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The Modern Firm's International Expansion

Abstract

Process- and stage models outline certain steps which the company follows when expanding internationally. These models were primarily developed already in the 1970's but have proven to be surprisingly resilient in spite of significant changes in the economic environment. New theories fail to give comprehensive insight into the international expansion of modern firms. This thesis describes a firm's international expansion in the 21st century, as well as determines the reason for the process- and stage models still receiving significant attention. According to new theories and our case study, Acne Jeans, the modern firm will internationalise early and fast. Hence, the process- and stage models fail to explain the short time it takes from a company's founding to its internationalisation, as well as the speed at which the internationalisation takes place. Some of the steps are also out-dated. Yet, the models do prove to have some explanatory power.

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Introduction

International trade has been the subject of much attention and trade has been expanding fast over the last few decades. This has led to an increase in many forms of international business. International trade is believed, and has been proved, to bring with it great potential benefits for most parties involved, such as for the nation's economy and for the firm itself. Consequently, public policy makers have shown significant interest in the international development of firms. And the managers of the individual firms have tended to focus on exporting and internationalisation, since international activities can provide a useful platform for the exploitation and exploration of competitive advantages.

The firm's international expansion has been of great interest and it has also been the focus of much prior research. However, most models of this phenomenon were formulated several decades ago. The most prevailing ones are the process- and stage models developed during the 1970's. None of the more recently written theories capture the internationalisation process of a "modern" firm in an entirely satisfactory way. They are much more focussed on describing the evolvements in the international economic environment than outlining a description on how firms actually behave when going international. In fact, these papers neither provide comprehensive insight into the actual behaviour of the modern firm, nor do they give an explanation to the fact that the process- and stage models are still widely used.

Purpose and General approach

Having studied the evolution in the global economic environment and the developments in theory we are curious to see how well the process- and stage models describe a firm's internationalisation process today. The purpose of this thesis is to determine how a modern firm's international expansion can be described in the 21st century as well as establishing the reason for why the process- and stage models are still widely used for describing firms' internationalisation processes.

The approach chosen for this thesis has been to start by determining the major changes in the economic environment. Through an extensive review of research we have formulated developments in the environment, both on the macro level and on the firm level. The review of changes in the economic environment is followed by a description of how economic theory has developed during the course of the last few decades. Following this section, we establish how the developments in the economic environment have given rise to a new type of multinational corporation.

In the next section we look into the process- and stage models, which are the most prevailing models to date describing the firm's international expansion. They were primarily developed and formulated during the late 1970's. Two of the most well known models are Johanson & Vahlne's Uppsala Model, formulated in 1977, and a stage model published by Lars Håkanson in 1979. These models are indeed still widely used. The Uppsala model is for example used by Andersen (1993), Coviello & McAuley (1999) and Andersson (2000). And Håkanson's model is referenced in Bagchi-Sen (1995), Westhead *et al.* (2001) and Ettlinger (2003), among others.

At this point in the thesis we discuss the implications that the changes in the economic environment will have on the Uppsala model and on Håkanson's model. The changes in the economic environment will to a large extent be expected to have an impact on the type of internationalising firm common today. But, to determine whether these changes really have had the expected impact we have carried out a case study on a firm believed to be representative of the "modern" firm. The chosen case study subject is a Swedish firm called Acne Jeans AB. Acne Jeans was chosen on the basis of it being a young company with a business model suited for international markets, it sold its first product on a foreign market very shortly after its founding, it is currently going through a considerable international expansion, it is forced to grow primarily organically due to the nature of its products and Acne Jeans' founders are entrepreneurs.

The case study is followed by a discussion. The changes in the economic environment, its effects on the modern firm, the predictions of the process- and stage models and the insights gained from Acne are discussed and analysed. This section is followed by the overall conclusion.

Evolution of the environment

Through the course of the last decades considerable changes have evolved in the global economic landscape. Changes to trade barriers, exchange rates, market entry barriers, technological developments, increased capabilities of people and flows of capital and labour are possibly the most significant. It is reasonable to assume that these factors have contributed to a change in how firms operate, and expand internationally. Some of the factors have had a direct impact on the structure of the firm while others have provided foundations for changes of firms and how they operate. We will in this section take a closer look on the changes in the economic environment.

Lower (or no) trade barriers

The development and expansion of the European Union is an important example of changes in trade barriers. In the beginning of the 1980's trade barriers such as quotas, tariffs and subsidies were common in order to protect domestic industry from foreign competition. This is much less common today or even non existent and is often thought to be a result of developments in economic theory, increased collaborations between states and increased centralised decision making. Countries are less inclined to try to protect domestic industry because the awareness of such unfair competition has become more common. Also, countries have incentives to follow common agreements of obeying trade barriers in order to be included in favourable trade blocks, such as the European Union, NAFTA and GATT (Markusen *et al*, 1995).

Lower market entry barriers

Lower trade barriers between countries have of course created larger markets for companies to compete in. More decision making on the EU level have resulted in more homogenous antitrust rules and legislation. Taking these changes together into consideration the barriers to enter a market are considerably lower today than they were twenty years ago. Larger markets create fiercer competition, preventing firms from establishing monopoly. Tougher antitrust rules also promote competition and prevent monopolistic behaviour (Markusen *et al*, 1995; Whish, 2003).

Larger flows of capital and labour

A further result from the development of the EU and other free trade areas and collaborations between countries is that, not just goods, but also capital and labour can flow more freely over national borders. Even if labour is fairly immobile this development still provides the possibility to mobilise labour on shorter notice and it provides incentives for competition on salaries etc. within the trade area. Capital is a highly mobile factor and can thus be allocated more efficiently and provide finance where it is needed, and hence allows agents to seek financing across borders (Markusen *et al*, 1995; Whish, 2003). Both these changes have, of course, important effects on the flexibility of the firm.

A fact that has facilitated the internationalisation of capital markets, apart from free trade areas and monetary unions, is floating exchange rates. In 1992 Sweden abandoned its fixed exchange rate. By that time most western countries had abandoned any currency peg and let their currency float. This has meant that capital can flow more freely between countries, whether they are part of the same trade area or not, since a fixed exchange rate often is associated with restrictions on the trade in that particular currency, hence floating exchange rates facilitates cross border transactions. For a company that is expanding internationally this has important implications on currency transactions, although no sure conclusions can be made on the impact on the risk profile (Eun & Resnick, 2004).

Technological development

The world has become "smaller" thanks to technological developments in communication which allow firms to cheaply communicate via e-mail and fax-machines with countries all over the world from a single desk. Developed communication technology also allows for fast and cheap access to international markets information. Advances in production process technology have meant a lower limit for scale production which in turn allows small-scale operations to be economically sound. Therefore, specialisation, customisation and niche production have become viable alternatives. The transportation of goods and people has become more reliable and cheaper, lowering cost barriers for an international approach (Madsen & Servais, 1997). These technological developments have lowered some of the classic barriers to entry, such as costs for foreign branches, substantially and have made transportation costs a much less important issue. The ability to have an economically sound production, even with low volumes, has made it possible for companies to divide up the different stages of the production process between different producers. A result of the fragmentation of production is that companies can allocate the various stages of production in an optimal way and owners of production facilities can run optimised plants specialised in the production of only a small part of the whole value-chain (Markusen *et al*, 1995; Brakman *et al*, 2001).

Complex capabilities of people

The increasingly complex capabilities of people have increased the ability of human resources to exploit the possibilities of the technological changes on the international markets. Basically the increased capabilities in this area are due to the fact that a dramatically increasing number of people have gained international experience during the last couple of decades. As an illustration we can mention that tens of thousands of students within the EU study on exchange programs in different countries every year. Mobility across nations, languages and cultures creates a significantly higher number of potential employees with a competence to communicate with, understand and operate in foreign cultures, than was the case when the process- and stage models were formulated. These capabilities are a prerequisite for exploiting the opportunities offered by the technological developments mentioned above. Another effect of increased mobility and education across borders is that markets become more homogeneous, hence less local. Especially the past experience and present competences or ambitions of the manager/founder of the firm should be taken into consideration (Madsen & Servais, 1997).

New market conditions

The fact that we now have lower market entry barriers, lower trade barriers, a more developed technology, higher mobility in capital, as well as labour, and higher educated and internationally experienced people have lead to changes in market conditions. One commonly referred change in market conditions is increasing specialisation. This in turn has increased the number of niche markets seen, which implies that we expect more firms producing very specific parts and components which they have to sell in the international marketplace, simply because domestic demand is too small. On the other hand, the fact that many industries have become characterised by global sourcing activities and also of cross-border networks, allows for innovative products to spread very quickly to markets all over the world. This is also an effect of the reality that the needs and wants of buyers have become more homogeneous around the globe. In addition, financial markets have become international which allow firms to seek funding in virtually any country in the world (Madsen & Servais, 1997).

Evolution of theory

One of the most famous trade theories is the Heckscher-Ohlin model, which is part of the so-called neoclassical trade theory. The model was developed during the 1930's and was later awarded the Nobel Prize. Heckscher-Ohlin states that a country will be better off when allowed to specialise in the production of the good that uses the country's comparatively abundant production factor intensively. For example, imagine two countries, H and F, two production factors, K and L and two goods, X and Y. If H is relatively K abundant, F is relatively L abundant, X uses K intensively and Y uses L intensively this will lead to H wanting to specialise in the production of X, while F wants to specialise in the production of Y. Specialisation will take place when trade is allowed and both countries will be better off than in autarky. Furthermore, the Heckscher-Ohlin model predicts that trade will lead to the equalisation of factor prices (Markusen *et al*, 1995).

Quotas, tariffs and other barriers to trade make it difficult for countries to specialise. This results in some countries being better off than others, but the over all welfare will be lower than what is theoretically possible according to the Heckscher-Ohlin model. As mentioned above, trade barriers are much less common today than they were a few decades ago. However, lower trade barriers, in combination with the other changes in the economic environment have made it necessary for trade theories to adapt to the new empirical conditions (Markusen *et al*, 1995).

The newer trade theories are commonly referred to as modern trade theory. The major difference between these theories and neoclassical trade theory is that they take imperfect competition and scale economies into consideration. When considering imperfect competition it can be shown that trade is beneficial to countries even if they have identical factor endowments. This is true since the larger market, resulting from trade, with more actors cause the companies to produce at a point closer to that of perfect competition, hence the over all welfare will increase if trade occurs. Scale economies will result in the fact that there will be no factor price equalisation. When a country specialises, both its production factors will gain in absolute terms, but the factor facing the higher demand, i.e. the factor used intensively in the good with higher demand, will thanks to scale economies receive the highest return, thus factor prices will be driven apart (Markusen *et al*, 1995).

When looking into the structuring of a company's international production and, hence, its choice of this type of foreign direct investment (FDI) structure, the primary determinant has changed from being countries' relative endowment of production factors to being the size of the actual markets in which the company is active. With a relatively large market in the home country and a relatively small export market it makes sense to locate production in the home country only, in order to capitalise on scale economies (Herzing *et al*, 2006).

If we turn to theories in international business, one of the most well known is the ownership, location and internalisation (OLI) model developed by Dunning (1977). The OLI model is in essence a framework for predicting the best performing international entry mode. According to Dunning the most important determinants of FDI are location specific advantages, ownerships specific advantages and internalisation advantages (Brouthers *et al*, 1999). To put these determinants in perspective a FDI in China could be used as an example. Investing in China could be motivated by location specific advantages such as low labour cost and great market potential or ownership specific advantages such as monopolistic advantages of technology and management experience. The investment could also be motivated by internalisation advantages, for example the benefit of establishing a network of international production (Hong & Chen, 2001).

The more OLI advantages a firm possesses, the higher the propensity of the firm adopting an entry mode with a high control level, for example a wholly owned production plant. The OLI model has been widely applied to explain entry mode decisions and the models basic ideas are supported by several empirical studies. However, as changes in the economic environment have emerged, Dunning has updated his work (1995, 1998, and 2000) and argues that competitive advantages, market failure and collaboration, as well as dynamic environments should also be integrated into the model when decisions on international production are made (Zhao & Decker, 2003).

To summarise, we can state that economic theory has adapted to changes in the environment and the focus has been slightly changed. Whilst the Heckscher-Ohlin model focus on production factors as the identifying competitive advantage, newer theories look more to the characteristics of the actual market. The newer theories also emphasise the importance of scale economies. This implies that a company will need sufficient scale in order to capitalise on this phenomenon. A company can achieve the desired scale by growing to a large organisation. But, we also believe that a company should be able to capitalise on scale economies by identifying a clear niche for its operations. And in spite of the developments in economic theory, the newer theories fail to give a satisfactory explanation to the occurrence of niche players. The following section outlines the characteristics of a new type of multinational corporation.

The new multinational enterprise

The prevailing process- and stage models have largely focused on the international expansion of large multinationals. When the models were formulated in the late 1970's this type of firm was the most common example of a firm active on several national markets (Bagchi-Sen, 1995). During the last few decades a new breed of multinational corporations has emerged. This type of organisation is commonly referred to as the "born global" firm (Autio *et al*, 2000).

The born global firm phenomenon first emerged in countries with small domestic markets, such as Sweden, but they are now appearing in large numbers throughout the world. Even if they did originate from small open economies, the phenomenon now seems to be more or less universal. And researchers have noted its occurrence in virtually all major trading countries (Knight & Cavusgil, 2004).

The Uppsala model gives an explanation to why firms generally initiate their internationalisation processes late in their development, and why this process generally proceeds slowly once initiated. The Uppsala model also implies that the firm tends to operate in the vicinity of existing knowledge and remain domestic unless provoked, pushed, or pulled, for example by an unsolicited export order. One of the big differences inherent in the born global firms, compared to the traditional view of firms, is that the born globals possess a constellation of skills and knowledge that allow them to see and exploit windows of opportunity unseen by others. Thus, this allows them to choose an early internationalisation strategy as a path to growth and success (Autio *et al*, 2000).

Maybe, the most important question to answer is; what are the drivers of the emergence of the born global firms? The rise of born globals may be attributed to three main factors, (i) technological developments in the areas of production, transportation and communication, (ii) more complex capabilities of people, and (iii) new market conditions (Knight & Cavusgil, 2004; Madsen & Servais, 1997). These drivers were described in a previous section and we now turn our attention to the features that characterises the born global firm.

Characteristics of the new multinational corporation

The characteristics of this new kind of multinational organisations differ somewhat from the characteristics of a classical MNC. One observation is that they are commonly much smaller than for example ABB or SKF (Knight & Cavusgil, 2004). The firm is normally founded by genuine entrepreneurs or by very experienced persons with or without a strong product. Often, these persons have extensive international experience, as well as a personal network, and they don't perceive their native country as the nucleus of their lives. The founder's international experience is a prerequisite for the firm's international expansion. This experience allows the founder to perceive the distance to other countries as short. Considering the country where the born global firm is founded, one can expect that the probability of global firm formation is higher where markets are more internationalised. This is due to the fact that many of these firms need to source resources from firms with complementary competences, which is much easier in markets with established cross national networks, both at the firm level as well as at the personal level. These cross national networks are used for example, for R&D and production resources, but appear to be most important for sales and marketing capabilities (Knight & Cavusgil, 2004; Madsen & Servais, 1997).

Changes in production technologies and better access to, and lower costs in, transportation as well as communication leads to the expectation that the core competence of a born global firm must be narrower and more focused than is the case for other exporting firms. Furthermore, the competence may be linked to standardised production or physical products, but it may also rest in a deep knowledge about customer preferences and an ability to adapt to these preferences. Consequently, the capabilities of a born global must be expected to be more cultivated and clear-cut than those of traditional exporters, i.e. born globals are more specialised and niche oriented with products that are either more custom made or more standardised (Madsen & Servais, 1997).

In contrast to traditional internationalisation patterns, where firms spread like rings in the water, born globals do not choose their geographical markets according to physical or psychic distance. This is true for their sourcing, production, and sales/marketing activities. Furthermore, the reliance on sourcing options from firms with complementary competences is probably a more common picture in this new type of company than in other exporting firms since the internal competence and routines in such a firm are likely to be insufficient for achieving the desired development. Examples of sourcing activities are employing persons with specialised skills (from competitors or from related industries) and different forms of collaboration with hybrid governance structures. This picture may be explained by the simple notion that born globals have very scarce resources, financial as well as human, but at the same time a higher degree of internationalisation of the market is a facilitating factor contributing to the explanation. In addition, the international experience of the founder means that this type of firm is better able to take advantage of the increased international experience and intercultural competence among people in general, i.e. they are not afraid of employing or collaborating with people who have a different background (Madsen & Servais, 1997).

In order to survive and make good returns, it is necessary for a born global to be at the edge of the development in its particular niche. Consequently, they have to be innovative. They must be able to reap advantages from the new communication technologies. Otherwise they will not be able to maintain effective contact with the, often huge, number of firms in the network in which they operate, including their own, sometimes dispersed organisation. Since born globals often operate on much internationalised markets, they have to think globally when deciding about their activities, i.e. they have to take several foreign markets into consideration when deciding about one particular foreign market (Madsen & Servais, 1997).

The final characteristic is based in the firm's national setting. Firms in nations with small domestic markets have a higher propensity to become born globals than firms in nations with large domestic markets. Therefore, born globals from small nations may rely on many different products whereas born globals from large nations may be limited to high tech industries, since this provides a very narrow niche. Also, nations with a high number of immigrants may have a higher proportion of born globals (Madsen & Servais, 1997).

Clearly, a great deal has happened in the global economic environment. For example conglomerates, as popular as they were during the 1980's, have given way to smaller and leaner corporations, much thanks to technological developments lowering the scale necessary to achieve an economically sound production. The changes are so extensive that they have even created a new type of multinational firm. However, as we mentioned in the beginning of the thesis, there is substantial evidence that supports the use of the process- and stage models developed during the 1970's. Two of the most resilient theories are outlined in the following section.

Theory – The process- and stage models

In the previous sections we have established that many changes have occurred during the last decades. It is clear that there has been substantial development in the global economic environment as well as in economic theory. As a result of the changes in the environment we have also been able to determine a change in the typical MNE.

Despite these considerable developments we still see older models being used to describe the internationalisation process of firm's. The models that have received the most attention are the so called process- and stage models. Probably, the two most acknowledged theories are Johanson & Vahlne's *Uppsala Model*, 1977, and Håkanson's *Towards a theory of location and corporate growth,* published in 1979. A brief description of the two theories follows below.

The Uppsala model

The Uppsala model is based on empirical observations in international business, carried out by Johanson & Vahlne in the 1970's.

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In short the Uppsala Model suggests that firms typically develop their international operations in small steps rather than through extensive foreign production investments at a discrete point in time. The causality is usually that firms start exporting to a country via an agent and then later establish a sales subsidiary. Finally, the firm starts production in the country in question. The psychic distance between the exporting country and the foreign market is thought to play an important role in the time order of the establishment of the different operations. By psychic distance, differences in language, education, business practices, culture and industrial development, is meant. Studies on Swedish steel and pulp & paper companies confirm this pattern. Sales subsidiaries appear to be established through either acquisitions of the former agent or organised around a person employed by the agent. The step of integrating the sales subsidiary usually comes as a result of economic or organisational difficulties for the former agent (Johanson & Vahlne 1977).

A case study of the Swedish pharmaceutical company Pharmacia during the development of the theories of the Uppsala model provides another example. In the initial phase of taking operations international, Pharmacia received orders from the foreign market and after some time made agreements with agents or sold licences of parts of their product line. After some time Pharmacia established sales subsidiaries in a majority of the countries. Finally, manufacturing plants were established in a third of the countries where sales subsidiaries had been established. It is important to point out that also the establishment of the manufacturing plants were incremental, with an initial development of the least complicated manufacturing activities and then a gradual evolvement of the more complicated ones (Johanson & Vahlne 1977).

Towards a theory of location and corporate growth

The theory developed by Håkanson is a typical stage model. It consists of five different stages and it also comments on how a company should best diversify in order to minimise its risk exposure.

Stage 1

Typically, new firms are located where their founders have lived and worked and the firms' ties with its immediate environment are likely to be very close. The choice of location is made before, or is connected to, the decision to enter a particular line of business. Initial expansion is usually on an incremental basis. Production capacity is normally owned by the company and is increased by means of extensions as the need arises. Location changes, for example branch establishments or complete relocations, are usually driven by input access restraints and are generally confined to locations within the home region. The firm may, however, be induced to move greater distances. The reason would be to gain financial subsidies provided by state or local authorities or to get access to cheap labour (Håkanson, 1979).

Stage 2

The firm generally wants to grow at a higher pace than the local market and marketing activities will soon be extended on a national scale. Parallel with the expansion, the managerial staff will be expanded to handle the growing operations. The choice of marketing channels and distribution systems are influenced by a number of factors. At one extreme, the firm may rely entirely on third parties to perform the various functions associated with the distribution of their products. At the other extreme, the firm is completely vertically integrated. Vertical integration is usually preferred when products are bulky or perishable, or when they are not standardised or require installation or maintenance service. The location of corresponding physical facilities is determined mainly by the need for proximity to customers and clients (Håkanson, 1979).

Stage 3

For some time, the growth rate of the firm will be limited by the financial resources and managerial planning capacity. However, as market access is improved, capacity for further expansion becomes available. Unless demand is growing faster than capacity can be expanded at existing locations, the firm generally tries to find foreign outlets for its products. The competence needed for a successful exploitation of foreign markets usually has to be acquired externally. As a first step, a network of sales agents is adopted in a number of promising export markets (Håkanson, 1979).

Stage 4

The fixed costs of engaging a sales agency are generally lower than those of operating an own sales office, but this is only true for low volumes. When sales in foreign markets reach a certain level, the establishment of selling subsidiaries could be motivated. More important, perhaps, is the possibility of expanding market shares by the development of an extended market organisation, and to increase information and control of foreign operations. As is the case of the national market, the locations of sales establishments are determined by the need to be close to customers. A common way to establish foreign subsidiaries is through the acquisition of former agents. Consequently, the subsidy's location will then be determined by the former agent's location (Håkanson, 1979).

Stage 5

Production capacity cannot be expanded indefinitely at the mother plant. At various points in the growth process locational restraints force the decentralisation of production and the setting up or acquisition of branch plants. As the export volumes grows, the market access restraints, such as tariffs and transport costs, induce the firm to set up or acquire production or assembly plants in foreign markets. When possible, the acquisition of a foreign firm is often an attractive alternative because it allows a rapid increase in production capacity and immediate access to an established market organisation. Similarly, the fastest way to increase capacity in the face of input access restraints, such as shortage of labour or factory space, is to acquire another firm. Conversely, to establish a branch plant is both time consuming and costly so that this strategy will be adopted only when demand is growing rapidly and there are prospects of considerable gain. When acquiring a plant, locational considerations tend to be subordinated to the search for a suitable company, and when building new facilities the firm faces the classical decision problem of finding the most suitable location for a given activity. In either case, the direction of search and the range of alternatives considered are related to the previous history of the corporation and the geographical scale of its current operations. At an early stage of growth, search is limited to the home country or region, but the internationally operating firm often includes foreign locations among the set of possible alternatives (Håkanson, 1979).

Diversification

The reduction of uncertainty and risk associated with large size is often an important inducement to growth. By integrating, vertically or horizontally, the firm can extend its authority over larger sections of the environment, which is assumed to be hostile. Similarly, growth by diversification is frequently motivated by the benefits of the same, i.e. risk control. Also, continued growth without diversification is thought to be impossible. To ensure high and stable growth rates for any longer period, the firm must from time to time enter new lines of activity. Diversification, which may be undertaken during any stage of the firm's development, is usually motivated by the existence of excess production, distribution, managerial or financial capacity, and its direction is determined by the amount and type of free capacity (Håkanson, 1979).

Use of the theory

As mentioned, both models have been frequently used since their publications. The Uppsala model was used in several papers during the 1980's, for example, by Denis & Depelteau in 1985, Anderson & Gatignon (1986), and Kogut & Singh (1988).

However, the Uppsala model also experienced a significant amount of questioning towards the later part of the 1980's. This led the authors to feel there was a need to revise their model. The newer version of the model was published in 1990. What is interesting to observe in this newer version is that the underlying thoughts and the resulting proposals are very similar to those in the original version published in 1977. Nevertheless, the Uppsala model has continued to attract the attention of researchers and Johanson's & Vahlne's work is referenced throughout the 90's and even today which is shown by its occurrence in, for example Erramilli (1991), Sullivan (1994), Morosini *et al* (1998), Coviello & McAuley (1999), Andersson (2000), Delios & Henisz (2003) and Tihanyi *et al* (2005).

The Uppsala model isn't a model that provides an exact description of how the internationalising company actually behaves. Rather, it is a theory that describes the various challenges that a company needs to take into consideration when expanding internationally. Håkanson's model is one of the few models that contribute with a more tangible approach on a company's internationalisation. It builds on the assumptions in the Uppsala model and should be viewed as an extension or precision of the same. We showed in the beginning of the thesis that Håkanson's model is still widely used. The attention of the model in not just recent but can, however, be said to have persisted since the 1980's. For example Hayter used Håkanson's model in 1986 as well as Walker (1989), Walker & Greenstreet (1991), Bosman & Desmidt (1993), Bagchi-Sen (1995), Westhead *et al.* (2001) and Ettlinger (2003).

Discussion

It would seem as if the Uppsala model, as well as Håkanson's model, is outdated when considering the changes in the environment. For instance, there does no longer seem to be a need to locate production in order to optimise transport costs and to avoid trade barriers. Also, the new type of firm described, the born global, does not need to grow strong in its home market before going international, in fact it seems to have both the possibility and capability to internationalise virtually instantly from its founding. The focus of the process- and stage models seems to be on the organisation itself and the need to have a large organisation with a substantial amount of in-house capabilities, much in line with the conglomerates of the 1980's. Though, for the born global, a vast organisation is clearly no prerequisite in order to go international.

However, as shown, the process- and stage models are richly referenced in modern research. Especially the Uppsala model has been, and still is, the subject of substantial interest. Thus, the resilient powers of these theories have proved to be remarkable.

Clearly, the above outlined changes in the environment suggest that these models have little or no explanatory value today. But in that case, why do they still receive so much attention? Can it in fact be so that the described changes in the economic environment and theory only partly have changed the conditions for the internationalising firm? In order to determine this we have looked into a small, modern and early internationalised firm, Acne Jeans, which would intuitively fit well into the description of a born global. If Acne turns out to be a perfect fit with the description of the born global, the theories clearly receive unjustified attention. But if this is not the case it is interesting to know what explanatory powers the process- and stage models possess.

Acne Jeans

A story[1]

When arriving at the Stockholm Arlanda airport, as you walk through the baggage reclaim area towards the exit, you find an impressive row of photos of prominent Swedes on the walls. Alongside the likes of former Prime ministers, the Royal family, scientists, sports stars and business leaders you find a picture of Jonny Johansson, Head of Design with Acne Jeans and a little further down Mikael Schiller, CEO of Acne Jeans. Judging from the decision to put these pictures at such a high profile place, Acne is officially recognised as a growth company with high potential, apparently a suitable candidate to represent Swedish entrepreneurship and design competence.

Acne Jeans was sprung out of the Acne Group, which was originally a creative collective based in Stockholm. Acne Jeans was founded 1997 and the first collection came one year later. Its first international sale was virtually immediate. However, Acne Jeans was experiencing financial difficulties and during 2001 the company was on the verge of insolvency. Mikael Schiller was appointed CEO in 2001.

Mikael was brought up partly in Brussels and partly in Stockholm. He was educated at the Stockholm School of Economics and did an exchange program at universities abroad as part of his education. He also did summer internships abroad. When Mikael became CEO he managed to reach an accord with the debt holders. He “restarted” the company, cutting half of Acne’s workforce and focusing on organic growth. This effort was shared with Jonny Johanson, one of the original founders and Acne Jeans’ Head of Design.

[1] Schiller, interview 2007-01-23

In a young company a lot of the driving forces come from the business side. However, in Acne's case, driving forces from the creative side are equally important. In fact, sometimes it can be more important to succeed with a collection from a fashion point of view rather than succeeding from a financial point of view. The company regards itself as a fusion between art and industry. It is deeply rooted in the company's culture and strategy to try to balance these two worlds in a sustainable way. In most companies the CEO has the ultimate decision making power but in Acne this power is shared equally between the Head of Design and the CEO. This relationship further manifested itself when Acne Jeans was separated from the Acne group in 2006. Mikael Schiller and Jonny Johansson hold equal amounts of shares and their combined stake constitutes well over 70 percent of the equity and voting rights, the third largest shareholder is the investment company Öresund, with a minority stake of circa 20 percent.

Today more than 50 percent of sales are originated from abroad and the company is well into its international expansion. We have chosen, as stated earlier, to take a closer look at this internationalisation phase.

International expansion and challenges[2]

When restructuring the company Mikael chose to focus Acne's efforts to its home market, Sweden. To define the typical Acne customer in Sweden is not easy. Despite the company's strong identity as a brand sprung out of a creative collective with artistic independence as an important value, Acne is very broad in Sweden. The typical customers cannot be limited to just a super premium segment or even a premium segment. On the contrary Acne is found in a wide variety of segments. Sweden could, however, very well be a special case. An explanation for the wide segment of customers in Sweden could have to do with that the company was founded here and have thus had time to experiment with its focus on the local market. But, the Swedish market is now mature and it is crucial for Acne to expand internationally.

[2] Schiller, interview 2007-01-23

In the company’s international efforts a much narrower market than the one established in Sweden is targeted. The focus is exclusively on the markets top segment. Through reaching globally Acne can achieve desired volumes in spite of its narrow niche.

Acne’s products were initially sold internationally through one agent covering all markets abroad. Later, specific agents for each market were appointed. However, organising the sales operations through agents didn’t work ideally and the company now handles its operations in all markets, except the North Americas, in-house, something which is fairly unique in the industry. Offices in Munich, Paris, Copenhagen, Oslo and Stockholm have been established. The Paris office is also used as a platform for international sales and PR. Production is contracted to different plants primarily located in Europe. The reason for choosing Europe instead of for example China, where wages are lower, is because in Acne’s experience the European producers are more reliable.

Opening a sales subsidiary is a fairly large investment in capital but also in management focus. Actually, the scarce resource for Acne the last years haven’t necessarily been financing but rather management focus. What is more, the large cost for a sales office is today not just the costs associated with financial commitment and management focus, but also the prestige of actually succeeding.

Acne had 187 MSEK in sales and 29 MSEK in earnings during 2005/2006. The company’s revenues have had a compound annual growth rate of 157 percent over the last four years and so far all the profits generated from the company’s operations have been reinvested. Furthermore, Acne has a very low debt level. To get bank financing would not be difficult, considering the company’s record of recent growth, the good outlook for future growth and the current stable economic environment. There are therefore no financial restraints on future international expansion. Hence, it is tempting to conclude that Acne is doing well and consequently could apply a more aggressive international expansion, including opening up more sales subsidiaries. However, it appears to be important for the company to be successful with each new market entry. To thrive with each new sales subsidiary appears to be similar to winning a match for a successful football team. Every match is important and a loss is always bad for the confidence of the team. As mentioned earlier, Acne has a strong company soul, something that is highly valued in the corporate culture.

It is difficult to predict for how long the current favourable economic environment will last and Acne has good momentum in its brand right now. Consequently, it could be important to capture the current potential and proceed with a rapid international expansion. On the other hand it appears to be important not to do the same mistakes that many IT companies did in the beginning of 2000 – overconfidence in ideas and visions combined with premature expansion. Part of the management of Acne was involved in IT companies during the bubble and has the crash of 2001/2002 fresh in memory. The ability to balance this risk with the current market potential is crucial for the successful growth of the company.

As a brand in the fashion industry, it is essential to stay relevant. Many designers have temporarily or completely lost momentum through history. The fashion industry is a very fragmented market and it is often more important to focus on the own product rather than on the different strategies of immediate competitors. To benchmark against peer group companies that are in a similar growth phase (WE, J. Lindeberg) can therefore be misleading. On the contrary, it can be much more interesting to understand how larger competitors (Diesel, Prada etc.) operate. Also, inspiration outside the sector can be useful. Success stories such as Starbucks, Apple, Nike and Toyota are important examples of efficient expansion strategies. To avoid loosing momentum in the brand, continuous product development is crucial. The company can never stand still or it will loose its appeal. Therefore it is very important that Acne dares to grow. It wouldn't be sustainable to be a small actor in the market in the long run.

Discussion & Analysis

The process- and stage models outline a possible framework on how the organisational expansion in a company takes place. We believe that it is possible to differentiate between the organisation and the business model, i.e. the business idea including products and marketing efforts. The expansion of the organisation is, in itself, no longer a considerable challenge. Flows of capital and labour have facilitated fast organisational growth. Lower (or no) trade barriers have taken away restraints on the structure of the organisation. Twenty years ago it was necessary to adapt the organisation according to, for example, production locations. Today this has become a less important consideration for the company and the organisation can be much more flexible, since it no longer needs to adjust to this kind of locational restraints. Furthermore, lower costs of transportation and communication have enabled companies to coordinate and run diverse operations from a single location.

The above mentioned changes allow flexibility to be used in the business model as a competitive advantage. This development is likely to have changed the main challenge from being building an organisation that can handle international expansion to being developing a business model that can compete on an international level. When the process- and stage models were developed the organisation was a necessary and difficult challenge and the business model was, of course, important. Since it is no longer a significant challenge to build an international organisational structure, the business model is the defining competitive tool.

The changes on the macro level have apparently taken the focus away from the organisational structure and made the challenges of the business model more important. Even if flexibility provides a competitive advantage, this does not remain a secret among market players. The focus on the expansion of the organisation in the process- and stage models no longer seems to be correct. The necessary step of locating production in a foreign market is obviously obsolete in most trading countries. However, this does not necessarily mean that the models are completely wrong and that some of their steps and theories are inapplicable to the today more important business model.

As mentioned above, the born global has been created by the new market conditions, technological developments and increasingly well educated people. The process- and stage models emphasise the importance of growing to large conglomerates in order to handle risk and market access restraints. It was necessary to achieve large volumes in order to have an economically sound production. Today many producers and production plants act as subcontractors to many different clients. Thus, the allocation of production capabilities is much more efficient and thanks to lower transportation costs their location need no longer be optimised with regards to inputs and end users.

The homogenisation of tastes around the globe and the increasingly growing population of well educated people with international experience have paved the way for a global market where any company with a sustainable business model can compete. This typical global challenger is founded by an entrepreneur with, possibly extensive, international experience who has identified a clear niche for the company's operations which will allow it to exploit markets in ways not easily identified. Even if the unique skills of the company are tacit knowledge, hence inimitable, its strategy and niche will not remain a secret for long. This, in combination with the narrow niche, will drive the company towards an early internationalisation. And once the internationalisation process has been initiated it is likely to proceed rapidly in order for the company to exploit as large a part of the global market as possible. These circumstances make the process- and stage models seem out-dated with regards to the business model since they fail to explain the short time it takes from a company's founding to its internationalisation, as well as the speed at which the internationalisation takes place.

To conclude, the process- and stage models fail to give a good description of the internationalisation process of the modern firm. When formulating a possible scenario for the international expansion of the modern firm it becomes necessary to keep in mind that these companies are loosely dependent on location of production facilities and a large in-house organisation, while they are heavily dependent on their founders, including his/hers networks, and modern communication/transportation. When you realise this it becomes clear that the international expansion is not an apparent multiple step phenomenon that follows after national expansion but something that is already rooted in the business model and hence global expansion theoretically happens immediately. But, after looking into Acne Jeans we can state that this is not an entirely satisfactory description.

The predictions of the Uppsala model suggesting that international expansion initially implies focusing on markets that are psychologically close to the home market seem to be partly true in the case of Acne. Acne has chosen not to expand in China before France. Yet, there hasn't been an out-spoken strategy in terms of psychic factors – culture, language, business environment – in the expansion outside of Scandinavia. The first Acne stores opened outside of Sweden was not located in Norway or Finland, but in Copenhagen 2004 and then Berlin 2005. The Danish market is probably more continental European than Scandinavian in terms of psychic distance and a first store in Oslo had therefore been more along the line with the Uppsala Model. However, the psychic distance to Denmark is most likely relatively short. The major shortcoming in the Uppsala model is that Acne internationalised far earlier than what would be expected.

According to Håkanson Acne should establish itself in Sweden before expanding internationally. This does actually seem to be the case. However, the theory also states that when a company finally takes the step of expanding internationally it does so through a considerable enlargement of its operations, ultimately including hiring new management and establishing production facilities in export markets. In the case of Acne there hasn't been a need to hire new management in order to coup with the restraints on management focus. Instead the company has chosen to research and secure each new market entry and then put the management focus on new market entries. And, as mentioned, Acne doesn't own any production facilities.

When considering the global firm and its characteristics it becomes clear that Acne Jeans isn't a perfect fit. Acne's international efforts didn't really become serious until a strong home base was established. Also, the fact that the expansion has proceeded in steps from Sweden to Denmark/Germany to the UK/France etc. is actually more in line with the descriptions of the process- and stage models than with the global firm approach. On the other hand, considering that Acne was founded and is run by entrepreneurs on which the company is heavily dependent, and that Acne has been able to go international without the vast organisation supposedly needed in the process- and stage models, it would seem as if Acne is best described by a combination of the international expansion of the born global firm and by the process- and stage models.

Conclusions

As stated before, it seems clear that the process- and stage models do not outline an entirely satisfactory description of the modern firm's internationalisation process. Contrary to such models it is instead possible to state that the modern firm will start its international expansion shortly after its founding. This becomes necessary since the niche in which the modern firm operates, typically is so narrow that internationalisation becomes a prerequisite in order to reach satisfactory sales volumes.

Furthermore, the internationalisation process will proceed with much higher speed than predicted by Håkanson and Johanson & Vahlne, mainly thanks to lower trade barriers and technological developments, including more efficient production allocation, and the resulting different market conditions. However, Acne Jeans suggests that the international expansion will not fully pick up its pace until a solid home base is established, and consequently the process- and stage models here add some interesting insights. The Acne case study imply, much along the lines with traditional theory, that the internationalisation will not be as sporadic as suggested by the born globals. The modern firm will indeed go international early and fast, but it will do so by focusing on its immediate international surroundings. Consequently, it is to a certain extent possible to predict its expansion.

We need to keep in mind that Acne Jeans is only one example of a modern company and we cannot be certain that it is representative to all modern niche players. Also, Acne is active within an industry that is highly international in the sense that the business model can be easily transferred to any modern market. In such an industry, as concluded earlier, the most significant challenge is not to build an international organisation but rather to develop a solid business model that can compete satisfactorily on an international level. While the case study has been useful to test our theories about the typical modern firm, it is not to say that all contemporary firms possess such characteristics. Clearly, traditional enterprises still constitute a large part of the industry in the developed world. These companies do not fit equally well into our analysis. Most of them have developed their international operations over the last decades and have thus been influenced by the factors dominating the traditional theories. However, even in these companies it is likely that the new factors described will have to be taken into consideration in order to understand the future development of their operations.

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