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The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership

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Abstract
The Uppsala internationalization process model is revisited in the light of changes in business practices and theoretical advances that have been made since 1977. Now the business environment is viewed as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers. Outsidership, in relation to the relevant network, more than psychic distance, is the root of uncertainty. The change mechanisms in the revised model are essentially the same as those in the original version, although we add trust-building and knowledge creation, the latter to recognize the fact that new knowledge is developed in relationships.
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INTRODUCTION

Much has changed since our model of the internationalization process of the firm was published in the *Journal of International Business Studies* (*JIBS*) (Johanson & Vahlne, 1977). In fact, the economic and regulatory environments have changed dramatically. Company behavior is also different in some respects. The research frontier has moved too. There are some concepts and insights that did not exist when our model was published.

The Uppsala model explains the characteristics of the internationalization process of the firm. When we constructed the model there was only a rudimentary understanding of market complexities that might explain internationalization difficulties, but subsequent research on international marketing and purchasing in business markets provides us with a business network view of the environment faced by an internationalizing firm. We further develop this view and explore its implications for the internationalization process of the firm. Our core argument is based on business network research, and has two sides. The first is that markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. Hence *insidership* in relevant network(s) is necessary for successful internationalization, and so by the same token there is a *liability of outsidership*. Second, relationships offer potential for learning and for building trust and commitment, both of which are preconditions for internationalization. Before we look at this business network view in depth, we summarize our original model.

THE 1977 MODEL

Researchers in the Department of Business Studies at Uppsala University in the mid-1970s made empirical observations that contradicted the established economics and normative, international business literature of the time. According to that literature, firms choose, or should choose, the optimal mode for entering a market by analyzing their costs and risks based on market characteristics and taking into consideration their own resources (e.g. Hood & Young, 1979). However, our empirical observations from a database of Swedish-owned subsidiaries abroad, and also from a number of industry studies of Swedish companies in international markets, indicated that Swedish companies frequently began internationalizing with *ad hoc* exporting (Carlson, 1975; Forsgren & Kinch, 1970; Hörnell, Vahlne, & Wiedersheim-Paul, 1973; Johanson, 1966; Nellbeck, 1967). They would subsequently formalize their entries through deals with intermediaries, often agents who represented the focal companies in the foreign market. Usually, as sales grew, they replaced their agents with their own sales organization, and as growth continued they began manufacturing in the foreign market to overcome the trade barriers that were still in place in the post World War II era. We labeled this dimension of the internationalization pattern the *establishment chain*. Another feature of the pattern was that internationalization frequently started in foreign markets that were close to the domestic market in terms of *psychic distance*, defined as factors that make it difficult to understand foreign environments. The companies would then gradually enter other markets that were further away in psychic distance terms (Johanson & Wiedersheim-Paul, 1975; Vahlne & Wiedersheim-Paul, 1973). This process had its origin in the *liability of foreignness*, a concept that originally explained why a foreign investor needed to have a firm-specific advantage to more than offset this liability (Hymer, 1976; Zaheer, 1995). The larger the psychic distance the larger is the liability of foreignness.

We searched primarily in the theory of the firm for explanations for the deviations between what the extant theories prescribed and the Swedish pattern of internationalization, and developed our original model based on the work of Penrose (1966), Cyert and March (1963), and Aharoni (1966). The underlying assumptions of our 1977 model are uncertainty and bounded rationality. It also has two change mechanisms. First, firms change by learning from their experience of operations, current activities, in foreign markets. Second, they change through the commitment decisions that they make to strengthen their position in the foreign market. We define commitment as the product of the size of the investment times its degree of inflexibility. While a large investment in saleable equipment does not necessarily indicate a strong commitment, unwavering dedication to meeting the needs of customers does. Experience builds a firm's knowledge of a market, and that body of knowledge influences decisions about the level of commitment and the activities that subsequently grow out of them: this leads to the next level of commitment, which engenders more learning still (Figure 1). Hence the model is dynamic.

The model does not specify the form that increased commitment might take. Indeed, commitment may decline, or even cease, if performance and prospects are not sufficiently promising. Contrary to the views expressed by some, the process is by no means deterministic. We assumed nonetheless that the process of internationalizing will continue as long as the performance and prospects are favorable.

We also assumed that learning and commitment building take time. This explains why moves into more risky, but potentially rewarding, modes and moves into markets that are more distant in terms of psychic distance are made incrementally.

We considered the model to be descriptive, largely because we based it on Cyert and March

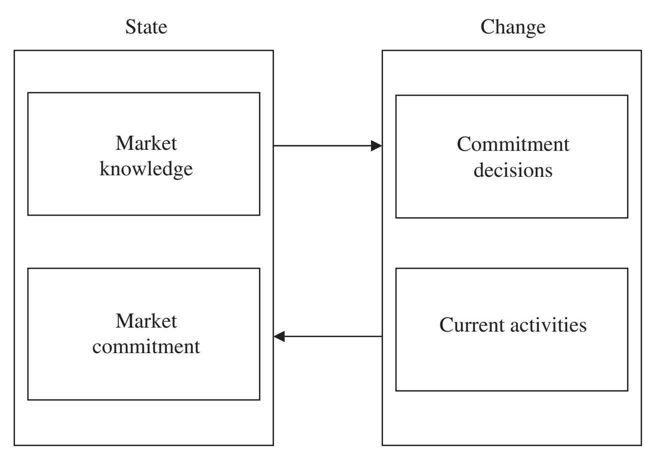

Figure 1 The basic mechanism of internationalization: state and change aspects (Johanson & Vahlne, 1977: 26).

(1963). It has generally been characterized in the subsequent literature as behavioral, compared with other theories that are seen as economic, such as internalization theory (Buckley & Casson, 1976), transaction cost theory (Hennart, 1982), and the eclectic paradigm (Dunning, 1980). More recent empirical studies have indicated that the internationalization process as explained by our model has a positive impact on performance (Barkema, Bell, & Pennings, 1996; Delios & Beamish, 2001; Li, 1995; Luo & Peng, 1999). Our model can therefore be considered a model of rational internationalization, and can be used for prescriptive purposes.

THE FIRM IN THE MARKET ENVIRONMENT: A BUSINESS NETWORK VIEW

A number of studies have demonstrated the role of networks in the internationalization of firms. Coviello and Munro (1995, 1997) conducted empirical studies of the internationalization of small software firms. They found that network relationships have an impact on foreign market selection as well as on the mode of entry in the context of ongoing network processes. Their findings led them to develop a model that combines the process model and the network approach. In a study of the international expansion of Japanese suppliers of automotive components, Martin, Swaminathan, and Mitchell (1998) found that the inter-organizational relationships of suppliers, especially those with buyers, affected their pattern of international expansion. Other researchers have looked at networks in studies of internationalization strategy (Welch & Welch, 1996), the location of foreign direct investment (Chen & Chen, 1998), the first step abroad (Ellis, 2000), SME internationalization (Chetty & Blankenburg Holm, 2000), internationalization of firms from emerging markets (Elango & Pattnaik, 2007), and rapid internationalization (Loane & Bell, 2006), to name but a few.

We conclude that our original model needs to be developed further in light of such clear evidence of the importance of networks in the internationalization of firms. The research that has been done to date generally has studied the ways in which networks influence internationalization, without discussing how those networks have been created, and without considering the network structure in the country or countries firms entered. Based on case analyses, Coviello (2006) developed a model of "how [international new venture] networks evolve" during the early phase of internationalization. Our aim differs from that of Coviello in that we focus on business networks as a market structure in which the internationalizing firm is embedded and on the corresponding business network structure of the foreign market. While our goal is to develop a more general business network model of firm internationalization, Coviello's (2006) work is nevertheless of great interest, as she shows that "insidership" in networks, developed before entry into a new market, even before the foundation of the firm, is instrumental to the specific internationalization process at hand.

The studies on which the 1977 model was based indicated that the received theories of markets and marketing were not useful in trying to understand the market situation of individual firms. An international business-to-business marketing research program started in Uppsala in the mid-1970s in order to develop a better understanding of business markets and marketing. Early observations that firms develop lasting relationships with important customers were an important input into this research program (Forsgren & Kinch, 1970; Johanson, 1966). An interaction approach that focused on the adaptation and exchange between suppliers and customers was used as a theoretical framework for studies of business relationships (Håkansson & Östberg, 1975).

A large-scale empirical study of international marketing and purchasing of industrial products (the IMP project) that was carried out in the late 1970s and early 1980s by researchers from Sweden and four other European countries was based on the interaction approach (Ford, 1997; Håkansson, 1982; Turnbull & Valla, 1986). Work done during the project demonstrated that close and lasting business relationships between suppliers and customers are indeed important, be they within a given country or between countries (Hallén, 1986). A number of studies since then have shown the importance of relationships in the internationalization process – client-following strategies for example (Bonaccorsi, 1992; Erramilli & Rao, 1990; Majkgård & Sharma, 1998; Sharma & Johanson, 1987). IMP project studies also showed that such relationships usually involve a number of managers who coordinate the activities of the different firms, and who together create interrelated routines (Cunningham & Homse, 1986). Moreover, these relationships seem to develop through social exchange processes in which the firms involved enact the relationship interactively and sequentially (Kelley & Thibaut, 1978). The result is the accumulation of knowledge and building of trust, and eventually greater commitment, as also demonstrated in channel and relationship marketing studies (Anderson & Weitz, 1992; Dwyer, Schurr, & Oh, 1987; Morgan & Hunt, 1994). In the process, weak ties and unilateral dependence can be transformed into strong relationships and bilateral interdependence, and ultimately increased joint productivity (Hallén, Johanson, & Seyed-Mohamed, 1991; Zajac & Olsen, 1993). As with the internationalization process model, the research done in the IMP project shows that relationships develop through a process of experiential learning whereby firms learn about the resources and capabilities of their counterparts, and gradually increase their commitments (Hägg & Johanson, 1982). There is one important difference between our model and the findings of the IMP project: relationship development is a bilateral process that involves two parties who learn interactively and make a mutual commitment to the relationship (Anderson & Weitz, 1992; Blankenburg Holm, Eriksson, & Johanson, 1999). When we constructed our original model we were not aware of the importance of mutual commitment for internationalization. Now our view is that successful internationalization requires a reciprocal commitment between the firm and its counterparts (Johanson & Vahlne, 1990; Vahlne & Johanson, 2002).

It takes time – some data indicate as long as 5 years – and managerial effort to create working relationships, and many attempts fail (Hohenthal, 2001). Thus a working relationship is the result of considerable investment, and is an important firm resource (Dyer & Singh, 1998). While there may be some formal aspects, developing relationships is essentially an informal process (Powell, 1990). Intentions, expectations, and interpretations are important. Relationships are basically socially constructed. The informal and subtle nature of relationships makes it almost impossible for anyone who is not personally involved to judge the scope of the investment that has gone into building it, or its value. The larger the psychic distance, other things being equal, the more difficult it is to build new relationships. This is the effect of the liability of foreignness. Two firms that are parties to a relationship are tied to each other to some extent: they share in their mutual future development, and may exercise some degree of power over one another (Granovetter, 1985). Thus, in practice, they are not fully autonomous: they are linked by a non-trivial level of mutual control.

Research has now also shown that firms are frequently involved in a set of different, close and lasting relationships with important suppliers and customers (Cowley, 1988; Håkansson, 1989). As those firms presumably in turn are engaged in a number of additional business relationships, firms operate in networks of connected business relationships (Anderson, Håkansson, & Johanson, 1994; Cook & Emerson, 1978; Hägg & Johanson, 1982). The term *connected* means that exchange in one relationship is linked to exchange in another. These webs of connected relationships are labeled *business networks*.

The firm may create new knowledge through exchanges in its network of interconnected relationships. Knowledge creation is an outcome of the confrontation between producer knowledge and user knowledge. The process of creating knowledge is not separate from the other activities in business relationships; rather it is embedded in them. Knowledge does not accrue only from the firm's own activities, but also from the activities of its partners, and since those partners also have other relationship partners with whom their activities are coordinated, the focal firm is indirectly engaged in a knowledge creation process that extends far beyond its own horizon. Thus a network of business relationships provides a firm with an extended knowledge base (Hägg & Johanson, 1982; Kogut, 2000).

Penrose (1966) and the resource-based view (RBV) (Barney, 1986) assume that resources are heterogeneous, and that these idiosyncratic resource bundles lead to value creation, irrespective of market conditions. The business network view starts with these same assumptions, and adds that exchange within a network allows a firm to acquire knowledge about its relationship partners, including their resources, needs, capabilities, strategies, and other relationships. Relationship partners are therefore indirectly a source of relevant business information about their own partners and more distant actors in the network. Thus the firm commands privileged knowledge about its business network.

Based on the above, we view the firm as a business entity engaged primarily in exchange activities (Snehota, 1990) – exchange, rather than production, being the distinctive feature of the firm (cf. Alchian & Allen, 1964). Indeed, the value of production is derived from exchange. While traditional economic theory defines a firm without reference to other firms, we define a firm on the basis of its exchange with specific other actors (Forsgren, Holm, & Johanson, 2005).

Johanson and Mattsson (1988) developed a network model of internationalization based on business network research. They discussed the internationalization of firms in the context of both the firm's own business network and the relevant network structure in foreign markets. In contrast to many other network studies, their model highlights the importance of the network structure outside the firm's own business network. It stresses the importance of specific business relationships in a firm's internationalization, though it lacks dynamic elements. That model provided conceptual input for our work on the mechanism of internationalization, in which we view internationalization as a multilateral network development process (Johanson & Vahlne, 1990).

A firm's success requires that it be well established in one or more networks. Anything that happens, happens within the context of a relationship, and a firm that is well established in a relevant network or networks is an "insider." As shown above, it is to a large extent via relationships that firms learn, and build trust and commitment – the essential elements of the internationalization process. We argue that insidership is a necessary but insufficient condition for successful business development.

A firm that does not have a position in a relevant network is an "outsider." If a firm attempts to enter a foreign market where it has no relevant network position, it will suffer from the *liability of outsidership* and foreignness, and foreignness presumably complicates the process of becoming an insider. Outsidership makes it impossible to develop a business, and yet somehow the internationalization process begins. It might happen that a potential partner inside the target market requests a service from the focal firm, thus creating an initial insider opportunity. The learning process, and trust- and commitment-building, may then begin. It could also happen that another firm in the focal firm's home country would need to have products delivered to its own customer's new facility in a foreign market, and so might ask the focal firm to do that. In that case the focal firm's existing insidership in a relevant network may help it enter a foreign market. Evidently, the process may start through efforts by the focal firm.

In our view a firm's environment is made up of networks, and this has implications for the ways in which we think about learning, building trust, and developing commitment, as well as about identifying and exploiting opportunities. Such activities must be understood within the context of business networks where the liability of outsidership is an impediment. In the following three sections we discuss these activities, which in simultaneity may result in business development and internationalization.

KNOWLEDGE AND LEARNING

Our original model is based on the assumption that developing knowledge is fundamental to a firm's internationalization, and in particular that knowledge that grows out of experience in current activities (operations) is crucial to the learning process. We also assumed that learning by experience results in a gradually more differentiated view of foreign markets, and of the firm's own capabilities. It is such learning that makes developing foreign operations possible. In recent decades there has been a growing in interest in organizational learning in general, as well as in the context of internationalization. In this section we examine some implications of the research that has grown out of this interest for the business network view of the internationalization process.

Two reviews of our original model have been written that discuss its concepts of knowledge and learning (Forsgren, 2002; Petersen, Pedersen, & Sharma, 2003). Petersen et al. discuss some of the critical assumptions of our model, one of which is that market-specific knowledge is the critical kind of knowledge. A number of studies have supported this conclusion (Barkema et al., 1996; Erramilli, 1991; Luo & Peng, 1999).

In a study based on the network view, Axelsson and Johanson (1992) examined how three firms entered foreign markets. They showed that foreign market entry should not be studied as a decision about modes of entry, but should instead be studied as a position-building process in a foreign market network. Their cases revealed the complexities associated with learning when a firm enters a foreign market network. For example, firms have to identify the relevant market actors in order to determine how they are connected in often invisible complex patterns. These patterns can be identified only by the actions of the entering firm, which causes other market actors to reveal their ties to each other. The liability of outsidership must be overcome. The Axelsson and Johanson study highlights the market-specific learning process that we assumed in developing our 1977 model, and provides some input into the business network analysis of internationalization.

In their study of experiential learning in the internationalization process, Eriksson, Johanson, Majkgård, and Sharma (1997) found that lack of institutional market knowledge and lack of business knowledge require different amounts of time to overcome, and have dissimilar effects on the perceived cost of internationalization. A lack of institutional market knowledge – that is, lack of knowledge about language, laws, and rules – has to do with factors related to psychic distance, and to the liability of foreignness. Lack of business market knowledge is related to a firm's business environment that, according to the business network view, consists of the firms with which it is doing business, or trying to do business, and the relationships between firms in this environment. The lack of such market-specific business knowledge constitutes the liability of outsidership.

In developing our original model we stressed that there is general market knowledge that may be transferred between organizational units. More recent research has shown that more general internationalization knowledge – that is, knowledge that reflects a firm's resources and its capabilities for engaging in international business – is also important (Eriksson et al., 1997; Welch & Luostarinen, 1988). Furthermore, several studies have shown that a number of different aspects of general internationalization knowledge may be important as well. We believe now that the general internationalization knowledge that encompasses several kinds of experience, including foreign market entry (Sapienza, Autio, George, & Zahra, 2006), mode-specific (Padmanabhan & Cho, 1999), core business (Chang, 1995), alliance (Hoang & Rothaermel, 2005), and acquisition (Nadolska & Barkema, 2007), and other specific kinds of internationalization experience, is probably more important than we had assumed back in 1977. It is worth noting that knowledge about internationalization does not only result from the types of learning identified above. For instance, it has been shown that internationalization knowledge is positively related to variations in the experiences a firm has in different markets (Barkema & Vermeulen, 1998).

Given the business network view, we add to our model the concept of *relationship-specific knowledge*, which is developed through interaction between the two partners, and that includes knowledge about each other's heterogeneous resources and capabilities. Moreover, we expect that interaction to contribute to more general knowledge about international relationship development, and also to help the partners learn about ways in which they can develop different and transferable relationships in alternative situations (cf. Hoang & Rothaermel, 2005). Indeed, variations in the character of relationships may have a positive impact on the development of *general relationship knowledge*. Furthermore, the importance of business network coordination, as we wrote in the section about the business network view, suggests that learning how to coordinate sets of relationships is important. Such learning may develop in relationships between partners that are located in different countries – for instance, suppliers in some countries and customers in others (Johanson & Vahlne, 2003).

Moreover, knowledge development in business networks is different from the kind of knowledge development we assumed in our original model. In business networks knowledge development is not only a matter of learning extant knowledge from other actors. The interaction between a buyer's user knowledge and a seller's producer knowledge may also result in new knowledge.

Prior experience with management teams may have a strong effect on internationalization, at least in new and small companies (Reuber & Fischer, 1997). This is particularly interesting, as the 1977 model says nothing about the beginnings of internationalization (Andersen, 1993). From a business network point of view it is important to emphasize that the management team's prior relationships probably provide extremely important knowledge. We return to this issue later.

Petersen et al. (2003) discuss our original model under the headings *From simplicity to complexity* and *From determinism to managerial discretion*. Under the first heading they compare the simple view of knowledge presented in our early model with later research in knowledge and organizational learning. We agree that research on organizational learning has demonstrated that learning is much more complex than we had assumed 30 years ago. When we constructed our model we believed – and continue to believe – in a parsimonious approach to theory development. The aim of theory building is not to replicate a complex reality; it is to explain its central elements. The conclusion of subsequent research has been that experiential learning is indeed a central factor in a firm's internationalization. In his critical review of the Uppsala and the innovation models (Bilkey & Tesar, 1977; Cavusgil, 1980) of the internationalization process, Andersen

(1993) noted that the Uppsala model does not consider specific situations, phases, firms, or foreign markets. In Andersen's view, the model is general. Obviously a model that has general applicability cannot also consider all the kinds of knowledge and learning that might occasionally be relevant. It is likely that ways of learning other than experiential learning may be important for studies of specific internationalization episodes and situations. In his critical review of our original model, Forsgren (2002) argues that three types of non-experiential learning – the acquisition of other firms, imitation, and search – may also speed up the internationalization process. He consequently means that our model exaggerates the gradual nature of the process.

Under the heading *From determinism to managerial discretion*, Petersen et al. (2003) write that the model we developed in 1977 is deterministic, though research has demonstrated the existence of substantial managerial discretion in the internationalization of firms. We disagree with their characterization. We do not see a causal relation between experiential learning and resource commitment as deterministic. A causal relation between two variables does not mean that one determines the other; only that one influences the other, usually in combination with other variables. We do agree that managerial discretion is important, although we think that path dependence and problemistic search tend to make managers prefer certain specific alternatives to other ones. We also think that the model can easily incorporate managerial discretion and strategic intentions.

In spite of the critical views raised above, we think that empirical studies of the internationalization process demonstrate the central role of experiential learning in the process. In addition, other important research streams have stressed learning mechanisms that are consistent with our model. For example, research on learning curves highlights learning based on experience, and is one of the fundamental sub-areas within the field of learning studies (Argote, 1999). Nelson and Winter's (1982) evolutionary theory emphasizes routines developed through experience that result in behavioral continuity and limited path dependence. The concept of absorptive capacity developed by Cohen and Levinthal (1990) is a third example. Like experiential learning, absorptive capacity means that knowledge development tends to be a cumulative process.

Given all the points made above, we conclude that there is good reason to retain experiential learning as a basic mechanism in the business network view of the internationalization process. Of course, experiential learning can be complemented with other ways of knowledge development.

TRUST AND COMMITMENT BUILDING

Our original model does not explicitly include any affective or emotional dimensions in relationships, though it can be argued that they are implicitly present in the concept of knowledge. We now think that those dimensions should be explicit. First, much has since been written on social capital, trust, and similar concepts, which of course include both affective and cognitive elements. Second, we realize from empirical observation that affective dimensions are indeed important for understanding the relationships that are a critical component of our model. Third, trust plays an important part in recent research on relationship development (Morgan & Hunt, 1994) and business networks (Johanson & Mattsson, 1987). We recognized the possibility of including these aspects in our model in a later note on the Uppsala internationalization process model (Johanson & Vahlne, 2006). Building on the work of Nahapiet and Ghoshal (1998), Granovetter (1985, 1992), Madhok (1995) and others, we conclude that trust is an important ingredient for successful learning and the development of new knowledge. Trust can also substitute for knowledge, for instance when a firm lacks the necessary market knowledge and so lets a trusted middleman run its foreign business (cf. Arenius, 2005). We also introduce in this section a definition of commitment without the tautological relationship to knowledge that, according to Andersen (1993), is a problem in the original model (cf. Hadjikhani, 1997).

Morgan and Hunt (1994) provide definitions of trust. Trust keywords and phrases include "integrity," "reliability," and that "the word … of another can be relied upon." In short, a sense of trust implies an ability to predict another's behavior. Trust also assumes that human behavior is characterized by high ethical standards. Trust may develop into commitment if there is willingness and positive intentions. Thus trust is a prerequisite for commitment – a conclusion that is consistent with the results obtained by Morgan and Hunt. If trust does lead to commitment, it implies that there is a desire to continue the relationship, a willingness to invest in it, even recognition of the necessity of making short-term sacrifices that benefit another for reasons of long-term interest for oneself.

In a comment on his 1995 article on international joint ventures, Madhok (2006) discusses whether it makes sense to assume either trust or opportunism. His conclusion implies that there are reasons for firms to rely on the trustworthiness of their business partners. We agree, though we believe that it is unrealistic to assume that trust is permanent, or that commitment or extreme opportunism are either. It is realistic, though, to assume that an extant degree of commitment will persist and increase when partners believe that continuing a relationship is in their long-term interest. While opportunities are the key factor in making commitments, the other side of the coin is dependency. One partner may not necessarily appreciate everything the other one does, and yet some actions will be tolerated for the sake of long-term interests (Thorelli, 1986).

Trust persuades people to share information, promotes the building of joint expectations (Madhok, 1995), and is especially important in situations of uncertainty. Trust is crucial in the early phases of a relationship, and its importance may be permanent if the relationship requires continued efforts to create and exploit opportunities. Madhok's (1995) contention is that trust "induces reciprocity and coordinates action." This supports Morgan and Hunt's (1994) conclusions that "trust is a major determinant of commitment" (see also Gounaris, 2005). They go on to say that they see "relationship commitment as an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it." (1994: 23) We agree with this definition, with the caveat that we do not believe anything is ever maximized. Commitment is rather a question of more or less intensive efforts. We do, however, agree with Morgan and Hunt that "when both commitment and trust – not just one or the other – are present, they produce outcomes that promote efficiency, productivity and effectiveness." (1994: 22)

Mathieu and Zajac (1990) distinguish between calculative and affective commitment. Calculative commitment is built on cognitive assumptions. Examples include available joint opportunities. Affective commitment is based on "a generalized sense of positive regard for and attachment to the other party" (Gounaris, 2005). Affective commitment may then replace cognitive analysis. In the absence of knowledge, if the stakes are high in terms of opportunities or of switching costs, it may be rational to act on partially subjective opinions. Therefore, given the circumstances, the decision-makers in our model are rational. Clearly, knowledge is never complete. In fact, in some situations knowledge does not exist until the parties have developed it together. Nonetheless, Gounaris (2005) finds in his empirical analysis that calculative commitment has a negative impact on the parties' intentions to preserve and strengthen their relationship, and so suggests that firms may want to avoid dependence and lock-in situations. However, dependency is an unavoidable by-product of a beneficial relationship.

We agree with Madhok (2006: 7) that "trust-building is a costly and time-consuming process." Boersma, Buckley, and Ghauri (2003) picture the process as a sequence of phases in which the output of one phase constitutes the input of the next. As the output from each phase consists of either an increased or a decreased level of trust, the process is not deterministic. Commitment is developed late in the process (in Boersma et al.'s analysis, this occurs after joint venture negotiations). We believe that this view applies to relationships in general, with or without negotiations, as long as firms signal their intent to commit.

OPPORTUNITY DEVELOPMENT

In our original model we assumed that market commitment and market knowledge affect "perceived opportunities and risks which in turn influence commitment decisions and current activities." (1977: 27) Moreover, we assumed "that the commitment to a market affects the firm's perceived opportunities and risk." (1977: 27) We also stated, "knowledge of opportunities or problems is assumed to initiate decisions." (1977: 27) Despite these assumptions, our model has generally been regarded as a risk (or uncertainty) reduction (or avoidance) model. We think that risk is unavoidable when embarking on a journey into the unknown, and so stated that the firm's approach to risk is complicated and variable. This assertion, however, does not imply risk avoidance, only a need for risk management. Research on business networks and entrepreneurship has made considerable progress since the publication of our original model. We recognize now that we probably did neglect the opportunity dimension of experiential learning. Still, we did write:

> An important aspect of experiential knowledge is that it provides the framework for perceiving and formulating

> opportunities. On the basis of objective knowledge it is possible to formulate only theoretical opportunities, experiential knowledge makes it possible to perceive "concrete" opportunities – to have a "feeling" about how they fit into present and future activities. (1977: 28)

The field of opportunity research has grown significantly. We believe that by combining findings from that research with the business network perspective on markets described in the previous section, we can take a step forward in discussing opportunities in the internationalization process.

Kirzner (1973) offers a starting point. Entrepreneurial discovery of opportunities plays a central role in his theory of the market process. He argues that opportunities exist in the market because markets are never in equilibrium. Opportunity recognition involves discovering the hitherto unknown; it is a result of entrepreneurs being alert and prepared for surprises. This view implies that opportunity recognition is associated with ongoing business activities rather than with specific opportunity-seeking activities. He also sees entrepreneurial discovery as an outcome of serendipity (Kirzner, 1997).

Following Kirzner, Shane (2000) studied the role of prior knowledge and showed that it seems to have a stronger impact on discovery than the personal characteristics of individuals do. Prior knowledge makes individuals better at discovering some opportunities, which means that opportunity-seekers should concentrate on what they know, rather than on what others say. Similarly, building on the resource-based view, Denrell, Fang, and Winter (2003) conclude, as Barney (1986) argued, that the firm does not have any privileged knowledge about external resources required for identifying an opportunity. Therefore, as Shane (2000) suggests, the firm should focus its opportunity analysis on its own internal resources, where it presumably has privileged knowledge. Like Kirzner (1997), Denrell et al. conclude that identifying opportunities is likely to be the result of a serendipitous strategy characterized by effort and luck, combined with alertness and flexibility.

However, according to the network view of markets, firms do have privileged access to information about their relationship partners and their business network. Moreover, opportunity recognition is likely to be an outcome of ongoing business activities that add experience to the existing stock of knowledge. An important part of that experience is knowledge of one's own firm and its resources, including the external resources that are partially available through network relationships.

Ardichvili, Cardozo, and Ray (2003) see opportunity development as the central element in their theory of entrepreneurial opportunity identification and development, and as such it should be its primary focus: "The need or resource 'recognized' or 'perceived' cannot become a viable business without this 'development'" (2003: 106). According to the network perspective on markets, opportunity development is based on interaction between partners who build knowledge together and come to trust each other as they commit themselves further to the relationship. Provided that there is some basic entrepreneurial alertness, opportunities are likely to emerge as a consequence of the privileged knowledge that the two partners develop during their interaction. This knowledge may allow them to recognize opportunities that others do not (Agndal & Chetty, 2007). Furthermore, they may identify and understand ways in which their idiosyncratic resources match those of their partner (von Hippel, 1988). The opportunity development process is similar to the internationalization process, and to the relationship development process (Ghauri, Hadjikhani, & Johanson, 2005). It is a matter of interrelated processes of knowledge development and commitment to an opportunity. The process may be unilateral, with one firm learning about another firm's needs, capabilities, markets, and network, thereby identifying an opportunity. Alternatively, it may be bilateral when two firms in interaction identify an opportunity. It may even be multilateral, with several firms interacting and increasing their commitment to an idea or opportunity. In this type of multilateral opportunity development, firms that are connected to the two focal firms are likely to be involved in the process, a process that may be facilitated by trust. One would expect network configuration and relational embeddedness to influence the type of opportunity, Kirznerian or Schumpeterian, that is developed (Andersson, Holm, & Johanson, 2005). An important conclusion based on the network view is that both Kirzner (1997) and Denrell et al. (2003) exaggerate the role of serendipity.

Consistent with the view that opportunity identification is a side-effect of an ongoing business relationship, we believe that exploitation and exploration (March, 1991) overlap. Partly because of heterogeneity, and partly because of the unavailability of information, market research may be unable to identify many of the opportunities that insiders can. As a result, exploitation breeds exploration, at least for the type of opportunities that are induced by the market. While exploitation is risky, that risk can be reduced by progressing in small steps and building successive commitments.

Shane (2000) concluded that since opportunity recognition is associated with prior knowledge, it is difficult to centralize the search for opportunities. This is consistent with Bjerre and Sharma's finding "that a major portion of the knowledge in international firms is indeed local, deposited in local subsidiaries," (2003: 138) which supports our view that market-derived opportunities will be discovered and/or created at the boundary of the firms where the necessary relationship experience exists. It also supports the view that subsidiary entrepreneurial initiatives are likely to be important for the multinational enterprise (Birkinshaw, 1997).

The following two positions, which we see as being at two ends of a spectrum, are frequently mentioned in opportunity research: opportunity discovery, which assumes that there are opportunities in the market waiting to be recognized (Kirzner, 1973); and opportunity creation, which assumes that the opportunity is created and realized by one of the firms (Gelbuda, Starkus, Zidonis, & Tamasevicius, 2003; Schumpeter, 1934; Weick, 1995). Our position is that the process of opportunity development includes elements of both discovery and creation (Ardichvili et al., 2003). We mean that it is meaningless to say that either one is more important. Furthermore, opportunity research usually distinguishes between two stages: recognition and exploitation. Once again our position is that opportunity development is an interactive process characterized by gradually and sequentially increasing recognition (learning) and exploitation (commitment) of an opportunity, with trust being an important lubricant. It follows then that the process of opportunity identification and exploitation in the network perspective is very similar to the internationalization process and to the relationship development process.

THE DECLINING VALIDITY OF THE ESTABLISHMENT CHAIN

Most of the criticism of the internationalization process model is based on the observation that company behavior has changed since we built our model. Examples of this are that companies sometimes leapfrog over stages in the establishment chain (Hedlund & Kverneland, 1985); that they start to internationalize soon after their birth (Oviatt & McDougall, 1994); that the internationalization process proceeds more rapidly now (Oviatt & McDougall, 1994; Zahra, Ireland, & Hitt, 2000); and that the order in which companies enter foreign markets no longer correlates with psychic distance (Madsen & Servais, 1997). Also, joint ventures and strategic alliances are modes that are much more commonly used today than previously. Internationalization through acquisitions has also grown enormously in terms of value (UN World Investment Report, 2000).

We do not dispute that these observations appear to be inconsistent with the establishment chain we proposed. The establishment chain implied that companies start to internationalize in neighboring markets and subsequently move further away in terms of psychic distance, and also that in each market companies begin by using low-commitment modes, such as a middleman, and subsequently switch to modes that suggest a stronger commitment, such as wholly owned subsidiaries. Some researchers who have observed company behavior that deviates from the establishment chain of internationalization pattern have occasionally used their observations to criticize our internationalization process model. We review some of those comments in the following paragraphs. We respond first, though, in pointing out that the establishment chain is not part of the model, but rather a summary of the empirical observations on which we based our inductive theoretical arguments. We also argue that for the most part changes in company behavior have more to do with changes in the international environment than with changes in internationalization mechanisms. The network view, presented above, also helps to explain deviations from the establishment chain.

According to a review of articles that were published during the first 4 years of this decade in nine important academic journals (Andall & Fischer, 2005), one of the most debated issues in internationalization research is whether the phenomena of international new ventures (Oviatt & McDougall, 1994, 2005) and born globals (Knight & Cavusgil, 1996) are consistent with our model. We think they are, to the extent that most born globals are really "born regionals," with international activities that do not really span the globe in any significant fashion (see also Rugman & Verbeke, 2007). In fact, many of the companies the internationalization pattern of which we studied (see, for example, Johanson & Wiedersheim-Paul, 1975) should be considered born regionals or international new ventures.

We use Sandvik, a well-known multinational company, as an example. In 1862 steel production was started in Sandvik to exploit the Bessemer process:

> The founder of Sandvik, G.F. Göransson, had brought the process to Sweden from the UK through contacts he had made when he was a general manager of a Swedish trading firm that had extensive international contacts. The first firm soon went bankrupt, but in 1868 the company now known as Sandvik was formed. In the same year, relationships with representatives in Denmark, Norway and the UK were established, and, one year later, in Germany. In 1870 a representative in France was linked to Sandvik. A representative in Switzerland was taken over at the start. (Vahlne & Johanson, 2002: 218)

Sandvik relied on external resources, not only for marketing and selling abroad, but also for technology. While Sandvik's subsequent internationalization process was rapid, its history does fit the establishment chain, and correlates with what we would expect in regard to psychic distance. We can agree with Oviatt and McDougall (1994) on one point: international new ventures and born regionals are old phenomena. As such firms are frequently founded by individuals with previous international experience and have established relationships with foreign companies, they do not create a problem for our model (Coviello, 2006; Reuber & Fischer, 1997). True, the knowledge and the relationships might indeed be in place prior to the formal founding of the focal firm, but that is a formality of no major significance. It is true too that having those factors already in place may accelerate the process. If a firm starts from scratch though, as we argued above, the processes of learning and building commitment will take time. A wealth of research, including Nahapiet and Ghoshal (1998), Granovetter (1985), and Ring and van de Ven (1992), supports this point. There is nothing in our model that indicates that international expansion cannot be done quickly. In fact it can, as long as there is sufficient time for learning and relationship building (Vahlne & Johanson, 2002). Although many contextual aspects have changed since we made our observations, almost 50 years ago, the ways in which human beings learn and make decisions have not drastically changed since. Moreover, experiential learning and building trust and commitment, the basic prerequisites for developing business, and hence for internationalization, certainly have not changed. Partners still have to get involved in some sort of exchange that will create experience, and while these exchanges might be performed more quickly today, it still takes time, and firms still have to face the risk of failure.

We do believe that the correlation between the order in which a company enters foreign markets and psychic distance has weakened. Some companies and individuals have acquired more general knowledge of foreign environments, and perhaps this instils in them greater confidence in their ability to cope with psychic distance. This does not mean that psychic distance is unimportant. However, the relationship between market entry order and psychic distance applies at the level of the decision-maker (Johanson & Vahlne, 2003; Sousa & Bradley, 2006), not at that of the firm. Johanson and Vahlne (2003) offer some examples. The chairman of a Swedish company was a visiting professor at an American university for several years before that company made its first attempt at establishing a presence abroad by entering into a joint venture with the university (2003: 87). The president of the same company knew someone from Poland who had worked with other Swedish companies for many years (2003: 88), and he recruited him to establish the firm's next subsidiary in Poland. In both instances short psychic distance helped the parties recognize and implement opportunities. The impact of psychic distance on internationalization may well be indirect, but this does not mean that it has no effect on relationship building or on the processes of learning, trust building, and so on that occur in relationships.

The domestic market may not be the most relevant unit in terms of psychic distance. The distance to, and between, cultural blocs is more relevant in many cases (Barkema & Drogendijk, 2007; Shenkar, 2001). There may be cultural differences within a country that make it logical to view parts of the country as entirely different markets with different psychic distances. Indeed, the concept of the liability of outsidership does not necessarily refer to countries. It is a firm-level concept that may relate to a network within a country, or to a wider region (cf. Rugman & Verbeke, 2007).

We think that Autio (2005: 12) makes an interesting point when he argues that our original model emphasizes constraints to internationalization whereas Oviatt and McDougall's model emphasizes enabling factors. While we make the barriers to internationalization explicit in our model, especially psychic distance, our most basic "enabler," that is, the company and its firm-specific advantages, is implicit. Oviatt and McDougall place more emphasis than we do on the factors that make internationalization possible. We do include in our model the presence of one or more entrepreneurs, which is typical of explanations of international new ventures and born regionals, who may identify, develop, and exploit opportunities, and so are obviously indispensable. Our original article assumed corporate entrepreneurship (Johanson & Vahlne, 1977), which we explicitly explored in a subsequent article (Johanson & Vahlne, 1993).

Some authors emphasize the role played by "enablers" in rapid internationalization – for example, "boldness in decision-making" (Moen & Servais, 2002). On the surface, our decision-makers, who perhaps want to expand their company's business, do not appear to be risk takers. However, in our 1977 article, we state "it is assumed that the firm strives to increase its long-term profit, which is assumed to be equivalent to growth … The firm is, though, striving to keep risk-taking at a low level." (1977: 27) Thus we do not view our model and the rapid internationalization model as essentially different on this point. Furthermore, entrepreneurs, or at least successful ones, supposedly calculate risks carefully and try to avoid taking unnecessary risks. Perhaps the propensity of firms to take bigger risks is higher today in some cases (cf. Vahlne & Johanson, 2002: 221, in the case of venture capitalists and the internationalization of IT-consultant companies). However, it would appear that neither we nor other researchers really know much about the propensity for taking risks either in the past or now. Clearly, entrepreneurs like those at Sandvik, which we mentioned previously, were taking risks when they acted on opportunities in foreign markets.

Oviatt and McDougall's model does specifically differ from ours when it comes to the choice of modes. We have observed that companies gradually enter into what could be seen as more risky, but also potentially more beneficial and controllable, modes of operation. Increased knowledge and commitment make such risk taking desirable and possible. On the other hand, entrepreneurs behind international new ventures are expected to optimize mode choice depending on constraints on resources and outside opportunities. We believe that this may be true. Today's companies do use a wider range of modes, although we do not see more "optimization" going on in a real sense. It is often said that environmental changes, such as globalization, rapid technological change, and deregulation, force companies to enter into alliances and joint ventures, because no single company owns all the resources required to exploit larger and continuously changing markets (Contractor & Lorange, 2002). If that is the case, companies may not use those modes if their resources are sufficiently large to allow them to rely on internalized activities. In fact, companies have frequently switched from relying on an agent – that is, relying on external resources – to an internal operational mode when their performance makes that possible and there are prospects for growth and better efficiency. We do not view leapfrogging or choice of modes such as joint ventures, which our establishment chain did not predict, as problematic for our model, as when we built it neither was common among the Swedish companies at which we were looking. We no longer consider the mode a reliable indicator of the level of commitment. Contextual aspects often play a more important role. For example, Hedlund and Kverneland (1985) studied Swedish companies in Japan that had to forgo the wholly owned subsidiary mode because the structure of the Japanese industry, in which they were, made it necessary to have a local partner, who was already well established in local networks.

As we have noted, acquisitions have now become the primary mode of entry in terms of value. This is a way, of course, for a resource-rich company to quickly buy itself a position in a network in a foreign market, as opposed to proceeding incrementally in smaller less risky steps. However, in the era of globalization other motives may play a role. The focal company may want to gain access to an interesting piece of technology or some other resource, or it may want to reduce the number of competitors. We have argued that, in accordance with our model, an acquisition is much more likely to be successful if it is preceded by some kind of exchange between the acquirer and the acquiree. In such exchanges firms have already acquired a body of knowledge about each other, and have perhaps established some level of commitment (Andersson, Johanson, & Vahlne, 1997). Without such a previous relationship the parties will have to learn about each other after the acquisition for post-acquisition integration to proceed. This process may include some conflicts, and will take time (Ivarsson & Vahlne, 2002). Hence an acquisition is not necessary a way of rapidly building a position on a foreign market.

It is clear that one reason for the empirically driven criticism of our model is that the business world is different today from how it was when we observed patterns of internationalization. Events move more quickly and assume somewhat different forms. Nonetheless, one constant in coping with uncertainty remains: firms need to learn, and to create or strengthen relationships in order to exploit opportunities.

A BUSINESS NETWORK MODEL OF THE INTERNATIONALIZATION PROCESS

In light of all of this, we have developed our revised model in the following way. The firm is embedded in an enabling, and at the same time constraining, business network that includes actors engaged in a wide variety of interdependent relationships. Internationalization is seen as the outcome of firm actions to strengthen network positions by what is traditionally referred to as improving or protecting their position in the market. As networks are borderless, the distinction between entry and expansion in the foreign market is less relevant, given the network context of the revised model. The traditional view of entry – that is, overcoming various barriers – is becoming less important than internationalizing undertaken to strengthen a firm's position in the network (Johanson & Vahlne, 2003). As a result, we claim that existing business relationships, because they make it possible to identify and exploit opportunities, have a considerable impact on the particular geographical market a firm will decide to enter, and on which mode to use. This claim is also consistent with the business network view, where much is contingent on existing relationships (Håkansson & Snehota, 1995). Learning and commitment building take place in relationships. Although our 2003 article did not highlight that particular point, this way of thinking about internationalization places the identification of opportunities at the forefront. While we mention in our 1977 article that experiential knowledge may lead to the identification of opportunities, this aspect has largely been neglected. Primarily, it has been assumed that reducing uncertainty has to do with the differences between the culture and institutions of the home country and those of the foreign country. We now have reason to believe that learning and commitment are strongly related to identifying and exploiting opportunities (Johanson & Vahlne, 2006). As some types of knowledge are not accessible to everyone, and are instead confined to network insiders, a strong commitment to partners allows firms to build on their respective bodies of knowledge, making it possible for them to discover and/or create opportunities. We believe that internationalization is contingent more on developing opportunities than on overcoming uncertainties, for example concerning institutional conditions in the foreign market (Eriksson et al., 1997).

A reviewer of this paper has made us aware of the "effectuation process" that was constructed by Sarasvathy (2001) to describe the process entrepreneurs follow as they prepare to launch a new company. According to her, the effectuation process is "useful in understanding and dealing with spheres of human action. This is especially true when dealing with the uncertainties of future phenomena and problems of existence." (2001: 250) As we have argued, internationalization resembles entrepreneurship and may be described as corporate entrepreneurship. Internationalization too is characterized by high degrees of uncertainty. The effectuation process has much in common with our internationalization process model, including similar environmental characteristics, a limited number of available options, incremental development, and an emphasis on cooperative strategies (2001: 251). However, while Sarasvathy views the actors and their characteristics as important, our model does not include this point at all. We do argue, however, that the actors are implicitly present in our model to the extent that they are the carriers of (tacit) knowledge, trust, commitment, and network relations. We therefore consider the effectuation process as developed by Sarasvathy to be fully consistent with our model. In addition, our model underlines the fact that internationalization has much in common with entrepreneurship.

As in the 1977 version model, the 2009 business network model consists of two sets of variables: state variables (shown as the left-hand side of Figure 2) and change variables (shown as the right-hand side of Figure 2), or stock and flow, which are relevant to both sides in a relationship. The variables affect each other, the current state having an impact on change, and vice versa. The model thus depicts dynamic, cumulative processes of learning, as well as trust and commitment building. An increased level of knowledge may thus have a positive or a negative impact on building trust and commitment. In an extreme

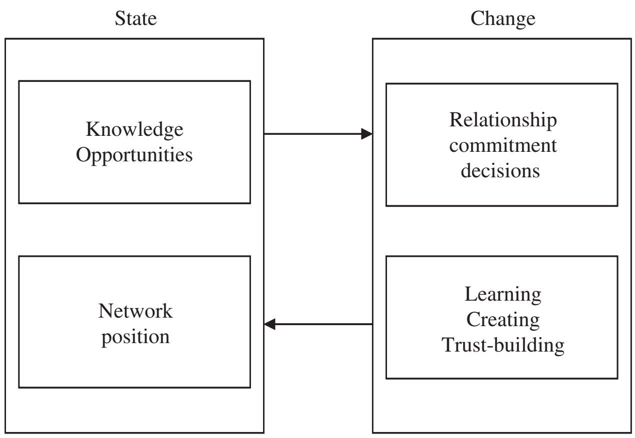

Figure 2 The business network internationalization process model (the 2009 version).

case scenario – which may actually not be so rare – the firm and/or the firm on the opposite side of the relationship may in fact reduce the commitment or even terminate the relationship. These processes can occur on both sides of a mutual relationship and at all points in the network in which the focal firm is a member.

Although the basic structure of the model is the same as the one we built in 1977, we have made some slight changes. We have added "recognition of opportunities" to the "knowledge" concept, as seen in the upper left-hand box of the model (see Figure 2). Opportunities constitute a subset of knowledge. By adding this variable, we intend to indicate that we consider opportunities to be the most important element of the body of knowledge that drives the process. Other important components of knowledge include needs, capabilities, strategies, and networks of directly or indirectly related firms in their institutional contexts. The second state variable is labeled "network position." This variable was identified in the original model as "market commitment." We now assume that the internationalization process is pursued within a network. Relationships are characterized by specific levels of knowledge, trust, and commitment that may be unevenly distributed among the parties involved, and hence they may differ in how they promote successful internationalization. Nonetheless, if the process is seen as potentially rewarding, a desirable outcome of learning, trust and commitment building will be that the focal firm enjoys a partnership and a network position.

As to the change variables, we changed the original label of "current activities" to "learning, creating, and trust-building" to make the outcome of current activities more explicit. The concept of current activities, or operations, in the original model was intended to indicate that regular daily activities play an important role, and lead to increased knowledge, trust, and commitment. Our use of the term "learning" is at a higher level of abstraction: that is, we think of it as more than experiential learning, although we still regard that to be the most important kind of learning.

The speed, intensity, and efficiency of the processes of learning, creating knowledge, and building trust depend on the existing body of knowledge, trust, and commitment, and particularly on the extent to which the partners find given opportunities appealing. We have made the affective dimension of trust-building more explicit than in our earlier model, as we believe it deserves a status similar to that of the cognitive dimension. In addition, we want to highlight opportunity creation, which is a knowledge-producing dimension, because we believe that developing opportunities is a critical part of any relationship. Furthermore, high levels of knowledge, trust, and commitment in a relationship result in a more efficient creative process. The interplay between the processes of learning, creating opportunities, and building trust is described well by Nahapiet and Ghoshal (1998), although they use the concepts of intellectual capital and social capital.

Finally, the other change variable, "relationship commitment decisions," has been adapted from the original model. We added "relationship" to clarify that commitment is to relationships or to networks of relationships. This variable implies that the focal firm decides either to increase or decrease the level of commitment to one or several relationships in its network. In an extreme case scenario, this decision may manifest itself only on a psychological level. Usually, however, the decision will be visible through changes in entry modes, the size of investments, organizational changes, and definitely in the level of dependence. A change in commitment will either strengthen or weaken the relationship. From a network point of view, there are two kinds of decision regarding the commitment to the relationship. They may primarily be to develop new relationships, in most cases businesses, in others they may be about building bridges to new networks and filling structural holes (cf. Burt, 1992). Alternatively, they may be to protect or support the firm's existing network of strategic relationships. For example, a few years ago, Volvo demanded that some of its important Swedish suppliers develop relationships with German car manufacturers in order to demonstrate that Volvo's suppliers had the same desirable qualities and skills as those of its German competitors.

There are some implications of the revised model for the internationalization process. First, internationalization depends on a firm's relationships and network. We thus expect the focal firm to go abroad based on its relationships with important partners who are committed to developing the business through internationalization. These partners may be at home or abroad. The focal firm is also likely to follow a partner abroad if that partner firm has a valuable network position in one or more foreign countries. There are two possible reasons for such foreign expansion. One is the likelihood of finding interesting business opportunities. As we have said, partner bases of knowledge are interrelated, and are therefore also indirectly related to other members of the network. Relying on a related knowledge base, the focal firm may thus enter networks abroad, where it may be able to identify and exploit opportunities. We reiterate: mutual trust and commitment are based not on formal agreements but on a common history of at least minimally satisfactory, if not successful, joint business experiences. A second reason to go abroad occurs when a relationship partner who is going abroad, or already is abroad, wants the focal firm to follow. By following the partner abroad, the firm demonstrates its commitment to the relationship.

Where will an internationalizing company go? The general answer is: where the focal firm and its partners see opportunities. A foreign market in which the partner has a strong position is another possibility. This is not only a matter of the first step abroad. The same process may continue from market to market, depending on the actions of the focal firm's partners. If the firm has no valuable partners, however, it may go where it might be easy to connect with a new firm that already has a position in the foreign market. For example, it may link itself to a middleman such as an agent or a distributor. Eventually, when the focal firm has established relationships with customers, it may bypass the middleman and establish its own subsidiary. Short psychic distance will facilitate the establishment and development of relationships, which is a necessary but insufficient condition for identification and exploitation of opportunities.

How might the process start? Given the business network model's process view, any determination of a starting point will be arbitrary (cf. Coviello, 2006; Reuber & Fischer, 1997; Wiedersheim-Paul, Olson, & Welch, 1978). Regardless of whether we consider the starting point to be the founding of the company, the first international market entry, or the establishment of a specific relationship, our process model implies that we should look for explanations in the state variables, such as knowledge, trust, or commitment to the firm's specific relationships. For example, the focal firm may exploit some of its existing connections by using the trust that a partner has established with another party or parties (Larson, 1992). Increased knowledge may cause either the focal firm or its partner to become dissatisfied with the relationship. Either firm may then decide to decrease its commitment or even end the relationship.

We argued in an earlier paper that access to information is of more relevance to large companies, and that the Uppsala model is therefore more applicable to smaller firms (Johanson & Vahlne, 1990). We are now less certain about this observation, as knowledge is highly context specific. The model should be equally applicable to large and small firms (Barkema et al., 1996; Steen & Liesch, 2007). Large firms may, however, be better informed when they acquire a firm in a market in which they are already active. In such acquisitions, which are not unusual, it is more a matter of experience than of size. Such experience may also explain why international new ventures may grow very rapidly: The founding entrepreneur already has access to knowledge and relationships prior to the internationalization.

SUGGESTED RESEARCH AGENDA

We identify here but a few of the exciting research issues that follow from our revised internationalization process model and are well worth exploring.

As a step towards formulating a more unified explanation of the emergence and growth of multinational enterprise, it could prove both interesting and important to look for similarities between the internalization theory (Buckley & Casson, 1976; Hennart, 1982; Rugman, 1981) and the eclectic paradigm (Dunning, 1980) on one hand, and the business network model of the internationalization process on the other. The process of changing modes of operation is also frequently a matter of internalization or externalization. The version we propose now implicitly assumes that an internationalizing firm has access to one or more specific advantages. The original version of our model focused explicitly on location specificity as an explanation for uncertainty (Rugman & Verbeke, 2004: 12). While location specificity does matter, we now pay more attention to relational shortcomings, knowledge, and commitment as reasons for uncertainty and, indirectly, for location specificity. This implies that established relationships offer a firm-specific advantage worthy of attention. We observe that Dunning's (1997) OLI paradigm has also been revised to include strategic alliances and, more recently, even broad network relationships (Dunning & Lundan, 2008). We have argued elsewhere (Johanson & Vahlne, 1990) that two large issues need to be addressed when attempting to merge the eclectic paradigm and the Uppsala model. The original version of the eclectic paradigm was rather static, and rested on the behavioral assumption of strong rationality, whereas the Uppsala model is dynamic and assumes bounded rationality, a difference that has now, fortunately, largely disappeared with the latest extension of the OLI paradigm (Dunning & Lundan, 2008). To the extent that firm-specific advantages are based on Penrose and RBV thinking, the conceptual distance between the OLI paradigm and our business network model of internationalization is still further reduced. At this point the problem seems to lie primarily in the relationship to the market environment that Penrose did not consider a major issue, and about which RBV thinking says little. This is the core issue in our original model, and it is even more important in our new model, which we see as an extension of the "unknowable market" of Penrose and the RBV perspective. The remaining conceptual problem is related more to the internalization model. While that model focuses on explaining firm boundaries, our model focuses on the processes driving continuous change of those boundaries. Buckley and Casson (1998) address the evolving boundary issue, though it is unclear from their discussion whether they see it as falling within internalization theory or separate from it. In any case, organizational learning is now discussed within both lines of research (Benito & Tomassen, 2003; Kay, 2005; Pitelis, 2007).

We highlight two studies that combine the concept of firm-specific advantages with the internationalization process. Sandén and Vahlne (1976) developed the concept of an *advantage cycle* to describe how some firm-specific advantages increase over time while others decrease. The cycle is initiated by an internal firm-specific advantage that allows the MNE to develop strong positions in foreign markets. These will subsequently constitute the MNE's main firm-specific advantages. In a recent empirical study of internationalization, Hsu and Pereira (2008) develop a model in which firm-specific advantage has a direct impact on internationalization and an indirect impact on performance. In addition, organizational learning moderates the effect of internationalization on performance. Both of these studies offer opportunities for fruitful research that combines the two approaches without really integrating them.

Second, as we have argued, business relationships provide a firm with an extended and unique resource base that it only partially controls. Furthermore, exploiting the potential of such an extended resource base requires that the firm's own resources be coordinated with those of one or several of its partners. The goal of business network coordination is joint productivity of a set of relationship partners, which is difficult to implement as it involves coordinating the partners' activities (Hohenthal, 2006). When partners operate in different countries, cross-country business network coordination is also needed, and is more difficult still. How hard this will be to achieve may vary with the psychic distance between the actors. This brings to mind many interesting sub-issues, including the means of coordination and the possible allocation of coordination responsibilities between designated organizational units (Galbraith, 1973; Mintzberg, 1979). We expect that these units will be located in the strategic partners' home countries. We are convinced that international business network coordination will become an increasingly important phenomenon with strong implications for firm-specific advantage as well as for internationalization.

Third, the subtitle of this paper, *From liability of foreignness to liability of outsidership*, refers to the fact that a firm's problems and opportunities in international business are becoming less a matter of country-specificity and more one of relationship-specificity and network-specificity. For example, the problems associated with foreign market entry are largely the same as those associated with entry into any other market. The firm does not know who the business actors are, or how they are related to each other, unless it already enjoys relationships with one or several actors in that market. There is a need for research that may explain when the liability of foreignness is the main problem in foreign market entry and when the liability of outsidership is the primary difficulty. Research into ways in which the two approaches might be combined would also be interesting. For example, we suggest that studies of the impact of psychic distance on the formation and deepening of relationships, as well as of the role of relationships as vehicles in learning about institutional and cultural conditions, would both be worthwhile.

The business network model of internationalization can be used to study both resource-seeking and market-seeking internationalization. Pyndt and Pedersen (2006) found that at the resource-seeking end of the value chain the dynamics of learning and trust and commitment building lead to exploration and exploitation in the context of expanding upstream activities. As our business network model is symmetrical in terms of suppliers and customers, it can be used to analyze international sourcing and supply chain development. While there is considerable research on global supply chain development, little of it appears in international business journals compared with the number of studies on market-seeking internationalization. In recent years, however, two articles on international sourcing have been published in *JIBS* (Griffith & Myers, 2005; Murray, Kotabe, & Zhou, 2005). In both articles the authors study the performance of global supply relationships and alliance-based sourcing. The dynamics of the internationalization of supply networks is an increasingly important problem in international business that our model can address.

Our business network view of the firm as an exchange unit rather than a production unit, in contrast to received microeconomic theory, offers new opportunities to analyze the internationalization of companies that operate fundamentally as networks. A rapidly growing number of modern firms are built around a brand, a design, or patented technology for which production and services are performed by a network of other firms (e.g., Nike, IKEA). We think that the business network model will be useful in enhancing understanding of their internationalization. Trading companies are another type of network firm with a long international business tradition. Although they are very important, they have been almost entirely neglected in the international business literature except, for their recognition as more or less marginal partners to manufacturing firms. The research by Ellis (2001) is one of the few exceptions. We recommend research on these firms based on the business network model of internationalization.

Although we have avoided constructivist methodology, we believe that it does have the potential to contribute to a deeper understanding of the international network development processes that we have conceptualized in this paper. An interesting study of internationalization of professional services (Reihlen & Apel, 2005) demonstrates that this approach merits further research, possibly using longitudinal case studies. Such studies would add particularly to our understanding of the term "creating" in the business network model of the internationalization process.

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