The Internationalisation Process of a Firm -

The Case of Volvo Company

MEA Programme, 1st Semester June 2005
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Preface

Globalisation started in the late 21st century has given the firms way to be internationalised. Firms are very keen in exploring the new markets and reaping profits by attracting the customers of far-flung markets. Firms who really want to explore new markets and wants to be internationalised, need to follow a process. The objective of this project is to understand the internationalisation process of a firm and factors behind it. For understanding the driving forces behind the internationalisation process of a firm, we have chosen a very well known model on internationalisation process of a firm: Uppsala model (developed by Johansson and Wiedershiem, 1975). The authors of this model have developed this model out of the case study of four Swedish companies: Volvo, Atlas Copco, Facit and Sandvik. For our case study we have chosen one firm out of these four firms: Volvo Company. In our report we have studied the internationalisation process of this firm and answered our research question: forces driving a firm in its internationalisation process.

We want to thank to our Supervisor, Alamgir Kabir Joarder, who encouraged and supported us in writing this project report.

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<th>Explanation</th>
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<tr>
<td>i.e.</td>
<td>Latin <em>id est</em>, ‟that is ‟</td>
</tr>
<tr>
<td>etc.</td>
<td>Latin <em>et cetera</em>, ‟and so forth, ‟ and so on ‟</td>
</tr>
<tr>
<td>No. (or no.)</td>
<td>number</td>
</tr>
<tr>
<td>e.g.</td>
<td>Latin <em>exempli gratia</em>, ‟for example ‟</td>
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<td>fig., figs</td>
<td>figure(s)</td>
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Chapter 1

Introduction

As this is an introductory chapter therefore we will begin it with our research background and finish it with our project structure. We will present the importance of internationalisation of firms in this present environment of globalisation by supporting it with the arguments given by different eminent persons in the concerned area of study. Then we will come to our research problem, telling about the internal and external forces leading firms towards internationalisations and then proceed towards our formulated research question and it will be written after describing the purpose of our project report. The chapter will tell about our project structure for answering our formulated question.

In section 1.1 we will present the research background and in section 1.2 deals with our research problem, in section 1.3 we will tell about our purpose statement or the objective of project work, in section 1.4 we will come to our research question, the next section i.e.1.5 will be dealt with project method and in the final section 1.6 of this chapter we will write our project structure which is a short summary of project report chapter wise.

1.1 Research background

Globalisation is bringing the people closer and making the world smaller day by day. Distances are shortened by modern means of communication and technology. There is cross border flow of information, knowledge, commodities and capital. The interdependency among the countries is growing. Due to globalisation firms are really working hard for becoming internationalised. Almost every firm is moving to foreign markets to become internationalised (Porter, 1980).
The internationalisation process of a firm

The continuous relationship of individual companies and nation through globalisation has caused firms to move out of their domestic market on to the international stage to gain sustainable advantages (Porter, 1985). Almost every firm is moving from the domestic market to the international stage to explore business opportunities. (Porter, 1980). Today internationalisation is a strategy for all firms that are not interested to stay in home market even if there are good opportunities there, it is easier to explore new markets for accessing the facilities to human, technology, financial and informational resources.

According to Welch and Luostarin,

*Internationalisation is the process of increasing involvement in international operation.*

It is perceived historically that internationalisation is the strategy of the large scale firm as there is threat for small firms in entering into world market therefore SMEs were mainly operated their home markets. But in this era of globalisation, all type of firms (LSEs and SMEs) is trying to enter into world market having various motives behind i.e. profit motive, competitive advantage motive and so on.

We can define multinational enterprise such as companies, which undertake productive i.e. value-adding activities outside the country in which they are incorporated. (Dunning, 1988).

In other words firms want to be internationalised. In this present times of free trade and liberalization small firms want to explore the new markets overseas and can become global exporters. That’s why internationalisation process of the small-scale firms is widely discussed issue these days. Many firms start their international operations when they are still comparatively small and gradually develop their operations abroad (Buckley, 1993).
According to Buckley and Ghauri,

*Internationalisation of the firm is a process in which the firms gradually increase their international involvement.*

It is commonly accepted assumption that firms can improve their profitability by entering into international expansion (Mintzberg, 1989). As (Varmeluen and Barkama, 2002) mentions that the potential benefits of internationalising of a firm depend upon the dynamic process of internationalisation, in which time and history matters.

Firms can internationalise by adopting either upstream or downstream approach. Internationalisation by upstream activities means acquiring international experience through import (inputs) activities, activities related to production (transformation). In downstream approach, the firm can internationalise itself by adopting two ways: either proactive (internationalisation via ethnic links) or reactive response (foreign company induced internationalisation.) In proactive approach the initiator is the exporter to other markets. The product of the firms is first developed in home and after doing market search it is exported to other countries. The downstream approach is the core of the stage theory: that firms first start exports with countries, which are psychological close to them (Johansson and Widershiem Paul 1975).

For presenting the concept of internationalisation process of a firm among the other theories of internationalisation process of a firm, we have chosen a very famous model in this field: Uppsala model developed by Johansson and Vahlne (1977). As Uppsala model is based on the assumption that firms start their process of internationalisation in culturally close markets first and later set up in the more distant markets. Johansson and Vahlne (1977) found that large and small firms go through distinctive stages when they internationalise. This model, which is also known as the stage theory of internationalisation, explains
The internationalisation process of a firm

the four stages of a firm in its process of internationalisation. In this paper these four stages and motivational factors during a firm’s internationalisation process will be presented. Empirically we have chosen the case of Volvo Company.

1.2 Research problem

As firms are really eager to enter into world market in this present world of competition stimulated by globalization. Our research problem is to know about the different forces for firms to be internationalised. The major forces of a firm in its internationalisation process are internal and external. Internal forces (proactive) of a firm can be market experience, perceptive management; specific internal event and external forces (reactive) of a firm can be market demand, competing firms, trade associations.

1.3 Purpose statement

The objective of our report is to know the main factors behind the internationalisation process of a firm. A firm can be motivated for entering into international scene by internal (proactive) or by external (Reactive) factors. By conducting research we want to find the forces behind adopting the internationalisation strategy by a firm. For this we have chosen case study of a Swedish company Volvo.

The main reason for choosing this company is that as the Uppsala model was developed in Sweden by Johansson and Wiedershiem in 1975 by studying the internationalisation process of four Swedish cases: Atlas copco, Sandvik, Volvo and Facit. Our chosen case (Volvo) is one of these four Swedish cases. According to Johansson and Wiedershiem, Volvo Company in the past, during its internationalisation process, followed the Uppsala model. So our purpose here is to understand the factors motivated this firm in its internationalisation process.
1.4 Research question

In this global context many firms want to be internationalised themselves by exporting and opening their manufacturing units abroad.

Among the other important issues, in this project we want to find the answer for the following question:

**What are the forces that drive firm in its process of internationalisation?**

We know from our understanding that a small firm adopts the process of internationalisation for becoming big one and the different type of factors drives it during this process, for this we are interested in knowing what actually motivates a firm in this process of internationalisation.

In order to solve our research question we have chosen among the other theories of internationalisation, the Uppsala model of internationalisation of the firm.

For answering our formulated question: we have chosen a very well known company i.e. Volvo car company. We want to understand the internationalisation process of this firm and the factors motivating it in its internationalisation process.

1.5 Project method

The key words of our project are internationalisation process, Uppsala model, internal and external factors. For solving our research problem we will do literature review and study some of the electronic sources related to our research area. We will try to access to the theory within the field of internationalisation for answering our field of enquiry. The project report will present the empirical evidence by developing a case study using secondary sources.
Our research question will be answered in chapter 4 (empirical work) and in chapter 5 (Analysis). In chapter 4 we will look into the historical development of the company, its internationalisation process in the past, present business strategy and so on and in chapter 5 we will analyse the internationalisation strategy of this firm and the factors behind them in marketing according to our theoretical framework.

1.6 Project Structure

Fig. 1.1. Diagrammatic presentation of project structure
This is a short overview of project report chapter by chapter

Chapter 1

This is an introductory chapter telling in brief about our research background, research problem and how and where we are going to solve it.

Chapter 2

It deals with research methodology. This chapter tells about two different research techniques i.e. qualitative and quantitative method. As for doing research one method is not enough therefore we will also present mixed method approach here. Case study method is a qualitative method, we have chosen case study method for doing research, and therefore we will write about case study method and steps for solving our research question.

Chapter 3

This chapter is about theoretical framework. In this chapter we will explain the Uppsala model: its main features, establishing chain, driving forces behind internationalisation process of a firm and limitations of the model.

Chapter 4

In this chapter we will do empirical work. For this part of the project we have chosen a very well known Swedish Company (Volvo Car Corporation). In this chapter we will present the company in brief, its internationalisation process, SWOT analysis of the company, the organizational structure of the company, etc.
Chapter 5

As this is analysis chapter therefore our purpose here is to find a relationship between theoretical and empirical work. After completing the empirical part, we are going to write the factors behind the internationalisation process of firms.

Chapter 6

We will synthesis the results of our findings here and perspectives for the future will also be given.
Chapter 2

Methodological Framework

A smooth solution of the research problem depends upon the choice of right and effective method of data collection and data analysis. There are different methods of data collection: quantitative and qualitative. In these days a researcher can’t reliable on just one method of data collection, that’s why mixed method is widely used method for conducting research now days. For doing research we have chosen case study: it is a qualitative type of method. By using this method a researcher can analyse the phenomenon directly and relate it to its theoretical findings.

In this chapter we will present the different methods of data collection. In section 2.1 a short description of quantitative and qualitative methods will be presented. In section 2.2 the mixed method approach of data collection will be presented. In section 2.3 case study method, its advantages, design of our case study, rationale for using single case study and steps in using case study for answering our research question are presented. The section 2.4 is about methodological consideration: the sources, methods of data collection and their limitations. The steps for solving research question will be explained in section 2.5 and the final section of this chapter 2.6 will tell in brief about the limitations of our project report.

2.1 The Quantitative and Qualitative Methods

For the purpose of conducting research, a researcher needs empirical data in two forms: quantitative and qualitative. Empirical data can be collected by applying different research techniques. Broadly these techniques can be classified under two methods of data collection:

- The quantitative method
- The qualitative method
Both of these methods are used for data collection having their own techniques, advantages and disadvantages.

### 2.1.1 The Quantitative Method

This method is used for collecting numerical data.

As per Bitch and Kaare,

*Quantitative techniques are important both for going through existing material and for producing new information.*

John Creswell noted that

*This method gives quantitative or numeric description of trend, attitudes or opinions of a population by studying a sample.*

The quantitative data can be collected by two ways: raw data, second hand data. It is a time consuming process to collect primary or raw data by sending questionnaire to different persons. Moreover the results depend upon the researcher’s ability to draw inferences. The results can be misleading if the participants are not mature enough in providing answers. The second way is to use secondary or second hand data already collected by some agency like OECD, UNCTAD, WORLD BANK, STATISTICS DEPARTMENT and so on. It is practical to use second hand data and it is a time saving method. But here too interpretation depends upon the researcher’s ability to understand the facts and numerical values.

### 2.1.2 The Qualitative method

Qualitative method of data collection takes place in natural settings.
The internationalisation process of a firm

John Creswell points out that

Qualitative procedures stand in stark contrast to the methods of quantitative research. Qualitative enquiry employs different knowledge claims, strategies of inquiry, and methods of data collection and analysis.

The qualitative data can be collected by documentary methods, case archives (historical documentation) Interviews and direct observation and participatory observation methods. For using these different methods a researcher needs to use different kinds of sources and literature. But of course the use of chosen method and results depends upon the researcher’s ability. The result could be easily wrong if one makes mistakes e.g. if researcher asks poor or irrelevant question in interview. It can be hard to find historical documentation in Case archives method. Observation method is time consuming method. Each method has its own merits and demerits. The choice of the technique for collecting qualitative data depends upon the requirement of the research question and of course the effectiveness of the results depends upon the talent of the researcher.

2.2 Mixed method approach

Creswell claims that

With the development and perceived legitimacy of both qualitative and quantitative research in the social and human sciences, mixed methods research, employing the data collection is associated with both forms of data, is expanding.
It is common to use mixed method approach in social science research these days. Mixed method approach often named as multimodal approach employs more than one method in research e.g. two quantitative and two qualitative methods. By using a combination of both the qualitative and quantitative methods we can collect the material, for solving our research question. For solving our question i.e. forces motivating the firms in their internationalisation process we can’t rely just on one method of data collection. We need to use mixed method approach. Through this way we can cast light on the different viewpoint and standpoints of the problem. By using mixed method approach we can collect both quantitative and qualitative data and analyse it. Normally an equal priority should be given to both types of dataset. But of course it depends upon the research question. We will integrate two types of data at several stages in our project: the data analysis, interpretation or some combination of places.

Of course the choice of the method depends upon the researchable question. But it is normal to use mixed method approach in social sciences. It is not practical to rely on just one method of data collection. Each of these two methods of data collection has their own characteristics e.g. the quantitative research tests hypotheses whereas qualitative research perceives and discovers meanings. In quantitative research the data is in numbers whereas in qualitative research the data is in words.

In short, the quantitative results are scientific whereas qualitative results are associated with realism, the interpretive sciences and pragmatism. In order to answer our question we need scientific data as well as its interpretation.

Janice Morse suggests that using qualitative and quantitative methods to address the same research problem lead to issues of weighing each method and their sequence in a study. Based on these ideas, she then advances two forms of methodological triangulation: simultaneous, using both methods at the same time; and sequential, using the results of one method for planning the next method.
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It is appropriate to use both of these methods in right combination, depending upon the demand of the research question.

2.3 Case study

To trace the internationalisation process of a firm and the driving forces behind it, we have chosen to analyze single case study of Volvo Company. This is a qualitative type of method.

Case study refers to the collection and presentation of detailed information about a particular participant or small group, frequently including the accounts of subjects themselves. A form of qualitative descriptive research, the case study looks intensely at an individual or small participant pool, drawing conclusions only about that participant or group and only in that specific context.

It is a method of learning about a complex instance, is a description of situation that has enough information to permit the formulation of the hypothesis or to find a solution for the problem. It is a direct observation to find and discover linked and relationship between theory and real context, case study have been used in varied investigation particularly in sociological studies.

According to Robert Yin,

_A case study is an empirical inquiry that investigates a contemporary phenomenon within its real context especially when the boundaries between phenomena and context are not clearly evident._

(Yin, 1993) has identified some specific types of case studies:

- Exploratory
- Explanatory
- Descriptive
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Exploratory case study are sometimes consider as a prelude to social research, explanatory case studies may be used for doing casual investigation and for explain casual links in real life interventions, descriptive is for describe an intervention and the real context in which it occurred.

A case study approach emphasizes exploration rather than prescription or prediction, using a case study can help to solve a gap between theory, research and concrete practice and to establish relationship and compare the theory with a particular real context.

Case study methodology can be used as a creative alternative to traditional approaches to description; case study can be seen to satisfy the three tenets of the qualitative method: describing, understanding, explained.

2.3.1 Advantages of case study

The case study is qualitative type of method; therefore it has the same advantages as the qualitative method has.

The main advantage of the case study is: As we can observe the case directly and relate it to theoretical part, we can get the data directly from the case and analyse it. Results get by case study are more practical than ideal. As a researcher we observe and read the case directly: it is direct and simple method. It is a flexible method of doing research, because researcher is free to discover and address issues as they arrive in their experiments.

However the case study has its own limitations. It narrows down the area of research: the research is limited to an individual or group individuals the results inferred by research are not universal. So it is difficult to generalise the results.
2.3.2 Design of our case study

Case study can be either single or multiple cases. Single case is the analysis of one single phenomenon.

According to Yin,

*Single cases are the most appropriate to confirm or challenge a theory or to represent a unique or extreme case.*

We have chosen single case study to solve our research question. We have chosen the case of Volvo Company as a single case to study its internationalisation process as per our used theory and for answering our research question: What are the forces that drives a firm in its process of internationalisation?

2.3.2.1 Rationale for using single case study

It is appropriate for us to use single case for our project. Our research question is to understand the motivational factors behind the internationalisation process of firm; by studying the case of Volvo Company we will be able to understand the major driving forces behind its internationalisation process. This firm has adopted the strategy of internationalisation in the past according to Uppsala model. This firm was initially a SME; through its international strategy as per Uppsala model it is a multinational firm now.

Single case is time and cost saving method. As we know, research work is a complex progress. By using this method, we only need to find the historical archives of Volvo Company and doing analysis based on them. We don’t need to spend much time on observation or statistic analysis.
2.3.2.2 The steps of using single case study

The single case study method is chosen as a research strategy. Our key words are, Internationalisation process and driving forces. An emphasis is on Volvo Company. The project includes only one case. We can divide the steps of using single case study in our project report as follows:

- Determine and define the research question: This is step one in using case studies. First of all we will set a research question, in this way we can determine the focus or purpose of our problem. Case study research generally answers more than one question. But we will consider our research question: driving factors behind the internationalisation process of firms. In this way we will focus on our problem.

- Select the case and determine the data gathering and data analysis techniques: This step tells us about the approaches to use for selecting case or cases and choose the data gathering and data analysis techniques. The use of approach depends upon the purpose of study and the research question. In our project we will study the single case of Volvo Company, specifically its internationalisation process. The data gathering is of mixed type (qualitative and quantitative). We will collect data by going through Company documents, relevant research reports, website information and relevant statistics.

- Data collection and arrangement: By doing case study, a researcher generates a large amount of data from multiple sources, therefore a systematic organisation of data is important. So we need to collect and store multiple sources of evidence properly and systematically and later on sort them.

- Evaluation and analysing of data: The researcher examines raw data using many interpretations in order to find linkages between the research
object and the outcomes with reference to the original research questions. Throughout the evaluation and analysis process, the researcher remains open to new opportunities and insights. After collecting a large amount of data, we need to evaluate it properly as per our purpose of study so that we can analyse it and answer our research question.

- Preparing report and conclusion: case studies report the data in a way that transforms a complex issue into one that can be understood, allowing the reader to question and examine the study and reach an understanding independent of the researcher. The goal of the written report is to portray a complex problem in a way that conveys a vicarious experience to the reader. In this step we will make a report of the data and other facts and figures, allowing the reader to question and examine our work.

### 2.4 Methodological consideration

Methodologically, we have chosen the inductive method for answering our problem formulation. We will first discuss the model of internationalisation process (Uppsala model) developed in Sweden by Johansson and Vahlne in 1975 and collect the empirical data of Volvo Company. We will write about the stages of internationalisation process. As our research question is to find the forces driving a firm to be internationalised therefore we will look into driving forces motivating this firm in the light of our chosen theory.

#### 2.4.1 The Sources

For collecting theoretical and empirical material ours sources are documents, Internet archives, books and journals. Our electronic sources will be the related websites of Volvo, their annual reports, data related to internationalisation process etc. We are using the secondary sources of data collection. In the end of this chapter, we will list all the sources.
2.4.2 Data collection methods

Data collection is a very important step in research. The data can be collected in two forms: primary data and secondary data. In our project, we will use secondary data.

2.4.2.1 Primary data

Primary or raw data is collected by survey, experiment, questionnaire, observation method etc. Researcher himself collects this data. As this is first hand data, therefore it is original in character. The researcher needs to classify and tabulate it. Government agencies, research institutes and so on collect usually primary data. Primary data is collected to solve a current problem. A survey is done by using a questionnaire (data collection instrument) to elicit required information from the concerned person. Questionnaire may be sending to concerned one by mail, telephone, e-mail and so on. For conducting an experiment, a researcher need to select the participants either by randomly or non randomly and he has control over the participants. He gives them different experimental treatments under controlled conditions and studies the outcomes. For getting results through observation method, researcher observes the case and tries to interpret the results in the light of objectives.

2.4.2.2 Secondary data

Secondary or second hand data is already collected by some governmental or non governmental agencies for some other purposes. Data is first collected by these agencies for their own purposes and these agencies collect data in primary form and later on it is available in secondary form to others. Censuses and large surveys carried out by governments for their own policy purposes are particularly rich sources of data for further exploration. A researcher uses the second hand data for its purpose of doing research. Secondary data can be collected through qualitative sources (biographies, diaries, novels, documents
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etc.) and quantitative sources (published statistics, government surveys, international sources, electronic data archives etc.)

There are many facts that are in favour of using this form of data. It is practical to use the readymade data and it is also time saving method. It is far much cheaper to collect the data by secondary source as compared to collect data using primary sources. A research need not to be so laborious in collecting its own data, one can just use the already available data and test its hypothesis. The accuracy of result is more in using secondary data as compared to be reliable on primary data e.g. the results will be more accurate if one uses the demographic data collected by the population survey department. Secondary data can play a substantial role in the exploratory phase of the research when the task at hand to define the research problem and to generate hypothesis.

2.5 Steps for solving research question

For answering our research question i.e. forces behind firms internationalisation process, we have chosen the single case study method. We will do the case study of our selected case. We will follow the following steps for solving this question:

- Set up research question: First of all we will set up research question. We need to think carefully about our topic and then analyse our research problem. After formulating different questions, we come to ours question which is both interesting and motivating for us.

- Collect information: We need to collect information by using different sources: library catalogues, Internet surfing, study reports, periodicals and so on.

- Select theory: It is an important step to choose the right theory. Theoretical part helps the research in understanding the research question and how it
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can be answered. We have chosen the Uppsala model. This model explains the internationalisation process of the firms.

- Select the relevant case: the next step is to choose the relevant case which can help us in answering our research question. This is very important part in the project report. We have chosen the Volvo Company. We will look into the company’s internationalisation process and driving forces behind it.

- Analysis of the case: Our next step is to analyse the case of Volvo as per our theoretical framework and answer the question. We will analyse the internationalisation process of this company and the factors behind it.

- Conclusion: We will tell the readers our viewpoint about all these things.

2.6 Limitations

For this project report, we are going to take single case study method and through this we want to discover the factors motivating firms to be internationalised. For this we have chosen the case study of Volvo Company, but single case. Requires careful investigation to avoid misrepresentation and to maximize the investigator’s access to the evidence.

The second limitation is that we are relying on the secondary sources of data collection i.e. Internet exploring. The results may not be accurate by going through different historical documents of the company.
This is the theoretical part of the project report, the objective of it is to present the relevant theory to our problem formulation. We want to discover the forces behind a firm in its process of internationalisation and for this we have chosen a very famous model in this field: Uppsala model developed in 1977 by Johansson and Vahlne at Uppsala university. Among the other theories in the field of internationalisation, Uppsala model (Stage theory) is the most well developed one. The theory considers that firm in its internationalisation process proceeds in four sequential stages (of course firms are not so rigid in following these stages), with every step the experiential knowledge of the manager/entrepreneur increases. This experiential knowledge is the major driving force behind its internationalisation process. The existing theories of the internationalisation are mainly concerned with external factors and therefore Uppsala model was developed at Uppsala University, which focuses on the internal factors for motivating the firms to go abroad.

In section 3.1 of this chapter we will introduce the model along with its main features, section 3.2 gives an explanation of the model along with diagrammatic presentation of its establishment chain and market commitment concept. The main limitations of the model will be presented in section 3.3.

3.1 Uppsala model

The Uppsala model is the most accepted paradigm regarding internationalisation process of the firms. This model is based on the behavioural theory of the firm (Cyert and March, 1963); inspired by Cyert and March (1963) and Penrose (1959), the model describes the internationalisation process as slow, sequential and gradual, since it represents the firm’s gradual establishment in, integration of, and knowledge about foreign market. During the 1975 Johanson, J Uppsala
University and Widersheim-Paul, F Stockholm School of Economics developed this model but Johanson and Vahlne later on modified it in 1977, by addressing the “Why-question” and offered an explanation of the incremental process in respect of internationalisation. It was launched as a criticism of the theories of that time which focused on direct foreign investment, but it has been developed as a more independent model to explain sequential steps in the direction of increased foreign commitment (Johnson & Vahlne, 1977). The internationalisation process evolves in interplay between the development of knowledge about the foreign markets and operations and an increasing commitment of resources to those markets (Johanson and Vahlne in 1990).

The model is developed out of the study of the internationalisation process of four Swedish firms (Volvo, Sandvik AB, Atlas cop co and Facit) an essential starting point for this model is that internationalisation steps can’t be viewed independently of each other. One step is the feedback for the next step. Internationalization is a learning process. The following are the main features of the model:

3.1.1 Features

- Internationalisation is a gradual and slow process of the firm.
- It is a passive process and the result is to get an export order.
- Internationalisation is a learning process that enables early accumulation of experiential knowledge in the firm.
- Internationalisation is achieved through market knowledge and experience from the foreign activities.
- Firm can be internationalised through its internal activities.
- Firms involve in international activities in incremental steps rather than make large foreign investments at a single point of time.
3.2 Explanation of the model

This is a learning based model it postulates that the firm is uncertain about its investment decisions abroad. The investment uncertainty can only be reduced by acquiring concrete market knowledge, which can be done through activities in the market (experiential knowledge).

The model tries to identify the general driving forces behind the incremental internationalisation process. The internationalisation is the result of series of incremental decisions (firms first develop in the domestic market).

Most important obstacle to internationalisation is the lack of knowledge and resources. This can be reduced through incremental decision making and learning about the foreign markets and operations through experiential knowledge. This experiential knowledge can mainly be acquired through personal knowledge in the specific market. This leads to the reduction of risks of market investments. Therefore firm develop itself first in their home market and when it feels confident then it decides to enter into foreign market and starts its exports with the neighbouring countries in the beginning or the countries with well-known business practices. The next step is to export via agents and third step is to establish sales unit and last step in the process is to establish manufacturing unit. According to this model, the following are the four stages of a firm step by step for entering into foreign market.

Stages

- Stage 1. Sporadic export
- Stage 2. Export modes (agents)
- Stage 3. Establishment of a foreign sales subsidiary
- Stage 4. Foreign production/manufacturing units

The sequence of stages is restricted to specific country market.
Fig. 3.1. Establishment chain of U-model

Sporadic export

Agents

Sales subsidiary

Manufacturing unit

(Source: our understanding, based on Johansen and Wiedersheim poul 1975)

Stage 1.

Sporadic export (no regular export activities)

When a firm starts entering into foreign market, the first step or the stage chosen by the firm is to start export with the that country, as the firm has no knowledge, information of the resources in that country. In this stage the firm will gain no market experience.
Stage 2

Export modes (export via independent representatives)

At the second stage, the firm will establish channels to export. It will find the local distributors in the concerned country for exporting its products. It is called indirect export of its products. This stage will provide the firm knowledge about the information channel and some superficial knowledge about the market in that country.

Stage 3

Establishment of a foreign sales subsidiary

The following stage of the firm is to establish a sales subsidiary in the concerned country. It means that the firm has already obtained the knowledge and information about the country via exports and indirect exports and now it is easy for firm to establish its sales subsidiary in that country. Firm can easily control and manage its business in the chosen country. In this stage firm gets the more and wider knowledge about the market.

Stage 4

Foreign production/manufacturing units

The last and fourth stage of the firm is to establish its manufacturing unit in that country. In this stage the firm has more and differentiated knowledge of the markets therefore it is easy for firm to start production there. Firm can easily access to factor market of the country.

As the firm proceeds from one stage to next stage, its resource commitment to market increases.
Johansson and Vahlne in 1990 explained that firm sometimes skip to some stages and jump to another stage for example firm can start exports with the country and skip the stage 2 and directly establishes sales concern in the country. In the second or the third stage firm can develop its relations through joint ventures with earlier representatives. With every stage the experiential knowledge of the managers/entrepreneurs increases.

There is a direct relationship between market knowledge and market commitment. As a firm gains more market knowledge via experience its market commitment increases.

**Fig. 3.2. Internationalisation of the firm—an incremental approach**

<table>
<thead>
<tr>
<th>Mode of Market operation (Country)</th>
<th>No regular export (Sporadic activity)</th>
<th>Independent representatives (Export modes)</th>
<th>Foreign sales Subsidiary</th>
<th>Foreign production &amp; Sales subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market A</td>
<td>Increasing market</td>
<td>Commitment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market B</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market C</td>
<td><strong>IGD</strong></td>
<td>Increasing internationalisation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market D</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market N</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Global marketing, Hollensen, S. (1998)*

**IGD=Increasing Geographical diversification**

The figure 3.2 shows that as firm move from one stage to next stage it gets more market knowledge and its market commitment also increases, it leads to increased internationalisation.
The internationalisation process of a firm

With increased market knowledge a firm commits more towards because its experience is also increasing. Thus experiential knowledge is the main driving force behind internationalisation.

Johanson and Vahlne claims in 1990,

*A critical assumption (of the internationalisation model) is that market knowledge, including perceptions of market opportunities and problems, is acquired primarily through experience from current business practices in the market. Experiential knowledge generates business opportunities and is consequently a driving force in the internationalisation process. But experiential knowledge is also assumed to be the primary way of reducing market uncertainty. Thus, in a specific country, the firm can be expected to make stronger resource commitments (...) as it gains experience from current activities in the market.*

The cumulative knowledge held by the manager’s acts decisively on the process of internationalisation. Because as Managers understand the influence of the firms, the conditions of the home market, the structure and the process of the foreign market, all this helps in reducing the limitations of the firms in its internationalisation process. They have psychic distance (There are some factors such as language, culture, political system, level of education, level of industrial development, which hamper the flow of information between firms and markets) in mind with respect to home and host country therefore going abroad bounds their decision making in rationality and, they make decisions to enter into markets, which are psychologically close to them having similar consumer behaviours, tastes, industrial structures and institutional settings. It means that when firms start their foreign operations they first choose those countries, which are close to them due to language, culture, and different levels of industrialisation factors. As the firm’s succeed in these operations, then it decides to enter into other far-flung markets. Of course psychic distances are not constant. They change with the development of the trade, communication and so on. But it is a gradual and slow process.
The internationalisation process of a firm

The firm also strives to increase its long-term profits for this it keeps its risk taking at low level. For achieving this efforts are made at all level of the firm.

Johanson and Vahlne in their articles 1977 & 1990,

*In the (Internationalisation) model it is assumed that the firm strives to increase its long-term profits, which is assumed to be equivalent to growth…the firm is also striving to keep risk taking at a low level. Thus strivings are assumed to characterise decision-making on all levels of the firm.*

Johanson and Vahlne (1977,p.28) concluded that,

*The better the knowledge about the market the more valuable are the resources, the stronger is the commitment to market.*

3.3 Limitations of the U- model

There are many criticisms about the model, the main criticism is that the model is too deterministic and the model does not take into account interdependencies between different countries.

In the model other factor such as potential and competitive conditions are completely ignored in the explanation model and the internationalisation process is reduced to a question of the firms internal resource (market knowledge and experience from foreign activities), while the importance of the external competitive conditions and business possibilities are ignored.

Forsgren, one of the Nordic scholars of the Uppsala school, argued that the model is only applicable at the first stages of the internationalisation process. In later stages, because the firm can react immediately to changing market conditions, the concept of market knowledge is not very deterministic anymore in the internationalisation behaviour of the firm. This view corresponds with the fact that most of the supporting empirical studies are about the early stages of the internationalisation process. (Johanson & Associates 1994, p.86).
It has also been argued that the world is becoming more homogeneous and consequently psychic distance is decreasing between the nations. Empirical results seem to confirm these arguments: Scandinavian firms often see markets like Germany, Britain and the United States as common targets in the first stages of the internationalisation process. (Johansson & Associates 1994)

A last criticism is based on studies that found out that the internationalisation process model doesn’t work for service industries. A study about the internationalisation behavior of Swedish banks suggested the banks do not set up subsidiaries by taking in account the factor of psychic distance. In another study about the internationalisation of Swedish technical consultants, Sharma and Johansson found out that consultants do not take cumulative commitment in internationalisation in foreign markets, as it is implied in the process model. (Johansson & Associates 1994).
Case study is a qualitative type of method, which plays an important role in doing research. As described in Chapter 2, case study is of three types: Descriptive, Exploratory and Explanatory. For our project report we have chosen the descriptive type of case study: it requires describing a theory, which establishes an overall framework for the researcher to follow throughout the study. So for answering research question, we have chosen one case of a very well known Swedish car company (which is now part of Ford Motor Company) Volvo Car Corporation. Our research question to know the driving forces behind the internationalisation process of a firm therefore, we want to analyse this case, because this firm has adopted the strategy of internationalisation in the past according to Uppsala model. This firm was initially a SME; through its international strategy as per Uppsala model it is a multinational firm now.

The section 4.1 of this chapter will introduce the Company. The section 4.2 will tell about the internationalisation process of Volvo and section 4.3 deals with SWOT analysis, the next and the last section of this chapter 4.4 explains the company’s structure and control system.

4.1 Introduction to Volvo Company

Volvo Company started its activities in 1927. When the first car `Jakob` was prepared and left its office in Gothenburg, Sweden. Assar Gabrielson and Gustaf Larsson founded this company. These two employees of the Swedish ball bearing company (SKF): Assar Gabrielson and Gustaf Larson decided to start construction of Cars suitable to Swedish climate. The emphasis was on the durability. The first Volvo Car came on the roads in 1927. This Company was producing both closed top and cabriolet models of their new four cylinders OV4 and PV4 models, which were constructed, to better withstand the harsh Swedish climate, than contemporary US imports. This company flourished in
The internationalisation process of a firm

approximately 80 years of its life and became a group of companies in its life period. Its main business areas at present are: Volvo trucks, Mack, Renault trucks, Volvo buses, Volvo construction equipments, Volvo penta, Volvo Aero and Volvo financial services. However in year 1999 the heart of Volvo i.e. Volvo cars was wholly owned by Ford motor companies. Founded in 1927, at present Volvo group is one of the world’s leading manufactures of heavy vehicles and diesel engines, drive system for marine and industrial applications and aerospace components and services.

In this project we will focus on the activities of Volvo Car Corporation.

4.2 Internationalisation process at Volvo

The company started its internationalisation process in 1928 for acquiring market knowledge in culturally closed countries by establishing its first subsidiary in Finland and sold 20 cars. To have market knowledge via export was a part of Volvo’s first production plan and therefore it also started establishing representatives in Nordic countries in the beginning (Denmark and Norway) and to less industrialise distant countries Argentina, Brazil, Spain and Portugal. The business strategy by that time was to sell cars in spring and summer to countries with contrasting climate to Sweden as a means to even out the production over the year. Therefore Cars were exported to the countries of south of equator, to Argentina. Volvo had problems in arousing the dealer’s interest in 'the excellence and durable, but in respect slightly provincial car was sold in the first year.

In 1932 the company was in profit and operating from its own factory, output was over 900 cars a year, although demand fell due to economic factors in the mid-30s. In 1934 Volvo started making buses. During world war two Volvo concentrated on the production of trucks than cars due to market demand.

Volvo directed its export to Nordic countries and later to Holland, Belgium and some countries around the Mediterranean along with the larger markets in South America. By the end of 1930s about 35% of the trucks and buses were exported
The internationalisation process of a firm

only few cars. After Second World War there was a situation of scarcity of resources and trade restrictions. During this period, most of the Volvo’s exports went to Brazil and Argentina.

In 1944 introduced its cars in the American market. No attempt was made to sell to the large European markets until 50s, because they face hard competition from the domestic industries inside. Volvos policy was not to use its own affiliates and subsidiaries. However early on Volvo had to break with its policy and establish selling subsidiaries in Finland and Norway due to difficulties in finding retailers on these markets. A wave of establishment followed in the 1950s when Volvo started up selling subsidiaries in most European countries, and in USA and Canada. The Volvo Management decided to make a wholehearted commitment to internationalisation. Introduction on the US market was incredibly important. Production of the 120 (called Amazon In Scandinavia) began in 1957, and a great deal of work had been put into its safety features.

During these years Volvo’s total exports increased very much. The following table shows the Volvo’s exports from year 1949-1958).
Table 4.1. Data of Volvo’s exports from year 1949-1958

<table>
<thead>
<tr>
<th>Year</th>
<th>No of units exported</th>
<th>Increase in exports Base year (1949)</th>
<th>% Increase in exports base (1949)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>28,217</td>
<td>28,217</td>
<td>0,3</td>
</tr>
<tr>
<td>1950</td>
<td>46,076</td>
<td>17,859</td>
<td>0,2</td>
</tr>
<tr>
<td>1951</td>
<td>74,969</td>
<td>48,752</td>
<td>0,5</td>
</tr>
<tr>
<td>1952</td>
<td>80,249</td>
<td>52,032</td>
<td>0,5</td>
</tr>
<tr>
<td>1953</td>
<td>69,350</td>
<td>41,133</td>
<td>0,4</td>
</tr>
<tr>
<td>1954</td>
<td>102,387</td>
<td>74,17</td>
<td>0,7</td>
</tr>
<tr>
<td>1955</td>
<td>141,034</td>
<td>112,817</td>
<td>1,1</td>
</tr>
<tr>
<td>1956</td>
<td>218,741</td>
<td>190,524</td>
<td>1,9</td>
</tr>
<tr>
<td>1957</td>
<td>253,837</td>
<td>225,62</td>
<td>2,3</td>
</tr>
<tr>
<td>1958</td>
<td>312,300</td>
<td>284,083</td>
<td>2,8</td>
</tr>
</tbody>
</table>

Source: Volvoaktiebolaget, 1958

Fig. 4.1. Percentage increase in exports base(1949) upto year 1958

Source: Our understanding, data taken from
The internationalisation process of a firm

The table 4.1 & figure 4.1 show that from year 1949 to 1958 Volvo’s exports percentage increased, of course in the year 1950 and 1953 its exports percentage fell by some amount.

Of these increase in exports more than half went to America and remainder went to other European markets: Denmark, Finland, Canada and South America showed considerable increase. In America (company’s largest car market), there were positive results on car sale, dealer network and servicing side. In year 1958 an agreement was reached with a firm in London to undertake the sales of cars in British market.

In 1961, company started working with England. However Volvo found sufficient capacity and resources to shift production to Sweden. In 1962, USA became the largest export market for Volvo. For placing the company in world ranking position, Volvo opened two more plants in Sweden and one truck production plant in Belgium in 1964. Volvo had already started to build its cars in Canada and Sweden. In 1968, Volvo started truck assembly operations in Australia and car manufacture business in Malaysia. In the 70s new plants were opened in Australia.

In 1973 Volvo would become the first non American car manufacture to build a car manufacturing plant in the USA and in 1975 with the construction of a second truck manufacturing in Belgium was transformed into a European company with a Swedish base, instead of what it had predominantly Swedish company with export sales. Volvo has more than 100 export markets and the export ratio exceeded 70 percent of the total turnover of about 7000 million Swedish kroner in 1973. It has manufacturing subsidiaries in five countries and sales subsidiaries in twelve. The growth of VCC (1974-1978) has mainly taken place in Europe. Apart from that Volvo has markets in Asia, Africa and South America. Japan, Nigeria and Australia are the three major markets within this area. Volvo Cars are sold in 60 different countries. The table and figure of 15 major markets of VCC is shown on the next pages.
Table 4.2. Volvo Car registration in 15 major countries, 1979

<table>
<thead>
<tr>
<th>Countries</th>
<th>Volvo Car Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>55,800</td>
</tr>
<tr>
<td>USA</td>
<td>53,700</td>
</tr>
<tr>
<td>Great Britain</td>
<td>36,000</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>27,000</td>
</tr>
<tr>
<td>West Germany</td>
<td>25,000</td>
</tr>
<tr>
<td>Belgium</td>
<td>13,300</td>
</tr>
<tr>
<td>Norway</td>
<td>9,400</td>
</tr>
<tr>
<td>France</td>
<td>8,900</td>
</tr>
<tr>
<td>Italy</td>
<td>8,400</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7,500</td>
</tr>
<tr>
<td>Finland</td>
<td>7,300</td>
</tr>
<tr>
<td>Australia</td>
<td>6,700</td>
</tr>
<tr>
<td>Denmark</td>
<td>6,600</td>
</tr>
<tr>
<td>Canada</td>
<td>6,600</td>
</tr>
<tr>
<td>Austria</td>
<td>4,200</td>
</tr>
</tbody>
</table>

The internationalisation process of a firm

The figure 4.2 shows the 15 major markets of Volvo, out of these 15 major markets, Volvo has its main markets are in, Sweden, America, Great Britain, the Netherlands and Germany.

From year 1986-1995, the profits earned by VCC fell subsequently in European markets due to increasing competition and there was economic downturn in the VCC as shown in the table below. A remarkable point in the history of Volvo in this period (1990) is its planned deal with French Car maker Renault and aim was to reap the larger economies of scale. But the merger was abruptly abandoned in 1993, leaving Volvo as a relatively small independent Carmaker.
The internationalisation process of a firm

Table 4.3. Operating profits of Volvo Car Corporation (1986-1996)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Op.margin</td>
<td>15.5</td>
<td>11.2</td>
<td>7.0</td>
<td>2.8</td>
<td>-2.4</td>
<td>-4.3</td>
<td>-3.8</td>
<td>1.1</td>
<td>3.8</td>
<td>1.3</td>
</tr>
</tbody>
</table>


The table 4.3 shows that operating margin of the Volvo fell from year 1986 to 1993. Volvo’s profits were in minus in 1991, 1992 and 1993.

Since 1991, Volvo car Corporation produces Cars in the luxury segment and wholly owned by Ford Motor Company. Its part of FMCs luxury group together with Jaguar, Lincoln, Aston Martin and Land Rover. In 2003 the workforce at Volvo was 28,000. A further 22,500 people are employed in the company’s global network of dealers and service workshops.

It manufactures Cars in Sweden, Malaysia, Belgium, Netherlands, South Africa and Thailand. It conducts its sales in 165 countries through its regional marketing offices. It has 1800 dealers and a large number of workshops in 50 countries. Most of these dealerships are independent companies.

Volvo has selling market in over 100 countries. In 2002 there was an increase of 2.2% selling in cars. There market in Russia is increased by 69% and in China by 28%. However sales in Europe fell by 6.5% due to weak German economy. Markets with sales less than 2% are grouped under combined, which is 19%. Table below shows the ten big markets of Volvo.
Table 4.4. VCCs ten biggest markets, 2003

<table>
<thead>
<tr>
<th>Markets</th>
<th>% Of sales</th>
<th>No. Of sales</th>
<th>+/-2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>32</td>
<td>134,620</td>
<td>+22%</td>
</tr>
<tr>
<td>Sweden</td>
<td>12</td>
<td>47,928</td>
<td>-1,5%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>9</td>
<td>39,135</td>
<td>-3,7%</td>
</tr>
<tr>
<td>Germany</td>
<td>7</td>
<td>30,285</td>
<td>-26,2%</td>
</tr>
<tr>
<td>Italy</td>
<td>4</td>
<td>18,416</td>
<td>+1,6%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4</td>
<td>16,204</td>
<td>-6,2%</td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
<td>14,755</td>
<td>-3,2%</td>
</tr>
<tr>
<td>Spain</td>
<td>3</td>
<td>14,034</td>
<td>+2%</td>
</tr>
<tr>
<td>Canada</td>
<td>3</td>
<td>10,750</td>
<td>+13,9%</td>
</tr>
<tr>
<td>Belgium</td>
<td>2</td>
<td>9,426</td>
<td>-10,5%</td>
</tr>
<tr>
<td>Other</td>
<td>19</td>
<td>79,493</td>
<td>-1,8%</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>415,046</td>
<td>+2,2%</td>
</tr>
</tbody>
</table>

Source: Company website (www.volvocars.com)
The internationalisation process of a firm

The figure 4.4 shows that, of course Volvos customers are found all over the world, but its major markets are USA, Britain, Germany, Netherlands, Japan, Italy and Sweden.

Volvo has 400 suppliers of direct material all over the world. Of which the ten big account for 50% of their purchases. Most of their suppliers are located in Europe and Japan. In 2003 there purchases of direct material from Czech republic and Poland increased, while purchases from Sweden, Belgium and Germany fell slightly. Volvo, at presently is buying 2,4% of direct and indirect purchases from China and Southeast Asia countries. The table 4.2 shows the percentage breakdown of ten global suppliers of Volvo.

The Volvo Cars can be purchased, serviced and sold in many countries of the world these days.

Source: Our understanding, data taken from Volvo company’s website (www.volvocars.com)
The above diagram shows that Volvo cars are found in many countries of the world means that it has subsidiaries, dealers and manufacturing units in many countries of the world having main markets in USA, Germany, Britain and Sweden.
The internationalisation process of a firm

4.3 SWOT analysis

For knowing the strategic planning process of the Volvo, it is important to know the internal and external environment surrounding the company. The classification of the environmental factors internal to the company is (S) Strengths and (W) Weaknesses, and those external to the company is (O) Opportunities and (T) Threats. Such an analysis of the strategic environment is referred to as SWOT analysis.

Fig. 4.5. SWOT Analysis of the Volvo Company

<table>
<thead>
<tr>
<th>Strengths of the company</th>
<th>Weaknesses of the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Open exchange of information</td>
<td>• Weak in leadership dimension</td>
</tr>
<tr>
<td>• Active involvement in society</td>
<td>• Dissatisfaction with its service centres due to excessive charges</td>
</tr>
<tr>
<td>• Customer satisfaction</td>
<td></td>
</tr>
<tr>
<td>• Awareness of safe and reliable products</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Easy access to large markets due to its low cost production</td>
<td>• Less attractive image of its earlier models.</td>
</tr>
<tr>
<td>• Can easily cover large foreign market due to low Swedish exchange rate</td>
<td>• Growing competition in European and American markets.</td>
</tr>
<tr>
<td>• Access to FMCs resources (Wholly owned subsidiary of Ford)</td>
<td>• Sporty cars may damage their valuable differentiation image.</td>
</tr>
</tbody>
</table>
4.4 Company’s structure and control system

Volvo Car Corporation is part of Ford Motor Company’s (FMC) group of high-class car brands, the premier automotive group (PAG), together with Jaguar, Land Rover and Aston Martin. Volvo car employs a total of 28,000 people. The company sold a total of 415,000 new Volvo cars in 2003.

Fig. 4.6. Organisational structure of VCC

Fejl!

Organisational structure

Head Office
Marketing and Sales
Manufacturing

Source: our understanding

Head office

The Volvo Car head office is located in Gothenburg, Sweden. Product development, marketing and administration are located in Gothenburg.

Marketing and sales

The cars are marketing and sold by regional market companies and national sales companies in about 100 countries. In all 2,600 people are employed in marketing and sales. Sales to the company’s 100-plus markets are handled by the respective national sales companies and approximately 2,300 local dealers. Most of the leadership are independent companies.
Manufactures

Volvo’s cars are built in its owned production plants in Gothenburg and Ghent in Belgium. Cars are also produced in assembly plant in Kuala Lumpur (Malaysia) and Bangkok (Thailand).
Chapter 5

Analysis

This chapter is the core (heart) of our project. We have mentioned in chapter 1 firms can internationalise by adopting any one of the two approaches: upstream or downstream. By adopting the downstream approach there are two responses get by a firm: proactive (internal) and reactive (external) response. And our research question is:

*What are the factors that drive firms during its process of internationalisation?*

These proactive (Internal) and reactive (External) responses are the factors that drive firms to be internationalised.

In our theoretical framework we have explained the Uppsala model (stage theory). According to model a firm during its internationalisation process is driven by factors for entering into foreign market. Proactive response is the core of stage theory (Uppsala model). This theory tells about the internal factor (Experiential knowledge) driving a firm in its internationalisation process.

In Chapter 4 we have described the internationalisation process by taking the case of Volvo Company, which is one of the four companies studied by Johansson and Wiedershiem for developing Uppsala model. This chapter will proceed in thorough analysis of internal driving factor behind the internationalisation process of Volvo Company.

5.1 Internationalisation drivers

For understanding the internationalisation drivers, first let us focus on the Volvo Company. Volvo started its activities in the 1927, to be internationalised was the objective of the company therefore it developed itself first in its home market
before it started its internationalisation process. A strong domestic market is required to support firms in their internationalisation efforts (Chetty and Campbell-Hunt, 2002). The company got foreign market knowledge by exporting first to culturally closed countries and later on moved itself to distant countries. The company got market knowledge by experience.

According to our theoretical framework (Uppsala model), the experiential knowledge is the main driving force behind a company’s internationalisation process. Internationalisation is a gradual and a slow process. The firm will pass through four stages during its internationalisation process (sporadic export, sale via local agent, establishing sales subsidiary and finally establishing manufacturing units): It is a learning process that enables early accumulation of experiential knowledge in the firm because of investment uncertainty, firms start their internationalisation activities with countries, which are psychologically close to them. Firm involve in international activities through market knowledge and experience from the foreign activities.

From the empirical studies, we are able to know that the company established itself first in its home market and then began acquiring foreign market knowledge in 1928 by starting exports with neighbouring countries: Finland, Denmark and Norway. Volvo needed to export its cars to other countries i.e. Argentina, Brazil, Spain and Portugal, because the weather conditions in Sweden were not allowing absorbing the cars production of company in a year. The company traded first with neighbouring countries for getting experiential knowledge. After getting market knowledge through exports (first stage), the company established its subsidiaries in Norway and Finland later on (second stage). The short-term profits were important to stimulate the company’s interest in exports. In 1932 the company was earning profits.

The company having acquired experiential knowledge by exporting to Nordic countries, it directed its exports to Holland, Belgium and some countries around the Mediterranean countries along with larger markets in South America. Until
1950 no attempt was made on the part of the company to sell cars to large European markets as the company’s products were facing hard competition in these markets therefore it introduced its products in American Market. In 50s the company started selling subsidiaries its subsidiaries (third stage) in most European countries, USA and in Canada. Thus the market knowledge made company to learn to sell its subsidiaries abroad.

The establishments of manufacturing units on most markets has not occurred before that of sales subsidiaries and the strategy has been to keep production in Sweden as long as possible. In 50s the company was mainly exporting to America and to other countries Denmark, Finland, Canada and South America. In 60s and 70s the company extended its operations to England, Australia and Malaysia. The manufacturing units were established in America, Canada, Australia, Belgium and Malaysia. Thus in less than 50 years of life, the company is motivated by experiential knowledge and it has more than 100 export markets and manufacturing subsidiaries in five countries and sales subsidiaries in twelve. Volvo Cars are sold in 60 different countries. The company’s 15 major markets were Sweden, USA, Great Britain, The Netherlands, West Germany, Belgium, Norway, France, Italy, Switzerland, Finland, Australia, Denmark, Canada and Austria.

Since 1999 the Volvo Car Corporation is a part of Ford Motor Company. It manufactures Cars in Sweden, Malaysia, Belgium, Netherlands, South Africa and Thailand.

From analysis, we have found that the main internal (proactive) driving force behind the Volvo’s internationalisation process was experiential knowledge. The company started exports first with neighbouring countries in order to avoid the risk and investment uncertainties and as the company got market knowledge in neighbouring countries then it entered into far-flung markets.
Chapter 6

Conclusion

This is the concluding part of our project. In this project we have answered our research question: driving factors behind the internationalisation process of a firm by understanding our chosen theoretical framework (Uppsala model) and our chosen case study (Volvo company). Here we are going to summarise our results and perspectives for future will also be given.

The section 6.1 summarises our work and section 6.2 presents future perspectives.

6.1 Summary

In this present context of globalisation firm are actively engaged in the process of internationalisation. During its internationalisation process, firm are driven by different factors (Internal and External). The Uppsala model helps us in understanding the internal (proactive) factors behind the internationalisation process of our chosen case study (Volvo Company). We have found in our case study that the main internal factor for this firm was experiential knowledge acquired by conducting market operations in sequential steps.

6.2 Future Perspectives

For answering our research question we have considered the Uppsala model. Our findings show that experiential knowledge (internal factor) is the driving wheel for a firm during its internationalisation process. The main limitation of our project is that we have only talked about the internal driving forces for a firm because our chosen model only helps us in understanding the internal factors.
In the past the internationalisation was a slow and incremental process and therefore companies are mainly driven by the internal factors, they couldn’t enter into foreign market without any experience, therefore they first started relations with neighbouring countries and then dared to go abroad, because it was difficult to get the information about the far flung countries. But in this present world of globalisation, where the information flow is very fast, Firms can easily equip themselves with the knowledge about the foreign market (opportunities, competitors, challenges, working environment etc.) and make their entry in the countries having good growing prospects.

By doing empirical work we have found that our chosen case (Volvo) was also influenced by reactive factors (external) during its internationalisation process even in the past e.g. during world war two Volvo concentrated on the production of trucks than cars due to market demand, this is a type of external factor which led company to change its product from car to trucks. In 1944 the company introduced its cars in the American market because until 50s they face hard competition from the domestic industries inside Europe, the competitive forces made company to make changes in its foreign operations and company started introducing its products to American market, this (Competitive force) is also a type of external factors.
Fig. 6.1. Internationalisation drivers of the company

![Diagram showing internal and external drivers leading to internationalisation.]

Source: Adapted from *The Nature of the International Firm*, Bjorkmann, I and Forsgren, M (1996)

We have made the above figure (6.1) to help the reader to understand our findings that our chosen case is not only encouraged to be internationalised just internally, the external environment surrounding the company and sudden changes such as war etc. has led the company to change its internationalisation strategy.

Our considered theory (stage theory) doesn’t help us in understanding these reactive factors. In the model other factor such as potential and competitive conditions are completely ignored and the internationalisation process is reduced to a question of the firm’s internal resource (market knowledge and experience from foreign activities), while the importance of the external competitive conditions and business possibilities are ignored.
The internationalisation process of a firm

List of references


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