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Meta Walenta, BSc.

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Abstract

This thesis reviews the network view of multinational corporations. This includes the Uppsala Model and the Network Theory in relation to multinational corporations. It will evaluate the origin of the models and their development with the aid of several research papers that have been written since 1970. It will identify factors that appear crucial for successful internationalization processes and will also show differences and similarities between these two models. The thesis is based on a detailed literature review. It describes and summarizes the different approaches and shows various applications of these models. Finally, the two models will be discussed against the background of the substantial changes in the modern globalized business environment.

Table of content

Abbreviations

Firm Specific Advantage = FSA

Foreign Direct Investment = FDI

Gross National Product = GNP

Gross Domestic Product = GDP

Multinational Business Enterprise = MBE

Multinational Corporation = MNC

Resource and Development = R&D

Qual. = Qualitative

Quan. = Quantitative

CA = Conceptual Analysis

Figures

Table

Introduction

A multinational firm's aim is to upgrade their resources and capabilities and to receive long-term comparative advantage. Thus, these enterprises get evaluated by home and host countries regarding their actions. There is no doubt that multinational firms are very important actors in the world's latest and also in the past economy. For example, Forsgren cited van Tulder and van der Zwart 2006 and stated that in 1960, 1.700 multinationals existed. Thirty years later, the number of multinationals mounted up to 37.000, and in 2005, this figure almost doubled to 70.000. According to Forsgren (World Investment Report in 2011 and 2016), nearly 50 percent of mergers and acquisitions take place in another country than the firm has its main office (Forsgren, 2017; Van Tulder and Van der Zwart, 2006).

Following the exemplifications of Cyert and March (1963) Forsgren also stated that the role of the environment is very important when considering the organizations relationships. It appears necessary to detect what is outside a firm and what is inside and how can these two elements be conceptualized. There are numerous views on this topic, and there are differences between how scholars consider the cooperation between these two elements For instance, is it appropriate to characterize the multinational corporation as a deliberately designed instrument when a corporate strategy is implemented? To what extent have power struggle and conflicting subunits to be considered? Is it necessary to put more emphasis the the identification of the different actors that are involved in a multinationals environment such as customers, suppliers and competitors (Cyert and March, 1963; Forsgren, 2017)?

The reciprocal interaction between the environment and the enterprise, however, appears to be a common denominator in all of these views. Overall, scholars that use widespread concepts to define the environment also tend to use a more instrumental view of a multinational enterprise (Forsgren, 2017; Cyert and March, 1963).

One of the pioneers of the internationalization process was Sune Carlson. She stated that enterprises run through cultural barriers when they try to enter a foreign market. Due to achieved experience in entering markets in other countries, the firm is going to enter one foreign market after another (Carlson, 1966). The risk is reduced due to a decision-making process, in which information is important. Information is used from one phase to the next one. By doing so, the firm is able to keep control over activities that are made abroad and to gain new knowledge on how to perform business in foreign markets (Glowik, 2009; Forsgren, 2002).

According to the Uppsala Model firms follow a gradual internationalization chain pattern because of the missing knowledge about foreign markets. This lack of knowledge also leads to a higher market risk (Glowik, 2009; Forsgren, 2002). According to the business network theory, markets are characterized by business relationships between the different actors. This theory also suggests that the structure inside a multinational firm is more market-like than usual. A subsidiary can be regarded as a firm with its own rules of operation. They are connected as business partners. It is assumed that the knowledge about own skills and about the other players' skills is decisive for understanding what really occurs in the market. (Forsgren, 2017; Kirzner, 1997).

This thesis will reveal the history of multinational corporations in Europe, especially in Sweden, since the Uppsala Model was invented there. It will then describe and compare the network theory and the Uppsala Model. Factors that may account for a successful multinational corporation (MNC) will be discussed.

1. Multinational Corporations: Definition and History

This section contains the definition of MNCs as well as its history and evolution with focus on Germany and Sweden. Advantages and challenges of MNCs will be discussed.

1.1 Definition of Multinational Corporations

An MNC is a company that operates in foreign countries and achieves at least a quarter of its revenues from countries abroad. MNCs can be categorized into four different kinds, namely in 1) multinationals, which are decentralized corporations and have a strong bond with their country of origin, 2) globals, which are centralized as they acquire cost advantages by means of centralized production in countries where needed resources are cheap, 3) international firms or companies which use preexisting technology or resources and development of the parent corporation, and 4) transnational enterprises, which are a combination of the three kinds mentioned above (Businessdictionary, 2018).

Explicit definitions of MNCs, however, vary between studies and have undergone several modifications as time passes. Dunning (1973) defined MNCs as companies that have production facilities in foreign countries (Dunning, 1973). Vernon (1971) stated that the size of a company and its diversity defines an MNC (Vernon, 1971). According to Millington and Bayliss (1990) multinationals are companies that produce in at least six different foreign countries and that have a turnover exceeding 50*0m* pounds (Millington and Bayliss, 1990).

1.2 Benefits and Criticism on Multinational Corporations

MNCs have to be viewed against the background of multiple political, ideological, and economic changes related to globalization processes. Forsgren (2017) raised the critical question whether the Multinational Corporation is an advanced kind of a firm or a crucial form of a corporation for its environment. Forsgren stated that the multinational operating corporation constitutes a highly developed firm, which is expanding rapidly and is very important for their actors regarding the economic growth (Forsgren, 2017). However, Eden and Lenway (2001) claimed that MNCs are changing the so-called “creative destruction” and that domestic firms are pressurized because of the competitive nature of MNCs (Eden and Lenway, 2001). The positive aspects of MNCs according to Dunning (1993) are that they have been mostly described by their home as well as by their host country as an enterprise, which upgrades the quality of resources and of capabilities a firm has and uses. Also, the comparative advantage of these firms is rising (Dunning, 1993). Today, for example, governments believe foreign direct investments to be beneficial, whereas in the 1970s and 1980s foreign direct investments were regarded to have adverse effects (Dunning, 1994). This statement shows the harmonious relationship between governments and MNCs. Due to Forsgren (2017) Multinational firms, for some people are the main actors in the globalization process and as agents for technology development. The globalization process itself stands for the global network structure that has formed itself with MNCs as important players (Forsgren, 2017). Whereas Korten (2001) thinks that MNCs are too big and too bureaucratic so that small firms are better with innovative processes and technologies as they are more flexible than these large corporations (Korten, 2001). Forsgren cited Castells (1996) on page 188 who stated that MNCs work as network enterprises, which transforms material to the culture of the economy. In other words, due to processing knowledge the networking enterprise can make signals to commodities (Forsgren, 2017; Castells, 1996). Prahalad (2006) mentioned that the needs of the poor population could be allayed with the actions of MNCs because the poor have such a high latent purchasing power, which should be revealed. His view is that MNCs will be the agent to change poverty and let it disappear (Prahalad, 2006).

On the other hand there are distinct negative impacts related to multinational corporations. People are sceptical about MNCs since they may have adverse environmental effects the environment and negative impacts on labour and human rights. MNCs are known to be mainly profit oriented. The creation of employment, tax revenues and a high living standard are goals that nation-states have. It is questionable whether these goals are compatible with the goals of MNC’s (Forsgren, 2017). According to van Tulder and van der Zwart (2006) it is likely that MNCs do have the power to suppress local firms that do not operate on a multinational level. Because of the MNCs standardized and efficient production they can transfer prices to their benefit and their well-funded future makes it easier for them to enforce themselves (Van Tulder and Van der Zwart, 2006). Hertz (2003) argued that MNCs gained political power and consumerism that is equal to economic policy. In this context he also stated that for example the total sales of General Motors are higher than the GDP of sub Saharian Africa or that the supermarket Wal-Mart has higher revenues than most of the states in Eastern and Central Europe (Hertz, 2003).

Nevertheless, the growth of MNCs is referable to the procedure of foreign direct investment also called FDI (Tolentino Paz Estrella, 2000). Patterson, Montanjees, Motala and Cardillo (2004) mentioned the Balance of Payments Manuel fifth edition, which explains FDIs as a category of international investment. This investment reflects the aim of a resident in one economy or country (termed as direct investor) to gain a persistent interest in an enterprise resident in another economy or country (referred to as direct investment enterprise). Thus, a sustainable long-term relationship is built up between the direct investor and the direct investment enterprise. The direct investor has a high degree of influence on the management and decision-making of the enterprise. This kind of business relationship emerges when the direct investor owns at least ten per cent of the shares or voting power of a foreign enterprise. Yet, direct investment does not only include the transactions that are made during the establishment of FDI relationships, it also involves all following capital transactions between the business partners and between affiliated enterprises in other economies abroad (Patterson et al, 2004).

The focus of this trading is resource-based or based on simple market-seeking investments. The competence of leading national firms, basic engineering skills, complementary organizational routines and adequate organizational structures are crucial factors. As the industrial development of home countries grew and firms received maturity as MNC, there was and still is an increase of the firms outward FDI towards more demanding forms of manufacturing and other service activities that have higher needs of technological and organizational interest. The majority of this kind of investments was associated with primary commodity production and took place before 1939; since the Second World War outward FDI became increasingly popular and important. Therefore, the competition in industrialized countries increases in parallel with the global integration of FDI (Tolentino Paz Estrella, 2000).

1.3 Development in Europe

In the period prior to 1914 in Germany the classic MNC was the most common form. German companies started business activities in Germany and consecutively proceeded abroad. They started with exports as well as with production procedures and acquisition of raw materials in other countries and eventually entered foreign markets. Nevertheless German companies always tried to do their business operations also in Germany (Juhl, 1985). During this period, there also existed a few free-standing companies that operated in foreign countries only (Wilkins, 1988b). In the nineteenth century German multinational corporations had their origin in large firms, which were specialized in chemical or electrical engineering and in metal-producing industries. During that time, these companies dealt with FDIs. One reason why their firms did so well was that they concentrated on low volume but high value added segments as well as niches. In these sections high technology played a more important role than cost control and standardized goods, whereas the latter was for example more popular in Great Britain. In Germany there has been a very high level of the Resource and Development deployment (Chandler, 1986). Around ten percent of outward FDI in 1914 was made by Germany although FDI was not that popular in Western and Eastern Europe. Germany became the fourth-largest home country of FDI. The first three countries were the United Kingdom, The United States and France (Dunning, 1983). As a result of the two world wars the FDI declined within the defeated Germany and the growth of MNCs did not continue until 1970 (Bostock, Jones, 1994). This explains why German corporations and MNCs had a high embedment in their home country and it also explains to a certain extend the role of exports within internationalization strategies (Lane, 1998). Since 1980 Germany is the third-largest country of FDI. Outward FDI is only a secondary strategy for their firms in the face of the quick increase in the last 30 years (Heiduck, Hodges, 1992)

Because of the loss of overseas holdings and the limits due to the shortage of capital during at the end of the First World War and the inter-war period, German firms had to replace FDI with other strategies to expand internationally. These strategies contain less political risks. The strategies that were primarily used from 1918 to 1939 were cartels, long-term contracts or licensing agreements. Before the First World War German companies were successful with these methods and they were used more by Germans than by companies in other countries (Schröter, 1988). The aims of

Germany and their economic policy in the inter-war period were reached through four objectives. The first objective was the upkeep of access to markets and the search of new markets. German firms used FDIs, cartels and also long-term contracts in a complementary way. For big German electrical firms like AEG or Siemens, international production was the dominant mean. The second objective was the security towards the competition through strategic market presence. To reach this objective German firms used a combination of international cartels and FDIs. They also used long-term contracts, which had, in combination with cartels more importance than FDI. The third objective was the long-time security in the supply of materials. Here FDI was the most important factor. Despite the fact that long-term contracts were usually the best way for German companies to reach this kind of security, this procedure did not turn out to be optimal. Because of large resource-based German industries like iron and steel firms, the high capital intensity and the high political risk that is combined with FDI was not crucial to control the long-term supply of raw materials from near sources. The last objective is the involvement in political decisions in the home country as well as in the host country. This includes custom duties, tariffs and legal decisions regarding to the ownership (Schröter, 1988).

Multinational corporations were of course heavily influenced when Hitler received his power over Germany. During the Nazi regime there was a clear distinction between companies that are owned by Germans and companies of foreign ownership. This was formed when English and Dutch companies were merged to create a dual company structure in 1929. According to Wilson in 1954, this was one of the very first multinational corporations (Wilson, 1954).

It frequently is quite difficult for people to understand what is happening when political crisis occurs in such an extreme way. The structure of a society is modified in ideological terms and therefore people do not notice what is going on around them. However, the nationalist ideology that arose in 1933 was not well understood. People in Germany and also other countries hoped that this danger would lose its power. There were only a few people that recognized that Hitler and his ideologies might lead to progressive radicalization (Forbes, 2007).

During the period of the Third Reich firms in Germanys firms were confronted with moral challenges that were bigger than in any other time over the twentieth century (Kobrak C. et al, 2004). In order to maintain economic stability, *business had to pay* with cooperation with the leadership's beliefs of discrimination, rearming and also with economic independency (Reich, 1990).

According to Porter (1990), German firms attained a much higher degree of reliance on their home companies in Germany after the Second World War because of the defeat in the Second World War. It was not that easy for German companies to upgrade their industry after having lost most of their industrial bases, natural resources and the confiscation of their patents. Likewise, the rise of knowledge-based industries and technological innovations was difficult after the Second World War (Porter, 1990). This mostly happened because Germans had preferred and still prefer the internationalization strategy: exporting over FDI and also their outward FDI in Western Europe. Similarly, in industries which are highly internationalized such as chemical industries, German firms stayed strongly embedded in their home market which was the exact opposite of what for example British companies did (Lane, 1998).

In comparison, manufacturing firms have done much less FDI until twenty years after the end of the Second World War. They used export strategies to take advantage of the rapidly growing world trade and of the chances they had due to the European economic integration (Jones, 1996). According to Dunning (1983), Germany had a share of 1.2 percent in the global stock of outward FDI in 1960 was as important as its share of 1.3 percent in 1938 (Dunning, 1983). These shares of FDI primarily are made up of sales and services for the support of export activities (Heiduk and Hodges, 1992).

As Germany always had a relatively high level of Resource and Development, German firms and also MNCs were setting themselves apart from MNCs of foreign countries and other nationalities. Based on findings derived from Clegg in 1987, German MNCs have an ownership advantage in comparison to MNCs that are based in the United States or in the United Kingdom. That is because German firms do work more technology based and they have skilled labour. During the Second World War

Germany has not had an ownership advantage through access to capital as it was the case before the First World War. It has also been shown that German FDI have little geographical focus in comparison to American or British MNCs in Western Europe (Clegg, 1987).

Due to the fact that the Uppsala Model and the network theory were developed and revisited in Sweden, the following section will elaborate the evolution of Swedish multinationals.

According to Olsson, more than half of the Swedish industrial workforce and of the country's exports in 1990 were featured by Swedish MNCs (Olsson, 1993). Despite the fact that a huge amount of its outward FDI is concentrated in only a few firms, Swedish MNCs consist of a large amount of small firms. Nevertheless, the size of these MNCs is not the main indicator of the tendency to engage in outward FDI. Also, international production does not always dissipate oligopolistic market conditions. It is the size relative to its market, which is significant for the engagement for international production. Thus, the size of a firm can be a firm-specific advantage but it is not a source advantage per se (Swedenborg, 1979). Because of the high amount of exports and international production by Swedish firms the process of nationalization is very fast. Expansion of markets is mainly reached through manufacturing operations and internationalization of sales. As a result, economies of scale can be reached. Although Sweden is a small country it entered international markets earlier and had larger international economic involvement than much bigger countries such as the United States (Swedenborg, 1979). Small countries like Sweden as well as Switzerland or Singapore have always had very offensive market expansion strategies. It is quite common for newly established firms in Sweden to become international within a few years. That is mainly because of a superior technology. Whether a firm decides to produce internationally or to export depends on the ratio between location advantages in the home and in the host country. The difficulties of producing in host countries have been trade barriers as well as high transportation costs. It has also been important to establish close bonds with local customers to push sales. Products from foreign countries most often increase foreign sales. Products from other countries are offered to sustain foreign sales through the final production of goods or modifications or adoptions of the goods, which are designed especially for the Swedish market. Due to this product specialization, which is associated with international production, Sweden was able to offer a broad product range (Sölvell, Zander and Porter, 1991).

Between the late 1800s and the beginning of the twentieth century the emergence of Swedish MNCs took place. According to Olsson (1993) there were two main groups of export industries (Olsson, 1993). The industry of raw materials was the dominant one. Materials like wood, metal ores and pulp were exported to industrialized countries in Europe. Before the First World War most of the products that were exported by Sweden were forestry products, which were primarily sold to Great Britain because of their construction process and their rise of demand of wood products. Iron and steel, because of Germanys industrialization process, as well as agricultural products like oats and butter also covered up a huge amount of exports, mainly to Germany (Hörnell and Vahlne, 1986). The other group of exports was modern engineering with metal manufactures as well as transport equipment and machinery. This increase was referable to the large amount of natural resources Sweden always had. Due to the earnings from wood and iron exports and modern manufacturing the establishment of new industrials companies could be financed. The know-how from the metallurgical and technical workings was useful for the modern engineering industry in the industrialization before 1914 (Lundström, 1986).

Multinational Corporations between the First World War and 1960 went through different stages. Due to political reasons and physical barriers to trade, which emerged from the hostilities during and after the First World War, the significance of international production increased. The fact that Sweden kept neutral during the War helped the expansion of Swedish MNCs. These MNCs had a more negative result during the Russian Revolution in 1917. This was because of the loss of the Russian export market and many subsidiaries became nationalized without any reimbursement (Lundström, 1986). Apart from the laggard growth in 1920 Sweden went through an industrial transformation, and it finally developed itself into a modern industrial nation. With technological knowledge accumulation new Swedish MNCs came up in this export oriented time. Much of the net exporter of capital happened in terms of FDI. By the end of 1920, about 50 companies had emerged with its production subsidiaries abroad (Lundström, 1986).

The importance of trade in Sweden declined during the international depression in the 1930s. That happened because of the rise of tariff barriers and trade wars. Sweden's share of exports declined considerably in comparison to the prior two decades, as well as the number of new MNC-establishments. In 1960 the exports reached their height of the 1920s level again (Sölvell et al, 1991). During that time only a few firms and only already established MNCs produced internationally, which was due to host country-related location advantages, thanks to trade barriers, political factors and high transportation costs (Wohlert, 1989).

Before 1950 there was no chance of a recovery of shrinking MNC establishments due to the Second World War. The Second World War initiated destruction and Swedish MNCs lost property in Eastern Europe. The neutrality Sweden insisted on, led to risks for their MNCs. Companies could not do that much foreign trade in this period and domestic production could proceed because of the engineering industry and its strategic importance in the national rearmament process in the mid-1930s. The government supported firms, which produced defence material in their establishment. These firms mostly profited from large orders from the state (Olsson, 1977).

After 1960 MNCs made a huge step towards new technologies. According to Wohlert (1989), Sweden transformed into a high-class technological country after the Second World War (Wohlert, 1989). Exports and international production started to rise because of the liberalization of world trade and economic growth after the Second World War. Despite the fact that foreign trade had only a minor part in the international economic activities of Swedish firms in 1970, the share of exports to GNP (Gross Domestic Product) reached 35 per cent. From 1950 onwards, Swedish outward FDI increased and took on an more important role in the economy (Hörnell and Vahlne, 1986).

A change in the process of internationalization and establishment started in 1960 by a few Swedish manufacturing firms (Johanson and Wiedersheim-Paul, 1975). This process has also been described by Nordström (1991), yet in a more rapid and direct way. These processes became possible due to a combination of host country characteristics, firm characteristics as well as home and host country international structures. As a consequence, internationalization was accelerated through forestall some stages of establishment with sales and through production subsidiaries abroad in an early stage. It became possible because they invested in more distant countries with high market potential such as the United States. They used cooperative ventures, different modes of acquisition and fully owed foreign subsidiaries (Nordström, 1991).

In 1960, less than 40 percent of Swedish outward FDI were achieved through acquisition, whereas in the 1970s the amount of outward FDI climbed up to 60 per cent (Hörnell and Vahlne,1986). Between 1979 and 1986 around 75 percent of all foreign subsidiaries that were established by Swedish firms were established due to acquisition (Olsson, 1993; Nordström, 1991). In 1977 Johanson and Vahlne first developed the Uppsala Model with reference to Swedish firms (Johanson and Vahlne, 1977).

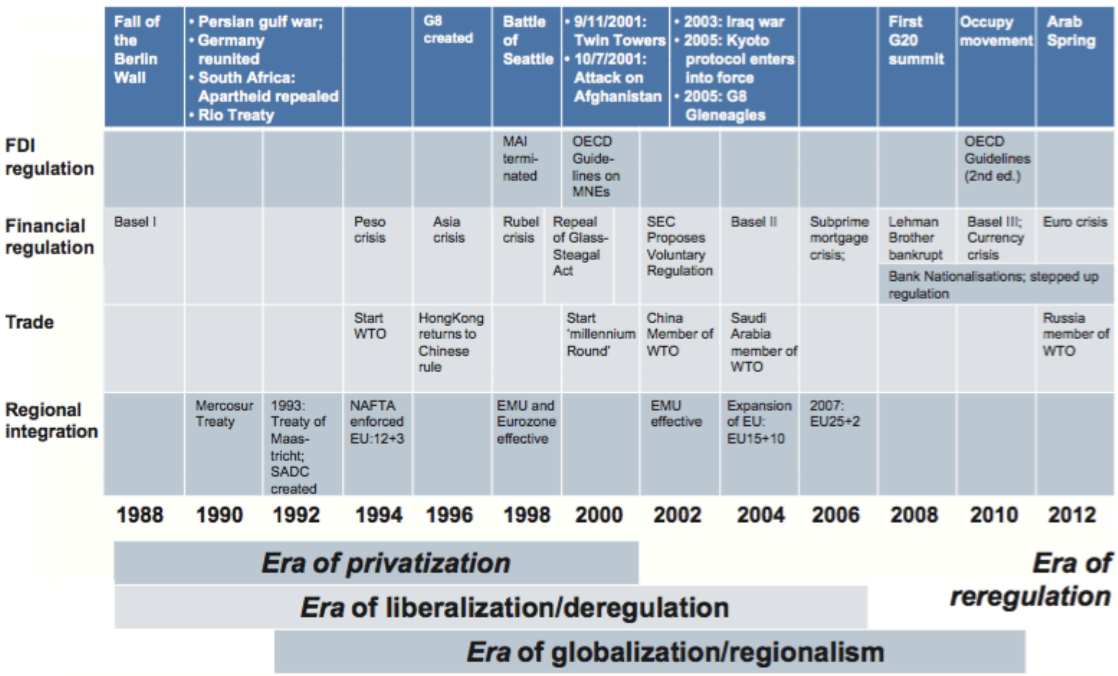
1.4 Challenges of Multinational Corporations

In this section some of the challenges a multinational corporation has to face, are listed.

According to Tulder, Verbeke and Voinea (2012), MNEs are confronted with challenges in all aspects of business because of a fast change in the environment of European multinational enterprises and the unknown future of international policies. These challenges include privatisation, deregulation and liberalisation. These conditions led to different periods, which included for example institutional volatility (Tulder, Verbeke and Voinea, 2012). Many of the globalization’s protagonists claimed that these challenges were more regional than they had initially anticipated (Rugman and Verbeke, 2004). “Home advantages” become more and more under pressure. Stakeholders like governments and non-governmental organizations and their relationships to the firms were concerned as well. Moreover, the “host advantages” European MNEs wanted, were crucial in developing countries. In particular, new generations of emerging market MNEs were major challenges due to their domestic policy environment that were characterised by privileged relationships with non-market actors (Tulder, Verbeke and Vionea, 2012).

There are five policy changes that are the reason for these changes and occurring challenges (Figure 1.) (Tulder et al, 2012).

Figure 1.: International Policy Development from 1988 to 2012



Source: Tulder et al. (2012), p. 2

The first one was the changing global political system to a multi-polar constellation. The second one was that the trends in regulatory reforms were characterised by substantial ambiguity at a national level (Tulder et al., 2012). This is followed by the third change, which was the spread of the international trade, which came with many difficulties. The fourth was the mixture of the evolution of the international investment regime of the last 25 years and bilateral developments. Finally, the last change was the representation of a demanding institutional context for every multinational enterprise to work in by the regional integration (Tulder et al, 2012).

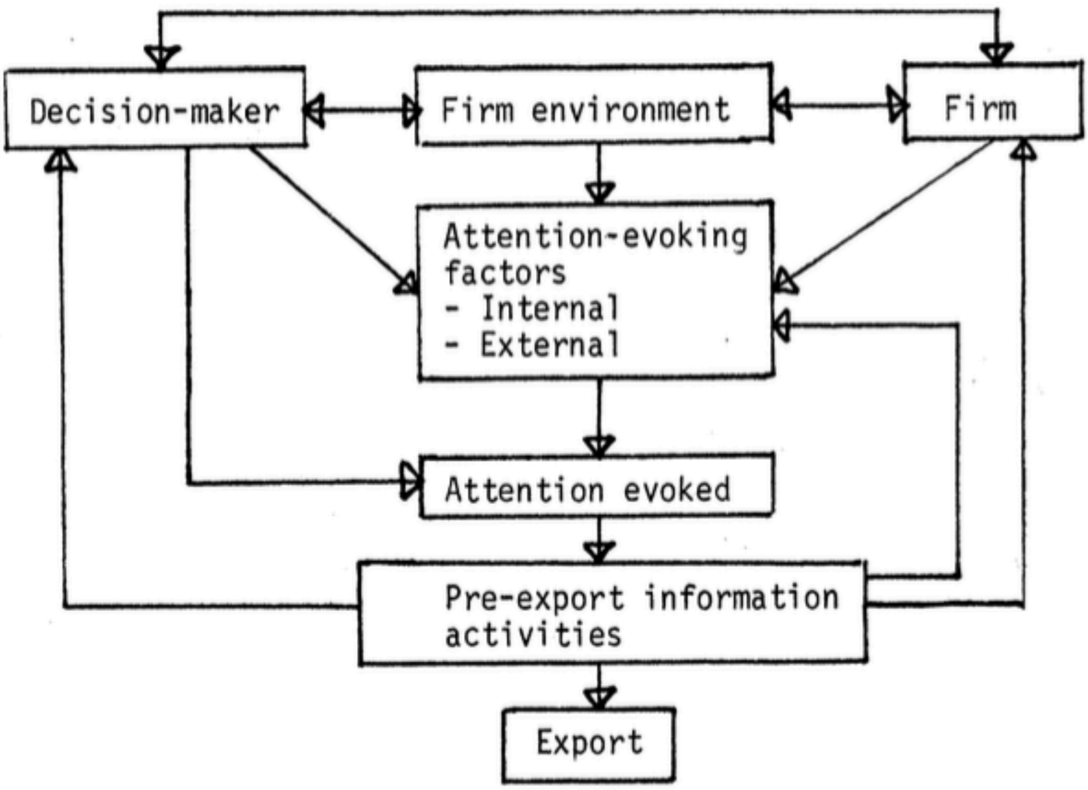
2. Models and Theories regarding the Internationalization Process

In this Chapter The Uppsala model and the Network theory are described in detail. As the models were retrieved or extended a number of times, several researches gave an extensive overview about the models and their development. In the first part of this section, the Uppsala Model will be introduced. The second part will deal with the Network theory as well as the network view on Multinational Corporations. Special emphasis is put on the question of how firms can be built up and successfully developed on a multinational basis.

Wiedersheim-Paul, Olson and Welch (1978) developed a model that highlights activities a firm faces before they start their export. The decision-maker, the extra regional expansion of the firm, the information and the environment are in the focus of this model. The model focuses on firms that are not foreign owned and that operate domestically in their home country. Firms that are overseas owned have a different array of forces that are more important than the ones that are examined in this model (Wiedersheim-Paul et al, 1978).

According to Wiedersheim-Paul et al. (1978) not all firms were exporting goods; they rather sell locally and are quite small when they start exporting, thus there frequently is only one decision-maker who takes all crucial decisions. The decision-maker operates in two influencing positions.

Figure 2. Factors affecting the Pre-Export Activities of the Firm



Source: Wiedersheim-Paul F. et al, 1978, p. 48

As depicted in Figure 2., the two factors of influence are the attention-evoked factors and the location and environment of the firm. The attention-evoked factors may come from personal characteristics and the experience of the person itself but not from the history of the firm. Therefore, if the decision-making person has good experience with exports and is orientated internationally he or she may be more likely to start exports in the firm he works in (Wiedersheim-Paul et al, 1978).

According to Wiedersheim-Paul et al (1978), the location and the environment of the firm also have a high impact on the export activities as a continuous and fluent information flow has to be given as soon as a firm starts selling in foreign countries. This can be achieved through communication centres nearby (Wiedersheim-Paul et al, 1978).

Exporting is considered a viable strategy through attention-evoking factors. These attention-evokers have an influence on the decision-maker only to the extent he or she perceives the factors. Wiedersheim-Paul et al suggested the existence of internal and external attention-evokers. Internal attention-evokers have unique competencies and the excess capacity of firms resources. There are resources like management, marketing, finance or production. These internal qualities a firm drive the initiation of internationalisation. For external attention-evokers, the environment of a firm is crucial for its internationalisation. External factors can for example be orders from foreign customers or opportunities in the target market, which are likely to have a positive result on the firm (Wiedersheim-Paul et al, 1978).

The pre-export information activities are some of the most important activities a firm exhibits before going international. According to Wiedersheim-Paul et al (1978) three different dimensions of the firm's activities exist. The first one is the "willingness to start exporting", the second one is the "information collective activity" and the third one is the "information transmission activity". If the level of one of these dimensions is high, the firm is doing well at their pre-export activities. Due to these activities and their performance the experience of the firms export will be positive as well (Wiedersheim-Paul et al, 1978).

Wiedersheim-Paul (1972) also investigated the importance of uncertainty and economic distance, which are main problems that arise in the context of international business. Uncertainty for example may occur because of the lack of knowledge regarding the alternatives a firm has and it may also occur because of different conditions in the environment. The size of uncertainty is dependent on the distance between the problem and the one who has to deal with it. Economic distance is also of great importance when studying the internationalization process, as most commonly the internationalization process gradually develops and follows specific patterns, which are usually the same. These patterns are also referred to as development chain and they have several characteristics like direct export, exports with sales subsidiaries or with local representatives or corporations that have their own production in foreign countries (Wiedersheim-Paul, 1972).

2.1 The Uppsala Model

The Uppsala Model has its origins in Penrose's (1959) paper in which she discussed the connection between the expansion of a firm and the experiences it makes (Penrose, 1959). Furthermore, the behavioural theory postulated by Cyert and March (1963) had an impact on the development of the Uppsala Model. Their theory describes a company as an adaptive organ, which gains knowledge through experience. The adaption process is explained as a condition with possessing short-run properties in an environment that is constantly changing (i. e., a company changes its behaviour as a consequence of the feedback it gets from the environment). The long-run feedback finally results changes of established rules. This is termed "learning rules" (Cyert and March, 1963).

Penrose (1959) differentiated between objective knowledge and knowledge that is obtained through experience. While objective knowledge can be taught, knowledge that is obtained through experience cannot be thought. According to Penrose knowledge of foreign businesses and markets can only be gained when a company makes its own experience. He drew the conclusion that knowledge remains unused when a company does not go abroad (Penrose, 1959).

The research work of Aharonis (1966) and Carlson (1966) provided an important basis for the Uppsala Model. Aharonis exemplified the process of foreign investment decisions to enter markets abroad and explained why companies started to focus on the opportunities that foreign investment implied. He also stated that much depends on the individual in a company (i. e., how much time and intensity they spend on the research of foreign investment and their opportunities) (Aharoni, 1966).

Carlson (1966) was the first to link these findings and probably paved the way for the subsequently introduced Uppsala theory. She considered the risks that occur due to the missing knowledge of a country when a firm operates abroad. Her aim was to provide a solution for overcoming cultural barriers during the internationalization process. She also stated that the degree of knowledge that a firm has is dependent on the distance in a geographic and a cultural way. In 1973 Vahlne and Wiedersheim-Paul introduced the terms of cultural distance and psychic distance, which will be further illustrated on in the following sections (Carlson, 1966; Vahlne and Wiedersheim-Paul, 1973).

Jan Johanson and Jan-Erik Vahlne developed the Uppsala Model in 1977 in Swe-den, which is based on several research studies from the University of Uppsala (Johanson and Vahlne, 1977).

The Uppsala model is regarded as a milestone in the field of international business study, since it imposed a behavioural approach in the field of internationalization (Oliveira and Figueir, 2017). It is the most widely adopted stage model approach (Reid and Rosson, 1987). Vahlne and Johanson, (2014) even considered the Uppsala model to be characterized by an “intellectual journey of detoxification from economics-type assumptions” that traditionally dominated the field of international business (Johanson and Vahlne, 2014).

This Uppsala model focuses on the firm’s gradual acquisition, its integration and on the use of knowledge about foreign operations and markets. The author’s aim was that this model would contribute to conceptualization in the internationalization of firms and may increase the understanding of international operations and their development (Johanson and Vahlne, 1977). It is based on the assumption that a lack of knowledge is one of the main barriers in the progress of international operation. Moreover, the increasing commitment to foreign markets was also considered an important factor. It postulates that the motivation to internationalize rises after domestic expansion and suggests that internationalization processes have to be done in a cautious, incremental manner with a) avoidance of regular export activities, b) export through independent representatives or agents, c) sales subsidiary, and d) production /manufacturing. The psychic distance between the home and host country was considered crucial. Psychic distance is considered to be the sum of factors that define the flow of information to the market and from the market. Potential barriers may result from can different languages, different education, different cultures, different business practices and also differences in industrial development (Johanson and Vahlne, 1977). Thus, the psychic distance has implications for the flow of information, the understanding of foreign environments, and the effects of transculturall variables (Hörnell, Vahlne and Wiedersheim-Paul, 1972; Nordstrom and Vahlne, 1994; O´Grady and Lane, 1996; Oliveira, Figueira and Pinhanez, 2017).

In the late sixties and seventies numerous Swedish companies were involved in internationalization processes. It was suggested that this process was positively influencing the foreign market commitment by increasing their presence. Eventually, new knowledge of a foreign market grew and firms started to expand to markets abroad that were alike their home markets (Johanson and Vahlne, 1977). According to Johanson and Vahlne (1977 and 2009) this was not coinciding with the actual truth about the internationalization.

Almost all sales subsidiaries of Swedish steel firms and pulp and paper firms have been established by acquisitions of previous agents or persons who were employed by the agents that had made these acquisitions. This is the result of studies of the export organization of these Swedish firms (Johanson, 1966; Forsgren and Kinch, 1970).

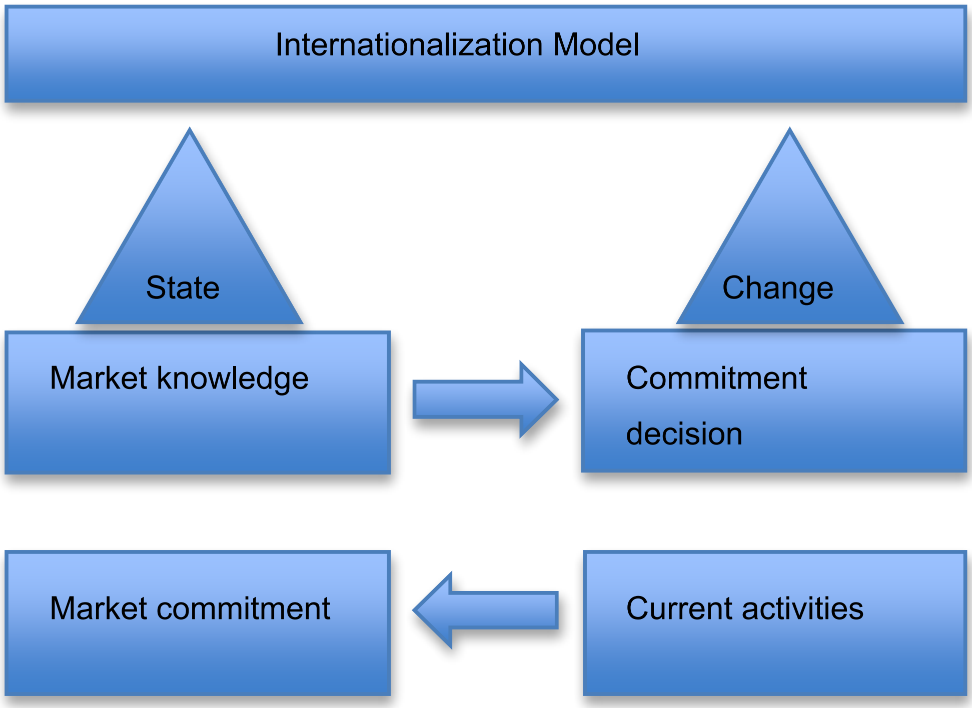
Johanson and Vahlne (1977) investigated the internationalization of four different Swedish engineering firms (Johanson and Wiedersheim-Paul, 1975). As mentioned above, the order of the establishment chain in foreign countries is that in the beginning there is no regular export, then independent agents get involved, followed by establishment of sales subsidiaries and the finally establishment of production facilities (Johanson and Vahlne, 1977). The authors concluded that this was the result of a process of gradual adaption to the change in conditions and its environment (Aharoni, 1966) rather than the result of a strategy for the best allocation of resources to other countries.

New challenges as well as new opportunities emerged due to changes in a company and its environment. Because of missing routines for the solutions of the problems, the management of the concern searched in the sector of the problem (Cyert and March, 1963). Each new disruption was a new case and the problems and opportunities were handled in its new context. Commitments to other markets were not explicitly taken into account, however allocation of resources are not rival (Johanson and Vahlne, 1977). Hörnell, Vahlne and Wiedersheim-Paul (1972) stated that the lack of market knowledge and also the difficulty of obtaining this knowledge in international operations was an additional constraint. Because of the lack of market information and the uncertainty of incidence internationalization decisions had a gradual character (Hörnell, Vahlne und Wiedersheim-Paul, 1973; Johanson, 1970). Johanson and Vahlne (1977) claimed that the differences between countries regarding language and culture and the emerging lack of knowledge were a major drawback in the decision making of the development of international operations that had to be bettered. They assumed that the mentioned differences are the main characteristics of international operations. Market knowledge is defined as information about markets and market operations and it is stored in an arbitrary way. Individuals can retrieve this information in their minds, it can be stored in computers or it can be written down in reports. In the model they developed it was considered that knowledge is wrapped in the decision-making system but they did not deal with the decision-maker (Johanson and Vahlne, 1977).

2.1.1 The Internationalization Model

According to Johanson and Vahlne (1977) a more dynamic model would be suitable for explaining the stages of internationalization processes. The model's outcome would be created by one decision or by one cycle of events and their inputs. Johanson and Vahlne differentiated between state and change aspects and suggested that the relationship between these aspects would make the model dynamic (Johanson and Vahlne, 1977).

Figure 3.: The Internationalisation Model



Source: Johanson and Vahlne, 1977, p. 26

Figure 3 illustrates the basic mechanism of internationalization according to Johanson and Vahlne (1977). On the left side the state aspects (Market knowledge and Market commitment) are listed. These are the resource commitments in foreign markets and the knowledge about foreign markets and operations. On the right side the change aspects (Commitment decision and Current activities) are listed, which include the decision to commit resources and the accomplishment of current business activities. Aharoni (1966) acknowledged that market knowledge and market commitment influence the commitment decisions and also the activities that are performed, which in turn changes knowledge and commitment (Aharoni, 1966). According to Williamson (1966) the increase in long-term profits of firms is equal to growth and this has also been presumed in the Uppsala Model of 1977. Firms also had the aim to keep risk at a low level and this was influencing the decision-making process. According to this Model decisions were taken on the background of the erstwhile state of the economy. With ongoing processes of internationalization opportunities and risks emerged that in turn influenced commitment decisions and current activities (Johanson and Vahlne, 1977).

State Aspects

With respect to the state aspects, the authors assumed that the market commitment concept consisted of two factors. The first factor was the amount of resources committed and the second factor was the degree of commitment. The latter is the difficulty to detect a different use for the resources and passing them on to it. Frequently resources that are located in a market area were considered as a commitment to that market; yet, sometimes these resources were sold to use the money for other purposes. The more resources were integrated in different sections of the firm, the more the degree of commitment increased. The value of the resources was emerging from these integrated activities. Vertical integration means that the degree of commitment is higher than the conglomerated foreign investment. For instance, resources may be hard to allocate to other markets when a marketing firm that has been specialized in specific products of a customer and has already gained customer relations. Nonetheless, according to the Uppsala Model of 1977, the commitment to a market was also given when resources were located in the home country and when they were used in development and production of products for a separate market. In fact, the degree of commitment increased when resources were more specialized into a specific market. Even if it were possible to direct resources like that to a different market it would still not be a necessary consequence that these resources could be used profitably. For example, Volvo, which is a Swedish car manufacturer, has a large part of their production for cars for the U.S. market. In the short run it would not be easy to use these production capacity for other markets although Volvo is not too committed to the U.S. market. Engineers who were employed to adapt the cars to the U.S. requirements could also be used for other jobs, but this may not ensure that they would work profitably. The authors therefore assumed that resources located in a specific market were committed to that market. The second factor of market commitment was the amount of resources committed. This was defined as the amount of investment in the market and comprised the investment in marketing, organization, personnel and also other aspects (Johanson and Vahlne, 1977).

The second state aspect was the market knowledge. Here, the knowledge was important because commitment decisions were based on many different kinds of knowledge. The increasing knowledge of opportunities as well as of problems also results in the need of new decisions. The evaluation of possible alternatives was dependent on knowledge about the relevant parts of the environment of the market and on performance of several activities. Knowledge is therefore linked to present and future supply and demand. It was also linked to competition and to the channels for distribution, to transferability of money and payment conditions (Carlson, 1974).

According to Penrose (1966) knowledge is classified by the way in which it is acquired. The objective knowledge can be taught and the experience knowledge, which can never be transmitted, can be learned through experience (Penrose, 1966).

In the Uppsala Model of 1977 the experience knowledge was assumed to be the critical kind of knowledge because it is not as easy to acquire experience knowledge as objective knowledge. Johanson and Vahlne (1977) stated that it is possible to trust in long experience in combination with specific experience of organisations and markets in domestic operations. This is more difficult in foreign operations as organizations did not have such experience knowledge. The latter had to be gained during the operations in the other country. Experience knowledge became more and more important when activities and needed knowledge were less structured. It was particularly important when dealing with other individuals, for example managerial and marketing workforce (Johanson and Vahlne,1977).

Change Aspects

In Johanson's and Vahlne's paper from 1977 they defined two change aspects. These were current activities and decisions to commit resources to markets in other countries. Current business activities mostly had a lag between their current activities and its consequences. These consequences were realized when the firms activities were repeated on and on. If marketing activities were considered, they did not result in sales until they were repeated. In most of the cases the lag of time was a considerable fact and marketing investments were and still are an important and increasing commitment to the market. The commitment of a firm increases with the duration of the time lag. Thus it seemed appropriate to believe that the higher the total commitment as a consequence out of current activities is the more differentiated a product is. Current business activities have also been the main source of gaining experience. Johanson and Vahlne (1977) claimed that experience could also be obtained for example through new personnel with experience that is hired or through advices from people who are already experts. The authors differentiated the ways of integrating experience in the internationalization process between firm experience and market experience. Individuals who were working directly between the firm and the market had to be able to evaluate which information comes from inside the firm and which comes from outside. One kind of information can therefore only be interpreted by someone who has experience with the other part. To conclude, both types of information were required for the performance of marketing activities. In that sector it would be difficult to exchange personnel or advice from outside for ongoing activities. Due to this fact it would be easier to substitute hired personnel or advice for ongoing activities if activities would be more production-oriented. If the requirement of interaction between the firm and its market would go down the easier a substitution of personnel would work. As a result it would be easier to start new operations, which have no gradual additions to the previous operations. The general business climate is crucial for production activities. This can only indirectly be assessed by evaluation of the performance of business activities (Johanson and Vahlne, 1977). Based on these assumptions, the authors argued that it might be possible to hire personnel with market experience, who gradually become profitable in marketing activities. This happened due to the requirement of new personnel to get the experience that was needed in the firm. Nevertheless, the fastest way to get market experience was to hire a sales manager or to buy a part of the firm. It may have been possible to buy the whole firm or to hire a sales representative, however, most of the time it was not possible to buy this kind of experience because at the stage of market entry this experience did not even exist. It rather had to be acquired through a long process of learning connected with ongoing activities. This was considered as one of the main reasons why the process of internationalization takes its time (Johanson and Vahlne, 1977).

Commitment decisions regarding resources in foreign operations were the second change aspect in den Uppsala Model of 1977. It was suggested that this kind of decisions was dependent on the alternatives that are available and how they were chosen. As already outlined, it was assumed that decisions were made as a result of the arising problems or opportunities on the market. These problems and opportunities for business actions were made because of the existing experience.

Johanson and Vahlne (1977) shared Penrose's opinion (1966), stating that these chances and difficulties were part of the experience. The solution to problems on the market was the extension of the operations on the market (Johanson and Vahnle, 1977; Penrose, 1966). According to Cyert and March (1963), Johanson and Vahlne (1977) thought that the search for the solution to market operation problems was symptom-orientated (Cyert and March, 1963). Most of the time individuals who worked on the market perceived opportunities. These opportunities also led to the enlargement of the operations on the respective market and they were associated with the environment the firm is dealing with (Pfeffer, 1972). In this case, irrespective of the reason why a decision was made, they were linked with the ongoing operations on the market. Other solutions normally helped the expansion of the boundaries of an organization and they increased the commitment to the market. Johanson and Vahlne (1977) spoke about an opportunity horizon that pictured activities that were suggested by people that were responsible for operations. The scale and the type of operations that were performed could lead to opportunities that were offered from outside the firms. Every additional commitment is differentiated between an uncertainty effect and an economic effect and it was assumed that the economic effect was correlated with an increasing scale of operations on the market. The effect of uncertainty pertains to the market uncertainty. Market uncertainty can be described as the performed missing skill to gauge the actual and the future market and their influencing factors. Due to increases in the interaction and integration with the market environment market uncertainty could possibly be reduced. This worked through increasing communication with customers or even the take-over of customers as well as through the establishment of new services (Johanson and Vahlne, 1977).

2.2 The Network Theory and the Business Network Model

The Uppsala Model was revised a number of times. Due to the changes in business practices and also the fact that theoretical advances occurred, a revision was necessary from 1977. This section describes how a network works and what factors are considered to be important.

A very important aspect of the Network Theory is the position of the firm within a network. According to Zaheer and Bell (2005) a firm can use their resources and capabilities in a more beneficial way when they are in a network with superior structures. As a result, the performance of the firm increases. According to the authors this increase can be reached with progressiveness and innovation, which is gained by the position of a firm in its network. The communication structures and the resource and development division may lead to creativity and innovation. The performance of a company can also be raised by an innovative partner. Their paper also demonstrated that firms can bypass structural holes by using networks. By doing so, information about threats and opportunities and about potential partners can be gained (Zaheer and Bell, 2005).

As mentioned above, knowledge creation and transfer play an essential role in the network theory. Kogut and Zander (1993) stated that firms are social communities and that they deal with the transfer and the creation of knowledge internally. Through the transfer of knowledge in foreign countries, MNCs can grow and become efficient. The authors investigated how knowledge is transferred inside the firm and to third parties and how characteristics of individual firms influence this transfer decision-making process. They suggest that it depends on its degree of tacitness and thus on the ability to decode transferred knowledge. The fact that knowledge can be explained in words and how complex and teachable it is, determines the tacitness. The age of the technology and how often knowledge has already been transferred impacts the decision if knowledge is transferred to third parties or internally. According to Kogut and Zander knowledge is easier to codify and cheaper to transfer when the technology is older (Kogut and Zander, 1993).

As the experience has major influence on the internationalization of a firm, Blomstermo, Eriksson, Johanson and Sharma (2001) investigated how useful the experience in having relationships might be. They found that that network experience and foreign customers rise when the MNC is operating in many different countries. According to their study foreign customers increase the experience in foreign markets. The timespan an MNC remains in markets abroad influences the experiences, as time creates different kinds of experiences and helps relationships to be developed. Also, competitors may enhance experience through network relationships. Previous experience with suppliers has the same importance than former experience, and experiences with customers have also proven to be useful. To summarize, international market experience rises when the activity of previous experience rises (Blomstermo, Eriksson, Johanson and Sharma, 2001).

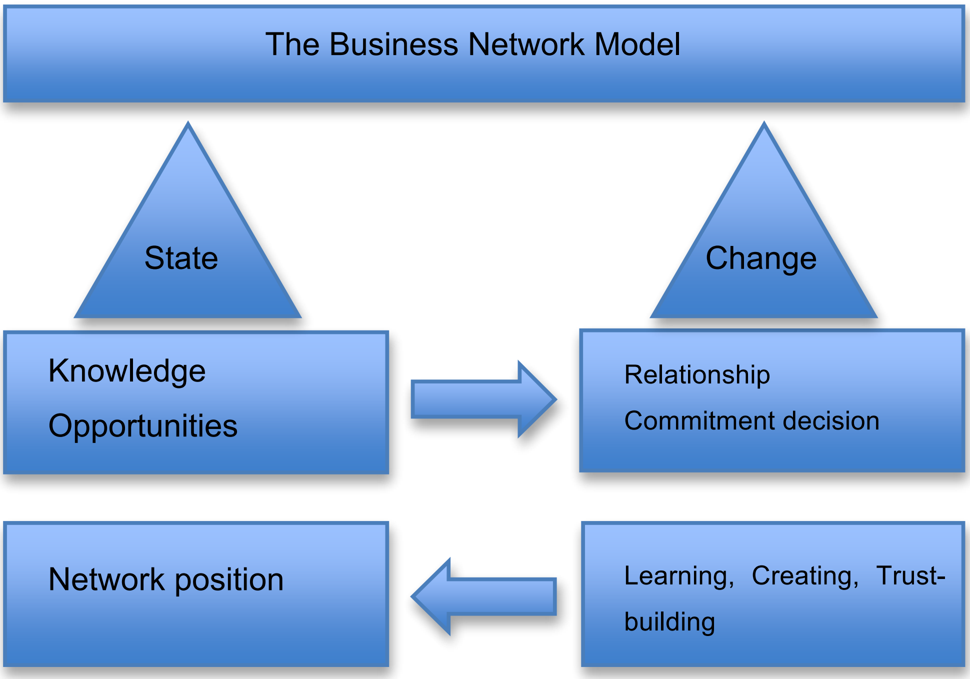
The environment of businesses is now viewed as a network and not as a neoclassical market, which had different independent customers and suppliers. The origin of uncertainty is psychic distance and the Outsidership in relation to the network. In the modified, “new” model trust building and knowledge creation were added; apart from that the change mechanisms remained the same. Knowledge creation was amended because of the assumption that new knowledge is developed in relationships (Johanson and Vahlne, 2009).

A firm is involved in a network of businesses, which is enabling and also constraining at the same time. The network contains actors employed in many different interdependent relationships. The result of a firm’s action to support network positions is internationalization. Due to the fact that networks are borderless, entry and expansion in foreign markets and their differentiation is not that relevant in the new model. Managing various barriers is the traditional way of market entry, however, and this is becoming less important in contrast to internationalizing undertaken to encourage the position of a firm in the network (Johanson and Vahlne, 2003). Johanson and Vahlne (2009) argue that actual business relationships have a remarkable impact on the market that they decide to enter and that they also have an impact on the decision of which mode they use. This view is close to the business network view of Håkansson and Snehota from 1995. In relationships the learning process as well as commitment building takes place. The statement from the model of 1977 that experimental knowledge would lead to the identification of opportunities is completely left out in the new network view. The main assumption was that the reduced uncertainty was associated with the distinction amongst the culture and institutions of the homeland and the differences of the other country (Johanson and Vahlne, 2009; Håkansson and Snehota, 1995). The coherence between learning and commitment and identifying and exploiting opportunities is expected to be very strong (Johanson and Vahlne,2006). Some types of knowledge are exclusively available for network insiders. Based on this high commitment to partners it is possible for firms to build on their particular bodies of knowledge and to discover or create new opportunities. Based on the findings of Eriksson et al (1997), Johanson and Vahlne argued that internationalization is specialised just a little more on developing opportunities than on managing uncertainties. This refers to the institutional conditions in the foreign market (Eriksson, Johanson, Majkgård and Sharma, 1997; Johanson and Vahlne, 2009).

Sarasvathy (2001) developed the effectuation process and described how entrepreneurs arrange the launch of a new company. This process supports the understanding and handling of human actions. It can be used when uncertainties of future problems of existence arise. Johanson and Vahlne (2009) stated that the process of internationalization is similar to entrepreneurship and can probably be described as corporate entrepreneurship. They also emphasised that the internationalization is associated with a high degree of uncertainty. The effectuation process is similar to the internationalization process model introduced by Johanson and Vahlne. They have the same environmental characteristics, they have limited options, a gradual development and they also focus on cooperative strategies (Saravathy, 2001). When comparing Saravathy's (2001) model and Johanson's and Vahlne's (2009) model, the latter does not account for the importance of the actors and their characteristics. They do consider that the actors are present in the model but they just have the purpose to carry knowledge, commitment, network relations and trust. Johanson and Vahlne stressed that entrepreneurship and internationalization do have a lot in common (Johanson and Vahlne, 2009; Saravathy, 2001).

Figure 4 shows the Business Network Internationalization Process Model. It also contains two variables similar to the Model from 1977. On the left side of Figure 4 there are the state variables and on the right side there are the change variables. For both sides the stock and flow is important, as this reflects the relationship they have to each other. The variables in this model influence other variables, as the actual state has an impact on the change and vice versa. Rising knowledge is a dynamic process and may have both, a negative or a positive influence on commitment building and trust. Extreme cases, which do happen in reality, show that the firms of both sides of a relationship can potentially diminish the commitment or even quit the relationship to each other (Johanson and Vahlne, 2009).

Figure 4.: The Business Network Model



Source: Johanson and Vahlne, 2009, p. 1424

State Aspects

The modifications that were made were the additional definition of "recognition of opportunities" to the knowledge concept in the state aspects. The given opportunities represent a part of the knowledge. If the new variable is added they try to imply that opportunities are the most important aspect in the knowledge factor which drives the process. Needs, strategies, networks of connected firms and capabilities are other important aspects of knowledge. Whereas in the model of 1977 the second state variable was termed "market commitment" it is now labelled "network position". Presumably, the internationalization process is haunted within a network. The level of knowledge, commitment and trust are the characteristics of relationships. These characteristics can be interrupted among the involved parties. Thus, relationship can influence internationalization in many different ways, either more or less successful.

Nevertheless, a firm relishes a partnership in a network position as soon as the whole process is perceived as lucrative (Johanson and Vahlne, 2009).

Change Aspects

In the change variables the “learning, creating and trust-building” factor replaced the former variable “current activities”. In the 1977 model, the concept of current activities pointed out that normal daily activities played important roles and that they cause an increase of knowledge, commitment and trust. In the new model the variable “learning” this variable exceeds its original meaning of experience learning, although the authors still believe that it is the most significant kind of learning. The actual totality of knowledge, commitment and trust influences the rapidity, efficiency and intensity of the process of learning, building trust and creating knowledge. In this model trust building is described in more detail. Johanson and Vahlne (2009) suggested that this aspect needs the same status as that the cognitive dimensions have. The opportunity creation is also added and indicated as a knowledge-producing dimension. The authors believe that the deployment of opportunities is one of the crucial parts in any relationships. Additionally, if a high level of trust, commitment and knowledge exists in a relationship, it probably results in a more efficient and creative process. The other change variable, which was termed “commitment decisions” in the old model, has been modified to “relationship commitment decisions”. The term relationship is added because the authors wanted to illustrate that commitment refers to networks of relationships or relationships. By adding this variable the decisive power of the focal firm is exemplified through the increase or decrease of commitment to different relationships in a network. In some cases this kind of decision is embedded on a psychological level. The decision normally will be apparent due to changes in the entry modes. There can, however, also be changes in the rate of investments, organizational changes or changes in the level of dependence. Nevertheless a change in the level of commitment will not affect the relationship in any way (Johanson and Vahlne, 2009).

2.2.1 The Network View

In the network view there are two different ways to decide on the commitment to the relationship. According to Burt (1992) in many business cases they do develop new relationships. In some cases bridges to new networks are built, in other cases structural holes are filled. For example, Volvo forced some necessary Swedish suppliers to develop relationships with car manufacturers from Germany. This was done because Volvo wanted to show that their suppliers have the same skills and qualities as German manufacturers (Johanson and Vahlne, 2009; Burt, 1992).

There are some extensions in the new model of the internationalization process. One of them is that the process of internationalization depends on the relationships within in a firm´s network. It is also expected that the focal firm is based abroad in their relationships with their partners. These partners have a commitment to the development of businesses in terms of internationalization. The location of the partner can be in the home country or abroad. Local firms may follow the partner in another country if it is useful for the focal firm because of the partners' network position in one of these foreign countries. These foreign expansions provide the possibility of exploring novel interesting and valuable business opportunities. Johanson and Vahlne (1977) have already stated that the partners bases of knowledge were connected and therefore coherent to other members of the network. Given the similar knowledge base, the focal firm can enter other networks abroad. In summary, a common history of at least satisfactory or even successful joint business experience is resulting in mutual trust and commitment. Formal agreements do not necessarily influence trust and commitment. Another reason to join a market abroad may be the following: a partner who is in a relationship with the firm goes abroad or already is abroad and his partner wants the focal firm to follow them. Commitment to a relationship is related to this procedure of following (Johanson and Vahlne, 2009).

Which direction an internationalizing company finally takes, also depends on where focal firms and its partners see potential opportunities and where reliable relationships in foreign countries have already been established. This occurs in every market and it is dependent of the actions that the partners of the focal firm perform. In case a firm has no sustainable partners in a foreign country, it moves to a country where it might be easier to get in touch with a firm that already successfully operates in this market. The firm that wants to go abroad may also link itself with a middleman, like an agent or distributor. It may be possible for the focal firm to pass by the middleman in case a relationship with customers has been established. The firm may also establish its own subsidiary. The establishment and the development of relationships can be facilitated through a small psychic distance (Johanson and Vahlne, 2009).

In the Business Network Model's process view the start of the process is determined by a randomly chosen point (Coviello, 2006; Reuber and Fischer, 1997; Wiedersheim-Paul, Olson and Welch, 1978). Irrespective of what starting point of the founding of the company is chosen, what market entry mode is chosen or how a relationship is founded, the state variables (i. e., knowledge, trust or commitment to the firm's particular relationships) appear to be the critical point. (Johanson and Vahlne, 2009). An example given by Larson (1992) is the following: the focal firm strengthens its existing connections by using the trust that a partner has already established with other parties. A steadily increasing knowledge may, however, cause dissatisfaction with the relationship by the focal firm or its partner. In this case, reduction of the commitment on both sides or even the termination of the relationship may occur (Larson, 1992). In a previous paper published by Johanson and Vahlne (1990) they suggested that the access to information is more important in large companies, thus the Uppsala Model may more apply to smaller firms (Johanson and Vahlne,1990). According to the model of 2009, this observation is no further corroborated. Rather, knowledge is strongly context specific and the model may therefore also apply to large firms (Barkema, Bell and Pennings, 1996; Steen and Liesch, 2007). For big firms it is easier to gain sufficient information when they are already active in a market and when they acquire a new firm in this market. Thus, it may rather be the experience than the size of the firm that matters. Likewise, experience of the founding entrepreneur (i. e. access to knowledge before the internationalization is initiated) is the driving force with respect to the speed of internationalization and growth of new ventures (Johanson and Vahlne, 2009).

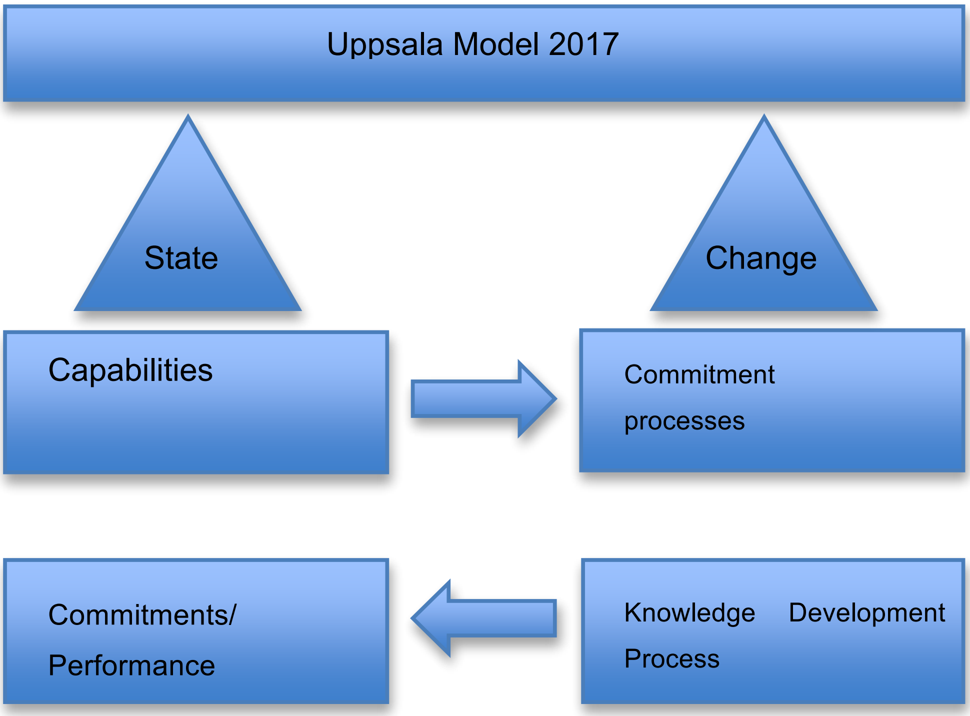
2.3 Uppsala Model applied on Multinational Business Enterprises (MBE)

As we have seen in this thesis the Uppsala Model has been revised a number of times. In this section, the latest version (2017) of the model is described as it represents the current state of research regarding the model´s application to the process ontology.

Johanson and Vahlne (2017) embedded the Uppsala Model in the process ontology and then they applied it to the evolution of MBEs. The authors wanted to indicate that the Uppsala Model may still provide a detailed explanation of MBEs and their evolution. Through implementing capability-creating processes into the Uppsala Model, Johanson and Vahlne explain what is needed to make a smooth internationalization happen. The ownership, the control, and the reasons why a firm wants to go international were identified as crucial factors. An efficient government and economies of scale also play an important role (Johanson and Vahlne, 2017).

Johanson and Vahlne assume the Uppsala Model to be a micro-level tool of analysis, which especially gives holistic explanations of the evolution of MBE. Despite the fact that the model was extended in its structure and also in its content, it generally is the same model as it was in 1977. In concordance with previous models there are state and change variables. Dynamic processes, which are applied in the Uppsala Model make the change variables crucial. The environment as well as the focal firm alter their characteristics due to the process changes. This leads to more changes in the future. In the model arrows show the relationships between the variables (Johanson and Vahlne, 2017).

Figure 5.: The Uppsala Model 2017



Source: Johanson and Vahlne, 2017, p. 1092

Giddens (1984) and Barley and Tolbert (1997) stated that the model is consistent with the structuration as well as with the institutionalization arguments. These two elements allow change, which could be affected by people and other organizational units (Giddens, 1984; Barley and Tolbert, 1997; Jacobides and Winter, 2012; Johanson and Vahlne 2017). As mentioned above, the change variables have to be looked at carefully because the action takes place within these variables. Learning, creating and trust building are fundamental in the knowledge development process and so they constantly re-appear again and change the state variables. For example, the state of a company's stock of capabilities may change and influences the resource commitment process, as learning means that existing capability is enhanced. Capabilities, performance and resource positions of the company and the partner in the network are influenced by a decision, which remodels resources. Due to new resource positions commitment may be decreased. This resource position can also be the trigger for de-commitment like a reduction of diversification or exiting the market consequently quitting a relationship. Future knowledge development and the decision making process or the allocation of resources can be influenced by change of capability and by changed resource position. Overall, Johanson and Vahlne (2017) stated that the knowledge development processes and the resource commitment were merged. They constructed a general model of the evolution of MBEs, which can be used in any stage a firm goes through during the internationalization, starting at the early stages of international expansion to globalization. As the model generally appears frugal, when it is used in the context of a specific research question, the consideration of two different variables is necessary. State variables have to be allowed as well as contextual aspects (Jacobides and Winter, 2012). To make the model suitable for the evolution of MBEs, capabilities representing the firm's specific advantages have to be implied (Johanson and Vahlne, 2017).

State Variables

Within this model, two state variables, the capability variable and the commitment/ performance variable, exist. These two variables are the result of the change variables (Johanson and Vahlne, 2017).

The capability variable consists of two different capabilities. One is the operational capability and the other one is the dynamic capability. To begin with the operational capability: It is known that internationalizing companies have at least privileged access to high firm specific advantage so that they can establish their business in foreign markets and accomplish liabilities of foreignness and outsidership (Hymer, 1960; 1976). According to Sandén and Vahlne (1976) the "advantage package" with their combined strength is at least as important as the individual FSA (Sandén and Vahlne, 1976). Rugman et al. (2011) stated that this advantage package is a result from the established distance in foreign markets (Rugman, Verbeke and Yuan, 2011). In this paper the Uppsala model focuses on the evolution on FSAs (Johanson and Vahlne, 2017).

Dunning and his colleagues Rugman and Lundan recognized FSA's (Dunning and Rugman, 1985; Dunning and Lundan, 2008; Rugman, 1981). Asset based elements where access is possible due to ownership, (e.g. access to raw materials, capital, distribution channels) and transactional advantages a firm has when becoming multinational are included in the researches concerning FSAs. (Johanson and Vahlne, 2017).

When operational capabilities are used FSAs are exploited. In contrast, when dynamic capabilities are used they let operational capabilities develop, since they add their strengths (Teece, Pisano and Schuen, 1997; Teece, 2014). Dynamic capabilities appear mandatory in the internationalization process. When firms do have a large amount of experience because of former internationalization, the process itself can sometimes be an operational capability (Johanson and Vahlne, 2017).

In this study commitment was regarded to have several different forms, particularly over longer periods as in other studies the mode of operation in foreign markets was a valid measure of the degree of commitment of a firm. The modes of a firm can alter to other modes as the preferences of the firms may change (Benito, Petersen and Welch, 2009). This does not necessarily mean that commitment further decreases, rather, it represent upstream and also for downstream activities (Johanson and Vahlne, 1977; Pyndt and Pedersen, 2006; Asmussen, Pedersen and Petersen, 2007). Overall, what really matters according to Johanson and Vahlne (2013) are the totality of the net benefit that results from taken decisions and the dynamic benefits such as the learning potential (Johanson and Vahlne, 2013).

The other capability variable is the dynamic capability. According to Teece (2014) it is defined as the competence to alter, create and use internal and external competencies so the firm is able to cover the changing environment (Teece, 2014). Nelson and Winter (1982) stated that this capability may be seen as routine that occurrs again and again (Nelson and Winter, 1982). Winter (2003) defined routine as behaviour that is learned by an individual and founded in tactic knowledge (Winter, 2003). According to Barney (1991) a firm or individual is not able to buy dynamic capability, rather, it has to be built inside the firm (Barney, 1991).

The other state variable is commitment and performance. According to Johanson and Vahlne (2017) there have been many different terms for the result of the change process. In this paper, as mentioned above and as seen in Figure 5., two different kinds of capabilities and the commitment/ performance variable were introduced (Johanson and Vahlne, 2017).

In this model, commitment describes the allocation of resources to the different functions in the MNE. It describes the different product lines an MNE has, the countries it is operating in and the relationships it has already invested in. Different positions can also mirror commitment to specific actions. On the other hand, performance indicates what a firm or individual has yet achieved. Commitment and performance occur at the same time. These two elements describe the process of knowledge development. It depends on the main research question that is discussed in what manner the dimensions of the resource positions are chosen and how they are executed. When the focal issue is the status of the firm in a network, the resource position as well as the performance outcome is essential (Johanson and Vahlne, 2017). Another performance variable could for example be the degree of globalisation a firm achieved. This degree also provides information about the firm's resource position, which regulates an MBE's cycle of evolution (Vahlne and Ivarsson, 2014; Asmussen et al. 2007). Depending on the research question this dimension can for instance also be the profitability (Johanson and Vahlne, 2017).

Change Variables

As already set down in 1977 by Johanson and Vahlne, the change variables are as important as the other variables; they may better reflect the current evolution of MBEs. Change is a variable that modifies performance and capabilities of MBEs. It has two beginning points of change. The first is the unsteady decision process, which is associated with the commitment of resources. The second is associated with ongoing knowledge development processes due to learning and creating. It explains why the vertical arrows between the change boxes are missing: The two processes of commitment and de-commitment and the process of learning, creating and trust building affect each other indirectly. This is because of their impact on the state variables. These state variables then cause extra change (Johanson and Vahlne, 2017).

The change variables include the commitment process, which contains reconfiguring and also coordinating. These two aspects are sub-processes and appear when certain conditions are happening like risk or uncertainty. Sometimes they appear when ignorance happens. Occasionally they emerge after the alteration of capabilities and relationships or when specific performance levels have been achieved (Johanson and Vahlne 2011). The results of the mentioned change variables consecutively serve as a new input into the commitment process and reshape resources and coordinating actions. If the Uppsala Model process method is working, it explains the true nature of dynamic capability formation (Helfat et al., 2007). Decisions concerning the resource allocation are the major focus within this application. These decisions are constrained to visible decisions regarding large-scale investments, which also include resource allocation decisions. These decisions are made by the top-management. Therefore the authors of this paper focussed on commitment processes. According to Foss and Klein (2012), the model from 2017 includes the implementation of decisions to focus on the usage of opportunities (Johanson and Vahlne 2017; Foss and Klein, 2012).

Mintzberg and Waters (1985) and Klingebiel and De Meyer (2013) stated that the implementation includes extra risks and uncertainties (Johanson and Vahlne, 2017; Mintzberg and Waters, 1985; Klingebiel and De Meyer, 2013). Johanson and Vahlne also mentioned Saravathy's (2001) model of effectuation, that pointed out that entrepreneurs keep risks, uncertainty and ignorance at bay when they work with on-hand means and they accept losses and develop partnerships (Saravathy et al., 2013). The authors conclude that the effectuation model is homogenous with respect to several circumstances of entrepreneurial tasks and decision-making processes, that have already been described in the last 40 years (Johanson and Vahlne, 2017).

The Uppsala Model from 1977 already suggested that commitment, which is the resource allocation decision, is made if there is a benefit (Johanson and Vahlne, 1977; Figueira de Lemos, Johanson and Vahlne, 2011). By gaining experience and by the knowledge of opportunities, expectations are developed. The members of the network develop these expectations. Because of the risks that have been taken in the past and all the uncertainties and partial ignorance that have occurred, the subsequent results and downside outcomes are based on these previous actions. Likewise, knowledge about the potential value of resources that may get lost, is important for future downside outcomes (Hill, Hwang and Kim, 1990; Johanson and Vahlne, 2017).

The other change variable is the knowledge development process. Johanson and Vahlne cited Bartlett and Ghoshal (1989; 1990) and referred to an earlier paper they had published (2009) and stated that the knowledge development process includes learning, creating and trust-building. This process can happen inter- as well as intra-organizationally, because the focal firm and its direct environment have a network character (Bartlett and Ghoshal 1989; Bartlett and Ghoshal 1990; Johanson and Vahlne, 2009). Network units, irrespective of its internal or external character, display these processes. Johanson and Vahlne (2017) relied on two concepts that intersect with each other. One of these concepts is the social construction as outlined by Berger and Luckmann (1966) and Gavetti and Levinthal (2000). It implies that managers learn and at the same time they use certain inputs that convert information into understandable and useful units (Berger and Luckmann, 1966; Gavetti and Levinthal, 2000; Johanson and Vahlne, 2017). The second concept is sense making (Weick, Sutcliffe and Obstfeld, 2005). Johanson and Vahlne mentioned Brown and Duguid (1991) and stressed that knowledge development stays in the tactic experience and the realization of the collective (Brown and Duguid, 1991; Cohen and Levinthal, 1990).

MBE internal and external units also have sub-processes regarding the progress of learning. These units usually operate separately from each other but they develop together. During this development process internal and external units affect the official commitment process via reallocating resources and triggering dynamic capabilities, which then generate higher firm specific advantages (Janssen, Stoopendaal and Putters, 2015).

Johanson and Vahlne (2017) stated in their paper that a number of studies investigated the processes that underlie the several capabilities. Dosi (1982) for example suggested that learning may lead to routinization of the innovation process (Dosi, 1982). Dodgson (1993) regarded inter-organisational trust to constitute a crucial element that reduces uncertainty within relationships (Arvanitis, Fuchs and Woerter, 2015). Johanson and Vahlne (2017) finally suggested that the development process should consider three sub-processes, namely relationship building, certain flexibility when a strategy is implemented, and the adaption of the strategy to the direct environment of an organization. Anderson and Weitz (1992) as well as Morgan and Hunt (1994) pointed out that relationship building is time intensive gradual process. This process includes learning about the other members of the process and establishment of confidence-building measures through relationship commitment (Anderson and Weitz, 1992; Morgan and Hunt, 1994). According to Johanson and Vahlne (2009) trust needs to be built upon experience (Johanson and Vahlne, 2009).

The second sub-process is the implementation of a strategy. According to Mintzberg and Waters (1985) certain parts of the strategy will be translated into the new strategy (Mintzberg and Waters, 1985). A new strategy can be implemented when the middle management and the top management combine their sub-processes. To realise a strategy, flexibility is an important factor anyways (Salvato, 2003; Santangelo and Meyer, 2011). The third sub-process for the development process is the adaption of the strategy to the organizations direct environment. This is known to be a dynamic process, which is path-dependent (Hatch, 2004).

In general the processes of knowledge development and resource commitment reflect the internationalization and the globalization processes. In recent years, Johanson and Vahlne (2017) reevaluated the Uppsala Model and tried to allocate this model to the evolution of MBEs. Learning and creating within a network of MBAs is essential and creates relationships between the participating parties (Johanson and Vahlne, 2009; 2017)

Johanson and Vahlne (2017) also comment on the evolution of multinational business enterprises with respect to the Uppsala Model. Dunning and Lundan (2008) stated that many of the theoretical perspectives on multinational evolution follow the eclectic paradigm (Dunning and Lunddan, 2008; Johanson and Vahlne, 2017).

Johanson and Vahlne also felt that their work and assumptions on the Uppsala Model do not conform to the previously investigated eclectic paradigm (Johanson and

Vahlne, 1990; Johanson and Vahlne, 2013). They suggest the Uppsala Model to be a suitable prototypic model to study the evolution of MBEs, since it follows a dynamic approach and accounts for factors such as uncertainty and partial ignorance that may be related to decision processes of managers (Johanson and Vahlne, 2017).

2.4 A Multinational Firm and its Networks

The Business network theory deals with the relationships in a network and the actors who are inside this business network. As outlined in the chapters above, at the beginning of an internationalization process, the actor of a business is the parent firm which is incrementally investing in other countries than the home country. The parent firm is the one who will shape the internationalization process in the way of how and where the ongoing invests are made. Eventually, this process will proceed and a firm will finally operate in several different countries (Forsgren, 2017).

Forsgren (2017) assumes that multinational businesses are made up out of several business actors. There is a legal and an administrative unit and together these business actors are the subsidiaries. Every single subsidiary is integrated in a network of relationships and somehow is distinct from each other subsidiary, since each single subsidiary will face their own problems and opportunities within their network as well as within their firm. They will aspire for power and influence in their network to extend the power of the multinational firm and to expand this power in a way that is feasible for each subsidiary (Forsgren, 2017).

According to Forsgren (2017) an MNC is best considered as a legal entity and the subsidiaries of the MNC should be evaluated if they are related to the business they perform. The so-calles “MNC triangle” is the corporate context (Forsgren, 2017) The MNC triangle is described as followes. On the top of the triangle the headquarter of the MNC is located; underneath thre are the subsidiaries, which are connected to the headquarter by an administrative link. These subsidiaries obviously have external business actors, which are linked to the subsidiaries with an embedded relationship. This means that knowledge is exchanged (“arm’s-length exchange”). The subsidiaries and the external actors illustrate the subsidiary network context. It is possible that when the headquarter has three subsidiaries, two of them are in the same network with external partners and linked to each other through a embedded relationship, while the third is exclusively operating with external actors. Actors and subsidiaries have different relationships to each other. The closest relationships are based on legal grounds but not on business grounds (Forsgren, 2017).

Forsgren (2017) stated that its business actors do not characterize the environment of each subsidiary in the network. Instead, the environment of the subsidiary is characterized by the amount of competition they have. The environment is more “faceless” than a certain thing that can be numerated. He also states that the business network theory analyses the direct environment of a subsidiary and therefore each relationship a subsidiary has and so the environment becomes a “face”. The subsidiaries are most often linked in a non-strict way and the greatest influence comes from the business network context the subsidiary is anchored in. Within this frame, it has no influence whether the business actors are inside or outside seated at the MNC in the network (Forsgren, 2017).

The business network context of each subsidiary is important as it has a high influence on the opportunities, capabilities and also in the behaviour the subsidiaries exhibit in the business. As mentioned above there is the possibility that one subsidiary of the head quarter has no relationship to the other two subsidiaries and that this subsidiaries corporate context is different from its business context. This subsidiary has all its business actors’ located externally. The role of the subsidiary in its network is important because this role defines how the subsidiary receives its opportunity and future investment demands. In this context, the role of the subsidiary in the corporate context appears less important. Thus, there is potential for an area of conflict due to tensions between the roles in the business network and the roles in the corporate context. Following the example of the head quarter and its three subsidiaries, the two subsidiaries that are linked to each other have a different situation than the one without connection to the other subsidiaries. The two subsidiaries have a sister unit included in their network. These two subsidiaries are business partners; in contrast, the subsidiary that has no direct relationship to its sister units just has same legal entity. Within this concept, relationships between subsidiaries have a high impact on the behaviour of the two subsidiaries. This business-partnership has more impact on the subsidiaries in the network than the relationships with external actors *and as the whole* group of corporate units (Forsgren, 2017).

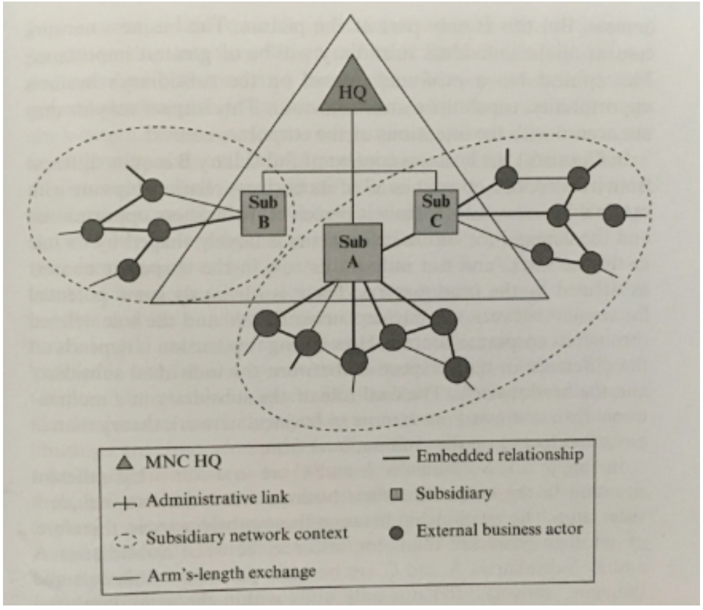
The business network in a multinational firm is designed to show the formal and informal administrative and communicative links between subsidiaries a head quarter has. According to Forsgren (2017) the business relationships are usually not included in the network concept. Likewise, relationships of the subsidiaries with external business actors are normally not included in the network analysis. Relationships that are contained in networks are the main topic in this analysis and the above mentioned administrative and communicative links in a multinational firm are considered to display these relationships. In a business network the intensity of relationships has high importance for the business network theory. There is the possibility of close relationships inside the business network, like mutual adaption of the resources or embedded relationships. Of course there are also relationships that are not as tight as the above mentioned arm's-length relationships. In the described case the the three subsidiaries and close relationships, the business partners are dependent of each other, in this case it may be tough to replace one of the partners. It may be, however, lead to the transfer of new knowledge and of solving the same problems (Forsgren, 2017).

In case a relationship is not that close it is easier to exchange it, although the knowledge transfer as well as the chance of solving mutual problems may then also decrease. Nevertheless, these kinds of relationships are more matching the market in a neoclassical economic theory. Yet, this does not imply that in the network theory all relationships are close; rather, there will always be relationships that are close and some that are not (Forsgren, 2017).

The Business Network Theory hypothesises that the multinational firm is acting in many different business contexts. The context the MNC is acting is depending on the business networks the subsidiaries are grounded in. The way in which subsidiaries stay in a relationship to each other is dependent on the extent they are related through their business networks but not trough their administrative or communicative links. The keynote of the business network theory is that any firm, no matter whether it is a subsidiary or not, in a multinational firm is affected by their business environment, even more than by their institutional environment. Despite these facts Forsgren (2017) stated that the main characteristics of a MNC are that they are active in many different countries and that their headquarters are looking after the whole group. This means that they monitor the implementation of several different administrative operations. However, the traditional analysis of MNCs operating in a variety of foreign countries has to be complemented with an analysis of the varieties of the business networks. Due to this, these networks could challenge the control headquarters have because the behaviour of the subsidiaries is highly influenced by the networks (Forsgren, 2017).

An example of influencing of a subsidiaries' behaviour by the network would be the following (Forsgen 2017): Large Swedish multinationals have high costs for resource and development (R&D). In this case the aim of these firms is it to coordinate the R&D department in every subsidiary so that there is no reiteration of research and to achieve large-scale economy. One of the most critical and also competitive forces, which are obtainable for competitors in a certain industry, is the inclusion of R&D. Local forces drive the evolution of products. Due to the variation of customers demand, special adaptations of existing products are needed. This frequently results in customized R&D activities in each subsidiary. Starting these activities can be viewed as a good choice for subsidiaries, since it results in profits particularly when large customers are involved in this process. For headquarters it is necessary to look at the results, which are expected from investments of this kind. This in turn may affect the group as a whole (Forsgren, 2017).

Figure 6. The Networking Multinational



Srouce: Forsgren, Holm and Johanson, 2005

To give an example: The Swedish multinational has a subsidiary in Italy. Italy is one of the biggest markets, so the subsidiary in Italy has high profits. As a consequence the subsidiary becomes a developer in standard applications, which are sellable to almost every market and also a developer for customized applications for particular customers, the latter is dominating in the Italian market. Thus, the Italian subsidiary has an important role in the networks R&D. Sometimes headquarters change the organization of R&D in the group, which should lead to an increase of the amount of standard applications. This plan, however, did not work out even, and the situation remained unchanged. This is because all inquiries from important customers in Italy are accomplished by the subsidiary. There may be an inquiry for a customized application. This is attributed to the long-term relationships between the subsidiaries and the customers, which is profitable for both of them. For the subsidiary it would be more beneficial to sustain these relationships through fulfilment of the extra needs of the customers than to putting too much energy and money into the development of products that would better fit into the customer segments, - although this would maximize the profits of the entire group (Forsgren, 2017).

This scenario exemplifies the high importance of the network on the interests a subsidiary and that the depth of a relationship is influenced by the behaviour a subsidiary exhibits. If a relationship is deep, because they solve problems mutually, their relationships will get even deeper and better and it will have a positive influence on the behaviour of the subsidiary. If the headquarters control mechanisms are ineffective, tension between the subsidiaries position in its network occurs (Forsgren, 2017).

3. Empirical Studies with the Application of the Uppsala Model and the Network Theory

In this section an extensive literature review is provided, in order to give an overview about the above mentioned models and theories and how they were implemented and developed.

3.1 Methodology

The literature review contains articles that deal with the internationalisation process of firms. Most of the articles deal with the Uppsala Model or the Network Theory; some of them cover the internationalization process as a whole and explain the process of entering foreign markets and building up new subsidiaries in other countries. The studies will be analysed in a chronological order.

3.1.1 Search Process

The literature review is based on a comprehensive search process using electronic databases. Databases used comprised sciencedirect.at, emeralsinsight.com, google.scholar.com and link-springer.com, since they provide a broad spectrum of peer-reviewed journals. To identify the relevant literature related to this subject, keywords were used. As the focus of this review lies on the internationalization of firms with particular respect to the application of the Uppsala Model and the Network Theory, the keywords used were as follows: “Internationalization process”, “Uppsala model”, “Network theory”, “application”, and “Multinational Corporation”. This process of searching resulted in numerous findings. To select the most relevant papers, inclusion and exclusion criteria were defined.

In order to guarantee an adequate scientific level of evidence, inclusion criteria included that a) only articles (both, empirical studies such as qualitative investigations, and quantitative studies) published in peer-reviewed journals were used, and that b) only original papers were selected. *Exclusion criteria* were the following: a) studies that do not primarily focus on the internationalization processes of firms; b) studies published prior to 1975, c) dissertations and conference papers; d) articles published in books; and e) review articles.

3.1.2 Overview of the included studies

Table 1 shows twenty-nine studies that fulfilled the matching criteria stated above. The studies are listed in a chronological order, starting with the earliest in 1975. The table is separated into seven columns to further characterize the studies, namely *"Researchers and Title", "Year", "Model/Theory", "Method", "Hypothesis, Predictions, Propositions, Research Question"* and *"Results".*

The majority of the studies listed in table 1 focussed on the Network Theory (N=17). Eleven studies primarily investigated the Uppsala Model, and one study focussed on both models.

Fifteen out of the 29 articles are based on a quantitative research approach. Five articles used a qualitative research method, with most of them conducting interviews. Two studies used a mixture of the qualitative method and case studies. Six studies were case studies, and one study was a conceptual research.

Table 1: Overview of studies

Researchers, ***Title***	**Year**	**Model/ Theory**	**Method**	**Hypotheses, Predictions, Proposition, Reaseach Question**	**Results**
Johanson J., Wiedersheim-Paul F. *The Internationalization of the firm-Four Swedish Cases*	1975	Uppsala Model	Case study	A firm first develops in the domestic market and Internationalizaton is a result of incremental decisions. Obstacles are lack of knowledge and resources and can be reduced through incremental decisions. Firms start selling with representatives instead of own subsidiaries. Firms follow the establishment chain.	High correlation between distance and order of agency establishments but not with sales subsidiaries. No establishment in the nearest markets because of no good representatives. Establishment chain was followed by 3 out of four cases.
Bilkey W. J. Tesar G. The Export *Behaviour of Smaller sized Wisconsin Manufacturing Firms*	1977	Network Theory	quantitave	1) The export development process of firms tends to proceed in stages. 2) Considerations that influence firms' progressions from one stage to the next tend to differ by stage for the three stages examined. 3) Within the size-range of firms studied, size was relatively unimportant for export behavior when account was taken of the quality and dynamism of management.	supported supported supported
Welch S., Wiedersheim-Paul F. *Initial Exports - A Marketing Failure?*	1980	Uppsala Model	quantitave .	1) Export activity is continued when a firm follows an export programm. 2) The homecountry is dominating expoters and their whole domestic sales more and faster than exporters fail in their own country. 3) Export failure depends on the speed of starting exports 4) Preparation of exports is essential in successful internationalizing.	supported supported supported supported
Denis J.-E., Depelteau D. *Market knowledge, Diversivication and Export expansion*	1985	Uppsala Model	CA	1) For new exporters, export expansion can be best described in terms of their ability to increase total sales through exports rather than through domestic sales; the greater the attendance at fairs and missions, and market diversification, the faster the rate of expansion.	supported

				2) Although attendance at fairs and missions and market diversification keep on having a strong influence in expansion, reliance on a larger number of means of distribution will more substantially affect the propensity to exportand therefore the rate of export expansion.	supported
Millington A. I., Bayliss B. T. *The Process of Internationalization: UK companies in the EC*	1990	Uppsala Model	Case study	It is suggested that a strictly incremental model of internationalization may apply only to a subset of firms, and that firms with international experience and/or formal planning systems may by-pass the incremental process of internationalisation.	Results do not support a narrowly incremental view of the process of internationalisation
B. Kogut, U. Zander *Knowledge of the Firm and the Evolutionary Theory of the Multinational Corporation*	1993	Network Theory	qualitative	1. The more tacit the technology is, the more likely it will be transferred to a wholly owned subsidiary. 2. When knowledge becomes more codified and more easily taught, the more likely it will be transferred to a third party rather than to a wholly owned subsidiary. 3. As technologies increase in their complexity, they are more likely to be transferred to wholly owned subsidiaries. 4. The number of previous transfers of technologies is negatively related to transfer to wholly owned subsidiaries. 5. The age of technologies at the time of transfer is negatively related to the transfer to wholly owned subsidiaries.	supported supported supported not supported not supported
N. E. Coviello, H. J. Munro *Growing the entreprineurial Firm. Networking for international market development*	1995	Network Theory	qualitative / case study	1. There is a stepwise internationalization of large traditional manufacturing firms and this process is followed by small entreprineurial high-technology firms. 2. Impact of network relationships on the market developemnt? Entreprineurial high-technology companies establish relationships to others to compensate for their limited marketing knowledge and infrastructure.	not supported. supported

N. E. Coviello, H. J. Munro *Network Relationships and the Internationalization Process of Small Software Firms*	1997	Network Theory	qualitative	There are three phases of internationalization. In the first phase companies are specialized in the home market but they want to go abroad.In the second phase there is a involvement in the market abroad and decision makers evaluate these markets.In the last phase the firm already has involvement in the international market and the resulting sales are responsible for the firms growth.	no Answer
Chen H., Chen T.-J. *Network Linkages and Location Choice in Foreign Direct Investment*	1998	Network Theory	quantitave .	Network linkage drives and enables foreign direct investment.	True. Due to networks the investing side gets access to strategic assets in foreign countries, minimizes transactions costs in foreign markets, and breaks through entry barriers
Pedersen T., Petersen B *Explaining gradually increasing resource commitment to a foreign market*	1998	Network Theory	quantitave	Firms agree to commit resources to a market abroad so that their resource base is enhanced.	supported
Eriksson K., Johanson J., Majkgård A., Sharma D.D. *Effect of Variation on Knowledge Accumulation in the Internationalization Process*	2000	Uppsala Model	quantitave	1. Variation in the foreign environments of an internationalizing firm has a direct positive effect on its foreign institutional knowledge. 2. Variation in the foreign environments of an internationalizing firm has a direct positive effect on its foreign business knowledge 3. Variation in the foreign environments of an internationalizing firm has a direct positive effect on its internationalization knowledge. 4. Variation in the foreign environments of an internationalizing frim has an indirect positive effect on its foreign institutional knowledge through its internationalization knowledge.	supported supported supported supported

				5. Variation in the foreign environments of an internationalizing firm has an indirect positive effect on its foreign business knowledge through its interna- tionalization knowledge.	supported
Hadley R. D., Wilson H. I. M. *The network model of internationalisation and experiential knowledge*	2003	Network Theory	qualitative .	1a. Internationalisation knowledge is related to the level of firm internationalisation and the level of network internationalisation. 1b. Foreign institutional knowledge is related to internationalisation knowledge, the level of firm internationalisation and the level of network internationalisation 1c. Foreign business knowledge is related to internationalisation knowledge, the level of firm internationalisation and the level of network internationalisation 2a. For internationalisation knowledge, the Early Starter < the Late Starter < the Lonely International < the International among Others (due to increasing levels of international experience). 2b. For foreign institutional knowledge, the Early Starter < the Late Starter < the Lonely International < the International among Others (due to increasing levels of international experience). 2c. For foreign business knowledge, the Early Starter < the Lonely International < the Late Starter < the International among Others (due to residing in more highly internationalised markets)	limited support partially supported in market and firm internationalization. supported in terms of internationalization knowledge. Not supported in firm and market internationalization. no Answer partially supported no Answer
J Johanson, J.-E. Vahlne *Business Relationship Learning and Commitment in the Internationalization*	2003	Uppsala Model/ Network Theory	qualitative	Due to the learning process in relationships, with this knowledge firms enter new markets and then develop new relationships and these new relationships give them the power to enter other new foreign markets.	no Answer

Process					
Blomstermo A., Eriksson K., Lindstrand A., Sharma D.D. *The perceived usefulness of network experiential knowledge in the internationalizing firm*	2004	Network Theory	quantitave	1. The greater the variation of country markets, the higher the internationalization experiential knowledge in the internationalization process of firms. 2. The greater the internationalization experiential knowledge, the greater the perceived usefulness of network experiential knowledge in the internationalization process of firms. 3. The greater the perceived usefulness of network experiential knowledge, the higher the performance in the internationalization process of firms. 4. The greater the internationalization experiential knowledge, the higher the performance in the internationalization process of firms.	supported. supported supported supported
Blomstermo A., Eriksson K., Sharma D.D. *Domestic Activity and Knowledge Development in the Internationalization Process of Firms*	2004	Network Theory	quantitave	1. The longer a firm operates in its domestic market, the more it lacks foreign business knowledge. 2. The longer a firm operates in the domestic market, the more it lacks foreign institutional knowledge. 3. The longer a firm operates in its domestic market, the more it lacks interna- tionalization knowledge. 4. Irrespective of H3, in the internationalization process of firms, the smaller a firm's lack of internationalization knowledge, the smaller its lack of institutional knowledge. 5. Irrespective of H3, in the internationalization process of firms, the smaller a firm's lack of internationalization knowledge, the smaller its lack of business knowledge.	not fully supported, weak correlation not fully supported, weak correlation supported supported not supported

Zaheer A, Bell G. G. *Benefiting from Network Position: Firm capabilities, Structural holesn and Performance*	2005	Network Theory	quantitave	1. Focal firm performance increases with focal firm innovativeness. 2. Ties with innovative alters enhance focal firm performance. 3a. Firms enhance their performance by bridging structural holes 3b. Network closure enhances firm performance. 4. Innovative firms that bridge structural holes perform better than other firms 5. Firms that bridge structural holes with innovative alters perform better than other firms.	supported. not supported supported not supported supported not supported
Wang H. M., Huang H., Bansal P. What determined success during the asian economic crisis? - The Importance of experiential knowledge and group affiliation	2005	Network Theory	quantitave	1a. The greater the parent's host country experience, the greater the likelihood that its subsidiary's performance will remain profitable or improve during an economic crisis. 1b. The greater the parent's industry experience, the greater the likelihood that its subsidiary's performance will remain profitable or improve during an economic crisis. 1c. The positive relationship between the parent's host country experience and sub- sidiary performance change in an economic crisis will be negatively moderated by the subsidiary's experience. 1d. The positive relationship between the parent' sindustry experience and subsidiary performance change during an economic crisis will be negatively moderated by the subsidiary's experience. 2. The greater the subsidiary's local experience, the greater the likelihood that its subsidiary's performance will remain profitable or improve during an economic crisis. 3. Group affiliation of the parent firm to keiretsu is positively associated with its subsidiary performance in an economic crisis.	not supported supported not supported not supported supported supported

Belso-Martinez J. A. *Do Industrial Districts Influence Export Performance and Export Intensity? Evidence for Spanish SMEs' Internationalization Process*	2006	Uppsala Model	quantitave	1. Small and medium enterprises located inside industrial districts present superior export performance and export intensity than firms located outside the districts. 2. Client networks are positively correlated with export performance and export intensity. 3. Supplier networks are negatively correlated with export performance. 4. Institutional networks are negatively correlated with export intensity and non-significantly correlated with the export performance. 5. Marketing advantage is positively correlated with export inten- sity and export performance.	supported supported supported supported supported
Loane S., Bell J. *Rapid internationalisation among entrepreneurial firms in Australia, Canada, Ireland and New Zealand: An extension to the network approach*	2006	Network Theory	mixed methods	Many rapid internationalisers have to build new networks	Supported (34% had to build new networks because of the advanced nature of their offering).
Zain M.,Ng S. I. *The Impacts of Network Relationships on SMEs' Internationalization Process*	2006	Network Theory	Case study	1. Network relationships trigger and motivate firms' initial internationalization intention. 2. Network relationships influence firms' market-selection decision. 3. Network relationships influence firms' entry-mode decision. 4. Network relationships allow firms' access to addi- tional relationships and established channels.	supported supported supported supported

				5. Network relationships allow firms' access to local market knowledge.	not supported
				6. Network relationships help firms to obtain initial credibility.	supported
				7. Network relationships help firms in lowering costs and minimizing risk of internationalization.	supported
				8. Network relationships influence firms' internationalization pace and pattern.	supported
				9. Network relationships constrain firms' future scope and market opportunity.	not supported
Al-Laham A., Soutaris V. *Network embeddedness and new-venture internationalization: Analyzing international linkages in the German biotech industry*	2008	Network Theory	quantitave	1a. The greater the regional cluster's international alliance intensity, the greater the probability that a new venture will internationalize via international research alliance.	supported
				1b. The greater the regional cluster's simple density with public research institutions, the greater the probability of a new venture internationalizing via international research alliances.	not supported
				1c. The greater the organizational diversity of a new venture's regional cluster the greater its probability of internationalization via international research alliances.	not supported
				1d. The greater the cumulative number of prior local research alliances of a new venture with public research institutions within its cluster, the greater its probability of internationalization via international research alliances.	supported
				2a. The greater the cumulative number of prior national research alliances of a new venture the greater its probability of internationalization via international research alliances.	supported
				2b. The greater the centrality of a new venture within its domestic research network the greater its probability of internationalization via international research alliances.	supported

Tolstoy D. *Network development and knowledge creation within the foreign market: A study of international entrepreneurial firms*	2010	Network Theory	quantitave	1. Within the foreign market, network development has a positive impact on knowledge creation in business relationships of international entrepreneurial firms. 2. Within the foreign market, network development has a positive impact on knowledge combination in business relationships of international entrepreneurial firms 3. Within the foreign market, knowledge combination has a positive impact on knowledge creation in business relationships of international entrepre-neurial firms.	supported supported supported
Ellis P. D. *Social ties and international entrepreneurship: Opportunities and constraints affecting firm internationalization*	2011	Network Theory	quantitave	1. International opportunities are more likely to be identified via social ties by entrepreneurs in relatively open economies than by entrepreneurs in relatively closed economies. 2. The use of social ties as a means for identifying international opportunities increases with international experience. 3a The use of social ties as a means for identifying international opportunities will lead to exchanges that are constrained in terms of geographic distance, relative to opportunities identified via other means 3b The use of social ties as a means for identifying international opportunities will lead to exchanges that are constrained in terms of cultural distance, relative to opportunities identified via other means 3c. The use of social ties as a means for identifying international opportunities will lead to exchanges that are constrained in terms of psychic distance, relative to opportunities identified via other means	supported. supported supported not supported supported

				3d. The use of social ties as a means for identifying international opportunities will lead to exchanges that are constrained in terms of linguistic distance, relative to opportunities identified via other means 4a. The use of social ties as a means for identifying international opportunities will lead to exchanges that are rated more importantly relative to opportunities identified via other means. 4b. The use of social ties as a means for identifying international opportunities will lead to exchanges that account for greater sales volumes relative to opportunities identified via other means.	supported supported supported
Pettersen I. B., Tobiassen A. E. *Are born globals really born globals?The case of academic spin-offs with long development periods.*	2012	Network Theory	Case study	Networks acquired at different stages and network changes greatly affected growth and internationalization in the focal firms. Networks and resources acquired in pre-founding periods had great implications for growth and internationalization in young firms.	supported
Hilmersson M., Jansson H. *International network extension processes to institutionally different markets: Entry nodes and processes of exporting SMEs*	2012	Uppsala Model	Case study	1a. The entry node is influenced by the initiator’s motive of internationalization. 1b. SMEs initiating network extension with the motive to identify new sources of supply are likely to connect to foreign business networks via dyads. 1c. SMEs initiating network extension with the motive to increase sales connect to foreign business networks via triads.	supported supported supported

				2. The incremental entry process passes through three distinct types of network structures: the exposure, formation, and sustenance networks.	supported
				3a. The degree of insidership of the exposure network is low.	supported
				3b. The exposure network is characterized by many general and weak ties.	supported
				3c. The exposure network is dominated by information exchange	supported
				3d. The exposure network is open and loosely coupled.	supported
				4a. The degree of insidership of the formation network is intermediate.	supported
				4b. The formation network is characterized by specific ties that are growing stronger.	supported
				4c. The formation network consists of both information and social exchange.	supported
				4d. The formation network is a closing network.	supported
				5a. The degree of insidership of the sustenance network is high.	supported
				5b. The sustenance network is characterized by strong ties	supported
				5c. The sustenance network is dominated by social exchange in a closed network.	supported
				5d. The sustenance network is tightly coupled.	supported

Lynn CM, Jin B *Is Uppsala model valid to fashion retailers? An analysis from internationalisation patterns of fast fashion retailers*	2014	Uppsala Model	Case study	If fashion retailers reflect the Uppsala model internationalisation will be linear; firms will gradually increase their speed of internationalisation by slowly increasingly the number of countries entered, and firms will first select markets which are geographically, economically, and cultural close and gradually increase their commitment to more distant markets.	Initially fashion retailers follow the patterns the Uppsala model suggests. They have a gradual increase of entering foreign markets (approx.one year per country) but then they expand quickly with more countries per year Market selection: At first they enter (geographically, economically and culturally) close markets, consecutively they enter various markets irrespective of the distance Fashion brands that target similar consumers globally have a strong brand image, and have asset specificity in their unique product (may not follow a gradual and linear internationalisation process). The Uppsala model only partially explains fashion retailer internationalisation

Almodovar P., Rugman A. M. *Testing the revisited Uppsala model: does insidership improve international performance?*	2015	Uppsala Model	quantitave	1a. Insiders will perform better than outsiders in terms of FSA (firm-specific advantage) endowment on average. 1b. Insiders will perform better than outsiders in terms of cost reduction on average. 1c. Insiders will perform better than outsiders in terms of international performance on average. 1d. Insiders will perform better than outsiders in economic performance on average. 2a. Simultaneous forms of insidership – business network with customers and suppliers – will have a positive impact on international performance. 2b. Simultaneous forms of insidership – business network with customers and suppliers – will have a negative impact on international performance. 3. All four forms of insidership – BRs with customers, suppliers, competitors and universities/research centres – will have a positive impact on international performance 4. The positive effect of traditional FSAs on international performance will be stronger for insiders than for outsiders	supported supported supported supported not supported supported supported not supported
Jeong Cho H., Jin B. *What explains small- and medium-sized apparel retailers' international market involvement? An application of Uppsala model*	2015	Uppsala Model	quantitave	1a. The greater a firm's foreign sourcing experience, the greater its market knowledge. 1b. The greater a firm's foreign networking, the greater its market knowledge. 2. The older a firm, the higher the probability of international market involvement. 3. The greater a firm's market knowledge, the greater the probability of interna- tional market involvement.	supported supported supported supported

				4 The greater a firm's market commitment, the higher the probability of international market involvement. 5.The more unique a firm's product is, the greater the probability of international market involvement. 6. The smaller a firm's perceived domestic growth opportunity, the greater the probability of intern. market involvement. 7a. Market knowledge will mediate the relationship between foreign sourcing experience and international market involvement. 7b. Market knowledge will mediate relationship between foreign networking and international market involvement.	not supported not supported not supported not supported supported
Santangelo G. D., Meyer K. E. *Internationalization as an evolutionary process*	2017	Uppsala Model	qualitative	1a. Firms making path-breaking resource commitments toward international expansion are more likely to experience outstanding performance. 1b. Firms making path-breaking resource commitments toward international expansion are more likely to experience very large losses, or exit. 2a. The more munificent the business ecosystem in which the firm is embedded at home, the more likely path-breaking commitments lead to outstanding performance. 2b. The less munificent the business ecosystem in which the firm is embedded at home, the more likely path-breaking commitments lead to very large losses, or exit. 3a. The greater home institutional volatility, the more likely path-continuing commitments leads to very large losses, or exit. 3b. The greater home institutional volatility, the more likely path-breaking commitments lead to outstanding performance.	no Answer no Answer no Answer no Answer no Answer no Answer

4. Conclusion

The number of studies that have been published since 1975 and that were eligible for inclusion in this review has markedly increased over the years. Early studies primarily focussed on the Uppsala Model. With the introduction of the Network Theory in the late 1990ies, researchers' interest was mainly attracted by this theory. As a result, a growing number of studies related to the Network Theory were consecutively published.

The Uppsala Model, though developed as early as 1975, was one of the very first attempts to describe internationalization processes of firms and led to a deeper understanding of these processes. Studies dealing with this model suggest that export development processes appear to proceed in stages. They stress the particular importance of the variables "commitment" and "knowledge". Most of the studies concluded that "knowledge" is mandatory to stimulate the internationalisation process (i. e., experiential knowledge is directly related to a company's performance in the initiation of internationalisation processes).

Yet, the Uppsala Model suffers some serious limitations, even when changes of the business environment due to globalization and digital revolution as outlined below are excluded. First of all, product manufactories have been the primary focus of the Upsalla model. It remains questionalble whether this model also applies for other business sectors such as the service industry, which is among the fastest growing sectors worldwide and currently accounts for at least 70-80% of the total economic activity in Europe and in the USA (DPE, 2018; learneurope.eu, 2018). Secondly, the Uppsala Model paid little attention to the effects of incentives (and its implications for decision pathways) or on licensing or franchising, which are regarded as comparatively low-risk opportunities of market entry and broad market coverage (Doole I. and Lowe R., 2008). Finally, a differentiation between SMEs and MNCs has not at all been taken into account in the early Uppsala Model.

The Network Theory in contrast pays more attention to external or environmental factors. Studies that focussed on the Network Theory report that a step-wise incremental internationalisation process appears to be the exception rather than the rule. They consistently found that limited knowledge or infrastructural drawbacks can successfully be compensated by the establishment of relationships. In other words, relationship building creates knowledge at all levels and facilitates the development of subsidiaries in foreign countries.

Howsoever, in recent years internationalisation processes have become faster and differ in many ways from the 1970ies. With the advent of novel telecommunication as well as new production and transportation procedures, the global business environment has dramatically changed. Ongoing efforts to reduce barriers to world trade and changes in customer behavior due to cultural de-territorialisation are additional factors that alter processes of internationalization. Similarily, with the emergence of the so-called BRISC (Brazil, Russia, India, China, South Africa) countries as new global players and competitors, new challenges and opportunities arised that can of course not be covered in a model dating back to the 1970ies. With the world becoming more and more homogenous in terms of culture and politics, the factor of psychic distance loses its original impact (Nordström, 1990).

To conclude, the original Uppsala model from 1977 has served as a pioneer model in the development of internationalisation approaches. As such, it stimulated research for almost fifty years and finally contributed to the investigation and implementation of novel internationalisation strategies. Given the substantial changes of business environment within the last 20 years, modern network theories currently appear to be a more sound approach to explore and understand internationalisation processes.

However, internationalisation processes will always remain dynamic. Further changes and developments within our globalized market are to be expected. Given the numerous transcultural aspects of trade and market entry, future research will elucidate the obstacles, challenges, and opportunities related to the process of internationalisation in the 21st century.

German Abstract of the Thesis

Diese Arbeit prüft die Netzwerkansicht von multinational agierenden Unternehmen. Diesbezüglich werden das Uppsala Model und die Netzwerktheorie herangezogen. Ebenso wird geprüft in welcher Form diese Modelle in Verbindung mit solchen Unternehmen stehen. Mit Hilfe von diversen wissenschaftlichen Artikeln wird die Entstehung und die Weiterentwicklung der Modelle seit den 1970 Jahren evaluiert. Ausschlaggebende Faktoren für den Erfolg des Internationalisierungsprozesses werden hier genau erläutert und ebenso werden Unterschiede und Gemeinsamkeiten der verschiedenen Modelle besprochen. Diese Arbeit basiert auf einer detaillierten Literaturrecherche, welche verschiedene Anwendungen der Modelle zeigt und diese beschreibt und zusammenfasst. Die Modelle werden ebenfalls bezüglich des neuen, globalisierten Umfeldes von Unternehmen erläutert.

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