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## Internationalization and Multinational Enterprises New Entry: Contributions of the Uppsala Model

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### Abstract :

The purpose of this paper is to discuss the relevance of the Uppsala model of the firms' internationalization in the current context of globalization. After having analyzed the "stages" construction of the model, we will present an overview of results of the main empirical studies that tested its hypotheses. Thus, the empirical validations of the model will be confronted with the critical analyses of its basic concepts. Finally, we will discuss its application to analyze the establishment of **Danone** Company, which succeeded to impose itself among the world leaders in the agribusiness industry in a very competitive market.

**Keywords:** Internationalization – New entry – Uppsala model – Danone.

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### 1- Introduction:

The concept of internationalization and globalization has affected successively different dimensions: the first being that of space (To which country or region in the world should we go?), the material dimension (In which form should we go there?), and nowadays, the dimension relating to time and process appears also to assume greater significance (At what rate should we go there?). Indeed, the internationalization processes are becoming faster especially as the geographical and psychological distances are reduced. The various researches on the internationalization of multinational companies were initially developed by the Uppsala model. The Uppsala model constitutes a major theoretical framework in the international management field. In fact, many researchers used this model to explain the internationalization of firms (Such as Clark, and Mallory Pugh, 1997; Coviello and Munro, 1997).

In a fiercely competitive market, Danone established itself successfully among the world leaders in agri-food industry. With the internationalization and globalization of the company generating today 80% of its business outside its home country, Danone evolved significantly, both in terms of areas of strategic activity and of geographic markets. The changes were guided by the strategic objective which is that of profitable growth.

First, we will try through our analysis to highlight the contributions of the Uppsala model before examining its limits. Finally, we will analyze the process of internationalization followed by the Danone group before taking an interest in the approach currently deployed to conquer the world market.

## 2- Internationalization by stages : contributions of the Uppsala model

The Uppsala model was developed in the mid 1970s by several researchers from the University of Uppsala (Johanson and Vahlne, 1977; Johanson and Wiedersheim- Paul, 1975). Starting from examining several Swedish firms, the researchers observed that the internationalization of enterprises is a process which occurs in several stages. Their results suggest that enterprises start their internationalization as they still have a limited size, and seek to expand their activities gradually to foreign markets. In their paper published in 1975, Johanson and Wiedersheim-Paul offered a longitudinal study of four Swedish companies (Sandvik, Atlas Copco, Facit and Volvo). The implicit hypothesis in the analysis is that companies first develop in their domestic market before internationalization through a series of incremental decisions. The authors believe that the main obstacle related to internationalization is the lack of knowledge regarding the foreign markets to which companies are exposed. Thus, they assume that companies are starting to export their products in countries close geographically and with similar views in terms of managerial practices, before dedicating more resources through the establishment of subsidiary companies and conquer more distant markets. This progressive development allows them to acquire information about the targeted markets, gain experience and benefit from the learning effects.

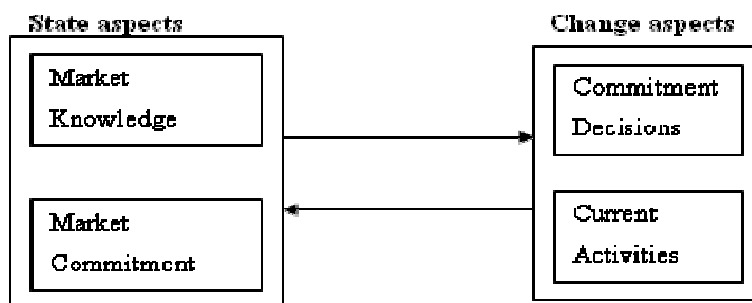
In their contribution, Johanson and Wiedersheim-Paul (1975) state that the difficulty to acquire knowledge about foreign markets originates from the concept of psychic distance. The psychic distance, which is defined as 'factors preventing or disturbing flows of information between firm and market', includes elements as varied as the differences in language, culture, political systems, levels of education and industrial development. The authors consider that psychic distance can evolve over time, particularly because of the development of the communication systems, trade and other forms of social exchange, although this evolution is generally quite slow.

In their paper published in 1977, Johanson and Vahlne enrich the incremental approach of foreign markets originally proposed in Johanson and Wiedersheim-Paul's paper (1975). They carried out the four cases of studies by analyzing the internationalization of other Swedish companies such as the pharmaceutical group Pharmacia. The examination of the various cases allows them to develop a dynamic model of internationalization indicating that each international commitment decision may influence the next stage of the internationalization process. The authors distinguish two aspects of firms' internationalization factors:

- (1) Aspects related to the internationalization which concerns investment in the foreign market, reflecting resources mobilization and knowledge of the foreign market;
- (2) Aspects related to internationalization changes concerning the decisions to invest resources and the performance of the current business. Figure 1 illustrates the relationships between the different variables.

Thus, knowing the market and investment in the market may influence both the investment decisions and the performance of current business. At the same time, the investment decisions and the performance of current business may also have an impact on the market knowledge and investment in the market. The model proposed highlights the importance of the experience acquired by the enterprise for the choices related to internationalization.

FIGURE 1 : Mechanisms of internationalization



Source : Johanson et Vahlne (1977), p.47

Apparently, it is important to note that Johanson and Vahlne (1977) emphasize the central role of experiential knowledge which, unlike objective knowledge, cannot be learned only through personal experiences and, consequently, cannot be transferred. The internationalization process thus seems related to the gained experiences and *in fine* to the skills acquired by the leaders, but also to those possessed by management teams (Leconte and Forgues, 2000).

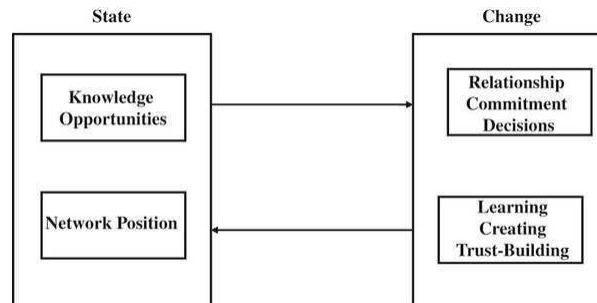
Like the « *born globals* » which internationalize very early and quickly, combining different input modes and marketing their products and services in close and distant countries (Oviatt and McDougall, 1994), many enterprises seek to grow in a sustained manner in the global market, employing several input modes. They can make direct investments abroad without conducting export activities in the relevant markets. Their goal is to build or reinforce competitive advantages by using resources located abroad. To consider this new reality, and Vahlne Johanson (2009) have recently introduced changes to the model originally proposed; taking into consideration the growing importance of cooperation established by enterprises as part of their international development

In their later work, Johanson and Vahlne (2003, 2006, 2009) highlight better the impact of involvement in the foreign market on the knowledge and learning of the firm. The authors state that the relationship networks that the enterprise may establish in the context of its internationalization can create new knowledge and consequently develop new opportunities in the international markets. When the enterprise enters into a partnership with a firm located abroad, it can benefit from its relationship network (consisting of suppliers, distributors, customers, etc.) and seize new opportunities. The ability to establish and gain a stable position in such relational networks depends on the psychic distance perceived by the enterprise in relation to the foreign market and *in fine* its ability to learn and experience.

Finally, in a paper published in 2009, Johanson and Vahlne specify that trust can facilitate the relationships established between the partners. They suggest a new model on the internationalization of the business network. This model also includes (1) aspects related to the internationalization process, which relate to knowledge development opportunities and the company's position in the business network, and (2) aspects related to changes in the internationalization process concerning the decisions to engage in relational networks as well as learning, creation and the development of trust. Figure 2 illustrates the relationships between the different variables. Thus, opportunities to develop knowledge and the firm's position in the business network may influence the decisions to engage in relational networks as well as learning, creation and the development of trust. At the same time, aspects related to internationalization changes may also have an impact on internationalization. The

"reconsidered" Uppsala model highlights the importance of the relational networks, and the inter-organizational cooperation regarding the choices made by firms in terms of internationalization.

**FIGURE 2: Model of the internationalization process of the business network**



Source : Johanson et Vahlne (2009), p.1424

The initial model and the reconsidered model of the "Swedish" school insist both on the incremental nature of the process of internationalization. Due to lack of knowledge about the foreign markets and relational networks of their potential partners, firms tend to develop first in countries that have some psychic closeness to their home countries. Gradually, as the international experience of the players increases, the psychic distance with new countries reduces, allowing the forms to grow on markets more distant initially. In this perspective, Vahlne and Johanson (2009) point out that psychic distance may make coordination between the players of the same network more difficult. In many business sectors such as the automotive industry, firms have actually chosen to develop in close countries first before conquering more distant markets (Colovic and Mayrhofer, 2008).

### 3- The internationalization and globalization of the Danone group

The Danone Group has become one of the world leaders in the food industry: it is the world's number 1 in fresh dairy products, the world's number 2 in bottled waters and child nutrition, and the European number one in medical nutrition. Despite the economic and financial crisis, its four strategic business areas (SBA) are growing strongly. In 2011, the company achieved a turnover of 19.32 billion euros (of which half concerns the emerging markets) and a net profit of 1.75 billion euros. It employs more than 100,000 employees (Hertrich, Kalika and Mayrhofer, 2011).

How do we become a global leader in the food industry? By constantly adapting to changes in the environment? By motion? By changes in strategies? The firm's strategy is often associated with concepts of change, of maneuver (Helfer, Orsoni and Kalika, 2013). Although the concepts of movement or strategic maneuver are not part of the academic events (Clegg, Carter, Kornberger and Schweitzer, 2012), it is particularly interesting to take a retrospective and prospective look at the history of the Danone Group since its creation, in order to understand and explain how the strategic moves have led to the current position. Such an exercise can be conducted by mobilizing the strategy concepts, with an academic and a pedagogical but also a managerial interest. Aware of the risk of a posteriori rationalization that can characterize both the managerial discourse and academic research; the authors consider that it is interesting to respond positively to the question of Baumard and Starbuck (2002): 'Is it realistic to study the strategic moves of a firm? '.

Interpretation of the strategic evolution of Danone may be conducted in two stages: the first stage is the establishment of a food group; and the second shows the internationalization and globalization of this company, which currently generates 80% of its business outside its home country.

Danone Group has become one of the leading players in the global food industry. The internationalization dynamism generated since the 1970s explains the sustained growth of the company and its activities. How could the group establish itself among the world leaders (Nestlé, Kraft Foods, Unilever, etc.) in a highly competitive market? What are the characteristics of its internationalization strategy? Can the group be considered as a global group? To answer these questions, we will first analyze the process of internationalization followed by the group before considering the approach currently deployed to conquer the world market.

### **3-1. From internationalization by stages...**

In the late 1970s, Danone began its international expansion. Within the context of a growing integration of the European economic area, the company decided to develop in the Western Europe countries. First, the company chose to conquer the Italian and Spanish markets, which offered significant development opportunities and that were marked by a low concentrated distribution system. Later, it continued its international expansion in other European countries like Germany, England, Belgium, Greece, Ireland and the Netherlands. The company chose to export the products before engaging in external growth transactions, especially through minor financial investments and acquisition of local brands (for example, Galbani in Italy, San Miguel in Spain). Western Europe is market for the group for many decades: in 1995, 85% of sales were made there.

In the 1980s, Danone sought to diversify its geographic expansion. The group decided to conquer other markets of the Triad (North America and Japan). After the fall of the Berlin Wall in 1989 marking the end of the Soviet system, the company explored growth opportunities in the Central and Eastern Europe countries. It started by exporting products manufactured in Western Europe by settling commercial subsidiaries in the targeted countries. Meanwhile, joint ventures were formed with local companies with the objective of having production plants close to the distribution networks. Subsequently, the company acquired several of its partners in order to carry out the activities more independently. This approach is followed in many Central and Eastern Europe countries, such as Hungary, the Czech Republic and Poland.

Starting from 1990, the company sought to expand in the emerging markets, especially those with large population, high growth rates and rapid growth in household purchasing power. The group settled in the countries of Southeastern Asia (China, Indonesia, Thailand, etc.) and Latin America (Argentina, Brazil, Mexico, etc.). To enter these more distant markets, the company conducted export activities and carried out external growth transactions, mainly through minor financial investments, joint ventures and acquisitions.

### **3-2. ...to a global expansion strategy**

In recent years, Danone has significantly accelerated the rate of its international expansion. It now has a global expansion strategy seeking, on the one hand, to improve the positions acquired in its various markets and, on the other hand, to conquer new markets. Six markets are considered as priorities: Mexico, Indonesia, China, Russia, USA and Brazil. The firm uses the acronym MICRUB to designate them. It seems interesting to note that the US is

considered as an emerging market, considering the market's growth prospects in areas of strategic activity of Danone. To achieve this new strategy, the group multiplies external growth transactions. When the group successfully settles into a new market, it continues to develop through internal growth.

In 2010, the company made several external growth transactions in mature markets. In Europe, it acquired 51% of the capital in Proviva, a fruit drink brand, for the Swedish manufacturer Skaanemejerier and bought the French company Immédia, manufacturer fruit juice (mixed fruits) and smoothies. It is also a joint venture with the US Company Chiquita to market fruit-based drinks in Europe. Finally, the group completed the acquisition of the American company Medical Nutrition Inc. (MNI), which manufactures nutritional products for the elderly people.

Meanwhile, the group continued its expansion in emerging countries. In 2010, it established a joint venture with the Russian company Unimilk, which is the second Russian private company in the field of dairy products and infant nutrition. It also settled a joint venture with the Indian group Narang in the field of water and energy juices. Through internal growth, Danone established the activity of "Infant nutrition" in Kenya, Nigeria and Algeria. In the same year, it sold its holdings in the capital of the Russian group Wimm Bill Dann Foods which manufactures dairy products and juices, and in the capital of the Chinese group Huiyan which manufactures fruit juices.

These various growth transactions enabled Danone to achieve the objective of a balance in the turnover between the developed and emerging countries in 2010. Table 1 shows the evolution of the top ten markets of Danone group between 2000 and 2010. If France continues to represent the main group of the market, its relative weight has decreased (from 24% to 11%). Simultaneously, the growing importance of emerging markets may be noted, especially Russia (11%), which is now the second group market, Mexico (5%), Indonesia (5%), China (4%) and Argentina (4%). These five countries represent today 29% of the group's turnover.

**Table 1: The top ten markets of Danone in 2000 and 2010**

2000			2010		
Rank	Country	% of the CA	Rank	Country	% of the CA
1	France	24 %		France	11 %
2	Italy	11 %		Russia	11 %
3	The United States	11 %		Spain	8 %
4	Spain	8 %		The United States	8 %
5	China	8 %		Mexico	5 %
6	United Kingdom	6 %		Germany	5 %
7	Argentina	5 %		Indonesia	5 %
8	Benelux	3 %		United Kingdom	5 %
9	Mexico	3 %		China	4 %
10	Germany	3 %		Argentina	4 %

Source : Danone (2011), *Documents internes*.

### 3-3 Analysis of the strategic moves realized

All the strategic moves of Danone group are first characterized by the concept of growth: *'Danone is a group that ever since its birth has always focused its strategy on growth before any other type of strategic priorities. Today, this is translated into a desire for geographical expansion, on the one hand, and, on the other hand, the extension of its product categories within four Danone's business lines'* (interview with Laurent Sacchi, Executive Vice President of Danone).

The development was done through internal and external growth. The latter being frequently mobilized because it allows the rapid strategic move and the no-growth supply in the mature markets. It is also noted that Danone's ability to associate alliances and absorptions according to contexts and actors. The very concept of management of the business portfolio is omnipresent in the Danone group, and it is clear that the scope of this portfolio has been constantly evolving over the years.

*'The group is accustomed to managing the portfolio business evolutions ... it is in its genes. There currently is a high probability in the medium or long term that the group which seeks growth develops its portfolio'* (interview with Laurent Sacchi, Executive Vice President of Danone). The downstream integration leading to switch from glass to food succeeded the strategic diversification and marketing. The portfolio has evolved over permanent pendulum moves from diversification-refocusing, then towards new diversification, etc.

The internationalization process followed by Danone from the late 1970s to the late 1990s represents an incremental approach as recommended by the Uppsala model developed by Johanson and Vahlne (1977). Actually, the company chose to export its products before establishing subsidiary companies abroad, by making external growth transactions. The group first favored markets close before conquering more distant markets. This choice may be explained by the concept of psychic distance that is put forward in the Uppsala model. Johanson and Vahlne (1977) consider that the psychic distance, which results from a set of factors such as differences in language, culture, political systems, levels of education and industrial development, explains the lack of knowledge which companies face when they decide to enter new markets. Internationalization in stages, as it was followed by Danone, allows the company to benefit from a learning effect on foreign markets. The company can gain international experience before devoting more resources to expand internationally, and before developing in more distant markets.

Since the beginning of the new millennium, Danone has considerably accelerated its international development to pursue a global expansion strategy. It seeks to strengthen the positions acquired in mature and emerging countries, using various input modes according to the targeted markets. The new adopted approach can feed current discussions in the *international business* field. In a rapidly changing global context (Mayrhofer and Urban, 2011), many specialists believe that the incremental approach advocated by the proponents of the Uppsala model is no longer suitable, like the « *born globals* » which internationalize very early and quickly (Johanson and Vahlne (2009)).

Today, Danone is trying to manufacture its products close to local markets. This choice is explained by the heterogeneity of the markets in which it operates, and the necessary adaptation of the products marketed to the specificities of these countries. The company has 160 production units spread around the world. It also established research and development centers (R&D) in different geographical areas in order to adapt products to the local market requirements. The skills of the group's R & D are now combined within the Danone

Research, a global organization of over 1,200 employees. The activities management across multiple markets is a major challenge for the group. Actually, the company headquarters has to coordinate the actions in the distant countries, both from a geographic and a cultural point of view. The functioning of the relations of company headquarters-subsidiary companies at Danone can be compared to that of a network (Beddi, 2011).

#### 4- Conclusion

The purpose of our paper was to analyze the relevance of the contributions of Uppsala model of firms' internationalization in the context of economic globalization, interdependence of businesses and generalization of strategic cooperatives and network organizations. Therefore, the analysis we adopted revealed that Danone has evolved considerably, in areas of strategic organizational activity and in geographic markets as well. The changes were driven by the strategic goal of the group which is that of profitable growth. The company was able to adapt to changes in its environment and anticipate future developments. In an intensively competitive market, the Danone Group became one of the global leaders in its industry. The boasted growth and profitability demonstrate the relevance of the strategic choices made.

The analyzed case illustrates the responses provided by a French multinational with challenges related to a constantly changing environment (Mayrhofer, 2011). The insights gained show that Danone successfully captured development opportunities. If the economic crisis deeply affects its traditional markets, the preferred areas of activity continue to show sustained growth. The future prospects seem favorable and the choices made should enable the group to remain among the French multinationals that know good performances.

We might note with Baumard and Starbuck (2002) that in the end, strategic moves are relevant analysis units if we take the precaution of not amalgamating *ex-ante* intentionality (i.e. the existence a priori formal plan) with observation of maneuvers of the firms. The analysis proposed may thus be extended by empirical investigations concerning the development of management practices adopted by Danone, and their link with the identified strategic moves. It would also be interesting to put into perspective the group's favored options in relation to those made by other multinationals in the food industry; in order to compare the performances achieved through distinct strategic paths followed.

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