the effectiveness of the application of this model.

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