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## MARKETING | RESEARCH ARTICLE

## Business Internationalization Strategy Process Review Based on the Uppsala Model

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**Abstract:** Research on the process of business internationalization strategies has garnered significant attention from researchers worldwide. Various reviews on the internationalization strategy process have encouraged researchers to analyze behaviors and the influencing factors through multiple theoretical approaches, contributing to the advancement of international business studies. This paper aims to provide an overview of the different approaches applied in the internationalization strategy process. Small and Medium Enterprises (SMEs) play an active role in economic development across various countries, impacting not only local markets but also influencing international markets. The involvement of SMEs at the international level has made substantial contributions to economic growth, job creation, and the enhancement of a country's exports. This paper reviews studies and research conducted by experts concerning the internationalization process of SMEs across different levels of economic development. The findings reveal both similar and distinct factors that play roles in the internationalization process, including the classification of theories and methods that have been used in previous research findings. This review is expected to provide a deeper understanding of the internationalization strategy process in business.

**Keywords:** Internationalization Process, Small and Medium Enterprises (SMEs), Business Strategy.

**JEL Classification Code:** L26, L25, M13, O12, J16

### 1. INTRODUCTION

Significant changes have occurred in the model of the internationalization process since the publication of the "Journal of Business Research (JBR)" (Manuel P. Ferreira, 2014). Structural and longitudinal analyses reveal shifts in the intellectual structure of the field's community over time. In reality, economic conditions and regulations have undergone dramatic changes, and corporate behavior has also evolved in various aspects. Several research findings have shifted, with some concepts and insights absent at the time this model was initially published. In International Business studies, most research has treated context as a monolithic and homogeneous construct based on a single dimension. However, there are several in-depth but fragmented qualitative studies that illustrate the role of context as a complex and multifaceted element (Konstantinos Poulis, 2012).

The Uppsala model explains the characteristics of the internationalization process of firms. When this model was developed, understanding the complexities of the market and the challenges of internationalization was still incomplete. However, subsequent research on international marketing and business-to-business purchasing has provided a network perspective on the environment faced by firms in the internationalization process. The core argument of the Uppsala model is based on business network research that has two main aspects. First, markets are seen as networks of inter-company relationships, interconnected in various complex ways, encompassing broad scope and hidden patterns. Therefore, involvement of relevant parties within the network is essential for successful internationalization, and in the same way, there is also a responsibility from external parties. Second, the established relationships offer the potential for learning and building trust and commitment, both of which are prerequisites for internationalization. Below are several journal reviews related to this paper:



1. The findings from the journal titled: *The Role of Context in Case Study Selection: An International Business Perspective*: by Konstantinos Poulis, Efthimios Poulis, and Emmanuella Plakoyiannaki (2012) outline several key aspects in international business. Firstly, there are numerous definitions and understandings of what constitutes context and contextualization, many of which are not yet tailored to the needs of international business research. Researchers often reflect the context but also frequently consider specific conditions relevant to organizational structure and management. Secondly, the definition of contextualization implies that it occurs at various stages of the research process, yet this study provides empirical evidence in the context of international business. Thirdly, terms such as environment, environmental forces, opportunities, and situational constraints are methodologically and analytically more influential on international business. Fourthly, international business incorporates a broader context, such as the country level, as well as dimensions relevant to general business research. Integrating context into methodological choices and, consequently, into the theorizing process is an urgent necessity in international business research.
2. The findings from the journal titled: *The Uppsala Model on Evolution of the Multinational Business Enterprise – From Internalization to Coordination of Networks: International Marketing Review*: by Jan-Erik Vahlne (2013) suggest that the application of this model has significant implications for theory, particularly its relevance to critical issues in international business, and that mode selection has become less significant. Another implication of this paradigm is that location becomes a more important aspect in relationship development. While the Uppsala model implies path dependence in international business, it must be acknowledged that contextual differences still exist, such as in cases where internationalization is deemed advantageous for technological advancement. The author also leaves room for managerial discretion following strategic analysis.
3. The findings from the journal titled: *From Internationalization to Evolution: The Uppsala Model at 40 Years: Journal of International Business Studies*: by Jan-Erik Vahlne (2017) conclude that an economics-based view of various multinational activities allows for the evaluation of the efficiency of discrete decisions, the combination of resources, and positioning over time. For example, the accumulation of resources, specifically knowledge gained through the Uppsala model, can explain what enables internationalization of ownership, control, or other forms of privileged access to firm-specific advantages, as well as the reasons for internationalization—namely efficient governance and economies of scale. Observations over the past 40 years conclude that managerial creative abilities serve as more than just a balancing factor. Although the research has been conducted since 1977, the Uppsala model and structure remain focused on two main variables: state and change. The change variable is a crucial element, as it is where actions take place. The process of knowledge development—learning, creating, and building trust—occurs continuously, thereby altering the state variable.

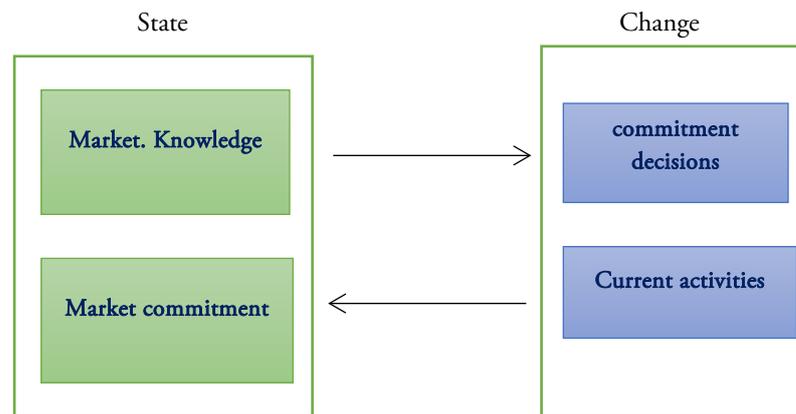
## 2. DISCUSSION

### 2.1. In 1977's Model

The first version of the Uppsala model was published in 1977 (Johanson & Vahlne, 1977). Researchers from the business studies department at Uppsala University later conducted empirical observations that contradicted three aspects: (1) the established economics at the time, (2) normative assumptions, and (3) the international business literature. According to the literature, companies should select the optimal mode to enter a market by analyzing costs and risks based on market characteristics and considering their own resources (Hood & Young, 1979). However, empirical observations of the foreign subsidiary database and a number of Swedish industrial companies in international markets indicated that Swedish firms often initiated internationalization through ad-hoc means, such as forming temporary export teams to carry out specific export activities (Carlson, 1975; Forsgren & Kinch, 1970; Hörnell et al., 1973; Johanson, 1966; Nellbeck, 1967). Subsequently, this process was formalized through agreements with intermediaries, often agents representing the company in foreign markets. Typically, as sales grew, they replaced these agents with their own sales

organizations, and as growth continued, they began to establish production in foreign markets. They labeled this dimension of the internationalization pattern as the "establishment chain." Another characteristic of this pattern is that internationalization often began in foreign markets that were geographically close to the domestic market. The company then gradually entered other markets with greater physical distance (Johanson & Wiedersheim-Paul, 1975; Vahlne & Wiedersheim-Paul, 1973). This process stems from the concept of foreign liability, which explains why foreign investors need to possess firm-specific advantages to offset these liabilities (Hymer, 1976; Zaheer, 1995). The greater the psychic distance, the greater the foreign liability.

We sought a theoretical foundation from the firm that could explain the differences between the existing theories and the internationalization patterns of Swedish companies, as well as the development of the original model based on the work of Penrose (1966), Cyert and March (1963), and Aharoni (1966). The assumptions underlying the 1977 model are uncertainty and bounded rationality, which involve two mechanisms of change: (1) Firms change by learning from their operational experiences and activities in foreign markets. (2) Firms change through commitment decisions made to strengthen their position in foreign markets. While large investments in resalable equipment do not always indicate strong commitment, steadfast dedication to meeting customer needs demonstrates commitment. Experience builds the firm's knowledge of the market, and that knowledge influences decisions regarding the level of commitment and activities that subsequently emerge from it. This leads to the next level of commitment, which generates even more learning (Figure 1). Therefore, the model is dynamic.



**Figure 1. The Model of the Internationalization Process: aspects of the State and Change (Johanson & Vahlne 1977)**

## 2.2. Companies in The Market Environment: A View of Networks in Business

Several studies highlight the role of networks in the internationalization process of firms. Coviello and Munro (1995, 1997) found that network relationships have a significant impact on a firm's entry into international markets. They developed a model that combines the process model with a networking approach (Martin et al., 1998), emphasizing the relationships between suppliers and organizations, particularly buyers. Other studies indicate a link between location and internationalization strategy (Chen & Chen, 1998). Research on international business-to-business marketing began at Uppsala in the mid-1970s to develop a better understanding of business markets and marketing strategies. The interaction approach focused on adaptation and exchange between suppliers and customers (Håkansson & Östberg, 1975). The work conducted during the project demonstrated that close and enduring business relationships between suppliers and customers are crucial, both within a specific country and across countries (Hallén, 1986). The results of this research include knowledge accumulation, enhanced trust, and ultimately greater commitment. These relationships evolve through an experiential learning process, where firms learn about their partners' resources and capabilities and gradually increase their commitment (Hägg & Johanson, 1982).

Successful internationalization requires mutual commitment between a firm and its partners (Johanson & Vahlne, 1990; Vahlne & Johanson, 2002).

### 2.3. Knowledge and Learning

The development of knowledge is fundamental to the internationalization of firms, particularly knowledge derived from experience in current activities (operations), which is crucial to the learning process. Learning from experience gradually leads to a more differentiated understanding of foreign markets and the firm's own capabilities. Market-specific knowledge is a critical type of knowledge. Numerous studies have supported this conclusion (Barkema et al., 1996; Erramilli, 1991; Luo & Peng, 1999).

Axelsson and Johanson (1992) investigated how three firms entered foreign markets. They demonstrated that the process of entering foreign markets should not only be studied as a decision regarding entry mode but also as a process of building a position within the foreign market network. Their case study revealed the complexity associated with learning when a firm enters a foreign market network. Eriksson et al. (1997) found that a lack of institutional and business market knowledge requires different amounts of time to overcome and has varied effects on perceived internationalization costs. A lack of institutional market knowledge, such as knowledge of language, laws, and regulations, is closely related to factors associated with distance. Moreover, several studies have shown that different aspects of general internationalization knowledge are also crucial. General internationalization knowledge encompasses various types of experience, such as entering foreign markets (Sapienza et al., 2006), mode-specific experience (Padmanabhan & Cho, 1999), core business (Chang, 1995), alliances (Hoang & Rothaermel, 2005), acquisitions (Nadolska & Barkema, 2007), and other specific internationalization experiences. Knowledge about specific relationships is developed through interaction between the two partners, including understanding the heterogeneous resources and capabilities of each other. Furthermore, such interaction contributes to more general knowledge about developing international relationships, helping partners understand how to develop different relationships and adapt them to alternative situations (Hoang & Rothaermel, 2005). Variations in the nature of relationships can positively impact the development of general relationship knowledge. Additionally, the importance of network coordination in business indicates that learning how to coordinate a series of relationships is crucial. Such learning can evolve within relationships between partners located in different countries, for example, suppliers in several countries and customers in another (Johanson & Vahlne, 2003).

Petersen et al. (2003) discussed the transition from simplicity to complexity and from determinism to managerial discretion. Their conclusion was that experiential learning is indeed a central factor in the internationalization of firms. In his critical review of the Uppsala model and the innovation model (Bilkey & Tesar, 1977; Cavusgil, 1980) of the internationalization process, Andersen (1993) noted that the Uppsala model does not take into account specific situations, phases, firms, or foreign markets. In Andersen's view, the model is general. Forsgren (2002) argued that three types of non-experiential learning—acquisition of other firms, imitation, and search—can also accelerate the internationalization process. Petersen et al. (2003) wrote that the model developed in 1977 is deterministic, despite research showing substantial managerial discretion in firm internationalization. A causal relationship between two variables does not mean that one determines the other; rather, one variable influences the other, often in combination with other variables. Despite these critical views, empirical studies on the internationalization process highlight the central role of experiential learning in this process. For instance, research on the learning curve emphasizes the importance of experience-based learning, which is one of the fundamental subfields in learning studies (Argote, 1999). Nelson and Winter's evolutionary theory (1982) emphasizes routines developed through experience, resulting in behavioral continuity and limited path dependence.

### 2.4. Build Trust and Commitment

The original Uppsala model did not explicitly include any affective or emotional dimensions in relationships, although it could be argued that such dimensions were implicitly present in the concept

of knowledge. Over time, it has become necessary to explicitly incorporate these affective or emotional dimensions into the model. First, much has been written about social capital, trust, and similar concepts, which naturally encompass both affective and cognitive elements. Second, empirical observations have demonstrated that affective dimensions are indeed crucial for understanding relationships, which are an essential component of the Uppsala model. Third, trust plays a significant role in recent research on relationship development (Morgan & Hunt, 1994) and business networks (Johanson & Mattsson, 1987). Thus, it is highly relevant to consider incorporating these aspects into the model in subsequent versions of the Uppsala internationalization process model (Johanson & Vahlne, 2006).

Morgan and Hunt (1994) provide a definition of trust. Key words and phrases associated with trust include "integrity," "reliability," and the idea that "the word of the other party can be trusted." In short, trust implies the ability to predict the behavior of others. Trust also assumes that human behavior is characterized by high ethical standards. Trust can develop into commitment if there is a willingness and positive intent. Therefore, trust is a prerequisite for commitment, a conclusion consistent with the findings of Morgan and Hunt. If trust leads to commitment, it implies a desire to continue the relationship, a willingness to invest in it, and even recognition of the need for short-term sacrifices that benefit others for the sake of long-term interests for oneself.

Boersma et al. (2003) describe the process as a sequence of phases in which the output of one phase becomes the input for the next. Since the output of each phase consists of increasing or decreasing levels of trust, the process is not deterministic. Commitment is developed at the end of the process (in Boersma et al.'s analysis, this occurs after joint venture negotiations). We believe that this perspective applies to relationships in general, whether or not negotiations are involved, as long as the firm signals its intent to commit.

## 2.5. Development Opportunities

In the initial Uppsala model, it was assumed that market commitment and market knowledge influence "the perceived opportunities and risks, which in turn affect commitment decisions and current activities" (Johanson & Vahlne, 1977). Additionally, it was assumed that "commitment to the market influences the perceived opportunities and risks of the firm" (1977). Furthermore, "knowledge of opportunities or problems is considered to initiate decision-making" (1977). Despite these assumptions, the Uppsala model is generally viewed as a model for risk reduction (or avoidance) (or uncertainty). The Uppsala model assumes that risk is inevitable when embarking on an unknown journey, and posits that a firm's approach to risk is complex and varied. However, this assertion does not imply risk avoidance, but rather the necessity of risk management. Research on business networks and entrepreneurship has made significant progress since the publication of the original Uppsala model. The Uppsala model now acknowledges that it previously neglected the opportunity dimension in the experiential learning process. At the same time, it is emphasized that a key aspect of experiential knowledge is providing a framework to understand and formulate opportunities. Based on objective knowledge, it is possible to formulate theoretical opportunities, while experiential knowledge allows one to perceive "concrete" opportunities — to have a "sense" of how they fit with current and future activities (1977).

Kirzner (1973) provides a starting point. The discovery of entrepreneurial opportunities plays a central role in his theory of the market process. He argues that opportunities exist in the market because it is never in equilibrium. Recognizing opportunities involves discovering what was previously unknown; it is the result of an alert entrepreneur prepared to face surprises. This view implies that opportunity recognition is related to ongoing business activities rather than specific opportunity search activities. He also sees entrepreneurial discovery as a result of serendipity (Kirzner, 1997).

Following Kirzner, Shane (2000) studied the role of prior knowledge and demonstrated that prior knowledge appears to have a stronger impact on discovery than individual personal characteristics. Prior knowledge makes individuals better at identifying certain opportunities, meaning that opportunity seekers should focus on what they know rather than what others say. Similarly, building on the resource-based view, Denrell et al. (2003) concluded, as Barney (1986) suggested, that firms do not have privileged knowledge of external resources required to identify opportunities. Therefore,

as Shane (2000) suggested, firms should focus their opportunity analysis on their internal resources, which may hold privileged knowledge. Like Kirzner (1997), Denrell et al. concluded that opportunity identification is likely the result of a serendipitous strategy characterized by effort and luck, combined with alertness and flexibility. However, from a network market perspective, firms have privileged access to information about their relationship partners and business networks. Furthermore, opportunity recognition is likely the result of ongoing business activities that add experience to existing knowledge. A crucial part of that experience is knowledge of the firm itself and its own resources, including external resources partially available through network relationships.

Ardichvili et al. (2003) view opportunity development as a central element in their theory of entrepreneurial opportunity identification and development, and therefore it should be the primary focus: "A 'recognized' or 'perceived' need or resource cannot become a viable business without this 'development.'" (2003: 106). According to the network perspective in the market, opportunity development is based on interaction between partners, who build shared knowledge and mutual trust as they further commit to the relationship. Provided there is some basic entrepreneurial alertness, opportunities are likely to emerge as a result of privileged knowledge developed by both partners during their interaction. This knowledge enables them to recognize opportunities that others do not possess (Agndal & Chetty, 2007). This view is consistent with the idea that opportunity identification is a side effect of ongoing business relationships and that exploitation and exploration (March, 1991) overlap. Partly due to heterogeneity and partly due to the unavailability of information, market research may not be able to identify many opportunities that insiders can. Consequently, exploitation gives rise to exploration, at least for market-driven opportunities. Although exploitation is risky, such risks can be minimized by advancing incrementally and building commitment sequentially.

## 2.6. *Decreased Validity of The Chain of Establishment*

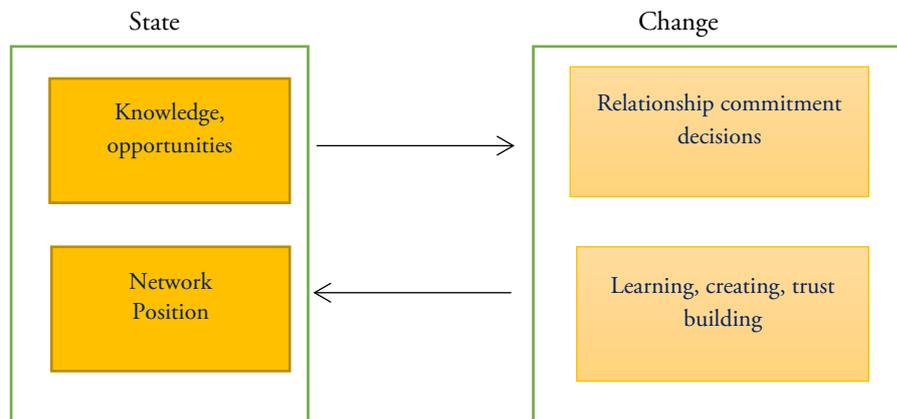
Most of the criticism of the internationalization process model is based on the observation that firm behavior has changed since the Uppsala model was first developed. For instance, companies sometimes skip stages in the establishment chain (Hedlund & Kverneland, 1985), they begin internationalizing immediately after their inception (Oviatt & McDougall, 1994), the internationalization process is now faster (Oviatt & McDougall, 1994; Zahra et al., 2000), and the sequence in which companies enter foreign markets no longer correlates with psychic distance (Madsen & Servais, 1997). Furthermore, joint ventures and strategic alliances are much more commonly used today than in the past. Internationalization through acquisitions has also grown rapidly in value (UN World Investment Report, 2000).

The Uppsala model does not dispute that these observations may appear inconsistent with the proposed establishment chain. The establishment chain implies that firms start internationalizing in neighboring markets and then expand further in terms of geographical distance. Moreover, in each market, companies typically begin with low-commitment modes, such as intermediaries, before transitioning to modes that indicate a stronger commitment, like wholly-owned subsidiaries. Some researchers who have observed firm behavior deviating from the establishment chain in the internationalization pattern have occasionally used their observations to criticize the Uppsala internationalization process model. In the Uppsala model, the establishment chain is not part of the model itself but rather a summary of empirical observations that form the basis for inductive theoretical arguments. Most of the changes in firm behavior are more related to changes in the international environment than to changes in the internationalization mechanism itself.

## 2.7. *Business Network Models of International Processes*

Marketing experts define internationalization as a sequential and orderly process of a firm's involvement in international business, as well as the changes that occur in the organizational structure due to this process (Andersen, 2007). Calof & Beamish (1995) define internationalization as the process by which a company adapts its operations (strategy, structure, resources) to the international environment. Beamish et al. (1997) expand on the definition of internationalization as a process in which a company enhances its awareness of the impact of international activities in the future, as well

as increases and engages in transactions with companies in other countries. Internationalization is viewed as the result of deliberate actions to strengthen network positions or to enhance and protect market positions. It resembles entrepreneurship and can be described as corporate entrepreneurship, and it is also characterized by a high degree of uncertainty. The 2009 business network model consists of two sets of variables: country-specific variables and change variables, or stock and flow, which are relevant to both parties in a relationship. These variables influence each other, with conditions in one affecting change in the other, and vice versa. This model illustrates a dynamic and cumulative learning process.



**Figure 2. Business Network Internationalization Process Model (2009)**

In the model depicted based on Figure 2, there is a concept of opportunity recognition linked to the concept of knowledge, as shown in the box on the left. Opportunities are a part of knowledge. With this variable, opportunities are considered as a crucial element of the knowledge that drives the process. Other key components of knowledge include needs, capabilities, strategies, and the company's network.

The speed, intensity, and efficiency of the learning process, which create knowledge and build trust, depend on the existing pool of knowledge, trust, and commitment, and particularly on the extent to which the partners identify highly attractive opportunities. Another change variable is the "Relationship commitment decision," which has been adapted from the initial model with the addition of a relationship process to clarify that commitment refers to a relationship or network of relationships. This variable indicates that the company focuses on deciding whether to increase or decrease the level of commitment to one or several relationships within the existing network. From a network perspective, there are two types of decisions regarding relationship commitment. In this context, each party may develop new relationships, which in many business cases involves building bridges to new networks and filling structural gaps (see Burt, 1992). Alternatively, each party may choose to protect or support the company's existing strategic network of relationships. The following are some implications of the updated model in the internationalization process:

- a. Internationalization relies on a company's relationships and networks, where the company is expected to establish connections with international networks and have partners committed to mutually developing the business through internationalization. These partners can be from both domestic and international origins.
- b. Business relationships provide the company with a broad and unique resource base, which is only partially controlled.
- c. The fact that the issues and opportunities of companies in international business are becoming less of a country-specific matter and more of a relationship and network issue.

### 3. CONCLUSION

This paper presents several key conclusions regarding the business internationalization strategy. First, the internationalization process is a field of study that can be analyzed from various scientific perspectives. One of the most widely used approaches is the Uppsala Theory, commonly known as the stage and network approach. Based on the initial stages of internationalization theory, five streams are identified that relate to the application of these theories.

Furthermore, this study argues that successful export activities are not linear but rather depend on various non-export activities, both before and after export orders are placed. Differences in perceptions between non-exporters and exporters, variations in management characteristics, and distinctions in company traits all play a role in the company's current export activities. Lastly, with the implications of the revised model in the internationalization process, companies pursuing internationalization will establish relationships with foreign firms that offer market opportunities and leverage their resource base. This requires coordinating the company's internal resources with one or more partners, though this coordination may present significant implementation challenges.

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