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**THE CONCEPT OF LEARNING IN THE
UPPSALA INTERNATIONALIZATION
PROCESS MODEL: A CRITICAL REVIEW**

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Abstract

In behavioral models dealing with the internationalization process, such as the Uppsala Internationalization Process Model, knowledge and learning have a profound impact on how the firm is seen to approach foreign markets. In the light of recent work on learning in organizations, this paper addresses some issues related to how the process of learning is conceptualized in the Uppsala Model. It is argued that a more narrow interpretation of learning is applied by the model builders than the literature allows for, which limits the ability of the model to explain certain forms of internationalization behavior. It is also claimed that perceiving a firm to be a loosely coupled organization causes some problems in relation to the model's possibility to predict internationalization behavior. The consequences of the strong emphasis on individuals as the holders of market-specific knowledge are also discussed. The paper concludes with some remarks on the emergence of interesting research issues about internationalization behavior if a broader concept of organizational learning is applied.

Key Words – Internationalization, Knowledge, Learning, Loose-coupling

THE IMPORTANCE OF KNOWLEDGE IN INTERNATIONALIZATION THEORIES

One of the pioneers within the research area of firm internationalization, Sune Carlson, started from the simple fact that firms which intend to go abroad suffer from lack of knowledge about how to conduct a business in a foreign market (Carlson 1966). His research question was directed to the issue of how firms can handle

uncertainty due to this lack of knowledge through shaping their investment behavior in a specific way.

Carlson's focus became the foreign decision process. He early formulated the hypothesis that the firm tends to handle this risky problem by trial and error and gradual acquisition of information about foreign markets. He argued that "once the firm has passed the cultural barriers and had its first experience of foreign operations, it is generally willing to conquer one market after another" (Carlson 1966, p. 15). Carlson acknowledged that foreign risk, in combination with a desire to keep control over the foreign operations, must be included in a model of firms' internationalization. Firms handle the risk problem through an incremental decision-making process, where information acquired through foreign investment in one phase is used in the next phase to take further steps. Through this incremental behavior the firm can keep control over its foreign venture, and gradually build up its knowledge of how to conduct business in different foreign markets. Carlson's reasoning laid the foundation for what later came to be known as the Uppsala Internationalization Process Model (Johanson and Wiedersheim-Paul 1975, Johanson and Vahlne 1977, 1990).

The Uppsala Model deals with knowledge acquisition, that is, with learning. How organizations learn and how their learning affects their investment behavior are central issues for the model. (Johanson and Vahlne 1977, 1990). It has been the object of several empirical tests during the last two decades (for an overview see Björkman and Forsgren 1997, Young et al 1989, Johanson and Vahlne 1990). But as has been pointed out by Hadjikhani (1997), surprisingly little work has been done so far to check the validity of the theoretical "core" of the model (for notable exceptions, see, Anderson 1993, Barkema et al 1996, Pedersen and Petersen 1997, 1998, Eriksson et. al 1998).

This paper addresses how organizational learning is conceptualized in the Uppsala model. The reason is twofold: First, organizational learning plays a major role and deeply affects its prediction of the internationalization behavior of firms. Second, since the model was presented in 1977, a considerable amount of research has been done about organizational learning and organizational behavior. It is reasonable to relate this research to how learning is applied, and explore whether later research can possibly contribute to development of the model.

The paper consists of four parts. In the first the concept of learning as used in the Uppsala Model is scrutinized in the light of recent research on this phenomenon. It is argued that the model uses a more narrow interpretation of learning than the literature allows, which also leads to a relatively narrow and specific prediction of internationalization behavior. In a subsequent section, the way the firm as an organization is perceived, is brought up. It is claimed that the loosely coupled perspective on the organization, which is an important assumption in the model, is problematic in relation to the discussion about how market knowledge and market commitment affect subsequent internationalization behavior. The strong emphasis on the role of the individual, as the holder of market-specific knowledge, is also discussed. In a third section some propositions are made based on the earlier discussion. In a final section the discussion is summarized.

THE UPPSALA MODEL AND THE CONCEPT OF LEARNINGⁱ

A basic assumption of the Uppsala Model is that lack of knowledge about foreign markets is a major obstacle to international operations, but that such knowledge can be acquired (Johanson and Vahlne 1977, p.23). However, because of the tacit character of market knowledge, the main source is inevitably the firm's own operations (Johanson and Vahlne 1990, p. 12). Acquiring knowledge is first of all a question of being active in the new environment rather than of collecting and analyzing information. By operating in the market, the firm does not only acquire information about that market, but also becomes closely connected to the market in such a way that it is difficult to use its resources for other purposes. Hadjikhani has coined the expression "intangible commitments" when analyzing this phenomenon (Hadjikhani 1997).

A second important assumption is that decisions and implementations concerning foreign investments are made incrementally due to market uncertainty. Incrementalism can be seen as a management learning process in which "learning through doing" is the basic logic (Lindblom 1959, Quinn 1980, Johnson 1988). The more the firm knows about the market, the lower the perceived market risk will be, and the higher the level of foreign investment in that market. The firm postpones each successive step into a certain market until the perceived risk associated with the new investment is lower than the maximum tolerable risk (Johanson and Vahlne 1977, p.

34). The perceived risk is primarily a function of the level of market knowledge acquired through own operations.

A third assumption is that knowledge is highly dependent upon individuals and therefore difficult to transfer to other individuals and other contexts. Or as the model builders maintain by referring to Penrose (1958): “experience itself can never be transmitted, it produces a change – frequently a subtle change – in individuals and cannot be separated from them” (Johanson and Vahlne 1977, p. 30). Consequently, the problems and opportunities intrinsic to a certain market will primarily be discovered by those who are working in the market, e.g. people in a sales subsidiary or some other front-line unit. For them, the adaptation and extension of present operations will be the natural solution to a problem or the reaction to an opportunity (Johanson and Vahlne 1977, p. 33). Experience generates business opportunities and is supposed to work as a driving force in the internationalization process (Johanson and Vahlne, 1990, p.11).

The model is founded on four core concepts: Market knowledge, market commitment, commitment decisions and current activities. Market knowledge and market commitment at a certain point in time are assumed to affect the commitment decisions and how the activities are carried out in the subsequent period, which in its turn will influence market knowledge and market commitment at later stages. On the basis of these four concepts, and by making the assumption of incrementalism, the model predicts that the basic pattern of firms’ internationalization is 1) to start and continue to invest in just one or in a few neighboring countries, rather than to invest in several countries simultaneously and 2) that the investments in a specific country are carried out cautiously, sequentially and concurrently with the learning of the firm’s people operating in that market. Firms are supposed to enter new markets with successively greater psychic distance and the market investments develop according to the so called establishment chain (Johanson and Vahlne 1990).

The Uppsala Model deals with how organizations learn and the impact of learning on organizational behavior. The main emphasis is on experiential learning through the ongoing activities. However, research during the two last decades indicates that organizational learning includes several dimensions with consequences for firms’ behavior. For instance, it has been pointed out that, through their business relationships, organizations can gain access to the knowledge of other firms, without having to go through exactly the same experiences as these firms (Levitt and March

1988, Eriksson et al 1998, Kraatz 1998, Lane and Lubatkin 1998, Kumar and Kofi 1998, Hansen 1999). Imitative learning, that is, learning by observing other firms with high legitimacy and acting in a similar way, has also been focused upon by many researchers as a common learning mechanism (Levitt and March 1988, Huber 1991, DiMaggio and Powell 1983, Björkman 1990, 1996, Haveman 1993, Haunschild and Miner 1997). Different “short-cuts” to get knowledge by acquiring other organizations or hiring people with the necessary knowledge have also been included in the concept of organizational learning (Huber 1991, Barkema and Vermeulen 1998). Finally, it has also been maintained that organizations can learn by conducting a focused search for new information rather than through experience from own activities (Huber 1991).

A closer look at the literature also reveals that organizational learning has two different meanings in connection with an organization’s effectiveness. The first of these stresses that learning, if it is positive, increases the organization’s knowledge about possible alternatives. It emphasizes clearly that learning does not have to increase the organization’s effectiveness, or even its potential effectiveness. New findings can always overturn what was previously known to be true (Huber 1991, p. 126). The more the range of alternatives is enhanced, the more the organization has learnt, and the larger the number of potentially useful alternatives in the futureⁱⁱ.

While this perspective highlights the information aspect of learning, the other meaning focuses on competence. Over time, the organization learns to carry out its operations with an increasing degree of effectiveness. This process is often thought of in the context of a learning curve and of an accumulation of knowledge and skills (Fiole and Lyles 1985, Levinthal, 1991). Learning is supposed to increase performance and reduce variation in the performance (March 1991). By doing “more of the same” the number of alternatives are reduced over time, as the organization becomes more and more proficient at its current activities, procedures and technology. It has sometimes been argued that, at the extreme, the result is a competence trap. (Levitt and March, 1988, Huber 1991).

The Uppsala Model deals more or less exclusively with experiential learning. This is stated explicitly by the model builders in relation to their discussion of market knowledge, which emanates from “personal experience” and “arises from their current activity” (Johanson and Vahlne 1977, p. 56). Consequently, learning through imitation, learning through incorporating people or organizations, or searching and

scanning for new information have a limited impact on how the firm's internationalization behavior is modeled.

In the model learning has very much in common with “the learning curve thinking”. The model emphasizes that learning is linked to current activities in specific markets. That is, by continuing to do what it is already doing a firm learns more about the actual business, and increases its competence to continue with and deepen its activities in that particular market. Therefore, it will prefer to stick to a certain market and learn more about that market rather than to try new alternatives.

The learning curve perspective is also reflected in the way the concept of market commitment is used in the model. Investment in current activities will increase the commitment to other actors in the market and reduce the alternative uses of the committed resources. The decision maker tends to prefer to reduce uncertainty by learning more about existing business rather than exploring new business alternatives.

One can also argue that the Uppsala Model employs a reactive rather than proactive perspective of experiential learning. By reactive learning, we mean acquiring more knowledge about already identified solutions, while proactive learning focuses upon the search for new solutions. This distinction is significant as the various forms of search might be carried out by different types of organizational unit or through different types of search process (Huber 1991). The distinction also reflects the fact that the stimulus of learning can be a problem or an opportunity (Fredrickson 1985).

The reactive nature of the model is reflected by its concern with problemistic search, based on the reasoning by Cyert and March (1963). An organization is supposed to start its learning when a problem arises that is related to current activities. The solution of the problem is sought in the neighborhood of existing solutions. When a satisfactory solution is found, learning is terminated.

We can conclude that the application of organizational learning in the Uppsala Model is limited to certain aspects, leaving out other aspects. This has certain implications for the model's ability to accurately explain and predict internationalization behavior. In the following section, some of these implications will be discussed.

IMPLICATIONS IF MORE RECENT ASPECTS OF ORGANIZATIONAL LEARNING ARE APPLIED

Experiential learning and incremental behavior

Although the Uppsala Model seems to equate incremental behavior more or less with experiential learning, it is not totally clear whether incremental behavior is simply a consequence of experiential learning or whether it is an independent variable.

However, these two variables are conceptually different. Above all, incremental behavior reflects the organization's perceived uncertainty (Huber 1991). The higher the uncertainty, the smaller each step, because high steps involve risks that are too great. Experiential learning reflects the need for tacit (market) knowledge, because such knowledge is difficult to acquire through other means of learning. But it does not tell us whether learning will be carried out by taking up activities that are closely related to the existing ones, or by taking up totally new activities. The standard version of incrementalism with its emphasis on frequent, multiple, small changes is not necessarily the only learning strategy (Levitt and March 1988, p. 335).

It is also reasonable to assume that the level of tacit knowledge, acquired by the firm, has an impact on the firm's perceived uncertainty. The relationships between the four variables are illustrated in Figure 1 below:

Figure 1. The relationship between experiential learning, tacit knowledge, perceived uncertainty and incremental behavior.

If we treat experiential learning and incremental behavior as two distinct variables rather than two sides of the same coin, it becomes apparent that they have a different impact on the internationalization process. The figure above implies that, by learning from conducting its own activities in a certain market, the firm acquires tacit knowledge that will reduce the perceived uncertainty about that market. This, in its turn, will reduce the need for incremental behavior. The risk of making mistakes through taking large steps is reduced when the firm has more knowledge about the market. Consequently there is actually a *negative* relationship between experiential learning and incremental behavior. Or expressed otherwise, the figure implies that there is, *ceteris paribus*, a successive decrease in the need for the incremental behavior built into the internationalization processⁱⁱⁱ. This means that the internationalization process involves an increasing pace of the firm's investments made in a certain market. If experiential learning has a strong and direct impact on market knowledge and consequently on the need for incremental behavior, the cautious character of the internationalization process will weaken after some time. This conclusion is supported by research that indicates a positive relationship between market knowledge and the pace by which firms commit resources in foreign markets (Pedersen and Petersen 1998).^{iv}

This reasoning is also in line with the notion that experiential learning favors simultaneous rather than sequential entry strategies (Casson 1993). Experience leads to higher confidence in the mind of the decision-maker and therefore reduces expected cost of entry. The propensity to postpone the entry into different markets will therefore decrease with increasing experience.

Experiential learning versus learning through incorporating other units

Although the builders of the Uppsala Model point out that to a certain extent market experience can be bought from outside, the model implies that market knowledge is acquired mainly through experience from a firm's own activities. "This factor is an important reason why internationalization is often a slow process" (Johanson and Vahlne 1977, p. 32). However, if we consider "grafting"(Huber 1991) as an alternative way to acquire market knowledge, it becomes obvious that the internationalization process can be shaped differently. For instance, by acquiring local units that already possess the necessary market knowledge, the slow process of

learning through one's own experience can, at least partly, be avoided. As a matter of fact, the high degree of foreign acquisition in firms' internationalization behavior is often motivated by the need for market-specific knowledge, often manifested by the networks of customers controlled by the acquired firm. It has also been shown that the propensity to internationalize through making acquisitions can be explained by adopting a learning perspective (Barkema and Vermeulen, 1998).

Thus, internationalization behavior often seems to be characterized by a combination of learning through experience and learning through the incorporation of units, which already have the knowledge. Although the latter type of learning has its own problems, for instance in terms of learning about other organizations and how to combine heterogeneous resources, the main point here is that it sometimes enables the internationalization to take place more quickly and to explore more avenues than the one predicted by the Uppsala model.

This reasoning can be related to the notion in recent FDI theory that investment abroad is not only a question of exploiting firm-specific capabilities, but also of learning new capabilities by locating activities in certain areas abroad (Almeida 1996, Cantwell 1990). By their very nature, such investments are not built on the firm's knowledge about the local market in which it is investing, but rather on the ambition of acquiring such knowledge. Very often this is done in an attempt to get a "flying start" by incorporating local units. Neither the risk-taking nature of such behavior nor the speed of the process are fully explained by the Uppsala Model.

Imitation and internationalization

According to institutional theory, adopting mimetic behavior is a common way to reduce uncertainty, especially among competing firms (Di Maggio and Powell 1983). For instance, it has been argued that organizations tend to imitate actions that have been taken by large numbers of organizations, because such practices are legitimized, or their success is taken for granted (Fligstein 1985, Levitt and March 1988, Haveman 1993, Haunschild and Miner 1997, Kraatz 1998). As ideas and practices are diffused among organizations, there is no reason why similar processes should not be present regarding the internationalization behavior of firms.

In contrast to the Uppsala Model, such learning allows for a less incremental and less cautious internationalization process as the firm sometimes invests in markets and forms that do not fall within its own experience, following current ideas and other organizations' behavior. Or, expressed somewhat differently, by imitating other organizations with a high degree of legitimacy, the firm can reduce its perceived uncertainty about the foreign market without having to wait until its own market-specific knowledge has reached the required level. Internationalization can in itself be seen as a legitimacy-creating activity that will stimulate other firms to invest abroad much earlier than they would otherwise have done.

A special aspect of learning from other organizations is learning through existing business relationships. It has been shown that access to a network of business relationships creates the opportunity to learn from other firms. Inter-organizational learning in a business network implies that deep and long-lasting business relationships facilitate the assimilation of tacit knowledge from the different actors in the network (Uzzi 1996, Lane and Lubatkin 1998, Kraatz 1998, Eriksson et al 1998b, Andersson et al. 2001). This is significant because it means that one can question the claim that experiential learning takes places through performing one's own activities, because of the difficulties of acquiring tacit knowledge by other means. Market-specific, tacit knowledge can be acquired through interaction with other organizations, which, in this context, also means that the prediction that internationalization is a slow process may not always hold true.

Learning about current activities versus searching for new alternatives

As has been said above, a distinction can be made between learning to increase effectiveness and learning to increase the organization's awareness of potential alternatives (Huber 1991, p. 126-127). The former emphasizes learning within existing activities, while the second is directed at learning more about potential activities. This is not the right place to estimate the relative merits of the two perceptions. To a certain extent they can be said to be complementary. Sometimes learning is focused on increasing the organization's knowledge of the alternatives in situations where more alternatives are needed. In other situations, learning is directed at improving the competence within activities that are already known and tested. The balance between the two approaches has much in common with March's discussion about the need for both exploration and exploitation in organizational learning and

Argyris and Schön's discussion of single-loop and double-loop learning (March 1991, Argyris and Schön 1978). An organization needs both types of learning, but exploration of new alternatives reduces the possibility of using resources to improve existing skills^v.

However, it is interesting to observe that the two perceptions of organizational learning differ when it comes to organizational behavior. The searching approach emphasizes the enlargement of the set of possible alternatives through information acquisition and processing. The organization enlarges its horizon and detects new and useful alternatives. In the other approach, the organization is expected to explore existing alternatives further and radical changes will occur only after periods of sustained poor performance. This model points at a decrease in the possible alternatives over time rather than an increase, although sometimes interrupted by a radical shift in the current activities (March 1991).

The basic difference is the predicted organizational behavior over time. In the former approach, the organization is expected to be open to new alternatives, more or less different from the existing ones, as a result of organizational learning. Consequently, the probability that the activities in subsequent periods will differ from those in earlier periods is higher than in the other approach, in which the number of alternatives are reduced over time as the organization deploys more and more resources in its ongoing operations.

What does it mean when we claim that learning through searching, as defined above, is not an (explicit) part of the Uppsala Model? On a general level, we can argue that the model fails to explain or predict certain types of internationalization behavior. If we accept that organizational learning, and consequently organizational behavior, also includes attempts to discover and enlarge the number of useful alternatives, this behavior will remain more or less undetected or unpredicted by the model. The conclusion that the firm will tend to continue with its investments over time in a specific market will be overemphasized. The different attempts made by the firm to break that pattern and to invest in new markets and/or operations on the basis of acquired knowledge unconnected to market-specific, current activities, will be overlooked.

In the original version of the Uppsala Model, these two aspects of learning were touched upon. Johanson and Vahlne concluded that both market-specific knowledge and general knowledge are important for firms' internationalization

(Johanson and Vahlne, 1977, p. 29). Market-specific knowledge is gained through conducting existing activities in the market, while the way in which general knowledge is gained is not explained explicitly. However, it is argued that it is possible to transfer general knowledge from one market to another. In that sense, organizational learning that leads to general knowledge would tend to increase the alternatives, in contrast to knowledge gained through market-specific activities. But it is obvious that in the ultimate model it is market-specific knowledge, not general knowledge that plays the main role as a driving force for internationalization.^{vi}

This bias can also be related to the model's perspective of internationalization in terms of strategic behavior. It is assumed that internationalization behavior is not primarily the consequence of strategic decisions, but rather tends "to proceed regardless of whether strategic decisions in that direction are made or not" (Johanson and Vahlne 1990, p. 14). Organizational learning is something that happens through current, foreign operations, and knowledge is accumulated in and controlled by people who are involved in these operations, on a more or less daily basis. But if one accepts that learning is something that happens at different levels in the organization and within different contexts, one could argue that knowledge accumulated higher up in the organization also influences strategic behavior. Market-specific knowledge is something that develops at the operational level, and consequently tends to keep the firm within its current business. General knowledge can be expected to be accumulated at levels higher up in the hierarchy, and can function as a driving force to take steps in directions which are new to the firm.

This bias towards a specific type of learning is also reflected in the original formulation of the model where it is stated that "experiential knowledge makes it possible to perceive 'concrete' opportunities" (Johanson and Vahlne, 1977, p. 29). However, learning is something that goes on at the top-management level as well as at the subsidiary level. Searching for information about potential new alternatives, and learning directed at increasing the effectiveness in current business (with a tendency to reduce potential alternatives as a consequence) are going on simultaneously in the organization. Which of the two types of learning has a dominant influence on the firm's internationalization behavior is a question about power structures in the firm and can only be determined empirically (Forsgren et al 1995).

It should also be pointed out that sometimes strategic actions are taken because of a need to act, without much learning having taken place (Salancik and

Meindl 1984). Merger waves or actions made by organizations in crisis are often claimed to represent such behavior (Fiole and Lyles 1985). It is reasonable to expect that foreign investments sometimes are carried out *despite* the lack of market-specific knowledge rather than *thanks to* its existence.

What kind of process is there in the Uppsala Model?

The problem of experiential learning versus searching can also be related to how one looks upon the internationalization process, as a process. On a unit-level a useful distinction can be made between a life-cycle process and a teleological process. A life-cycle process follows a single, cumulative, sequence of phases, derived from a common underlying process. The progression towards the final end-state is prefigured and requires a specific historical sequence of events. External events can influence the process, but they are always mediated by the immanent logic that govern the process (Van de Ven and Poole, 1995 , p. 513).

Teleological processes are goal-driven. The unit has a common goal, and the results of the process are assessed against the goal. Unlike life-cycle processes, teleological processes do not prescribe a necessary sequence of events. The outcome is unpredictable because it is discontinuous with the past. The processes are constructive rather than prescriptive due to the interaction between outcome and goals (Van de Ven and Poole, op.cit, p.515).

What kind of process is the Uppsala Model dealing with? The similarities between the model and a life-cycle process is striking. First, each phase of the process is linked to the previous phase and prescribes what the following phase will be. Second, the sequence of the process follows a certain logic or code within the firm, where uncertainty, market knowledge and successive and cumulative market investment are the main driving motors. Third, it can be argued that the internationalization process is not goal-driven as “it tends to proceed regardless of whether strategic decisions in that direction are made or not”(Johanson and Vahlne 1990, p. 14).

The life-cycle is not an unusual metaphor for organizations, ventures or products (see e.g. Vernon 1966). However, a closer look at the Uppsala Model reveals that it also implies a teleological perspective on the internationalization process. The model states that the firm, under a risk constraint, strives to “increase its long-term

profit, which is adjudged equivalent to growth” (Johanson and Vahlne 1977, p. 27). Decision-makers at all levels are assumed to behave in line with this objective. This view is very much in accordance with the teleological perspective and its assumption that the process “emerges through purposeful social construction among individuals within the entity” (Van de Ven and Poole 1995, p. 520).

It can certainly be relevant to include both a life-cycle perspective and a teleological perspective in a model about firms’ internationalization behavior. However, there is an apparent problem: The difficulty to evaluate the relative importance of a prescribed mode of change versus a constructive mode of change. The life-cycle perspective on processes predicts a sequence of events in a prescribed direction. The teleological perspective, on the other hand, implies changes that can be discontinuous and unpredictable departures from the past, due to the interaction between assessments of outcomes and goals. Consequently, the prediction that the firm tends to continue its foreign operations in a certain market in a cumulative and incremental way is in line with the life-cycle perspective, but not (necessary) in line with the teleological perspective. Due to dissatisfaction with the outcome changes can be made that depart radically from the existing operations.

To sum up, one can even argue that with (partly) a teleological perspective, the Uppsala model becomes more realistic. Decision-makers with goals, and not only stable, built-in logical programs, are recognized (implicitly) as influencing the internationalization process. However, at the same time the model loses some of its elegance and simplicity, as its predictions of internationalization behavior becomes much less obvious and clear-cut.

LEARNING AND LOOSE-COUPLING IN THE UPPSALA MODEL

A close scrutiny of the Uppsala Model reveals that one extremely important, underlying assumption is the crucial role of the people who are involved in the foreign operations. It is their experiential learning and their decision-making that drives the internationalization process, not the headquarters or some other group in the firm. Market knowledge and market commitment reside and develop primarily at the periphery, where the foreign operations are carried out. Identification of problems (and opportunities) is made by people at the subsidiary level, and their interpretation

of the present business will have a profound influence on the firm's commitment decisions and market investments in the future. Apart from the general assumption of the model that strategic behavior is basically an incremental process, this heavy focus on the role of lower levels of the firm further underpins the assumption that the internationalization process tends to continue in the same direction, once it has started. People who have the operational responsibility for the firm's activities in a specific market prefer to continue and develop these activities in that market rather than change the strategic direction to other products or markets. The model assumes that they also have enough power in the firm to carry through their preferences.

We can therefore conclude that the Uppsala Model implies that different groups at the operational level have a profound influence on the internationalization process. It is a relatively extreme "bottom-up" perspective, where the "bottom" plays the leading part and the headquarters play walk-on parts. Although a relevant standpoint, especially in the light of recent research about the differentiated MNC (Ghoshal and Nohria 1989, Ghoshal and Bartlett 1990, 1993), it raises some relevant questions concerning the role of learning in the model. This will be elaborated on somewhat below.

Whose experiential learning?

A basic assumption of the model is that experiential learning affects organizational behavior. But a common problem dealt with in the organization literature is that the relationship between cause and effect is ambiguous and the connection between learning and success or failure is far from apparent. Ambiguity about success and 'superstitious' learning are often used to describe this problem (Levitt and March 1988, Hatch 1997). Furthermore, the experience must be interpreted before it can influence behavior. However, different interpretations are made by different individuals and groups, with different goals and commitments. This will result in a systematic bias in the way the relationship between cause and effect is evaluated. For example, managers are inclined to attribute successes to their own actions and failure to others' or to external forces, but opposition groups are likely to follow the converse principle for attributing causality (Leavitt and March 1988). New leaders often tend to define previous outcomes more negatively than did the leaders that preceded them (Hedberg 1981).

As a result, the evaluations of outcomes are likely to be mixed and contradictory in organizations, not least in loosely coupled international firms. Or

expressed differently, the relationship between experiential learning and organizational behavior is not as straightforward as the Uppsala model predicts. Although of crucial importance for the model in other respects, the fact that the organization is assumed to be loosely coupled and therefore produces different and sometimes contradictory experiences, is not addressed by the model. Ironically enough, the model seems to be able to better handle the relationship between learning and action if the loose-coupling perspective is replaced by a more hierarchical/centralized model of the firm (or a one-person firm). In that case, the strategic decision process is restricted to a single individual or group, whose gradual experience and commitment will have a decisive influence on the internationalization of the firm. One place would serve as the center for accumulated knowledge and for the market commitments in the organization, and the interpretation of past events would be made by a limited group of people.

A loose-coupling perspective in fact produces a much broader spectrum of possible internationalization routes than predicted by the model. Different groups will argue for different strategic moves based on *their* market knowledge and market commitments^{vii}. Thus, there is much more occasion for interruption or change in the internationalization behavior, depending on changes in interpretations and power structures within the firm. A change of the organizational perspective into a more centralized organizational view would solve some of these problems, but would cause serious problems for the model in other respects, e.g., the way that market knowledge is assimilated into the organization and the role of market commitment.

A related aspect of this problem is the role of the individual. It is stated in the original version of the model that market knowledge is stored, at least partly, in the minds of the individual, although the model does not deal explicitly with the individual decision-maker (Johanson and Vahlne 1977, p.24). However, the individual seems to play an important role in how the model is supposed to function. People involved in foreign operations are holders of market knowledge and are the ones that experience commitments to other actors in the market. Thus, they play an important role in explaining why the state of internationalization at a certain point in time shapes the internationalization in subsequent periods. The links between the past and the future are actually made up of what is stored in the minds of these individuals.

Consequently, the predictions of the model are heavily dependent on an implicit assumption about stability in terms of the personnel. If there are extensive

changes over time in how subsidiaries and other units abroad are staffed – a rather common phenomenon in most firms – the links between the past and the future will be weakened. The lessons from history are likely to be lost through the turnover of personnel (Levitt and March 1988, p. 328, Huber 1991, p.148, Argote 1999). Or, expressed differently, the actual content of market knowledge and market commitment as driving forces for commitment decisions will vary much more over time. This will reduce the proposed stability, continuity and path dependent character of the internationalization process, at least as long as we assume that knowledge is possessed by the individual and only by the individual.

This “instability” problem arising from the personnel turnover will be reduced somewhat if the phenomena of collective memory (Hedberg 1981, Fiole and Lyles 1985, Huber 1991, Eriksson et al 1998b) is incorporated into the model. Through the collective memory, the lessons of experience are maintained and accumulated within routines, structures and culture, despite the turnover of personnel and the passage of time (Levitt and March 1988, p. 326). If market-specific knowledge at the operational level is not only stored in the minds of individuals, but also partly in standard operating procedures, etc., this would allow for a more incremental and path dependent internationalization process than otherwise.

However, the role of collective memory and the possibility to store non-routine, tacit information is not well understood (Huber 1991). It is possible that the dominant role of the individual is relevant when internationalization behavior is predicted^{viii}. The problem is that it seems to undermine one basic assumption behind path dependency.

SOME PROPOSITIONS CHALLENGING THE UPPSALA MODEL

One important strength of the Uppsala Model is its simplicity. By using only a very limited number of variables the model has managed to present reasonable explanations for a significant amount of firms’ internationalization. Therefore, even if arguably learning takes place in different parts of the organization and sometimes through other means than the organization’s own experience, one should be cautious about complicating the model by including more variables. Such an extension should be done only if it can be argued that the explanatory power of the model will increase significantly. In the analysis above it has been indicated that this can actually be the

case in certain situations. Below, this will be exemplified by formulating four propositions based on the discussion in the earlier sections.

The first proposition follows from the discussion above on the relationship between experiential learning and incremental behavior, illustrated in Figure 1. The perceived risk of making mistakes will decrease concurrently with the firm's experience of the market, and so will its perceived need for incremental behavior. It is an in-built logic of the model that the firm will take larger and larger steps abroad over time. Therefore, the following proposition can be formulated:

Proposition 1: Firms invest in a foreign market at an increasing pace.

It should be pointed out, though, that market knowledge can become obsolete due to changed market conditions, and the perceived risk may increase again, or may not decrease as expected. This is also recognized by the model builders (Johanson and Vahlne 1977, p. 33-34). However, it is an empirical question if decreased need of incremental behavior due to experiential learning, or increased need of incremental behavior due to changing environment, is the dominant force in the specific case.

A cornerstone of the Uppsala Model is that perceived market risk is a function of the firm's own market knowledge. The more market knowledge the firm acquires through own experience, the less the perceived risk and the higher the propensity to invest abroad. However, based on the discussion above we would maintain that the perceived risk can be affected through other means than own experience. These "shortcuts" to lower perceived risk include "grafting" the experience of others into the firm, "follow-the-client" (Sharma 1991), and imitating firms that for some reason are considered to be market leaders (Björkman 1996). This strategy may be less efficient than if the firm acquires "first-hand" knowledge through own experience. However, the important point here is that the firm will approach the foreign markets more rapidly and maybe in another pattern than is predicted by the Uppsala Model.

Consequently, the following proposition can be formulated:

Proposition 2: Firms invest in foreign markets without own experiential knowledge

Another cornerstone of the Uppsala Model is that investments abroad are not made if the perceived risk is higher than the tolerable market risk. This reasoning implies that perceived risk as well as tolerable risk refer to the risk the firm experience if the investment is actually made. If the firm considers the investment more hazardous and venturesome than it can accept the investment will be postponed. However the model seems to overlook the possibility that the firm also considers the risk of *not* making the investment. According to the model low market knowledge leads to high perceived risk of investing. However, low market knowledge can as well be connected with high perceived risk of *not* investing. Arguably, the risk of not acting may be even higher than of acting. Figure 2 summarizes the point:

Figure 2. Impacts of perceived risks on foreign investment behavior

The figure implies that the firm may choose to invest abroad even if the perceived risk is high due to lack of market knowledge because the firm considers the risk of *not* investing even higher.

The rapid internationalization of some e-commerce firms may illustrate the point. Some of these firms have chosen to establish subsidiaries more or less simultaneously in several foreign markets, without any apparent knowledge of the market conditions in the countries concerned (Tersmeden and Törnell 2000). This behavior is probably better explained by the importance of first mover advantage and an extreme emphasis on short-term growth, rather than by the markets being

homogenous or extremely unstable. The benefits of being one of the first actors in every single market is deemed so important, that the firm must act before it has acquired market knowledge through own experience. The heavy emphasis on the growth objective among venture capitalists in this industry will strengthen this tendency still further. The firm feels forced to act, even though it experiences great uncertainty from its lack of knowledge about business conditions in the different markets. The perceived risk is high and might even be perceived to be intolerable. However, not to act is perceived even more intolerable.^{ix} Consequently, the following proposition is suggested:

Proposition 3: *Firms invest abroad without possessing any substantial market knowledge if the perceived risk of investing abroad is lower than the perceived risk of not investing abroad.*

While Propositions 1-3 deal with the time and speed of the internationalization process Proposition 4 deals with how the process is configured. It was maintained above that the incremental and path dependent character of the internationalization process, as predicted by the Uppsala Model, implicitly assumes that the accumulation and interpretation of market knowledge and market commitments is restricted to a single group within the firm. This group can either be the top management, or as it is formulated in the model, the foreign unit. However, if this assumption has to be abandoned, because of the multiplicity of groups within the firm or the turnover of personnel, the possibility that a specific internationalization route taken by the firm will be interrupted in favor of another route will increase substantially. A consequence is also that the internationalization process can reflect more than one pathway, or what Van de Ven calls a multiple progression rather than a unitary progression (Van de Ven 1992). Therefore Proposition 4 will be formulated in the following way:

Proposition 4: *Gradual accumulation of market knowledge does not restrain the firm from radical changes in foreign investment behavior.*

It is more difficult to predict the internationalization path in large international firms with a spread and changing power structure. Whose market knowledge is

deemed important will change over time and so will the path of internationalization. As a consequence maybe one can argue that the predictive power of the Uppsala Model is less the larger and dispersed the international firm is.

CONCLUDING REMARKS

Since the Uppsala Model was first presented two decades ago, it has provoked a considerable amount of research into its relevance. Most of these studies have set out to investigate whether the empirical predictions of the model are correct or not. Consequently, several studies have dealt with the so-called establishment chain and the order in which different markets are approached by the firms. The problem with most of the earlier studies is that the establishment chain is a poor reflection of gradual investment in a certain market. The problem with the latter studies is that psychic distance is basically a concept at the national level, while foreign investment is a phenomenon at the management level^x.

However, a totally different type of evaluation of the model is to more closely scrutinize its basic concepts. As the model is primarily a model about how uncertainty is handled through learning, the concept of learning is of crucial importance. It is, therefore, somewhat surprising that the model builders' treatment of organizational learning has received relatively limited attention over the years. Therefore, this article has set out to scrutinize this problem.

The basic findings can be summarized as follows. First, it has been argued that organizational learning as a theoretical concept contains several dimensions, of which the Uppsala Model primarily deals with one: learning through own experience. Learning through mimetic behavior of different kinds, incorporation of other units with the required knowledge or searching for information about potential alternatives to current business are not part of the model, or at least, are not explicitly part of it. For instance, making foreign acquisitions with the intention of learning more about a certain market, or as a way to internationalize at a higher pace, are not fully explained by the model. The fact that firms sometimes "follow the herd" when they invest abroad, or learn through the imitation of other organizations – network partners or organizations with high legitimacy – should also be included in a model of internationalization behavior. A firm can also search for information about radically new alternatives alongside the current activities, and sometimes invest abroad in

accordance with this search rather than according to its current experience. Consequently, the possible internationalization routes are more varied and multifaceted than those predicted by the Uppsala Model.

This conclusion is also grounded on a discussion of the perspectives on processes used by the model. The prediction of the internationalization process as a cumulative, path dependent behavior is basically rooted in a life-cycle metaphor, where the sequence follows a built-in, stable program. However, in principle, the model is as much based on a teleological perspective on processes, which allows for a much less obvious and clear-cut prediction of foreign investment behavior.

In the second part of the paper, learning in relation to the model's assumption of the firm as a loosely coupled organization was discussed. A basic assumption of the model is that the people at the periphery of the firm responsible for the foreign operations are the ones that learn from current activities, and carry that (market) knowledge into the next investment phase. But in a loosely coupled organization, the periphery consists of several groups/individuals with different interests and commitments. In such organizations it is not clear who is interpreting what is learnt, and whose preferences influence the foreign investment decisions. This situation would lead to a broader spectrum of internationalization routes than the model predicts, depending on changes in power structures and interpretations.

We have also argued that the model is heavily dependent on the stability of personnel over time. This follows from the individual being the holder of market knowledge. If there are changes over time in how foreign units are staffed, market knowledge and market commitments, as driving forces for commitment decisions in the subsequent periods, will be much weaker. Consequently, this will decrease the proposed stability, continuity and path dependence of the internationalization process.

If a broader concept of learning is used in the model, some interesting research issues emerge. For instance, how important is mimetic behavior in the process of internationalization? How often do firms enter markets without any valid knowledge about the market, just because some other firm has entered the market? To what extent are firms influenced by the fact that some markets are considered more important than others in the present debate? How strong is the "follow the herd" instinct in firms' internationalization, both in terms of markets and forms of investment?

A related issue is the role of experiential learning in the internationalization process. For instance, how important is experiential learning and incremental behavior as a general explanation of internationalization behavior? Are there situations when the conditions force the firm to enter and invest in foreign markets not in accordance with the experiential learning model? Do firms in extremely fast growing businesses, like the IT industry, have time and patience to base their foreign investments on experience from their own current activities? How often is the investment behavior grounded on proactive search rather than on reactive adaptation? What happens if the straightforward relationship between knowledge and investment behavior is dissolved? How often do firms invest abroad *despite* lack of market-specific knowledge rather than *thanks to* specific knowledge?

Another issue has more to do with modes of investment. What about the explanatory power of the Uppsala Model when foreign acquisitions are considered? Do they follow the experiential learning model or do they reflect organizational learning through “grafting”? Some acquisitions are probably carried out in order to strengthen the position of current activities in an existing market, while others are made in order to entry into a new market. In the former case, the firm’s behavior is based on its own experience, in the latter, on attempts to acquire such experience through incorporating another firm.

Finally, with reference to the loose-coupling metaphor, where are the different driving forces for internationalization located within the organization? To what extent is it possible for a subsidiary to attract new investments in competition with other subsidiaries? On what kind of resources is such an ability based? To what extent can conflicts and confrontation between different subsidiaries generate internationalization behavior in new directions?

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ⁱ In this paper, organizational learning is part of a theory about behavioral processes, as distinct from theories about analysis and choice, based on anticipatory calculation (Levitt and March 1988, p. 319, March and Olsen 1989, p. 23).

ⁱⁱ The basic point here is the *change* of potential alternatives rather than an increase in the alternatives.

ⁱⁱⁱ It has to be recognized, though, that in an open system perceived uncertainty is also influenced by changes in the environment.

^{iv} The assumption of incrementality has also been questioned based on cost considerations. See e.g. Pedersen and Shaver 1999.

^v It should be pointed out that both approaches use different forms of learning techniques, including different forms of learning through own activities.

^{vi} The relationship between general knowledge, called internationalization knowledge, and market specific knowledge, called business knowledge and institutional knowledge, has been dealt with specifically by Eriksson et al. See Eriksson et al 1997, 1998.

^{vii} This aspect has a certain kinship with a dialectical perspective on processes advocated by Van de Ven and Poole, in the sense that a development can emerge from conflicts and confrontation between individuals or groups (see Van de Ven and Poole 1995, p. 520).

^{viii} The importance of individual managers in the foreign direct investment process has been reported by several scholars. See, e.g., Björkman, 1990, p. 276.

^{ix} The obvious failure of some of these firms in the international market does not contradict the proposition that investment behavior is influenced by the perceived risk of not acting. However, it may demonstrate that market knowledge is an important success factor in the long run!

^x Some of these studies suffer from what can be called a “survivorship bias” (Denrell 1999), i.e., they do not include foreign investments that for some reason have been terminated along the way. Some of these investments may reflect the firm’s attempts to explore new routes and learn more about opportunities that lie beside the main road. By excluding them from the analyses, internationalization behaviour may look more step-wise and path dependent than it actually is.