Internationalisation Process of two Swedish Firms

The Case of Vaderstad AB and ContextVision AB

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Title
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Abstract
Background: In recent years globalisation has become the recipe for companies to enter foreign market in order to increase sales. Today internationalisation strategy is not limited to large firms as small and medium size firms have taken the challenge to explore international market in order to achieve a sustainable competitive advantage. In this thesis, We intend to investigate the internationalisation process of two Swedish firms, Vaderstad AB and ContextVision AB

Purpose: Our aim is to develop a model to provide a solid explanation of today’s Internationalization process. The model will be generated on the basis of studying three models, and the two Swedish firms’ Internationalization process. The model will also be inspired by Luostarinen & Welch (1988 in Kosonen, 1991) dimensions of internationalisation. We aim to suggest this model to firms which intend to begin internationalization process.

Result: Two Swedish firms in our thesis conduct different internationalization strategies when they go to international market. Based on the empirical evidence and previous researches it is possible to develop a new model that can provide a holistic view of a firm internationalisation process.

Keyword
Internationalization process, Uppsala model, Resource-based model, Vaderstad, ContextVision
Acknowledgement

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1. Introduction

This part of the thesis is aimed to provide the reader with background information of the thesis topic and a discussion about the thesis problem and purpose as well as the research questions, delimitation and disposition.

1.1 Background

The continuous relationship of individuals, companies and nations through globalisation has caused firms to move out of their domestic market on to the international stage to gain sustainable competitive advantage (Porter, 1985). Globalisation has been one of the buzzwords of the 1990s. Growing similarity in consumer needs and desires, economic integration of national states, the rapidly falling costs of communication and transportation, made many believe that we were about to enter a “borderless” world. (cf. Ohmae, 1990 in Marielle, Olie & Glunk, 2002). Multinationals are developing into global companies and even transnational, carrying the implicit notion that they were transformed into “stateless companies” (Hu, 1992 in Marielle, Olie & Glunk, 2002). It is interesting to note that the world has virtually become the same place as a result of the speed of technological advancement. Technological improvements over the years has homogenised the business environment to the extent that it is very difficult to identify a small business and a large business regarding internationalisation. The development within the field of information technology has made the distances between countries smaller, and the communication flows faster. As a result, almost every firm is moving from the domestic market to the international stage to explore business opportunity. (Porter, 1980).

Internationalisation was historically perceived to be the strategy of large firms. Small firm’s internationalisation is more often combined with threat than with opportunities and for this reason they are however often considered to be home market oriented (Lindmark, 1998 in Laine & Kock, 2001). However, internationalisation today is a strategy of all firms irrespective of size. Firms are no longer interested to stay at home even where there are good prospects in the home market. With the development of internationalisation, many small firms are growing as a result of scale advantages they derive from the expansion. This has made the process of internationalisation a topical issue in many literatures. Some firms enter foreign market through alliance, joint venture, acquisition in order to transfer knowledge and gain a sustainable competitive advantage.
Many firms propose that internationalisation can provide a firm with an additional source of competitive advantage e.g. international image and reputation; management experience and knowledge; access to foreign technology partners; cost savings associated with larger volumes etc. (Internationalgrowth.org).

According to Moberg (1990 in Ivarsson & Olsen, 1998), a company must be clear of their own reasons to internationalise, i.e., which are the goals and what shall an internationalisation lead to. Some of the motives for international expansion include capacity surplus, need for growth, economies of scale, competitive advantage, the competition on the home market, the internationalisation of the customers and prestige. However, not all firms can survive the competition in international market to enjoy the advantages even though all firms have access to human, financial, physical and informational resources. It is true that every firm possesses resources available for the provision of goods and service but the organisation of the resources makes the difference between a good and a bad company. Efficient combination and organisation of productive resources basically explains why some firms perform better at the international stage than other firms even when all firms are said to have the same amount of resources. Available statistics indicate that many small and medium size enterprises (SMEs) have started an internationalisation process, which have stopped after some time because they have not committed more resources to their operations. Possible reasons could be a lack of resources and knowledge. Another reason could be that they lack distinctive management models of how to run the business on an international level. (Laine & Kock, 2001). The internationalisation process is therefore a long and a demanding process and it takes both resources and management models to succeed.

According to Wit & Meyer (2003), going international requires a good choice between different nations with different consumer behaviour, language, legal system, technological infrastructure, business culture, educational system, labour relations etc. Moberg (1990 in Ivarsson & Olsen, 1998) posses several questions regarding which market on which the company should internationalise. What do the network look like, are they structured in a hard or loose way? From whom should the company get market share? What does the price level look like? What is the cultural distance to the market etc? These questions are of course important ones but at the same time very difficult to answer. The question boils down to what decide and which criteria shall or can be used to tell what market are interesting. Another critical internationalisation question is how important the international differences are for firms planning for internationalisation strategy to gain competitive advantage? Do firms need to adapt to the international diversity encountered, or can they find ways of overcoming the constraints imposed by distinct
national systems, structures and behaviours? (Wit & Meyer, 2003). Many theories regarding establishment or internationalisation bring to the front the importance of economic distance. Economic distance is defined as the sum of cultural distance and physical distance (Ivarsson and Olsen, 1998). The Uppsala school predict that a company start its internationalisation by minimising the economic distance, that is choosing market where the cultural distance is low, and adjacent market before remote ones (Johanson and Vahlne, 1990). Findings from internationalisation of service companies indicate that it is a question of matching the cultural environment in the country with what fits the business mission. (Edvardsson’s et al, 1992 in Ivarsson & Olsen, 1998)

Probably the final internationalisation question in this thesis is the question of timing. That is when the company should internationalise due to the internal expansion and prerequisites. A company can be said to be mature regarding an internationalisation depending on what the actual offer is and which mode of entry is chosen (Ivarsson & Olsen, 1998).

The maturity is a relative concept. With a time-dimension involved several alternatives concerning market entry modes can be presented as realistic, provided that the company is taking some measurements due to the different alternatives. For a small and fast growing company the time dimension can be very important to consider as the internal prerequisites for different types of internationalisation can be expected to change rapidly. An important factor is the expansion and organisational changes which might highly affect the time period to internationalise. (Ivarsson & Olsen, 1998).

The authors in this thesis are motivated to investigate the internationalisation strategy of firms based on the background information provided and the more reason that internationalisation is now a strategy or a potential strategy for most firms today and forever.

1.2 Problem

Although there are a number of models that can be used to explain the internationalisation process of a firm, one common model has been the Uppsala model developed over three decades ago by researchers at Uppsala University in Sweden. Unfortunately, apart from the criticisms, this model is old and could not offer a complete description of the internationalisation process of a firm today.
This is because over the years the world has experienced major technological changes contributing to a more homegene world. To bring the Uppsala model into the present context we must resolve issues such as market knowledge and experience in international trade. In the past when the Uppsala model was launched, it was obvious that market knowledge could be acquired mainly through experience i.e. continuous foreign market operation. Today, with the improvement in technology in general, it is possible for market knowledge to be acquired not only through experience but also through other means such as interpersonal communication, websites information and television news etc. With the present trends in information technology and in particular communication, there is no doubt that the Uppsala model alone is not enough to explain internationalisation strategy of firms. “The development within the field of information technology has made the distances between countries smaller, and flow of communication faster”. (Laine & Kock, 2001).

Given the above reason, we want to combine the Uppsala model with the Product life cycle and the Resource-based models to develop a new model to provide a present view of the internationalisation process of a firm today. It is our hope that the weakness in the Uppsala model can be solved by the resource –based and product life cycle models as the three models are closely related. The relationship and connections with these three models are clearly documented in the frame of reference part of this thesis.

1.3 Research questions

The problem statement of this thesis presents three critical questions that must be answered in the current thesis

1. Is it really true that new times demand new patterns of internationalisation process?

2. In today’s world, can one model such as Uppsala model or the resource-based model etc be able to offer a complete explanation of firms’ internationalization process?

3. Is it possible to develop a new model based on the previous research and empirical evidence to provide a holistic view of a firm internationalisation process?

1.4 Purpose

The aim of this paper is to develop a new model to provide a solid explanation of today’s Internationalization process. The new model will be
generated on the basis of studying three models, and two Swedish firms’ Internationalization process. The model will also be inspired by Luostarinen & Welch (1988 in Kosonen, 1991) dimensions of internationalisation. We aim to suggest this model to the firms which intend to begin internationalization process.

1.5 Delimitation

The current thesis is focusing on firms that have operations abroad. This means that companies with no operations abroad shall be excluded. The reason of our focus is to make sure that our topic has suitable relationship with the case companies and the results should also be useful for generalisation.

The researchers are investigating the internationalisation process of a firm by developing a new model to describe the internationalisation process of medium- and small-scale firms today. In Swedish definition of SME, Vaderstad AB is an example of small and medium sized firm. However, the standard of European Union put Vaderstad AB in the category of large firms. In any case the focus is on firms with operations abroad with special emphasis on SME. ContextVision AB on the other hand is a small firm even in the Swedish context.

The final result of the current thesis shall be recommended to these companies for testing in today’s internationalisation strategy. There is no doubt that large-scale firms’ internationalization will be more complicated and due to time constraints we cannot cover large scale firm’s internationalisation strategy. However, large firms shall benefit from some dimensions of our new and final model. By integrating the empirical data and the idea of the final model, the companies and their industries as a whole will benefit from this thesis.

1.6 Thesis relevance

The authors of this thesis can see two kinds of contribution in this thesis. One is the contribution of theory. In the thesis, we have theoretically presented internationalization process by studying three related internationalisation process models. We have integrated the three models into one model and finally generated a final model on the basis of case studies to explain today’s internationalization process.
Another contribution of the thesis is our ability to provide the internationalisation strategy of two different Swedish firms. These two firms are in different industries, offer different products and make different strategies in their international markets. The international strategy for the two firms can serve as a reference to other firms who prepare to go to international market.

1.7. Disposition

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Table 1-1: Disposition of thesis
2. Methodology

This part of the thesis is aimed at providing the reader with scientific methods that were used to carry out this thesis i.e. the methods and procedure used. Methodology gives the reader about the idea of how to conduct a scientific research and what tools are to be used to collect empirical data as well as the validity and reliability of the results.

2.1 Research approach

Generally there are two approaches to conduct research---Deductive approach and inductive approach.

Deductive approach is where researchers get their conclusion of a phenomenon from theory and general principles. Inductive approach on the other hand means that general rules are derived from a particular observation.

According to Trochim (2002), deductive reasoning works from the more general to the more specific. Sometimes this is informally called a "top-down" approach. Inductive reasoning on the other hand, moves from specific observations to a broader generalizations and theories.

The difference between inductive and deductive approaches is that inductive creates a general rule and deductive uses the general rule to obtain final conclusion. (Ghauri, 1995).

In the current thesis, the authors shall use deductive approach to analyse the internationalisation process of ContextVision AB and Vaderstad AB.

In this regard, the authors shall choose internationalisation process models such as the Uppsala model, product life cycle model and the resource base model to develop one model to describe the internationalisation process of the case companies.

2.2 Types of Investigation

Researchers can choose among the types of investigation according to the purpose of the thesis. In this regard, two types of investigation are presented in the current thesis---qualitative and quantitative approach.
Quantitative method is the reliance on experimental and statistical control as the defining feature of the research. (Kaplan & Duchon, 1998). With this method, researchers will be able to draw conclusion by analyzing collected data through statistical tools. Qualitative method, on the other hand, is where research findings and results are not based on statistical data. According to Kvale (1996), qualitative and quantitative methods are tools, and their utility depends on their power to bear upon the research questions asked.

Although qualitative methods provide less explanation of variance in statistical term than quantitative methods, they can yield data from which process theories and richer explanations of how and why processes and outcomes occur can be developed (Macus & Robey, 1988).

Researchers believe that qualitative method is the best approach to reach our purpose of the research. We shall study, describe, explain, and deduce some factors necessary for successful Internationalisation through analyzing the case company. Qualitative method can help us to gain deeper knowledge and understanding of a phenomenon.

The researchers will use qualitative method to collect the empirical data through direct interview. The reason for the choice of interview method is that we can discuss with the respondent face to face. It is easier to capture the explanations of the firm by asking questions.

According to Bogdan & Biklen (1982 in Meloy, 2002), most books on qualitative research don’t write well on analysis because the processes of qualitative research are multiple and they are linked and interactive. In our research, we will give a deeper analysis through our knowledge and experiences.

### 2.3 Research Method

Generally, there are two types of data source, primary data and secondary data sources. Interview and observation are examples of primary data. Secondary data on the other hand is the data already existed before the research gets started. This includes information collected from literature books, articles and Internet.

#### 2.3.1 Primary data

In this thesis, the researchers shall collect primary data through interview to fulfil our purpose. Interview and observation are the main data collection methods.
Interviews are among the most challenging and rewarding forms of measurement. They require a personal sensitivity and adaptability as well as the ability to stay within the bounds of the designed protocol. (Trochim, 2002)

According to Cooper & Schindler (1998), researchers can make a direct interview or indirect interview such as telephone, email. In this thesis, we will conduct two direct interviews with two different companies from different industries representing the case studies (ContextVision AB and Vaderstad AB)

2.3.1.1 Selection of the company

There are some requirements about our selection of the company. We will choose the companies which have many years of international operations and high degree of internationalisation. Actually we had wished to select as many companies as possible as case studies but we could only have access to two companies which are of course having operations abroad and could serve the purpose of this thesis.

The two companies we had chosen are in different industries. One is Vaderstad AB which is a manufacturer of farm equipment; the other one is ContextVision AB which is a IT company. They had explored overseas market for many years and they fit the requirements of the research.

ContextVision AB was established in 1983, by a specialist research team at the University of Linköping in Sweden. It sealed a series of OEM (Original Equipment Manufacturing) agreements with various medical companies specializing in areas such as Magnetic Resonance Imaging (MRI), ultrasound etc.

Vaderstad AB on the other hand, is a wholly owned subsidiary of Vaderstad Verken, a family owned machinery manufacturer in Sweden.

2.3.1.2 Conducting an interview

Before we conduct a personal interview, we prepare our questions by studying many materials about the topic. This will improve our knowledge on the topic in order to have a good conversation with the interviewee.

After we had booked the interview time with the interviewee of two companies, we sent our interview questions to the companies involved so that they can have a prior knowledge of the questions before the interview date. The purpose of this is to make sure that the respondents have a good preparation
towards the interview. The interview guide consisted of many questions about the company Internationalisation process. The questions were designed carefully hoping that they can cover all the aspects of the Internationalisation process of the firm. The researchers made a small change in the interview guide after the first interview with the Vaderstad AB, because ContextVision and Vaderstad belong to different industry and the internationalisation process may differ.

There are three types of interviews----Structured interview, semi-structured interview and unstructured interview. In structured interview, questions were asked prearranged. Unstructured interview gives respondents more freedom to discuss the questions with the interviewers. Semi-structured interview differs with the structured interview and unstructured interview. In this type of interview, questions should be predetermined and they must be asked in a flexible way.

In our thesis, we have conducted a semi-structured interview with the respondents. We don’t want to limit respondent’s answers to our questions. They can add all that they are willing to say. This can help us to capture more useful information and ask counter-questions based on the answers they provide. Since our interview shall be conducted in a flexible way as we have discussed, the interview belongs to of semi-structured type.

The interviews were conducted in Linköping and the duration ranged between one and two hours. We regret to inform our various readers that we did not have access to tape recorder during the interview but we were compelled to make notes carefully at the interview. The interviewee illustrated some of their answers to questions with diagrams to assist our understanding.

The first personal interview of Vaderstad AB took place in Linköping University on 30 November 2004. The Area Sales Supervisor of Vaderstad Co Ltd David Oscarsson arranged to come to Linköping University to give us the opportunity to interview him for the purpose of this thesis. His decision to come to Linköping University is to free the researchers from travelling cost to Vaderstad in Sweden where his office is located.

The second interview with ContextVision AB Linköping took place at the company’s office in Linköpings universitet on 7 December, 2004. We conducted a personal interview with Technology Department Manager Klas Themner and his assistant Isabelle Wegmann.

When we finished the final report we sent it back to our interviewees to confirm description and analysis made on their respective firms.
2.3.2 Secondary data

Researchers collect secondary data from various ways. In the present thesis, we have applied Internet, books, articles that are relevant to the research problem. Most books were borrowed from Linköping University library. Some articles were downloaded from Internet and journal database. Some vital information were also retrieved from company websites, firm’s brochure and annual reports and these information were used as references for the research.

There were so many research materials on internationalisation strategy available to the authors but we decided to choose three research work by Johanson & Wiedersheim-Paul (1975), Johanson & Vahlne (1977) and Johanson & Vahlne (1990). The authors above presented a common model named Uppsala model to explain internationalization process. The reason we choose Uppsala model as the major tool of our investigation is because it is very common in many literatures and it has a strong connection with our thesis topic, internationalisation process of a firm. Many authors who have contributed to the study of internationalisation process have referred to the model and this proves its importance to the topic we are studying.

The Uppsala model was developed because of the criticism of the existing theories at that time, which tries to explain direct investments, but it has since been developed as a more independent model to explain the sequential steps in the direction of increased foreign commitment (Johansson & Vahlne, 1977; 1990).

The statement above inspired us to choose Uppsala model so that we can have the opportunity to know whether the model has outlived its usefulness in the explanations of the internationalisation process of a firm or it can still provide some useful information in the internationalisation process of a firm today.

Another reason why we chose this model was the fact that many business students are already have a previous knowledge of this model and this alone can serve as a prerequisite for readers to understand our thesis better.

The authors decided to complement the Uppsala model with the product life cycle model and the resource-base model because of the inter-relationships and a connection existing between these three models as it has been explained in the frame of reference part of this thesis. On the basis of our understanding of the three models, we will develop a theoretical model.
2.4 Reliability and validity

Generally we use two concepts to test the data we had collected in the thesis. They are reliability and validity.

**2.4.1 Reliability**

A study is said to be reliable when the research findings can be replicated. However, the world is in constant flux that makes it impossible to repeat the exact same investigation.

In solving this problem, Merriam (1998) suggests that given the data collected, are the results make sense? This means Merriam (1998) is relating reliability to the link between data collection and results.

In this thesis, authors shall conduct two personal interviews with two companies. Data shall also be collected from the company website and annual reports. Authors believed that the primary data from the interview and the secondary data from websites and annual report could serve as reliable information for this thesis. The data in the imperial part will however, be described and analysed to get a result consistent with the data collection.

**2.4.2 Validity**

According to the Kvale (1996), validity refers to “the truth and correctness of a statement” and the fact that “a method investigates what it is intended to investigate”.

According to Merriam (1998), there are internal and external validity. We will present both internal and external validity for this thesis.

**Internal validity**

Internal validity according to Kvale (1996) refers to the truth and correctness of a statement and that internal validity pertains to the degree that a method investigates what it is intended to investigate. Yin (1984 in Choi, 2001) discussed internal validity deals with establishment of causal relationships whereby certain conditions lead to other conditions. We can understand that if we use correct and reliable method to collect the data, then the data and result should be suitable for a valid conclusion.

We have illustrated how we deal with primary data and secondary data in research method section (chapter 2.3). Our procedure of research has followed
the research methods which are generally accepted in collecting data in research studies. Therefore we believe that our result is true and correct to the best of our knowledge.

**External validity**

According to Merriam (1998), external validity concerns with the extent to which the findings of one study can be applied to other situations. Yin (1984 in Choi, 2001) discussed external validity is achieved through establishing the domain to which the findings can be generalized. The task is to find out whether the results of a study can be generalized. In our thesis, we researched three common internationalization models and analyzed deeply the empirical studies to develop a new model which we believe can be applicable to medium- and small-scale firms.

It is possible that our final model can not be applicable to all firms because there are a lot of dimensions which can influence firm’s internationalization process. However, the result might be widely acceptable through the concept “analytical generalization”, mentioned by Kvale (1996). Analytical generalization involves a reasoned judgement about the extent to which the findings from one study can be used as a guide to what might occur in another situation. It is possible to apply our result to the firms who have similar characteristics with our case firms.
3. Frame of Reference

In this chapter, we will present definition and reasons of Internationalisation. After that, we will present Uppsala Model, Product Life Cycle Model and Resource-based Model respectively and their relationships to each other. Further, a theoretical model will be developed.

3.1 Internationalization

3.1.1 Definition of Internationalisation

During the 20th century internationalisation has been of great interest among researchers.

With reference to the process models of internationalisation, Welch & Luostarinen (1988) define internationalisation “as the process of increasing involvement in international operations”.

However, the network perspective (Johansson & Mattsson 1998 in Annika Laine & Kock, 2001) defines internationalisation as a process in which relationships are continuously established, developed, maintained and dissolved with the aim of achieving the objectives of the firm.

Edvardsson et al (1992 in Ivarsson & Olsen, 1998) presents a number of definitions about internationalisation of service companies. For the purpose of this thesis, four of them are stated below;

“Internationalisation is a process of learning. In advance planning and articulated strategies does not control the company’s international development” (Edvardson et al; 1992, p.152 in Ivarsson & Olsen, 1998).

“Internationalisation is dependent on individual actors and entrepreneurs and is characterised of that these peoples’ thinking in the organisation becomes more international” (ibid p.153 in Ivarsson & Olsen, 1998).

“The internationalisation is very much about conceptualising the strategic knowledge into service concepts” (Ibid p. 155-153 in Ivarsson & Olsen, 1998).

“Internationalisation is about choosing the right cultural environment that fits the business concept (Ibid p.153 in Ivarsson & Olsen, 1998).

Another important definition of internationalisation is the one given by, Beamish (in Coviello & Munro, 1997 in Ivarsson & Olsen, 1998).
……. the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries. With this definition a company can be said to have started its internationalisation process long before internationalisation business transactions take place.

Generally, internationalisation is considered to be a complex and a multidimensional process.

There are various internationalisation process modules up to date. In this study the authors shall present three internationalisation process models (The Uppsala model, the resource-based model and the product life cycle model) to represent the literature review part of the study.

### 3.1.2 Reasons of Internationalisation

The decision to expand across national borders is one of the most important strategic moves in the growth and advancement of a company.

However, doing business abroad is more complex, difficult and risky than domestic business and there is a high possibility of failure, unless firms plan international expansion well.

A firm should evaluate its motivation of international expansion against the most commonly accepted reasons why firms take decisions to go abroad. These motivations include:

**Sales potential**

Normally, sales problems in the home market have compelled firms to expand across its national borders. The problems in sales growth may be due to economic recession, market saturation etc. It must be noted that demand push is a good reason for a firm to expand abroad but it is not a guarantee that every firm can be successful in foreign market. (Laine & Kock, 2001)

**Prestige**

Another reason why firms may expand abroad is that of prestige. This is very common in the case of a small, and a fast growing company. Prestige gives a company a sense of importance and respect for taken the challenge to do business across national borders. (Ivarsson & Olsen, 1998)

**Goal and policies**

“the company should be well aware of its motives to internationalise, which should be closely tied to the over all goals and policies”. (Moberg, 1990 in Ivarsson & Olsen, 1998)
Another reason for internationalisation may be that business growth and development opportunity had occurred in international trade and the company wants to grab it (Edvardsson, 1996 in Ivarsson & Olsen, 1998). This normally happens when the entrepreneur is someone who has an inborn character of capitalising on business opportunities as and when they occur.

“This “grabbing of opportunities”- phenomena is closely tied to the network theories, which indicate that the internationalisation might be a result of different kinds of beforehand-established relations, presumably social ones, and that these relations might be the most important factor in an internationalisation”. (Coviello & Munro, 1997 in Ivarsson & Olsen, 1998)

**Technology complexity**

Another motivational factor for firm’s decision to go abroad is that of technology complexity. Today, technological development is expensive and most firms want to increase sales through international marketing in order to spread the cost of technology over larger sales volume. The advantage of this strategy is that the cost of technology and R&D per unit output will be lower and profit will be high as a result. ([http://www.Internationalgrowth.org](http://www.Internationalgrowth.org))

**Competitive forces**

Most firms are of a strong conviction that internationalisation is one of the best ways to achieve a sustainable competitive advantage. The sources of competitive advantage include international image and reputation, management experience and knowledge and access to foreign technology partners etc. ([http://www.Internationalgrowth.org](http://www.Internationalgrowth.org))

**Geographical diversification**

Another important reason why a firm may operate across its national borders is the decision to avoid over-dependency on the home market. It is always dangerous for firms to concentrate solely on domestic market as this can put the firm in serious financial crisis in the event of a fall in demand at home. In such a situation firms that sell abroad can easily save the situation by selling abroad. ([http://www.Internationalgrowth.org](http://www.Internationalgrowth.org))

**Profits**

Though, international trade is associated with risk and barriers a firm ability to live up to this challenge will provide the firm with a sustained growth in profitability and shareholder value. ([http://www.Internationalgrowth.org](http://www.Internationalgrowth.org))
3.1.3 Cost and risk associated with Internationalisation

Doing business at home is far different from international business. There are cost and risk differences between doing business at home and doing business across the national borders. This is because global marketing environment is much more complicated and risky than at home. The following summary represent possible cost and risk align with international trade:

First, there is a great difference exists in the major external elements that affect a firm. The elements include: economic, political, socio-cultural, technology, competitive and financial environments of different countries. These factors present business risk and must be taken into consideration in any attempt to enter a foreign terrain. (Lemaire, 1999)

Second “decisions need to be made concerning a wider range of both strategic and operational issues. Key strategic issues that need to be addressed include assessing your company’s readiness to internationalise; the sustainability of your product or service for overseas markets and the extent of local adaptation required; choosing the most attractive foreign market and the best entry strategy to adopt; international pricing, distribution and promotion strategies; organising and controlling your overseas activities. Operational issues include export paperwork and documentation; legal and financial issues; finding and managing overseas partners and so on”. (http://www.Internationalgrowth.org)

Third, the span of control in international trade is wider and this brings problems related to supervision of overseas business activities. In order to narrow the span of control and minimise the problem of supervision and monitoring, most firms operate through agents/distributors or establish own overseas sales subsidiary. (http://www.Internationalgrowth.org)

Another important cost associated with internationalisation is exchange rate instability and a possibility of customers failing to pay for goods ordered. The aggregate effect on the exchange rate fluctuations and bad debt written off can present serious financial consequences to firms selling abroad. (http://www.Internationalgrowth.org)

Given the risk explained above, it is more advisable for firms to examine its capability carefully before a commitment decision is taken on international expansion.
3.2 Relationships between three Internationalisation models

For the past four decades researchers have developed study models underlying internationalisation process. For the purpose of this study and as part of our frame of reference, the Uppsala model, resource-based model and the product life cycle will be presented. The three models have been chosen as a tool to complement our explanation of the internationalisation process today. The authors decide to use these models because of the relationship to each other and how best the models can be linked to internationalisation strategy of ContextVision AB and Vaderstad AB.

The relationship between the models is presented in the following paragraphs.

**Uppsala Model & Product Life Cycle Model**
1) According to Pedersen (1999), the description of the gradual geographic expansion in the Uppsala model is strongly inspired by Vernon’s (1966) product life cycle theory. This statement is a clear case of a connection between the Uppsala model and the product life cycle model.

2) The Uppsala model and the product life cycle model is related in the sense that the phase of each of the model is linked to the previous phase and prescribes what the following phase will be.(Forsgren, 2000)

**Uppsala Model & Resource-based Model**
1) A closer look at the Uppsala model reveal that it is also implies a resource-based teleological perspective on internationalisation process. The model states that the firm, under risk constraints, strives to “increase its long term profit, which is adjudged equivalent to growth” (Johanson & Vahlne, 1977 in Forsgren, 2000).

2) The connection between the Uppsala model and the resource base model lies on the fact that experiential knowledge is treated as a resource that constraint the firm’s international expansion. (Rutihinda, 1996).

**Product Life Cycle Model & Resource-based Model**
1) It is relevant to include both a life cycle perspective and a resource-based theoretical perspective in a model about firm’s internationalisation behaviour. However, there is an apparent problem: the difficulty to evaluate the relative importance of a prescribed mode of change. The life cycle perspective on processes predicts a sequence of events in a prescribed direction. The resource-based teleological perspective, on the other hand, implies changes
that can be discontinued and unpredictable departures from the past, due to the interaction between assessments of outcomes and goals. (Forsgren, 2000),

**All three models**

1) All the three models are all process models but have different focus. While the Uppsala model focuses on incremental learning, the resource-based model focuses on organisational learning, resources and growth and the product life cycle model focuses on change and growth.

2) Another important connection between the three models is that they all look for growth in the ultimate but from different angles. The Uppsala model focuses on incremental learning to achieve growth, while product life cycle model and the resource-based model focus on change and resources respectively to attain growth.

3) The three models however have some differences on the level of application, process of change etc as it is shown in (table 3-1).

It can be concluded that the focus of the three models learning, growth and change can be a useful strategy of the “case companies” (Vaderstad AB and ContextVision AB). The three models have a useful relationship with internationalisation strategy based on their focus learning, growth and change which is regarded as part of internationalisation process. The question of how the three models can be used to explain internationalisation strategy specifically our case companies will fully be documented in the analytical part of this thesis.
The table below illustrates the connections of the three models and some differences.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Level of application</strong></td>
<td>Managerial attitudes</td>
<td>Operation of the firm</td>
<td>Firm as a whole</td>
</tr>
<tr>
<td><strong>Model type</strong></td>
<td>Life cycle process</td>
<td>Both life cycle perspective and teleological perspective</td>
<td>Teleological process</td>
</tr>
<tr>
<td><strong>Process of change</strong></td>
<td>Single, cumulative, sequence of phase</td>
<td>Each phase of the process is linked to previous phase and prescribe the following phase</td>
<td>No prescribing a sequence of events</td>
</tr>
<tr>
<td><strong>Goal driven?</strong></td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Purpose of change</strong></td>
<td>Achieve growth</td>
<td>Achieve growth</td>
<td>Achieve a desired goal</td>
</tr>
<tr>
<td><strong>Focus on</strong></td>
<td>Incremental learning</td>
<td>Change and growth</td>
<td>Organizational learning and resources</td>
</tr>
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</table>

Table 3-1: Comparison of three models
(Source: Own design, based on Cuervo-Cazurra & Ramos, 2002, Forsgren, 2000)

The following discussion shall begin with the Uppsala model followed by the product life cycle model and the resource-based model respectively.

### 3.3 Uppsala Model

In this section, we will review the common model about Internationalisation process----Uppsala Model. Uppsala Model was developed in 1975, by two Swedish researchers Johanson, J, Uppsala University and Wiedersheim-Paul, F, Stockholm School of Economics. In 1977, Johanson and Vahlne, J-E improved it on the basis of the article written by Johanson & Wiedersheim-Paul (1975).

The purpose of Uppsala model is to increase understanding of the development of International operations and contribute to conceptualization
in the field of Internationalization of the firm. (Johanson & Wiedersheim-Paul, 1975).

### 3.3.1 Establishment chain

The model contains different stages to describe the different levels of Internationalization process of a firm. Johanson & Wiedersheim-Paul (1975) developed four different stages of entering a new market. The Internationalization process of a firm was developed according to an empirical study of four Swedish firms: Volvo, Atlas Copco, Sandvik AB and Facit.

The stages are the following. *This establishment chain seems to be a correct description of the order of the development operations of the firms in individual countries.* (Johanson & Wiedersheim-Paul, 1975)

Stage 1: No regular export activities (Sporadic Export)
Stage 2: Export via independent representatives (agents)
Stage 3: Establishment of an overseas sales subsidiary.
Stage 4: Overseas production/manufacturing units.

When the firms started to enter a foreign market, at first stage, it would choose export product to the new market, because they had no information or resource in the country. At the second stage, they will establish channel to distribute the product. They will cooperate with local strong agent to export the product. This is also called indirect exporting. The following stage is to establish sales subsidiary in the foreign country. In this stage, the firms had already obtained more resources, information and knowledge of the society.
Though the sales subsidiary, the firms could operate and coordinate the business more easily and actively. At the final stage, the firms had more knowledge and experience in this foreign market; they will be able to establish manufactory in the local country.

In first stage, the firms will gain no market experiences. The second stage will provide the firm of information channel to the market and some superficial information about the market conditions. The business activities in third stage and final stage will lead to more differentiated and wide market experience, which even may include factor market. (Johanson & Vahlne, 1990)

It is important to note that firms sometimes can skip some stage and jump to another stage directly. For example, a firm can start to export product to the foreign country and the next step it establishes the sales subsidiary. According to Johanson and Vahlne (1990), the sequence of stages indicates an increasing commitment of resources to the market.

However, other authors such as Laine & Kock (2001), Turnbull (1987) and Turnbull & Valla (1986) have also contributed to the establishment chain in different arguments.

According to Laine & Kock (2001), the basic internationalisation steps (direct export, export through agent, sales subsidiary and production facility) identified in the Uppsala model is questionable on the assumption that when large firms, have surplus resources they are expected to make larger internationalisation steps.

Turnbull (1987 in Laine & Kock, 2001) has added his voice to the model by claiming that the choice of entry mode is independent of a firm’s previous experience in export market. He cites some empirical studies, for example Turnbull & Valla (1986); which violate the concept of the Uppsala model. The studies show that firms hardly follow any particular and pattern in their internationalisation process. Firms may choose different entry modes and internationalisation patterns in different markets.

3.3.2 Psychic distance

Internationalisation process can be explained in two patterns in the Internationalisation of the firm (Johanson & Wiedersheim-Paul, 1975). One is establishment chain and the other is psychic distance. Psychic distance is different from geographic distance. Psychic distance can be defined as the sum of factors preventing the flow of information from and to the market. The
factors for example, differences in language, culture, political system and so on. (Johanson & Vahlne, 1977).

Other authors such as Pedersen (1999), Vernon’s (1966) and Hönnell et al (1973) have also contributed to the psychic distance in similar arguments.

According to Pedersen (1999), the description of the gradual geographic expansion from the domestic market over close market to culturally distant market is strongly inspired by Vernon’s (1996) product-cycle theory.

Hörnell et al (1973 in Blomstermo & Sharma, 2003) contributed to the psychic distance paradox by stating that establishments start in physically close markets and thereafter further away. The theoretical explanation was that a lack of market knowledge is an important factor in international business.

In Uppsala model, when the firms start Internationalisation process, they would choose the country which has close psychic distance to the home country. This is because the firm wants to enter a foreign country they understand most and easily in factors such as culture, language etc. After successful operation in this country, the firms can move further away. This is to say that, the firms enter new market with successively greater psychic distance.

Johanson et al (2002 in Muniz, 2004) combined the establishment chain with psychic distance (Figure 3-2). From the country dimension, the firms move from close psychic distant market to more far away market. From the establishment form dimension, firms increase their commitment to the market.
3.3.3 Change aspect and state aspect

Johanson & Vahlne (1977) introduced the basic mechanism of Internationalisation. It constitutes state aspect and change aspect (Figure 3-3). In such a model the outcome of one cycle ---or more generally one cycle of events---constitutes the input of the next.

In the Uppsala model, we consider that state aspects are resource commitment to the foreign market commitment and knowledge. The change aspects are decisions to commit resources and the performance of current business activities. (Johanson & Vahlne, 1977)

**State aspects**

State aspects include market commitment and market knowledge about foreign markets.

**Market commitment**
Another concept in the Uppsala model that requires some comment is commitment. Commitment was also a central concept in Aharoni’s (1966), behavioural model of foreign direct investment decisions but his use of the concept was quite different from the way the concept is used in the Uppsala model. (Blomstermo & Sharma, 2003)

The concept of commitment from the Uppsala model comprised two components— the amount of resources committed and the degree of commitment. The degree of commitment depends on the difficulty of finding an alternative use for the resources and transferring them to it. (Johanson & Vahlne, 1977). We can understand that if it is difficult to find an alternative use and resources are difficult to transfer, then the commitment degree is high. Another factor that influences the degree of commitment is the specialization of the resources. The more specialized the resource to the specific market, the greater the degree of the commitment. (Johanson & Vahlne, 1977).

It must be noted that the degree of commitment is more central in the Uppsala model because an important aspect of commitment is that it locks the firm into international operations in general and, more specifically, it ties it to certain markets.

The second component of market commitment is the amount of resources committed which corresponds fairly well with the level of investment (Blomstermo & Sharma, 2003).

In a broad sense, the amount of resources committed includes, investment in marketing, organization, personnel and other areas. (Johanson & Vahlne, 1977).

In Uppsala model, we will be interested in knowledge because many commitment decisions are based on several kinds of knowledge. Market knowledge, one aspect of state aspect, is one kind of it. According to Penrose (1966 in Johanson & Vahlne, 1977), knowledge can be divided into objective knowledge and experiential knowledge. Objective knowledge can be taught. It relates to blueprints, textbook knowledge, stored information etc. This knowledge can easily be transferred between individuals and between organisational units within a firm.

Experiential knowledge, in contrast, can only be acquired through first-hand experience. It concerns the change in individuals arising as a consequence of their activities. A clear example of experiential knowledge is the knowledge people gain about each other when they work together. (Blomstermo & Sharma, 2003).
Experiential knowledge is important because it is not so easy to acquire especially in foreign country, it is gained through long-term operations in that country. It is different with that in domestic country where we have basic experiences to which we can add specific experience of individuals, organizations and markets. The importance of experiential knowledge is that it can provide framework for perceiving and formulating opportunities. (Blomstermo & Sharma, 2003, Johanson & Vahlne, 1977).

Knowledge can also be divided into general knowledge and market-specific knowledge. Market-specific knowledge is the knowledge about characteristics of specific national market. It can be gained through experience in the market. For example, culture, structure of the market system, characteristics of the individual customer firms and their personnel. (Johanson & Vahlne, 1977).

General knowledge concerns on the marketing method and common characteristics of the specific customers. For the successful establishment and performance in a country we need to combine both general knowledge and market-specific knowledge.

There is a direct relation between market knowledge and market commitment. If firms have more knowledge about a market, then they can have more valuable resources, finally the firms can commit more resources to the market. (Johanson & Vahlne, 1977).

![Figure 3-3: Mechanism of Internationalisation](Source: Johanson and Vahlne, 1977)
**Change aspects**

Change aspects include current business activities and commitment decisions.

**Current business activities** are dependent on the lag between most current activities and their consequences. The consequence can be realised when the activities are repeated more times. According to Johanson & Vahlne (1977), the total commitment will be larger if the lag is longer.

Current activities are stressed in the model to explain why firms usually do not increase their international operations at a speed that the external observer may consider motivated. Decisions to commit resources to a market are generally based on a more subtle understanding of market conditions than can be gained in ways other than through experience and this takes time. (Blomstermo & Sharma, 2003)

According to Blomstermo & Sharma (2003), employing managers with experience is not a solution to the learning problem since such managers cannot be expected to have the relevant knowledge about the firm’s resources and capabilities.

However, Johanson & Vahlne (1977) claim that current business activities are also the prime source of experience. The firm can gain experiences through alternative ways such as hiring personnel with experience. Two types of experiences can be distinguished here: Market experience and firm experience. Both experiences are required for the performance of marketing activities.

The author of Uppsala model also claims that personnel with experiences need time to use their experiences to make profit for the firm. If the hired person had already worked for the firm, then the lag may approach zero. Therefore many firms would like to hire many sales managers or sales representatives who have rich market experience. (Johanson & Vahlne, 1977)

**Commitment decisions**

Another concept in the Uppsala model is commitment decisions. Decisions to commit a resource to a foreign market depend on what decision alternatives are raised and how they are chosen.

Commitment decisions are the result of the conception of business opportunities and problems, which, in turn, are a consequence of experiential knowledge. Commitment decisions tend to be akin to those operations in which the firm is already engaged. One reason for this is that the opportunities are usually identified by those who work in the firm, and who, consequently
are aware of the opportunities and problems there and of the plausible solutions. (Blomstermo & Sharma, 2003)

In supporting the statement above, Johanson & Vahlne (1977) contended that those who are working on the market discover problem and opportunity. The natural solution to the problem can complement the operations on the market. The opportunities can lead to the extension of the operation on the market

Johanson & Vahlne (1977) however, distinguish between economic effect and uncertainty effect. Increases in the scale of operations on the market lead to the economic effect.

Uncertainty effect on the other hand, concerns the market uncertainty. The firms will extend their scale operations on the market until their tolerable risk frontier is met. Market uncertainty can be reduced through increasing in interaction and integration with the market environment.

Generally firms will make market commitment in small steps. However there are three exceptions. First, if the firms have large resource. Second, if the market conditions are stable and homogeneous then the firms can gain experiences through various ways. Third, if the firms have considerable experiences from the market with similar conditions. It can help firms generalise the experiences to the specific market. (Johanson & Vahlne, 1990)

3.3.4 Criticism of the Uppsala model

One of the most important points of criticism of the Uppsala model is that market potential and competitive conditions are explicitly ignored in the explanation of the model. The internationalisation process is reduced typically to market knowledge and experience from foreign activities i.e, firm’s internal resources.

Again, there is lack of basic economic determinant of internationalisation in the model such as market size and potential sales abroad (Hirsch & Meshulach, 1991 in Pedersen, 1999). However, in recent years Nordström & Vahlne (1993) and Nordström (1991) have introduced the essence of market size intro the Uppsala model.

In this connection, the model is also criticised on the grounds that it is not only experience that can bring about important market knowledge.
The Uppsala model assumes that acquiring market knowledge can only reduce investment uncertainty and this knowledge can only be acquired through activities on the market experience.

This assumption is explicitly formulated in the model: “International expansion is inhibited by the lack of knowledge about market and such knowledge can mainly be acquired through experience from practical operations abroad” (Forsgren & Johanson, 1992 in Pedersen, 1999).

However, information technology and the homogenisation of the international market both make it easier to acquire market knowledge from home and to transfer experience from one market to another (Nordström, 1991).

The basic internationalisation step (direct export, export through agent, sales subsidiary and production facility) identified in the Uppsala model is also criticised on the assumption that when large firms, have surplus resources they are expected to make larger internationalisation steps. (Laine & Kock, 2001)

On the basic internationalisation steps, the model does not give a true explanation of why direct investment is made. Moreover, it fails to explain why the export agent cannot be seen as a final form of market operation and why the firm needs to move “up” the steps towards establishment of manufacturing units. (Pedersen, 1999)

Despite the above criticisms the Uppsala model is considered to be one of the most important approaches to get a deeper understanding of the phenomenon of internationalisation.

3.4 Product Life Cycle Model

The product life cycle is one of internationalisation process models that has been chosen to complement the Uppsala model in our investigation. The earliest account of the internationalisation process was the product cycle model described by Vernon (1966), which is a life cycle explanation of the process of organisational change.

3.4.1 Connection with Uppsala model

The connection between the Uppsala model and the product life cycle can be seen from Pedersen (1999) statement.
“The description of the gradual geographic expansion from the domestic market over close market to culturally distant markets is strongly inspired by Vernon’s (1966) product cycle theory.” (Pedersen, 1999). From this statement we are relating the psychic distance paradox in the Uppsala model to the stages in the product life cycle and this relationship can be illustrated below:

![Diagram showing the connection between the Uppsala model and the product life cycle model.](source: Own design, based on review of the two models)

Another connection between the Uppsala model and the product life cycle is that each phase of the process is linked to the previous phase and prescribes what the following phase will be. (Forsgren, 2000).

Probably the last connection the product life cycle has with the Uppsala model in this thesis is the fact that the two models are all process models of internationalisation as it has been stated above.

### 3.4.2 Product Life Cycle Model

The product life cycle theory is based upon the biological life cycle metaphor. For example a child is born (introduction); it reaches adolescent (growth), middle age (maturity) and finally old age and death (decline).
In theory it is not different from a product. After a period of innovation and development a product is launched in a market (introduction). At a point in time the product get more customers (growth), the market stabilises and the product reaches maturity stage then after another point in time the product is overtaken by a superior innovation and superior competitors, it loses sales and enter the decline stage where the product is eventually removed from the market. (http://www.marketingteacher.com/Lessons/lesson_plc.htm)

Diagram 3-1: Product Life Cycle Model


1) A new product is developed in an industrially advanced country.
2) As the product matures, the firms extend to international market to win the share.
3) The product and production procedures become standardized and the production moves to less developed countries.

If we consider the firms’ internationalisation process as a part of the life cycle of the product, we can understand the three stages as introduction stage, growth stage, and maturity stage. Finally, there will be decline stage.

In the introduction stage the firm design and develop an innovation for the product, test the product for the first time, improve on it and test it again
before it is launched or introduced in the domestic country. (Cuervo-Cazurra & Ramos, 2002)

In this phase, the products tend to be developed in countries which are industrialized and advanced. More professional talents are necessary for research and development. Because of the unique of products and few competitors in domestic market, generally, a high price of the product is commanded. (Adler & Ghadar, 1989)

In the **growth stage**, all firms are expanding their markets and going to international market. They tend to have a cooperation to face more and more competitors.

Research and development should not be the focus in this phase, the firm undertakes massive export and at a point in time the firm develops production facilities as demand continues to go up in other countries. (Cuervo-Cazurra & Ramos, 2002) The activity of firm should focus on market penetration and control to sell the product so that firm can get a best position in the market. (Adler & Ghadar, 1989)

During the **maturity stage**, the market is saturated as it has reached it optimum and the product too is standardised. Those products that survived the earlier stages tend to spend longest in this phase. Sales grow at a decreasing rate and then stabilise. Producers attempt to differentiate product through branding and price wars and intense competition occur. ([http://www.marketingteacher.com/Lessons/lesson_plc.htm](http://www.marketingteacher.com/Lessons/lesson_plc.htm))

Given these conditions, the firm normally moves production to countries with low- cost labour in order to produce at the least possible cost. (Cuervo-Cazurra & Ramos, 2002). In this phase, “home country production ceases to be competitive.” (Adler & Ghadar, 1989)

Finally in the **decline stage** the firm closes down production in the home country. This occurs as demand for the product reduces drastically and the firm then imports from the less developed economies the now-standardised product. (Cuervo-Cazurra & Ramos, 2002)

The author of the original paper introducing the life cycle theory later improved the theory based on developments in international business such as the shortening of life cycles or the existence of multinational enterprises that move innovation across markets, and this brings a limit to the scope of it applicability. (Vernon, 1979 in in Cuervo-Cazurra & Ramos, 2002)
Introduction (Product orientation) \[\rightarrow\] Domestic selling with little export

Growth (Market orientation) \[\rightarrow\] Exports and production facilities

Maturity (Price orientation) \[\rightarrow\] Production in counties with cheap labour

Decline \[\rightarrow\] Close down domestic production

**Figure 3-5: The link between product life cycle and the internationalisation process**
(Source: own design, based on Vernon, 1966, Ghadar & Adler, 1989)

In reality very few products follow such a long descriptive cycle. It is actually not easy to tell which stage the product has reached at a particular point in time. However, the PLC model offers a very good description of the internationalisation process of a firm. (Vernon, 1966 in Cuervo-Cazurra & Ramos, 2002)

### 3.5 Resource-Based Model

#### 3.5.1 Connection with Uppsala model

The resource-based model is one of the models chosen to complement the Uppsala model and the product life cycle to offer a complementary explanation of the internationalisation process of a firm.

The connection between the Uppsala model and the resource base model lies on the fact that experiential knowledge is treated as a resource that constraint the firm’s international expansion. By treating experiential knowledge as part of a firm’s capabilities the Resource-based compliments the Uppsala model
and goes beyond to include other factors such as market size, global industry characteristics and the importance of a first mover advantage in new foreign market, can lead to greater market commitments offsetting the psychic distance. (Rutihinda, 1996).

A closer look at the Uppsala model reveals that it is also implies a resource-base teleological perspective on internationalisation process. The model states that the firm, under risk constraints, strives to “increase its long term profit, which is adjudged equivalent to growth”. (Johanson & Vahlne, 1977)

Another important connection between the Uppsala model and the resource-based model is contained in the following statement:

Firms with low resource availability but high motivation to internationalise recognise the hidden advantages of multi-nationalisation, but are not capable in terms of structure and resources to complete the shift. (Tallman & Fladmoe-Lindquist, 1994).

Tallman & Fladmoe-Lindquist (1994) argue that an example of this can be found in the Uppsala model of internationalisation. Since large-scale multi-nationalisation was not possible for the firms studied by Johanson & Vahlne (1977), they were bound to gradual, step-by-step internationalisation. Their capacity for learning, however, made it possible for them to reach a multinational state through an incremental process”. (Ahokangas, 1998)

It must be noted that the resource base model is also related to product life cycle in the sense that the two models are process models and they all pursue growth as the ultimate goal. While the product life cycle uses “change” as a tool for growth, the resource base view uses “organisational resources” as a tool for growth.

### 3.5.2 Resource-Based Theory

A resource-based perspective on foreign market operations is recently emerging based on existing models. The aim is to develop dynamic capabilities of the firm irrespective of whether the firm is domestic, international, or multinational. The resource-based view of strategic management concentrates on sustainable and unique attributes of the firm as the sources of economic rents, i.e., as the fundamental drivers of the performance and sustainable competitive advantage required for foreign expansion. A firm’s ability to maintain profitable market positions depends on its ability to gain and defend advantageous resources important to the firm (Conner, 1991).
Resource-based theory provides a basis for understanding how firms develop sustainable competitive advantages. (Fahy & Smithee, 1999). The author emphasised that Resource-based theory is a strategic choice, charging the firm’s management with an important task of identifying, developing and deploying key resources to maximise returns.

According to Connor (2002), the resource-based model is an essentially an inside-out approach to developing successful strategy.

The Resource-based View suggests that firms develop sustainable advantages when they create unique set of resources and organisational capabilities that are valuable, rare, imperfectly imitable, and non-substitutable.

For example a competitive advantage based on low cost that is achieved through large-scale manufacturing and scale effect is largely temporal. Overtime rivals can adjust manufacturing assets in order to achieve similar scale effects in the form of low cost advantage. (Furrer, Krug, Sudharshan & Thomas, 2004).

The authors argued that an advanced technological process that increases the reliability and lowers cost of production is far more difficult to copy.

A competitive advantage that is formed in technological know-how is likely to be preserved from duplication than technological know-how formed in fixed assets. This means that there are two kinds of firm’s asset or resources, intangible asset and tangible assets. Intangible assets are more important than tangible assets in terms of protecting a firm’s competitive advantage.

Intangible assets are resources that are non-physical. They include the intellectual property rights of patents, trademarks, copyright, registered designs, contracts and licensing, trade secrets, public knowledge such as published scientific works, personnel and organisational net work, organisational culture and the reputation of the firm and its products. (Furrer, Krug, Sudharshan & Thomas, 2004).

While resource-based view has developed a viable approach for strategy, few researchers develop a resource-based model to explain internationalization process. (Rutihinda, 1996). Following we will the model developed by Cuervo-Cazurra & Ramos (2002), who made a resource-based analysis to explain a global firm’s internationalization process.
1. Identify and classify the firm’s resource and capabilities. Appraise strengths and weaknesses relative to competitors. Identify opportunities for better utilization of resources.

2. Identify the firm’s capabilities: what can the firm do more effectively than its rivals? Identify the resources inputs to each capability, and the complexity of each capability.

3. Appraise the rent-generating potential of resources and capabilities in terms of:
   1) their potential for sustainable competitive advantages and
   2) the appropriability of their returns.

4. Select a strategy which best exploits the firm’s resources and capabilities relative to external opportunities.

5. Identify resource gaps which need to be filled.
   Invest in replenishing, augmenting and upgrading the firm’s resource base.

Figure 3-6: A resource-based approach to strategy analysis: A practical framework. (Source: Grant, 2001)
3.5.3 Resource-Based Model

Resource-based models recognise the merits of intangible knowledge-based resources in providing competitive advantage. They address ownership of resources, and the dynamic ability for organisational learning required to develop new resources. Nielsen (1994) argued that the true potential of the resource perspective lies in the new understanding it provides of the growth strategies of firms. Unfortunately, we find that most research on resource-based studies focuses on MNCs.

The application of the resource-based model to the internationalisation of the firm causes readers to develop new knowledge into the internationalisation process of a firm.

The authors of the resource base theory argue that firms consist of resources that managers and employees apply in the activities of the firm (Penrose, 1959). Resources are defined in this context as tangible and intangible firm assets tied semi-permanently to the firm (Wernerfelt, 1984).

The expansion of the firm is pursued in order to create value through the development, use, and transfer of resources across countries. (Kogut & Zander, 1993).

“Within the resource base theory, the internationalisation process of the firm is a teleological process of organisational change. The teleological transformation of the firm is based on the assumption that the “developing entity is purposeful and adaptive. It socially constructs an envisioned end state and selects from alternatives a course of action to reach it”. (Van de Ven, 1992)

The above statement means that a firm intension to expand into other countries is motivated by a final objective, the creation of value. It is therefore up to the firm managers to evaluate the motivation, methods and modes in terms of their ability to achieve the objective of value creation.

The internationalisation process requires a sequence of decisions about motivations, country selection, methods and modes.

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1 All the references in this section (3.5.3) are from the article: Cuervo-Cazurra, A & Ramos, M (2002) A Resource-Based Teleological Analysis of the Internationalisation Process.
Sequence one: Motivation

The first step in the internationalisation process of the firm is that the firm should be motivated to use, develop and protect its resources in a foreign country. It is this motivation that forces the firm to expand across its national borders. There are three possibilities under motivation that eventually create value to the firm.

1) The creation of value through the use of resources.
A firm internationalises to create additional value by using resources. To explain this, a company develops resources in one country and expands to other country in the case of internationalisation to obtain higher returns on the resources already developed.

To be able to transfer resources from one country to another, the resources should possess three characteristics.

First the resources should be abundant. That is they must be available in excess so that it is always possible to use them in the expansion (Chatterjee & Wernerfelt, 1991, Penrose, 1959). Or the resources must not be consumed by use as in the case of knowledge (Kogut & Zander, 1993).

Secondly, the resources are such that it is possible to transfer them from one country to another (Kogut & Zander, 1993) either directly or indirectly. Examples are licensing, investment, products and services.

Third, the resources, or the use in the production of goods and services must be valued in the external market.

When a firm has a resource that possesses the above characteristics the firm has an advantage and this advantage is a motivation that gives the firm a starting point in the internationalisation process. It must be noted that using resources as it is explained above is not the only motivation for internationalisation.

2) Creation of value by developing resources

A second motivation for firms to internationalise is the wish to create value by developing resources. To explain this, a firm operates in one country and take a step to move to another country in order to get access to existing resources that is presumed to be in better condition than it is available at home.
The access to these location resources such as natural resources, efficiency, strategic asset or capabilities assist the business to develop its own resources and competitive advantage.

In some instances the resources that a firm needs may not be available in the home country but is only available in certain location and the company has to seek them out. For example natural resources are only available in certain parts of the world.

In most other cases a company may be motivated to internationalise in order to obtain developed rather than endowed location resources that are considered to be in better condition than it is available in the domestic country.

It is also possible for a company to go abroad to seek out finance, not only access to foreign capital market, but also the ability to reduce tax payments (Rugman & Eden, 1985). The firm benefits from the access to the location resources abroad if they are in better condition than that in other locations and at home.

3) Creation of value by protecting resources

A third motivation for firm’s internationalisation is to create value by protecting resources. To explain this company follows the internationalisation moves of competitors (Knickerbockers, 1973) or clients in order to avoid losing existing investments in resources in other locations. In cases where a company follows competitors to internationalise, the objective is to prevent competitors from obtaining higher returns on existing resources or access to important foreign location resources that can give them competitive edge.

In a case where a company follows clients to internationalize, the objective is to avoid losing the cooperation with its clients, and also getting advantage by expanding their operations across national borders.

**Sequence two: Selection of country**

The next decision after the motivation for internationalisation has been decided is the selection of the market into which to expand to create value.

Country selection is a function of the motivation for the internationalisation of the firm. This varies with the country, and on the attributes of the country in terms of the competitive environments, which determines the strength of the firm to achieve its final goal, value creation.
“For example a firm that wants to develop technological resources would select countries with a developed technological infrastructure” (Nelson, 1993)

**Sequence three: Method of internationalisation**

The third decision is the correct method of internationalisation. The correct method must enable value creation, trade or foreign direct investment.

The selection between the two methods of internationalisation, direct and indirect methods would depend on the ability of the firm to transfer resources across countries. Resource transfer can be directly within the firm using foreign direct investment (Kogut & Zander 1993) or indirectly using trade, through products that has the advantages given by the resources of the firm.

Another factor that can influence the method of internationalisation is the level of internationalisation of the firm in other markets with homogenous conditions (Barkema & Vermeulen, 1998)

**Sequence four: Mode of internationalization**

The forth decision in the sequence is the selection of appropriate modes of internationalization. The mode of internationalization includes: internal development, alliance to other firms or acquisition to enable value creation.

It must be noted that the sequence of decision in the internationalisation process is not static; they are reviewed as competitive conditions and institutional environments of foreign activities change.

Again changes in the resource set and the features over time can lead the firm to change its international operation (Birkinshaw & Hood, 1998; Chang, 1995). As the company develops resources, its comparative competitive advantage changes, which enables it to change its foreign activities.
3.6 Theoretical model

After presenting three models of Internationalization process, we will generate a new model combining main ideas of these three models (Figure 3-8). The key elements of our model that explain Internationalization process can be summarised as follows:
1) **Foreign market entry (How):** The firm can choose many ways to enter a new market. We conclude some elements including a sequence of export--cooperating with a distributor--establishing sales subsidiary directly, or other methods including acquisition, alliance, etc.

2) **Choice of market (Where):** Some firms will enter the market nearer to their home country, and then move further to a more distant market. This is the psychic distance that Johanson and Vahlne (1977) had mentioned in Uppsala model. There are some factors such as customer potential that can affect the decision of which market to enter.

3) **Sales offer (What):** The product and service that firms sell in foreign market is very important in internationalisation strategy. The product or service to offer to international market should first be well established on the domestic market and hold a high quality.

4) **Personnel (Who):** Expanding to foreign market relies decisively on personal factors related to the personal characteristics (Joseph Hassid, 2003). The firm needs a person who possesses the requisite manpower to spearhead the strategy and who really understands foreign market strategies that can bring increased market knowledge and experience to bear on the firm. Such personnel always have the criteria to recruit qualified person who can assist the process.

5) **Motivation (Why):** Most firms are motivated to go abroad in order to achieve growth and crate value by using, developing and protecting their resources.

We will try to use this model to explain current firms’ internationalization process. We will also find that whether we can improve our model after we analyze our empirical studies.
Figure 3-8: Theoretical model (Source: Own design, inspired from model developed by Welch & Luostarinen, 1988)
4. Empirical Studies

In this chapter we will present two Swedish firm’s Internationalisation process. We get our empirical data from two personal interviews. In each firm’s section, we will describe the firm’s background, Internationalisation process and other strategies. Finally we will make a comparison between two firms.

4.1 Vaderstad AB

4.1.1 Introduction

Vaderstad Verken is a family owned and managed machinery manufacturer in Sweden. It started in 1962 by Rune and Siw Stark to produce equipment for local farmers. Since the humble beginnings the firm has grown to occupy a 26,000 square Meter state-of-the-art factory employing nearly 450 dedicated and highly skilled employees. After 40 years of operations, Vaderstad is no longer a local mechanical workshop but is by worth one of Europe’s largest manufacturers of seed drills and a significant manufacturer of other machinery. According to David Oscarsson, Sales Area Manager of Vaderstad, in 2004 the firm’s total turnover is close to 800 million of Swedish Kr and around 100 million of them are obtained in Sweden.

The firm has sights set firmly on being one of the true market leaders in soil cultivation and seed drilling. Now Vaderstad has 8 subsidiaries in Europe. They are locating in England, Germany, Poland, Hungary, France, Latvia, Lithuania and Estonia. Besides, the firm does not stop its Internationalisation process; it had already extended to Czechs, Bulgaria, Russia and Ukraine. Vaderstad has one owned factory located in Väderstad, two and half hours driving distance from south of Stockholm.

4.1.2 Product

Vaderstad’s products range from seed drills for agricultural and amenity use to a complete serial of seedbed preparation machinery. The product is one of the competitive advantages of the firm. According to David Oscarsson, its product can integrate many operations into one part. The advantages of this kind of products include:

1) Capacity. The farmer can do a lot of things in few hours.

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3 The introduction of three products in this section is edited from Brochure: Vaderstad AB: 1962-2002
2) Flexibility. It can help farmers do different things at the same time, especially do simple with cultivator.
3) Good quality in drilling work and machine.

These advantages of machines of Vaderstad can help farmers lower the cost of the labour, and according to the area sales manager of the company the attributes of the products are difficult to copy by the competitors because it involves many complicated designs and tests. We will introduce 3 types of its product—Carrier, Rapid A and TopDown.

**Carrier**

Farmers can use Carrier in several operations. It can be used to stubble cultivate, level unevenly spread straw, level plough furrows, cultivate, prepare the seedbed and firm the soil before drilling. With the new BioDrill Carrier has now actually become a seed drill even for small seeded crops such as grass, clover and rape seed. Operating Carrier can not only solve the flexibility problem but also reduce the cost of labour and machine. Many customers believe that they have got many machines in one. From a user of Carrier, “we can use our Carrier as a stubble tillage tool, as a cultivator in seedbed preparation and as a roller for refirming the soil”.

**Rapid A**

Vaderstad’s product Rapid drill has won several awards and almost 10,000 customers are using this machine with high engineering quality. The objective with the Rapid drill is to build versatile and precise drilling tools that have an unsurpassed level of performance in all working conditions, such as direct drilling, working in trash or on light and heavy ploughed land.

Farmers can operate Rapid A to have a soil preparation and drilling. They also can equip Carrier with Rapid system.

**TopDown**

TopDown is a flexible and versatile machine which can not only shallow tillage but also deeper tillage when the need arises. This feature of the TopDown distinguishes TopDown from other soil tillage machines. TopDown can help farmers reduce production cost and the working hours in the filed.

**4.1.3 Reasons of Internationalisation**

Internationalisation now has been an important subject to every company in this global time. When we ask David Oscarsson why Vaderstad need to
explore International market, he answered that “We want to grow”. The growing performance in one foreign market encourages the firm to explore another. In Sweden, the firm has a strong foundation to support foreign operations.

4.1.4 Internationalisation process

4.1.4.1 Export directly

The first region Vaderstad chose to export is Nordic area. The time that Vaderstad exported to Nordic countries can be traced back to 1960s. At that time the farmers in those countries started to know the product and technology of Vaderstad. Since the end of 1960s, “Felleskjopet” of Norway had been the importer of Vaderstad machine. In the early of 1990s, Vaderstad exported machines to Denmark firm “Kverneland DK”. In the beginning of the 21st Century, Vaderstad machines play an important role in Danish market. The firm also delivers its machines to Finland through export to “Hankkija”, a Finnish company which had broad sales network in Finland.

When there is no resource (export agent) of Vaderstad in a particular country, the firm generally exports to end user directly according to the area sales manager but this will only be done in special cases because it is not easy to provide after sales service directly to the end consumer when the machine has technical or other problems. In explaining the point further David Oscarsson said if a customer calls from say, Ghana the firm will sell the product to the customer and find time to visit Ghana to provide training to the customer. The firm always wants the customers to operate the machine successfully. David Oscarsson said that the attention we have for our customers had contributed to our good reputation in the market. Compared with our competitors, Vaderstad pays more attention to the customer needs and interest. “The farmer’s business is ours”, said by David Oscarsson.

4.1.4.2 Distributor

Vaderstad is always not willing to export to end users directly. The company finds distributors to sell its products when it enters a foreign market. Distributor is responsible to demonstrate the product to the customer and provide the service to the customers. In most countries of Europe, lots of distributors helped Vaderstad to sell its machines in the local market. Apart from European countries, Vaderstad also cooperated with the local distributors even in the distant countries, such as Saudi Arabia and New Zealand.
The principle of selecting the distributor according to David Oscarsson is that --- “the distributors must think what we think”. For example, if this distributor doesn’t pay much attention to the post-sale service, Vaderstad will not cooperate with him. The distributors play an important role in the countries where there is no subsidiary of Vaderstad, such as Czechs, Russia etc. They are responsible to sell product to customers and provide post-service to the customers. At the beginning the sales area manager will help the distributors in every thing possible to sell the product.

4.1.4.3 Subsidiary

After the distributors had helped Vaderstad to explore the market, the firm will like to get more close to the customers and control resources in the foreign markets. In 1993, Vaderstad established its first foreign subsidiary in England.

According to export director Einar Gudmundsson “Vaderstad’s development potential in England was not being promoted by the importer. The new seed drills Rapid and Concorde and the Vaderstad soil tillage concept required a new and different expertise in England”. (Brochure Vaderstad AB: 1962-2002) The subsidiary in England sells machines to British Isles and Ireland. In Ireland the firm almost gets 100% biggest market share of seed drills.

Encouraged by the excellent record obtained in England, Vaderstad continues its international activities for growth. Finding the huge market potential in France, Vaderstad established its second subsidiary there in 1994.

Two years later, Vaderstad opened the third subsidiary in Poland to develop business in this large agricultural country.

In 1997, Vaderstad established subsidiary in Hungary and in 1999 Vaderstad established subsidiary in Germany to strengthen its leading position in the country. Since 1980s, Vaderstad sells machines to Germany which has large farms and farm estates.

In 2002, the firm turned to Baltic region to compete for the market share. It opened 3 subsidiaries in Lithuania, Latvia and Estonia. Vaderstad will later continue to expand its business to the East, such as Russia and Ukraine.

The successful establishments of the subsidiaries in different countries led to the growth in the market. Subsidiaries help Vaderstad get big market share and maintain good relationships with the local customers.
4.1.4.4 Factory

Vaderstad had one factory located in Väderstad in Sweden. The production facilities total 25,000 square metres and the manufacture is performed in two-shifts, by 220 production employees, forming the majority of the company’s total staff of 400 people. Every year some 4,000 machines are delivered from Väderstad to farmers all over the world. ([http://www.vaderstad.se](http://www.vaderstad.se))

4.1.5 Operation mode

In every market, distributors are responsible for finding potential customers. In the case of Vaderstad distributors are responsible for selling machines and providing after-sales service to farmers. During the whole selling process, Vaderstad is willing to support the distributors at any time. The machines are delivered to farmers directly from Sweden.

Distributors pay the price of the machines to the subsidiary after they sell to the farmers. In some new markets, for example Russia, distributors will pay in advance before machines reach the farmers.
4.1.6 Knowledge in the Internationalisation process

Internationalisation process can also be seen as a gradual learning process. According to David Oscarsson, the firm does not have any market knowledge when it starts to enter a foreign country. However the firm realizes that it is very important to understand the foreign market such as customer behaviour, local culture etc. Therefore the firm will take more action to search foreign market knowledge in foreign country.

According to David Oscarsson, if the firm decides to enter Ukraine for instance, management team will look for an assistant from Ukraine but lived in Sweden. He should be familiar with the culture, language and society in Ukraine etc. This person will be sent to Ukraine to act as a distributor as well as to provide local market knowledge to the Vaderstad employee who will be posted there. The company will also acquire the specific market knowledge through hiring local employee with rich knowledge and experience.

According to David Oscarsson, when the firm entered Bulgaria it recruited local person who knows much about local market. Vaderstad has a strict principle to recruit the people “We will wait if there are not suitable people for the position” said by David Oscarsson. Other sources of obtaining market knowledge include internet, television and telephone.
4.1.7 Driving forces

Vaderstad is a fast developing company where innovation and excellent customer relations are high priorities.

**Innovation**

There are other critical issues that can influence the internationalisation process of Vaderstad. From the sales estimate one can see that Vaderstad obtains an excellent market result in Sweden. One important reason for this is that the firm keeps developing fast innovation for the product. Innovation helps the firm design advanced products to compete in the market. The high quality product makes Vaderstad to be the first choice of the farmers. According to David Oscarsson, “*We aim to produce smart machines to make farming easier*”.

The firm always supports designers to generate good ideas, and then develop the machinery with these new ideas. When the new machine is produced, the test department will test it functions. If it can not reach the requirement, the designers will work on it again and then test again until it can be put into practice. We can see that the focus on the innovation of the product helps the Vaderstad obtain sustainable competitive advantage to compete with the rivals favourably on the market.

![Figure 4-3: Illustration of Innovation of Vaderstad](Source: Own design, based on direct interview)

**Customer first**

Another important strategy of Vaderstad is to keep good relations with the customers. It has a strong characteristic that brings a customer close. The firm keeps designing smart machine to make farmers more convenient.

Beside, the firm requires the distributors to provide good service work to the customers. The firm also visits the customer to get the feedback. The firm wishes to be more close to the customer to understand them more and more. On this basis, the firm can improve its product and post-sales service. As the mission statement says, “To be a manufacturer of seeding and tillage equipment which gives added value to farmers and growers”.

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According to David Oscarsson, “You should know what your customers need; try to be close to the customers and market, work hard then you will have a success.” David Oscarsson mentioned a concept named “customer pull”. He explained this concept with an example. A farmer who is using vaderstad machines can discuss the quality of the machine with a fellow farmer who may also expressed interest in the machine. The farmer will therefore contact the distributor or the subsidiary to understand more about the machine. Therefore, if the firm keeps strong relationships with customers it is possible for them to reach more potential customers through what David Oscarsson describes as “customer pull”.

4.2 ContextVision AB

4.2.1 Introduction

ContextVision was established in 1983 by a specialist research team at the University of Linköping in Sweden. Linöping University was a center for digital image analysis with a history of spearheading research in this area since the 1970s. In 1997, ContextVision was listed in Oslo Stock Exchange in Norway.(www.contextvision.com). From 2001 to 2003, average turnover of ContextVision is near 29 million Kr.

Nowadays, ContextVision’s headquarter is in Stockholm and its R&D center is in Linköping, Sweden. The firm in Sweden will also responsible for the business of Europe. The firm now has local representation in Asia (China, Japan and Korea) and North America (Canada and US).

ContextVision’s business objective is to deliver added value to the medical community by enhancing the image quality and/or performing image analysis. The firm strives towards this objective through the combination of cutting edge image processing technology and extensive application knowledge.
4.2.2 Product\textsuperscript{4}

According to the answer of Isabelle Wegmann written in interview guide, ContextVision provides Image Enhancement Software for Medical Images from different modalities such as digital X-ray, mammography, Magnetic Resource Imaging (MRI) and Ultrasound.

ContextVision uses GOP as its unique technology which is at the root of every product.

\textbf{GOPView MR}

GOPView MR is a comprehensive library that is easily embedded into any OEM software to allow efficient image enhancement of MR images. Using the same FDA-cleared processing technology as our SharpView\textsuperscript{®} offering, GOPView MR significantly reduces noise while simultaneously enhancing the fine structure and edges. GOPView MR increases contrast and reduces artefacts and can help reduce scan time.

Today, this product is the dominant market leader all around the world, especially in Chinese market.

\textbf{GOPView XR}

This easily integrated library extends the capabilities of image enhancement of X-ray data, for Direct Radiography (DR), Computed Radiography (CR), and Film Digitizers (FD). Using the same FDA-cleared processing

\textsuperscript{4} Section 4.2.2 is edited from www.contextvision.se
technology as our SharpView® offering, GOPView XR is detector and generator independent and has an unprecedented success in reducing noise while achieving fine structure and edge enhancement and is valuable in general radiography as well as Mammography. Embedding GOPView XR allows Latitude compression, for viewing dark and bright areas simultaneously. Contrast enhancement, edge and line enhancement as well as exceptional noise reduction.

Today ContextVision has customers of this product all over three markets (Asia, US and Europe).

**GOPView US**

A readily-integrated library of image enhancement techniques, GOPView US is unparalleled in the way it enhances, in real-time, both the aesthetic and clinical value of Ultrasound images. It reduces speckle and noise while also achieving fine structural and edge enhancement. Using the same FDA-cleared processing technology as our SharpView® offering, GOPView US features Frame-rate adaptive enhancement, speckle reduction, contrast and edge enhancement. The Ultrasound loops are filtered on the fly, interpreted, and displayed all in real-time representing a new generation of Ultrasound.

Today, GOPView Ultrasound is a new revolutionary real time image enhancement and it will be sold to all over the three markets (Asia, US and Europe).

![Pie Chart]

**Figure 4-5: Sales distribution of 3 products (Source: Annual Report 2003)**

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4.2.3 Reasons of Internationalisation

According to Klas Themner, there is no big customer potential in Sweden. Many potential customers are outside Sweden; therefore the firm decides to go to international market to meet the increasing demand of the customers.

4.2.4 Internationalisation process

ContextVision nowadays commits more resources in Asia, North America and Europe. According to Klas Themner, “we look for what kind of customers”, ContextVision selects market depending on where the potential customers locate.

We will take a look at the operations of ContextVision in foreign countries.

1) Stockholm and Linköping, Sweden
Headquarter of ContextVision is in capital of Sweden. There is a R&D office located in Linköping, the fifth largest city in Sweden. Linköping has good research environment and it is the high technology centre of the Sweden, many MNCs setup their R&D department there.

2) Toronto, Canada
The subsidiary in Toronto will responsible for the US and Canada market. For ContextVision, US is the most attractive market. According to Isabelle Wegmann’s answer written in interview guide, *US market is approximately half of the world market and there is a potential for an improved performance in that region.*

In Canada, according to Klas Themner, the firm establishes a strategic alliance with a Canadian company. Sometimes the products of both companies can be integrated to sell to the end customers. Therefore both companies decide to cooperate to explore the Canada market. According to Klas Themner, ContextVision has interest in strategic alliance with other firms in the future.

3) Beijing, China
ContextVision started to sell products in Chinese market in 1999. The Chinese sales manager employed by ContextVision will be responsible for signing deal with new customers and maintaining old customers in Great China Region.

4) Tokyo, Japan
There is no office in Japan. A Japanese distributor helps ContextVision to sell its products. Actually the firm did not look for the distributor until one Japanese distributor contacted the firm.

Just like Chinese market, ContextVision just entered Japan and did not know Japanese market very well, According to Isabelle Wegmann, Japanese market is a conservative and strong cultural market. Japanese companies usually take long time to have a decision. Due to the uncertainty in Japanese market, ContextVision decided to cooperate with a distributor for some time before they can make a decision to commit themselves to a higher degree.

5) Seoul, Korea
The person who works for ContextVision is employed by Swedish Trade Council, Korea branch. She helps ContextVision find market opportunity and compete for the market share.

### 4.2.5 Operation mode

Except Japanese market, ContextVision adopts direct sales strategy to explore the markets. The end customers are all OEMs. Those OEMs are not only the customers but also the competitors of ContextVision. It is always possible for ContextVision to contact all the customers (OEMs) because they are few worldwide. ContextVision sells products to OEMs directly but has no influence as to which hospitals should OEMs sell to. Although ContextVision uses direct sales strategy it will still welcome to other distributors and alliances.

According to Klas Themner, ContextVision does not have service team in the local market because the nature of the product is such that it will hardly pose technical problems. This means that the local sales manager has virtually nothing to worry about. If there is any problem, the support team will travel to help the customers to resolve the problem any time the need arise.

### 4.2.6 Knowledge in the Internationalisation Process

ContextVision can enter a foreign market with just little market knowledge. According to Isabelle Wegmann, we normally face problems such as local cultural differences and language. To handle these problems, ContextVision has decided to acquire local sales managers in order to avoid cultural and language differences. This strategy can help our firm to know much about the local market. ContextVision also adopt a strategy to transfer knowledge to the
local managers. For example, a local sales manager can be given the opportunity to come to Sweden to receive the product training.

Another method helping ContextVision acquire local knowledge and experience is to learn from strategic alliance or consulting firm. In Canada, ContextVision has a strategic alliance with a local company. In Korea, Swedish Trade Council (STC) also provides consultancy services to the firms. At the moment STC’s consultant is working with ContextVision to sell its products.

### 4.2.7 Driving forces

**Develop leading product with advanced technology**

According to Issabelle, ContextVision’s advanced patented technology is the strong competitive factors. This unique technology named GOP which is used daily in thousands of diagnostic devices. GOP methodology is at the root of every ContextVision product. The cutting-edge technology has allowed ContextVision to steadily develop increasingly effective image processing solutions over the last two decades. (Annual Report 2003).

According to Klas Themner, ContextVision have never stopped developing new product to meet the customers demand. The firm researched GOPView MR in 1987, GOPViewXR in 2002 and the latest product GOPViewUS which was used for Ultrasound equipment in 2004. Klas Themner says that the firm will continue to invest in research and development the new product if many customers required.

**Customer-orientation**

Another internationalisation strategy of ContextVision is the customer-orientation. As CEO says in Annual report 2003, R&D will increasingly become more customer-driven.

When the firm finds that there is a growth opportunity of some product and customer potential in Ultrasound market, it starts to research and develop GOPViewUS to meet the demand of customers.
Finally, we will compare two firms we had interviewed to give readers an overview of our empirical studies.

<table>
<thead>
<tr>
<th></th>
<th>Vaderstad</th>
<th>ContextVision</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry</strong></td>
<td>Manufacturing industry</td>
<td>IT industry</td>
</tr>
<tr>
<td><strong>Product</strong></td>
<td>Farm machines</td>
<td>Image Enhancement Software for medical images</td>
</tr>
<tr>
<td><strong>Size of firm</strong></td>
<td>Nearly 450 persons</td>
<td>Nearly 30 persons</td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td>Around 800 million Kr</td>
<td>27 million Kr in 2003</td>
</tr>
<tr>
<td><strong>Foreign operations</strong></td>
<td>HQ in Sweden, one factory in Sweden, 8 subsidiaries and lots of distributors in Europe</td>
<td>HQ in Sweden, 2 subsidiaries in Canada and China. One distributor in Japan and One partner in Korea</td>
</tr>
<tr>
<td><strong>Operation model</strong></td>
<td>Selling through distributors in most markets combining with direct sales</td>
<td>Direct sales combining with distributor and consulting firm</td>
</tr>
<tr>
<td><strong>Establishment chain</strong></td>
<td>Export—distributor---- subsidiary</td>
<td>Establish subsidiary directly.</td>
</tr>
<tr>
<td><strong>Psychic distance</strong></td>
<td>Move from close distance to far</td>
<td>Country selection based on customer potential</td>
</tr>
<tr>
<td><strong>Knowledge</strong></td>
<td>Obtain knowledge through learning from distributors and hiring local talents</td>
<td>Mostly obtain knowledge through hiring local talents</td>
</tr>
</tbody>
</table>
| **Strategy**         | 1) Innovation on product  
                        | 2) Know customer need and help the customer to solve technical problem. | 1) Advanced technology and innovation on new product  
                        | 2) Customer orientation |

Table 4-1: Comparison of two case firms’ internationalization process  
(Source: Own design, based on empirical studies)
5. Analysis

In this chapter, we will use our theoretical models we have developed in chapter three to explain the empirical studies we have collected.

5.1 Market entry mode (How)

Vaderstad is one of the leading suppliers in drilling and soil preparation in the world. It has high reputation in international market. At present it has established 8 subsidiaries in Europe and a number of distributors selling its machines around the world.

5.1.1 Vaderstad AB

Vaderstad first developed its home market before its internationalisation process. A strong domestic market is required to support firms in their Internationalisation efforts. (Chetty & Campbell-Hunt, 2002). In Sweden, Vaderstad has a factory in Väderstad. It is responsible to produce machines with high quality and technology. The innovation of the product can be seen as one of its strategies to keep competitive advantages in the market. With the excellent achievement obtained in the domestic market, Vaderstad has more ability to extend its products in the international market.

According to our theoretical model (foreign market entry dimension), firms will experience four stages in the internationalisation process During the four stages, they can learn more about a market and commit more resource to the market. The four stages are the following: export, local agent (distributor), sales subsidiary and overseas manufacturing unit. From the empirical studies, we will find out whether Vaderstad follow this establishment chain during its internationalisation process.

From the empirical studies, we will be able to know that Vaderstad started to export to companies since 1960s. The first region it selected was Nordic area such as Denmark, Norway. Vaderstad was not willing to export directly to the end users because it is not easy to provide post-sale service when the machine has technical or other problems. The firm preferred to cooperate with the distributors when it first enters a foreign market. To get close to the customers, Vaderstad required the distributors to present product to the customers and at the same time provide detailed training and after-sales service. In those areas such as Czech, Bulgaria, where Vaderstad has no subsidiary many distributors had been contracted to sell Vaderstad’s product in the local market. Another
importance of local distributors is that they have greater knowledge about what the customers need and the whole business climate. Vaderstad always exchanges ideas with them to understand customer need.

After getting excellent business record in the international market, Vaderstad decided to move into the third stage. In this stage, the firms had already obtained more resources, information and knowledge of the society (Johanson & Wiedersheim-Paul, 1975). We can understand that Vaderstad would like to control and coordinate those resources which had already been obtained. Through sales subsidiary, Vaderstad could also get more close to the customers, and have more access to interview farmers directly and get feedback about the product, which can help the firm design more products based on customer requirements.

In some specific market, the firm has the possibility to establish the sales subsidiary directly. According to David Oscarsson, Vaderstad did not have any distributors when it established the subsidiary in Hungary.

From Nordström & Vahlne (1993), some firms have an increased tendency toward skipping the lower commitment mode. We think it depends on the firm’s experience and market condition. In Hungary, it is hard to find any distributors but the firm is not willing to miss the attractive market opportunities and therefore establishes the subsidiary directly.

From the analysis, Vaderstad has mostly followed the description of one dimension of our theoretical model (foreign market entry dimension). It had gone through a number of steps in its Internationalisation behaviour. It started its international involvement from domestic market to export and later establishment of subsidiary in the market which had been explored by distributors.

5.1.2 ContextVision AB

ContextVision does not follow a sequence of stages when it enters a foreign market. In our empirical investigation, ContextVision adapts a flexible entry strategy to enter a new foreign market. From empirical studies, ContextVision uses different entry modes depending on the type of market.

ContextVision established sales subsidiary in Canada and China. In Canada, the firm also establishes a strategic alliance with a local company. The alliance can help ContextVision know more about the market and meet the customers. In China, ContextVision has only subsidiary but has no distributors. The number of OEMs (customers) that ContextVision need to
contact is so few that it makes it economically wise for the firm to establish sales subsidiary directly. According to Klas Themner, the subsidiary has ability to cover all customers.

ContextVision entered Japanese market by cooperating with a local distributor. The reason is that the firm does not know much about this market. The same reason drives the firm to seek assistant from Swedish Trade Council in Korea, whose consultancy services help ContextVision identify OEMs who need their product.

In Korea market, ContextVision did not find a proper distributor so ContextVision is cooperating with the Swedish consulting firm in the region.

5.2 Choice of the market (Where)

5.2.1 Vaderstad AB

Psychic distance is the first pattern we mentioned in our theoretical model. Psychic distance means the factors that can prevent the flow of information from and to the market such as differences in language, culture, political system etc. (Johanson & Vahlne, 1977). Generally firms always enter the market that is close to its home market and later it will move toward markets that have psychic distance. (Johanson & Wiedersheim-Paul, 1975). Today the world is homogeneous and for this reason the explanation value of psychic distance tends to decrease. (Johanson & Vahlne, 1990)

In this section we will analyze to see whether Vaderstad’s internationalisation process had followed this pattern. According to David Oscarsson, Vaderstad started to export machines to Nordic countries like Norway, Denmark and Finland which similar in society, culture and business environment with Sweden. According to David Oscarsson, the reason we chose Nordic countries first is because “we understand there most”. However, the firm did not open subsidiary in those countries partly because the area is so close to Sweden and the firm has the ability to cover the market. According to Johanson & Wiedersheim-Paul (1975), it is possible for the firm to enter markets with a low degree of commitment. This will depend on the market structure and other factors.

Vaderstad setup the first foreign subsidiary in UK in 1993. According to Nordström (1991), UK is the most close psychic distance country with Sweden apart from Nordic countries. After the first move, the firm continued its expansion in France in 1994 According to David Oscarsson, the firm will move to the country “where we have the best hope”. Maybe we can analyze the
firm’s move from the resource point of view. Both UK and France have optimal resource that can be used and they also have good market potential and economic condition.

In 1996, the firm entered Poland which is in the central part of Europe. With its existence in Poland, the firm could be able to explore the market of Estonia, Latvia and Lithuania therefore in 2002 the firm opened offices in these countries. We can see that these countries are also psychically close.

In 1997, Vaderstad established subsidiary in Hungary, from where it can start to develop Romania and Bulgaria. In 1999, Vaderstad setup subsidiary in Germany which is close to France. After the firm understood more about Germany it continued its expansion in Czech and Austria, which are psychically close to the market of Germany.

Until this point, we can get that psychic distance has been one aspect that influences the firm’s decisions of exploration in international market.

5.2.2 ContextVision AB

In resource-based model, country selection can vary according to the country, and on the characteristics of the country in terms of the institutional and competitive environments, which influence the ability of the firm to achieve its ultimate goal, value creation. (Cuervo-Cazurra & Ramos, 2002).

In our theoretical model (choice of market dimension) we conclude that country selection might depend on the customer potential, economic condition…etc. This is true in the case of ContextVision.

ContextVision’s decision on choice of the foreign market was not on the basis of psychic distance unlike Vaderstad where the choice is largely base on psychic distance. According to Klas Themner, “we select customers rather than select markets”. We can know that ContextVision is a more customer-oriented firm. The firm chooses the countries based on the potential and needs of the customers. There is no potential market in Sweden, therefore ContextVision decided to go to the market where their customers are located.

Although psychic distance is one of the factors that can influence expansion decisions, it does not affect ContextVision. ContextVision does not consider the factors such as culture, language etc so much. The primary determinant of the country selection is the potential customers. According to CEO Jan-Erik Hedborg (Annual Report 2003), ContextVision’s R&D will increasingly become more customer-driven.
5.3 Personnel (Who)

In personnel dimension of our theoretical model, authors conclude two important matters mentioned in the mechanism of internationalisation in Uppsala model: for the successful exploration in the international market, the firms need to provide foreign market knowledge training to the staff to increase their knowledge base, hire local talents to increase their experience base.

In order to operate competitively in International markets, market knowledge is a crucial competitive factor. (Angelika, 2003 in Blomstermo & Sharma, 2003) The amount of market knowledge corresponds to resource commitment. In other words, as market knowledge grows so does the amount of resources allocated to a foreign market. (Yli-Renko, et al, 2002 in Prashantham & Young, 2004).

Knowledge can also be divided into general knowledge and market-specific knowledge. According to Johanson & Vahlne (1977), market-specific knowledge is the knowledge about characteristics of specific national market. It can be gained through experience in the market.

Before Vaderstad entered a foreign market, it did not have much knowledge about the market. The firm always sends personnel to the foreign country to learn more about the market. Before Vaderstad entry to Ukraine market, the firm sent Ukraine national lived in Sweden to Ukraine to assist Vaderstad in local market knowledge.

Another activity Vaderstad had taken to acquire international knowledge and experience was to recruit local talents with rich knowledge and experiences to work in their sales subsidiaries and help to explore more markets. Through hiring local talents to work in the subsidiary, the firm can gain more market experience and lower the market uncertainty. For example, local experienced people will be good at contacting the government, market segment, establishing sales network, etc.

ContextVision conducted the same method when it entered new market. For instance it recruited Chinese person, who was good in communication and coordination skills, to manage the subsidiary in China.

According to the discussion above, we can say that the better the understanding of the foreign market the more it can help the firm get close to the customers and adapt to the foreign environment quickly. The two case study firms in this thesis follow the personnel dimension in our theoretical model. Both firms are willing to acquire and develop foreign market
knowledge by training staff and by hiring local market talents. Market knowledge can help firms to gain experience in its Internationalisation process. With the development of knowledge and experience the firm will be able to commit more resource in the market to obtain more profit for further expansion.

5.4 Motivation (Why)

From the theoretical model (motivation dimension) of this thesis, firms are motivated to seek international expansion in order to use, develop and protect their resources to create value. Other firms are also motivated because of the large market size abroad and possibility for growth.

In our empirical analysis we discovered that ContextVision entered international market because their customers (OEMs) are mostly located abroad. In particular they are located largely in North America and the Chinese market. Klas Themner quoted at the interview “We are motivated to go to where our customers (OEMs) are located and not a close cultural distance.”

Vaderstad on the other hand sought international expansion in order to increase their sales and achieve growth. The sales area manager, David Oscarsson said “We are exploring the international market because we have the resources and we must grow”

From the empirical evidence the motivational factors for international expansion varies from industry to industry.

5.5 An Integrated View

From our analysis of two Swedish firms--Vaderstad and ContextVision, we can observe that the two firms follow different strategy to explore foreign markets.

With regard to the reason of internationalization, ContextVision finds that there is virtually no customer in Sweden; therefore the firm decides to enter international market. Vaderstad on the other hand, has a strong business record in domestic market but their reason to explore international market according to David Oscarsson is to achieve growth. (Why)

With regard to the market selection dimension, Vaderstad explored the market which is more close to its home market. It indicates that psychic distance still plays am important role as a criterion for the choice of the market. However,
Contevision foreign market selection is basically on customer potential. (Where)

With regard to market entry dimension, Vaderstad mostly co-operate with distributors and then established a sales subsidiary in the foreign market. Only in Hungary, Vaderstad had to establish sales subsidiary directly. ContextVision on the other hand adopts different market entry strategy in different market depending on peculiar market characteristics. (How)

With regard to the personnel dimension, both Vaderstad and ContextVision choose to send knowledgeable people to foreign market and hires local experienced people. (Who)

Based on the empirical studies, the theoretical model does not contain other important strategy that the case studies have emphasized. For instance, Vaderstad emphasizes on innovation of the machines and customer service whiles ContextVision emphasizes on new product development and customer orientation. The authors in this thesis have described these strategies as driving forces. Base on the limitation of the theoretical model, we shall design a final model in the conclusion part of this thesis, which cover the driving forces in the internationalisation process of Vaderstad and ContextVision.
6. Conclusion

We will present our conclusion in this chapter. First, the questions raised in introduction chapter will be answered. Further, we will find out whether our final model can explain firms’ internationalization process today. Finally a suggestion for further research will be presented.

6.1 Conclusions

Final model

In our theoretical model (figure 3-8), we have illustrated five dimensions of firms’ internationalization process. They are foreign market entry (how), choice of market (where), sales offer (what), motivation (why) and personnel (who). It must be noted that our theoretical model may not cover some strategies that international firms always focus on. According to Namiki (1988), medium and small-scale firms depend mostly on four strategies centred on marketing, product focus, innovation, and customer service.

Our theoretical model (figure 3-8) combining with driving forces becomes our final model (Figure 6-1). Our final model presents six dimensions of internationalization process and we believe that many medium- and small-scale firms can use this model as an internationalisation strategy. Authors hope that the final model should be able to answer more internationalisation questions. It is our desire that this model become a common reference material for firm’s internationalisation process. The next paragraph explains how the model answer some critical internationalisation questions.

1) Foreign market entry (How): The firm can choose many ways to enter a new market. We conclude some elements including a sequence of export--cooperating with a distributor--establishing sales subsidiary directly, or other methods including acquisition, alliance, etc.

2) Choice of market (Where): Some firms will enter the market nearer to their home country, and then move further to a more distant market. This is the psychic distance that Johanson & Vahlne (1977) had mentioned in Uppsala model. There are some factors like market potential that can affect the decision of which market to enter.

3) Sales offer (What): The product and service that firms sell in foreign market is very important in internationalisation strategy. The product or
service to offer to international market should first be well established on the domestic market and hold a high quality.

4) Personnel (Who): Expanding to foreign market relies decisively on personal factors related to the personal characteristics (Hassid, 2003). The firm needs a person who possess the requisite manpower to spearhead the strategy and who really understands foreign market strategies that can bring increased market knowledge and experience to bear on the firm. Such personnel always have the criteria to recruit qualified person who can assist the process.

5) Motivation (Why): Most firms are motivated to go abroad in order to achieve growth and crate value by using, developing and protecting their resources. Some firms are also motivated to go abroad based on the small size of the domestic market as compared with international market.

6) Driving Forces: Marketing strategy includes elements such as competitive pricing, brand identification, control over distribution, advertising, innovation in marketing technique. Product focus and development includes elements such as manufacture of specialty products, broad range of products and new product development. The key component of innovation strategy is technological change. Customer service strategy means understanding the customer need, providing service on time and keeping good relationship with customers. (Namiki, 1988, Kalantaridis, 2004)

**Limitation of final model**

The final model consists of six dimensions which include some key elements emanated from the three internationalisation models and empirical evidence. Our model is limited to small and medium size firms whose internationalisation process is not complicated. Until our model is tested we cannot conclude that it is applicable to large firms.

Our level of experience in academic research is limited and for this reason our model could not contain all the dimensions of internationalization process such a economic condition, firm’s structure, etc.

We think that every firm can get some advice from our model but it should take into account any other dimensions according to its own condition. For example, according to Kalantaridis (2004), some large firms engaged in overseas production, sourcing and sales took more profound actions than their medium- and small-scale counterparts involved in single dimensions.
Figure 6-1 Final model (Own design, inspired from model developed by Welch & Luostarinen, 1988)

**Research Questions**

1. **Is it really true that new times demand new patterns of internationalisation process?**

The answer to this question is strictly the difference between the theoretical model (figure 3-8) and the final model (figure 6-1). The theoretical model explains existing internationalisation strategy and the final model explains internationalisation process today with ContextVision and Vaderstad as our
case studies. It can be seen from the final model that today’s internationalisation demands driving forces to support the process. The driving force according to the study includes innovation, customer service, product development and customer orientation. From the above explanation the answer to our first research question is simply YES!

A secondary answer to the question is that Vaderstad and ContextVision adapt different internationalization strategy to explore foreign market simply because they are in different industry. It follows therefore that when firms are in different industries the strategy may be different in accordance with the industry characteristics.

2. In today’s world, can one model such as Uppsala model or the resource-based model etc be able to offer a complete explanation of firms’ internationalization process?

Since we are in the changing world it is always difficult to think that an existing model is always correct at all times. The Uppsala model for example is a common model design to explain firm’s internationalization process. Unfortunately, it was developed three decades ago and had a lot of limitation today. Some of the limitations have been documented in the theoretical part of this thesis.

Our study has shown that the best way to describe a phenomenon is to integrate several thought into one idea to provide a more holistic view of a phenomenon. In this thesis we integrated three internationalisation process models into one model called theoretical model (figure 3-8) and we improved this model base on the case study to get final model (figure 6-1) which is the result of the thesis. From the above explanation, the answer to our second research question is simply NO!

3. Is it possible to develop a new model based on the previous research and empirical evidence to provide a holistic view of a firm internationalisation process?

The authors asked this question mainly because in every thesis readers should be able to establish the author/s own contribution in the thesis. In this thesis authors have been able to design internationalisation strategy model (figure 6-1) base on the overall understanding of internationalisation strategy from the course work of the master programme and throughout the thesis period.

The final model in this thesis is authors own brain child and we are hoping that our contribution to internationalisation process of firms become one of
the common models of internationalisation strategy today. It is always possible to develop a new model to improve an existing one to solve a present and a pressing problem. From the above explanation the answer to our third and final research question is simply YES!

6.2 Further research

The authors of this thesis had use qualitative approach to conduct case studies of two Swedish firms in order to gain a deeper understanding of a phenomenon of internationalisation strategy. The result of the thesis will hopefully be useful for ContextVision and Vaderstad. It can also be useful for other firms in different degrees depending on the size of firms and the industry. Since we are not sure the extent to which the result is applicable to large firms etc we suggest a further research which focuses on testing the pattern of internationalisation founded in this study and in what way the study can be generalised to include large firms. We believe that there is a need to deeply integrate our internationalisation strategy model with further findings to get a more holistic view of the phenomenon.
7. Reference

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**Personal Interviews**

David Oscarsson, Vaderstad Verken AB, 30 Nov, 2004

Klas Themner & Isabelle Wegmann, ContextVision AB, 7 December, 2004
8. Appendix

Interview questions---ContextVision AB

Information of the firm

1. What are the number of employee, type of products and average turnover of your firm (Sweden and overseas)?

2. Can you please give us a description of the competitors of the company? What competitive advantage does your firm have over your competitors?

3. Can you please give us a description of the suppliers and customers of your firm?

Internationalisation process of the firm

4. Why your firm need to explore International market? How is the company’s performance in the International market?

5. Which foreign market did your firm decide to enter first and which one is the next? Why your firm selected Canada, countries of Asia as your overseas market? Would you explain the reason? (Economic condition, etc)

6. Did your company internationalisation strategy follow any sequence of stages? For example, direct export---export through agent---sales subsidiaries ---factory. Would you explain to us?

7. Are there any factors your firm considered before entering into foreign market? Such as investment uncertainty, cultural difference, if yes, how is your firm minimizing its influence in the foreign market?

8. Had your firm acquired local small business or have strategic alliance in foreign market?

9. Had your firm transferred your knowledge or IT resource to foreign operations? Would you explain to us?

Strategy of the firm

10. What had been the major and most important problems during your firm’s Internationalisation? How does your firm handle or control them?
11. Apart from internationalisation what other strategy has contributed to your company success stories? Would you please explain further to us?

12. What is the future plan of your firm? Would your firm have the plan to commit more resources to foreign operations to a high degree? If yes, would you explain to us?

13. What any suggestions else would you like to make to our readers?

**Interview questions---Vaderstad Verken AB**

**Information of the firm**

1. What are the number of employee, type of products and average turnover of your firm (Sweden and overseas)?

2. Can you please give us a description of the competitors of the company? What competitive advantage does your firm have over your competitors?

3. Can you please give us a description of the suppliers and customers of your firm?

**Internationalisation process of the firm**

4. Why your firm need to explore International market? How is the company’s performance in the International market?

5. Which foreign market did your firm decide to enter first and which one is the next? Is there any order to choose to enter different countries? Would you explain to us?

6. Did your company internationalisation strategy follow any sequence, stages or order? For example, direct export---export through agent---sales subsidiaries ---production. Would you explain to us?

7. Are there any factors your firm considered before entering into foreign market? Such as investment uncertainty, cultural difference, if yes, how is your firm minimizing its influence?

**Strategy of the firm**
8. Would your firm have the plan to commit more resources to foreign operations to a high degree? If yes, would you explain to us?

9. What had been the major and most important problems during your firm’s Internationalisation? How does your firm handle or control them?

10. Apart from internationalisation what other strategy has contributed to your company success stories? Would you please explain further to us?

11. What is the future plan of your firm?

12. Would you conclude the Internationalisation process and strategy of your company? What any suggestions else would you like to make to our readers?