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The Uppsala model vs. the network approach in the process of internationalization

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Abstract

In the recent decades, along with the phenomenon of international cooperation growing dynamically and the fast progress in the field of new technologies, there has been a noticeable interpenetration of markets. The result of said changes is the tendency for overcoming or even erasing barriers which leads to connection of domestic markets into a single, global market. This phenomenon is known as internationalization. Nowadays it is one of the most

frequently recurring elements of corporate strategies, which is why it is worth taking a closer look at. The process of internationalization is often rather complex, which means it's a multi-stage process. In order to systematize and identify the processes that lead to internationalization, specialized models have been established. These models systematize carried out operations, determine their character and, primarily, shed light on intricate business processes which take place in companies. Therefore, the purpose of this article is to characterize basic internationalization models of small and medium-sized enterprises and relate them to the Uppsala model, which will determine its significance in the process of internationalization.

Key words

company internationalization, process, Uppsala model, network approach

Introduction

Internationalization is a relatively new concept, although its first definition emerged in the 50s or 60s. Along with the development of globalization and increased frequency of entering into contracts by international corporations, internationalization had been accelerating and slowly coming into prominence. While analyzing the literature related to the internationalization, it can be noted that terms “internationalization” and “international exposure” are used interchangeably. In order to systematize aforesaid concepts, it is necessary to refer to works listed in the bibliography. In the dictionary of the Polish language internationalization is described as “international exposure, recognition of one as international” [Szymczak, 1978, p. 801]. Over the years the definition has evolved and currently, authors characterize it in various ways. Selected examples are displayed in the table 1.

In addition to the concept of internationalization, the article will determine the term “modelling”. According to the dictionary of the Polish language to model, in general, is to impart an intentional shape and form. Whereas in scientific terms, to model is to create models of a real-life phenomena in order to analyze them. After the key definitions we may proceed and discuss the main part which are basic models of internationalization.

The categorization of said models according to their distinguishing characteristics allowed to classify them into four groups: the Uppsala model, eclectic paradigm, network approach and strategic approach [Fonfara, 2009, pp. 13-14]. In this article two of them, Uppsala model and network approach, were described and compared.

Tab. 1. Definitions of internationalization

Author	Definition
J. Johanson, J.R. Vahlne (1977) M. Jarosiński (2013)	The consequence of gradual adjustment to evolving entrepreneurial environment, both external and internal
L. Merlin (1992) M. K. Witek-Hajduk (2010)	Internationalization of company is the process of evolutionary changes causing the increase of company's engagement in foreign markets, which is a function of increased expertise on these markets
G. Gierszewska, B. Wawrzyniak (2001)	Expansion of organisation's operations by moving from domestic market onto foreign markets
J. Rymarczyk (2004) M. Jarosiński (2013)	Any kind of commercial activity undertaken abroad by the organisation
M. Strzyżewska (2005) M. K. Witek-Hajduk (2010)	Internationalization consists in geographical expansion of company's operations
K. Barłożewski (2017)	(1) Internationalization means 'every form and range of connecting different operations of the company to foreign markets'. (2) The concept of internationalization is interpreted as the choice of particular internationalization strategy, including selection of target markets, way of entering said markets, time and scale of entering, level of resources engaged, network relations formed.

Source: Own elaboration based on related literature [Barłożewski, 2017, p. 17], [Jarosiński, 2013, p. 15, 18], [Johanson, Vahlne, 1977, p. 26], [Gierszewska, Wawrzyniak, 2001, p. 18], [Rymarczyk, 2004, p. 19], [Przybylska, 2005, pp. 73-92], [Witek-Hajduk, 2010, p. 18], [Merlin, 1992, pp. 99-118], [Strzyżewska, 2005, p. 419].

1. The Uppsala model

Amongst different conceptions of companies' internationalization, Uppsala model is, by far, the most prominent. It has been created by the Uppsala University academics in the 1970s (Johanson, Wiedersheim-Paul, 1975; Johanson, Vahlne, 1977, p. 26) [Limański, Drabik, 2017, pp. 182-183]. Uppsala model is the most developed and influential theoretical framework describing the process of company's internationalization and it is also referred to as the conventional model of

internationalization [Gorynia, Jankowska, 2007, pp. 22-23]. The critical variable of the model is how long the company's been present in the international market and international experience associated with said time, and the effect is growing international involvement developing over a period of time [Szymura-Tyc, 2015, pp. 17-18].

Uppsala model is based on the concept of empirical knowledge. The model suggests that a company's demeanor in the process of internationalization depends on its practical knowledge. It has also been accepted that enterprises initially develop their operations on local markets and, along with the expanding knowledge eagerly expand to foreign markets. It has to be noted that the selection of these markets is determined by the so-called 'psychological distance' [Hadryś, 2011, p. 110]. This distance is a combination of different factors which result in impediments related to the flow of information between two sides. 'Psychological distance' can manifest itself in cultural, linguistic and economic differences [Pawęta, 2014, p. 164].

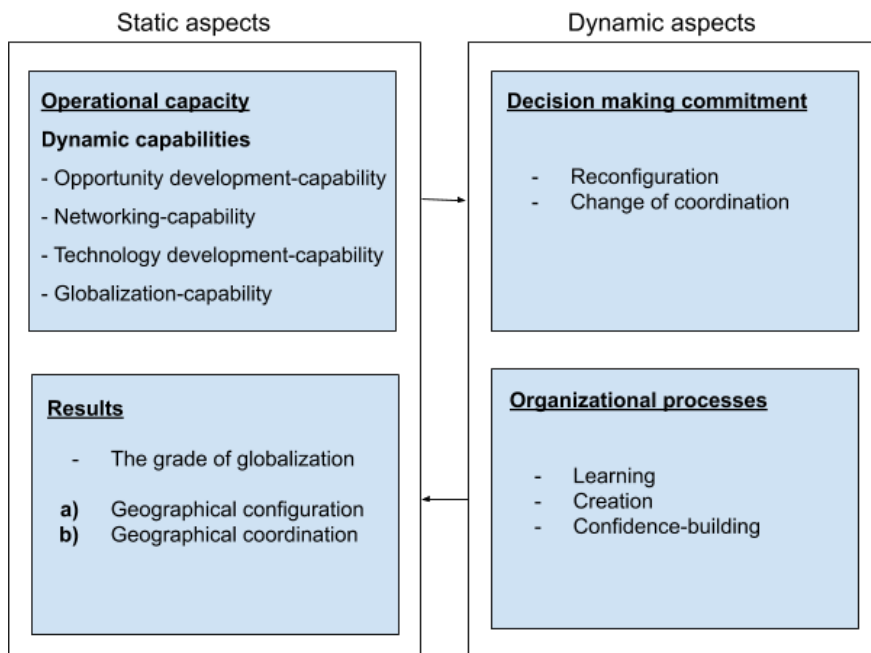


Fig. 1. Uppsala model: 2014 version

Source: Wach K. (2017). Evolution of the Uppsala model of internationalization: towards non-linearity of internationalization of firms, Cracow University of Economics Faculty of Economics and International Relations Department of International Economic Relations, Cracow, p. 167.

The model of enterprise internationalization illustrated above implies that there is a substantial correlation between current state of knowledge in the field of a foreign market and the resource utilization in said market, between decision-making process in terms of enhancing the degree of involvement and current level of activities occurring on this market. The model also established that the company strives toward increasing long-term profits and keeping risk retention on a fairly low level during all stages of the internationalization process [Przybylska, 2018, pp. 27-28].

“In the Uppsala model four stages have been discerned:

- irregular export activity – sporadic export,
- export through independent intermediaries (agents),
- establishing a subsidiary (branch) of sales department,
- establishing a subsidiary (branch) of production department” [Kozioł-Nadolna, 2012, p. 240].

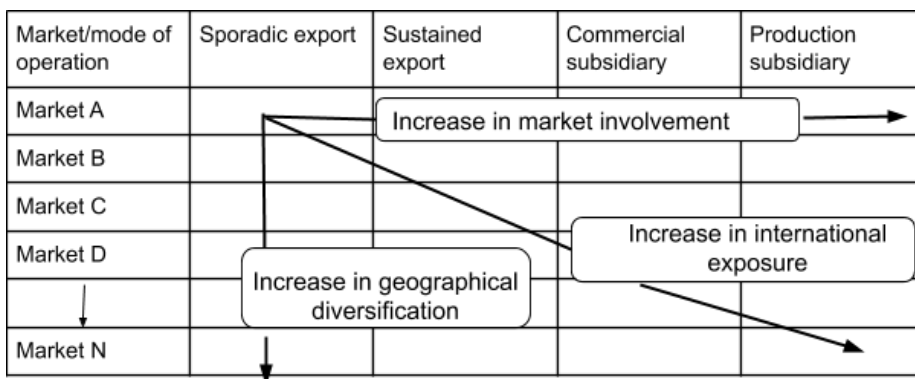


Fig. 2. Uppsala model scheme of company's internationalization

Source: Radke-Kozłowska H. (2015). *Network internationalization of company as a form of international expansion*, Studia Ekonomiczne. Zeszyty Naukowe Uniwersytetu Ekonomicznego w Katowicach, University of Economics in Katowice, Katowice, p. 196.

The four stages displayed above represent four variables which ought to be interpreted in connection with an additional variable – the number of foreign markets [Radke-Kozłowska, 2015, p. 196]. The three arrows indicate three prospects of company's development, which are:

- geographical diversification, mainly aimed at export operations, whose key task would be to secure new markets,
- increase in internationalization, happening when given enterprise, while searching for new markets to enter, simultaneously attempts to escalate engagement on particular markets,

increase in market involvement, when the enterprise does not acquire new markets, but rather concentrates on developing forms of internationalization [Radke-Kozłowska, 2015, p. 196].

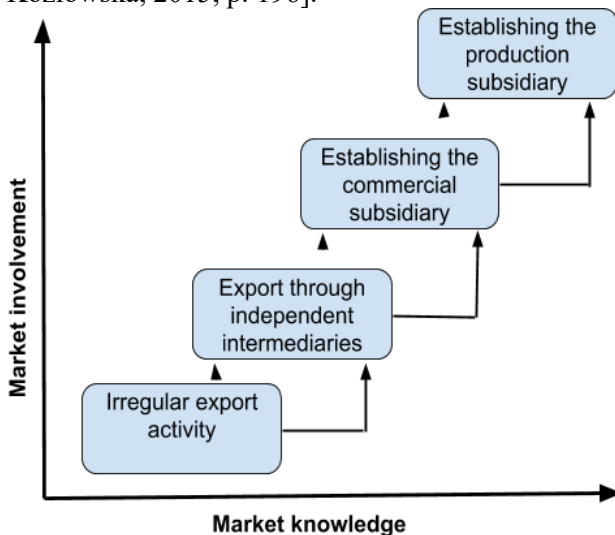


Fig. 3. The process of enterprise's internationalization in the Uppsala model

Source: Przybylska K. (2018), BORN GLOBAL – a new generation of small enterprises, Cracow, p. 24.

The irregular export activity, which is the first stage of the internationalization process according to the Uppsala mode, means that at this stage, the company does not export; the enterprise does not ship their products and resources abroad. Additionally, the enterprise virtually does not collect any information on foreign markets. The second stage, export through independent intermediaries, indicates that the enterprise enters the early phase of engagement of resources and gathers information on different factors that have an impact on sales effectiveness on a particular foreign market [Gorynia, Jankowska, 2007, pp. 22-23]. The transition towards considerably more advanced stage of internationalisation is associated with the phenomenon of psychological distance, described previously, and not with the insufficient size of foreign market. The next stage in the process of internationalization based on the Uppsala model is establishing a sales subsidiary. During this stage, the enterprise is considerably more interested in gaining knowledge on a determinant of sales and an essential level of commitment of their resources on a given market [Gorynia, Jankowska, 2007, pp. 22-23]. The fourth and final stage is establishing the production subsidiary. This stage requires a comparatively highest level of knowledge on the expansion market and is associated with highest level of commitment of company's

resources abroad [Gorynia, Jankowska, 2007, pp. 22-23]. All of the stages described above differ in terms of resource commitment and knowledge on expansion markets. Greater resources commitment is conditional on greater level of knowledge on expansion markets [Gorynia, Jankowska, 2007, pp. 22-23].

Tab. 2. Advantages and disadvantages of the Uppsala model

DISADVANTAGES	ADVANTAGES
insufficient knowledge on foreign markets	complete autonomy of operations conducted abroad
necessity of possessing resources required for expansion	sole control over resources utilized on foreign markets
risk posed by entering the foreign market	gradual process of entering foreign markets
high cost of transportation	minimal risk
tariff and non-tariff barriers	internationalization progresses gradually with the advance of knowledge

Source: Own elaboration based on Gorynia M., Jankowska B. (2007). *The internationalization theories of the firm: a short review*, Gospodarka Narodowa Nr 10/2007, p. 22. Ratajczak-Mrozek M. (2013). *The internationalization of polish high-tech companies and their cooperation with foreign firms*, Gospodarka Narodowa 1-2, p. 56

2. The network approach

Modern-day enterprises increasingly more choose not to operate on a market truly independently, but rather establish a network of relations with entities from their sector, forming a network of connections [Ratajczak-Mrozek, 2009, p. 7, Gudanowska 2017, p.183, Tomaszuk 2017, p.701]. This solution contributes to increasing the means of expansion on foreign markets in a certain way. It shows how resources, operations and market competitors affect the scale of internationalization both from the perspective of individual companies and corporate groups. In other words, a network is capable of securing support of international operations, although the research on enterprises' development policies within networks is necessary [Buczowski, Kłysik-Uryszek, Kuna-Marszałek, Świerkocki, 2015, p. 31, Nazarko 2019, p.342; Urban, Rogowska 2019, 129].

'Relations' are the determining factor in the network approach. While the connections between organizations, three types of relations, as well as their features, can be distinguished. The functions of each relation type are determined based on the

source of the influence, while the relations indicate the target of said influence. [Fonfara, 2009, p. 13].

The relations, which consist of establishing relations, carrying out cooperative operations and integrating the resources, result in networks between cooperating establishments being created. Due to the possibility of establishing international cooperation with numerous entities, networks be arranged in different setups, they all include company's transformation both on the domestic and foreign market. The exemplary variant of network relations was provided in the Figure 4.

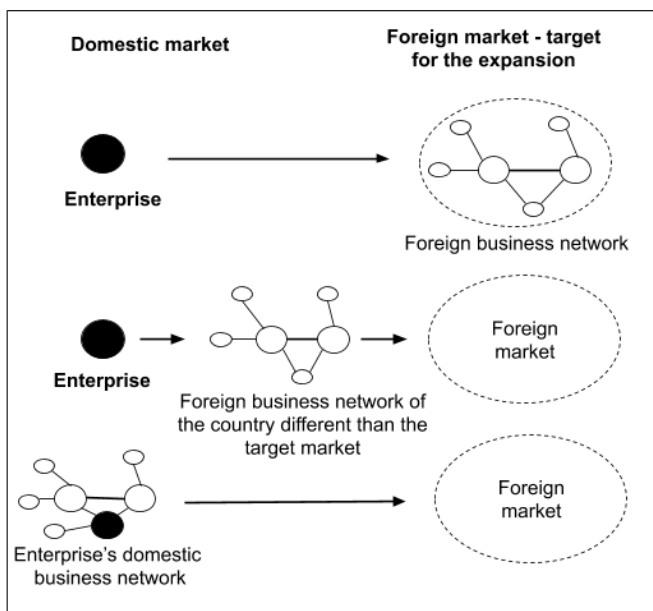


Fig. 4. The configuration of company's network relations in the process of internationalization
 Source: Ratajczak-Mrozek M. (2009). *The international network approach*, Marketing i Rynek No.3, p. 10

The first configuration contains basic relations between domestic company and its partners, which together call a foreign business network in the target expansion market into being. In the second configuration, relations that may be formed with foreign network (but not with target expansion market), were displayed. In a way, they act as an intermediary in the process of reaching the objective pursued, and, in most instances, have an impact on parties that can see benefits derived from cooperation with the said organization. The third configuration is oriented towards setting up a network of relations with company's domestic partners. The efforts provide more distinct functioning found on different pillars at the very beginning of stepping

into internationalization process. They reduce the risk of failure, as well as influence the increase of the internationalization rate.

Even though the idea of cooperation which opens opportunities appears as an encouraging one, there are some aspects that weigh negatively on its image. The analysis of some advantages and disadvantages of network approach are displayed in the table below.

Tab. 3. Advantages and disadvantages of the network approach

DISADVANTAGES	ADVANTAGES
limited means of international cooperation	extended means of international cooperation
conflicting interest of enterprises which hamper cooperation	mutual support of members operating within one network
dependency on other enterprises, lack of individual activity	membership of a particular group which motivates to active participation
imminence of individual's domination determining the status of different participants in network circulation	presence of reference units from which enterprises can learn and gain experience
interrupted communication as a result of multilateral nature of relations	increased labour efficiency

Source: Own elaboration based on Fonfara K. (2009), *Istota i zakres procesu internacjonalizacji firmy*, in: K. Fonfara (red.), *Zachowanie przedsiębiorstw w procesie internacjonalizacji. Podejście sieciowe*, PWE, Warsaw, pp. 11-26

3. Comparison of the Uppsala model and network approach in the process of internationalization

In order to carry out further analysis, it is necessary to point out the differences between the Uppsala model and the network approach. Even though the network approach resemble to Uppsala model in its main premises, is has different terms of reference and logic of the operation [Radke-Kozłowska, 2015, p. 200].

The process of internationalization offers numerous possibilities which can be applied in different ways. Internationalization depends on company's peculiarities, available resources and ability to integrate with other business teams. It is recommended to thoroughly analyze the characteristics of the models according to which internationalization is going to be formed, prior to the start of international

cooperation. In the Table 4 below, comparison of main characteristics of the Uppsala model and the network approach were displayed.

Tab. 4. Comparison of Uppsala model and network approach – characteristics

Characteristics	Uppsala model	Network approach
Model's type	behavioural model	behavioural model
Model's character	dynamic	dynamic
Group of theories	theory of gradual internationalization of the company	network theory
Source of foreign markets know-how	own experiences	exchange of information within business network
Cycle of model	cause and effect	continuous interaction, long-term cooperation
Kinds of knowledge	objective knowledge, experience-based knowledge	experience of cooperation withing the network of relations
Barriers	psychological distance	legal obligations, interdependence
Direction of expansion	foreign markets	foreign markets
Activity	completely autonomus	having regard to environment
Type of learning process	cumulative nature, progressive, advancement is based on company's individual experience	membership of created network of interaction
Proceedings of internationalization	linear course	phenomenon of evading, change of expansion pace

Source: Own elaboration based on related literature [Radke-Kozłowska, 2015, p. 200], [Witek-Hajduk, 2010, p. 29], [Pietrasieński, 2014, pp. 19-20], [Karasiewicz, 2013, pp. 133-134, 143], [Ratajczak-Mrozek, 2009, p. 10].

Conclusion

None of the internationalization theories are capable of fully explaining the behavior of an enterprise which is able to operate on foreign markets. Often, some level of dependency between different approaches or theories is inevitable and necessary to explain the phenomena occurring within the studied area. The instance of this dependency is the Uppsala model and the network approach. When it comes to the network approach, the result of company's internationalization is its business relations with customers, suppliers, competitors, advisors; they help the company move outside the domestic market [Radke-Kozłowska, 2015, p. 200]. In the Uppsala model the process of company's internationalization is related to its possession of proper practical knowledge. The higher said knowledge is, the more willingly companies enter foreign markets and their 'psychological distance' lowers.

The models described above are quite significant in the process of internationalization. The patterns of internationalization presented in them allow to understand their course and structure. In addition, they present ways in which enterprise can participate in the industrialization process. In the discussed models, thanks to the gained and organized knowledge, it is very easy to determine the achieved level of internationalization and the direction in which the company should proceed to maximize its potential.

After carrying out a thorough analysis of internationalization models described above, it has been determined that following them brings measurable benefits to the company. First of all, it is necessary to mention determining a stage and researching a course of internationalization, analyzing immediate and external environment, risk-minimizing efforts. Uppsala model and network approach are not interchangeable, they vary in some aspects which determine particular causes of use. Therefore, matching one of them to the particular company is dependent on specific nature of company's operations, as well as the ability to become engaged in foreign markets.

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Model Uppsala a podejście sieciowe w procesie internacjonalizacji

Streszczenie

W ostatnich dziesięcioleciach, wraz z dynamicznie rosnącym zjawiskiem współpracy międzynarodowej i szybkim postępem w dziedzinie nowych technologii, zauważalna jest przenikanie się rynków. Rezultatem tych zmian jest tendencja do pokonywania, a nawet usuwania barier, co prowadzi do połączenia rynków krajowych w jeden globalny rynek. Zjawisko to znane jest jako internacjonalizacja. Obecnie jest to jeden z najczęściej powtarzających się elementów strategii korporacyjnych, dlatego warto przyjrzeć się bliżej. Proces internacjonalizacji jest często dość złożony, co oznacza, że jest to proces wieloetapowy. W celu usystematyzowania i identyfikacji procesów prowadzących do internacjonalizacji ustanowiono specjalistyczne modele. Modele te usystematyzują przeprowadzane operacje, określają ich charakter, a przede wszystkim rzucają światło na skomplikowane procesy biznesowe zachodzące w firmach. Dlatego celem tego artykułu jest scharakteryzowanie podstawowych modeli internacjonalizacji małych i średnich przedsiębiorstw i odniesienie ich do modelu Uppsali, który określi jego znaczenie w procesie internacjonalizacji.

Słowa kluczowe

umiędzynarodowienie przedsiębiorstwa, proces, model Uppsala, podejście sieciowe