

UNIVERSIDAD DEL ROSARIO



¿CÓMO PUEDEN LAS EMPRESAS COLOMBIANAS ENCADENARSE EFECTIVAMENTE
EN LA INTERNACIONALIZACIÓN?

TRABAJO DE GRADO

WILLIAM ALBERTO LAVERDE RAMOS

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FRANCOISE CONTRERAS

ADMINISTRACIÓN DE NEGOCIOS INTERNACIONALES

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2019

HOW CAN COLOMBIAN
ENTERPRISES ENGAGE IN INTERNATIONALIZATION?

by William LAVERDE

A Dissertation Submitted to the Faculty of the Montpellier
Business School in Partial Fulfillment of the Requirements for the
Degree of Bachelor in the Department of International Business
Management

Montpellier, France

April, 2016

Abstract

How can Colombian enterprises engage in internationalization?

Author: William Laverde

In spite of all the revolutionary developments in ICTs and the strengthening of the globalization phenomenon in the last decade, the Colombian enterprises still have difficulties to successfully burst into the international scene. This paper will try to assess how they can engage in internationalization dealings, particularly from the approach of the Uppsala Model. Utilizing deductive research method and with the aid of a self-completion questionnaire, there was a sample of forty Colombian enterprises evaluated in order to assess if they are even interested in going global, the reasons they have for doing so, if they followed any practices to make this process easier and if, unconsciously, they were drawing from concepts explained in the theoretical framework of the Uppsala Model. Through this review, I discovered that (1) Colombian companies do have an interest on exploring foreign markets; (2) their main reasons for doing so are expanding their market, and gaining access to cost economies; and (3) that even if they are not aware of it, Colombian firms are inadvertently following the stages and are bringing into play some of the Uppsala Model's core aspects and using them within their corporate strategy. Colombian enterprises could draw from these models so as to modify they way they operate, switching from an empirical way to a more consciously designed management style, thus, harboring the creation and strengthening of a competitive advantage.

Resumen

Cómo pueden las empresas colombianas encadenarse efectivamente en la internacionalización?

Autor: William Alberto Laverde Ramos

A pesar de todos los revolucionarios desarrollos en tecnologías de la información y el afinamiento del fenómeno de la globalización en la última década, las empresas colombianas aún tienen ciertas dificultades para trascender en el escenario internacional. En este trabajo se evaluará como pueden estas encadenarse en los procesos de internacionalización, particularmente desde la perspectiva expuesta en el modelo de Uppsala. Utilizando un metodo de investigación deductivo y con la ayuda de un cuestionario, se evaluaron las características de una muestra de cuarenta empresas colombianas para determinar si estas se encuentran siquiera interesadas en involucrarse en el Mercado internacional, cuales son las razones que tienen para hacerlo, si han seguido algún modelo para ello o si, sin conocimiento, han inconscientemente adaptado algunas practicas determinadas por el modelo de Uppsala para facilitar sus negocios que trascienden las fronteras. Por medio de esta revision, se pudo apreciar que (1) las compañías colombianas tienen un interés en la exploración de los mercados extranjeros; (2) sus principales razones para hacerlo son la expansion de sus mercados y la adaptación a economías de costo; (3) y que aún cuando no están conscientes, estas firmas utilizan ciertos de los conceptos y patrones detallados en el modelo Uppsala para dirigir su estrategia corporativa. Las compañías

colombianas podrían adaptar este modelo a la forma en la que operan, llevando a cabo una transición de un estilo de dirección estratégica empírico hacia una gerencia conscientemente mejor diseñada, con el objetivo de propiciar la creación y fortalecimiento de estrategias competitivas que los conviertan en jugadores clave en el escenario internacional.

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Introduction

In the twenty-first century, due to the phenomenon of globalization, enterprises have the need to expand. This necessity is created because of the interconnection of various economic activities throughout the value chain, which happen all over the world. Resource allocation is very common nowadays. In spite of having trade barriers, international commerce is open and constant (Bordo et al., 2003). Thus, it is not unusual to see how many firms have their headquarters located in one country, but get resources from a few others, then, take their production line to another nation, and finally distribute their products all over the world.

The role of multinational corporations is key in the growth of technology and industrialization of a developing economy. The constant and accelerated change that corporations are facing today is one of the main reasons why innovation becomes one of the most important pillars when defining strategic operation within the organization (Mrak, 2008). It is so fundamental, that the capacity to innovate is a common characteristic amongst successful enterprises. This backbone bases itself on the capacity of the firms to mobilize knowledge throughout the world to create new products, processes and services.

Colombia, despite of being a country of the third world, and having a history characterized by armed conflicts, political instability and failure at updating its ways to the speed that the world moves at in the present, and which also has a culture marked by all these happenings but also by its connection with the first world countries that it normally deals with and the correlation it has with its Latin American peers; has managed to emerge in the

international market, but still deals with some ghosts to make a considerable burst in matter of entrepreneurial initiatives (Allard Neumann, 2007).

In the course of this paper I will determine how Colombian companies can engage in internationalization processes, assessing their knowledge of market-entry methods and utilization of these strategies for their advantage, particularly the Uppsala Model. In first place, I will evaluate the influence of globalization on corporations, and detect the reasoning companies go through so as to decide to become involved in the international scene. Subsequently, I will delimit the theoretical framework for market-entry and internationalization models, stressing emphasis over the Uppsala Model, in order to examine its core concepts and to be able to contrast them with the information that will be collected through the designed instrument. After describing the sample of forty Colombian enterprises and depicting the deductive research approach, a self-completion questionnaire will be created and distributed to gather the required information for the analysis from the sample of Colombian enterprises and the results will be presented in a way that makes it easier for the reader to understand the findings, without forgetting to mention the limits of the methodology in question.

According to this, the main question to be answered in this paper is:

How can Colombian enterprises engage in internationalization processes?

On this note, the purpose of this paper will be to cross-analyze the theory with the data gathered from a group of Colombian enterprises in order to give a clearer perspective about the importance of the Uppsala Model as an internationalization method within Colombian enterprises; also appraising within this research how important is the role played by the psychic distance plays an important role in international dealings for Colombian companies.

Chapter 1: Literature Review

This concise revision of the literature will provide the outline of the research focused on the routes enterprises can expand their horizons abroad and the reasons why they decide to engage in such activities on the international landscape. The thoughts and concepts associated with the techniques that companies can use to make their process of internationalization smoother and the benefits that globalizing themselves has brought to them were mainly scouted and synthesized for this research. The review primarily includes papers and studies revolving around the field of business development. This literature was examined to gain an insight of significant subjects related to the benefits that internationalization can provide to companies, specially Colombian.

But why is it so important for companies to go global? Why do we insist on internationalization being an opportunity for economic growth in this century?

Globalization and Multinational Enterprises

Globalization is not a new nor a recent concept, but rather a continuation of events that have been on-going for quite a long time (Mrak, 2008). Because of its broadness, it is tackled in different ways by many people and institutions, depending on the perspective they are looking at it from (Kilic, 2015). Since there is no all-encompassing definition of this phenomenon (WTO, 2008), we will refer to it as the integration of the labor, capital and commodity markets (Bordo et al., 2003). In this context, the multinational corporation (MNC) constitutes the starring role as the flows of capital and knowledge spread throughout the world. In the words of Torres Reina

(2011), there is a close relationship between globalization and the development of the MNCs, as they both complement and support each other.

The conception of the MNC has changed. In the 1960s, this kind of firm “only caused one type of of capital exports, foreign direct investment (FDI), with FDI occurring when investors had control of foreign assets, and portfolio investment when they did not (Hennart, 2009).” However, this is not the only characteristic that MNCs are identified by. Now, a company is considered multinational when its activities happen in more than two countries.

But why do companies decide to undergo a change in their original business core and start hinting at foreign markets? The initial theory by Dunning (1988) suggests that MNCs originate because of either disparate geographical disposition of productive factors, or inability to expand their domestic markets. Rueda Galvis (2008), describes in his studies the four principal reasons why companies decide to take upon the internationalization process: operating cost reduction, competitive advantage exploitation, emerging markets penetration, and benefiting of more favorable conditions abroad. Firstly, the savings associated with the labor, transport and taxes costs or the possibility of achieving economies of scale are determinant factors at the moment of taking the decision of whether to go global (Rueda Galvis, 2008). Moreover, at the moment of determining the quality and price of the products, the technological, human, natural, economical and any other resources that another environment can provide come into play (Rueda Galvis, 2008). Also, cracking emergent markets will be a good strategy in terms of staying away from the saturation of the more mature and developed markets (Ricart et al., 2013) Lastly, going global can also be favorable when there is more economical stability and adequate politics in a foreign nation (Rueda Galvis 2008). Nevertheless, the cost-benefit relation of the extent to what a company engages in international commerce also depends on factors such as the home

country's natural resource provisions, its location and the size of the market targeted by the firm (Soubotina & Sheram, 2000).

In consonance with this, it is not only globalization that pushed MNCs for towards greatness, but the latter can, likewise, help support the globalization phenomenon by becoming channels for FDI, by influencing the approaches to international trade, by disseminating technology all around the orb and, finally, by creating dynamic industries in the countries they establish themselves in (Allard Neumann, 2007).

Internationalization Techniques

It is true that a key for business expansion is the possibility to access new markets, but there is not just one way for a company to initiate activities abroad. This segment will aim at describing different theories that explain the different means firms can adopt to gain presence in foreign markets taking into consideration characteristics specific to them.

Firstly, allow me to expose some generic strategies that companies can follow in order to take their business to foreign markets through more conventional processes. They are classified depending on whether it takes equity investment from the enterprise to develop said strategies or not. According to Brakman & Garretsen (2008), licensing and franchising can be perceived as lower-uncertainty activities since the firm is usually just giving permission to another company who already knows the environment to set up their business model in that specific market. However, the enterprises will usually need to transfer their know-how to their new business partners, which can prove to be difficult and leaves them open for information diffusion and not the kind of information that they would like being shared. The equity entry modes are more

related to companies acquiring assets and establishing joint ventures, or opening up their own subsidiaries in the target market. Creating joint ventures involve equity expenses because it is not about a strategic alliance with another company that only requires specifically designed task forces to get the job done, but it actually demands that a separate entity is created with part of equity from both parties (Brakman, S., & Garretsen, H., 2008).

Internalization Theory

Even if it was proposed on the late 1970s, this theory is still true today, since it revolves around one of the biggest concerns of firms in the present: the management of competitive advantages. This theory exposes the fact that it is far more costly and time demanding for an enterprise to transfer knowledge-based advantages to other foreign enterprises, and, for this reason, they would rather do this with a subsidiary of their own that is located in the country of the target market (Buckley & Casson, 1976). This theory is attiring to companies because they do not have to give over the control of their intangible advantages to third parties, but allows them to have the final say on how this technology or know-how will be used, without having to share it with agents external to the organization.

Market Power Theory

The Hymer-Kindleberger hypothesis, based on views exposed by these two economists around the decade of the 1960s, suggests that domestic enterprises have crucial advantages over their foreign competitors such as knowledge of the market and the regulations surrounding it, and better understanding of the culture (Hymer, 1960).

Thus, the multinationals looking to establish themselves in an international environment, different than the one they have always been used to, in order to expand and get a higher return, need to acquire certain firm-specific advantages. These ‘monopolistic’ advantages may include technology, knowledge, scale economies, and can be created as way to overcome obstacles in their home markets, as well as to generate the top economic profitability available for that specific firm (Kindleberger, 1969). According to this information, it is the aforementioned advantages that will give the company the necessary platform to invest abroad and be competitive in the market they are targeting.

Network Approach

This approach bases itself on the social network theory, and analyzes how enterprises take advantage of the relationships they have established with their customers, distributors, competitors and even with governments, in order to go international (Johansson & Mattson, 1988). When going global, there is a three-step process that every company follows. First, they need to develop relationships strictly tied to their business area in the country or market that they are trying to conquer; second, they increase their commitment to the already created networks that they have; and, finally, creating a connection with other links of the network they have that are located in other markets or countries. All of these relationship will help the firm in question gain easier access to information and technology they would otherwise not have contact with, as well as a better positioning in those markets (Argáez, S. & Zwerg-Villegas, A., 2011).

Uppsala Model

Apart from the aforementioned techniques, one of the most recognized models for internationalization is the Uppsala Model, as it presents an escalation of international activities based on the experience of the company as well as with some help from foreign agents who have a different set of skills than the company in question. It seems as a fairly logic system, which is why I will now explain it more thoroughly to see what its implications are.

Also known as the Internationalization Process Model, it was proposed by Jan Johanson and J. E. Vahlne, from the Uppsala University in Sweden, in 1977. Basing their studies around four firms, Johanson and Vahlne (1977) propose a four-sequential-step model that must be followed by any company that is looking to expand their business to the international market.

The Four Steps

The stages through which a company goes from the moment it starts its activities until the moment they achieve the total process of internationalization of the firm, as found on Johanson and Wiedersheim-Paul (1975), are:

1. Irregular export activities;
2. Export via agents (or independent representatives);
3. Opening of a sales subsidiary; and,
4. Establishment of foreign manufacturing.

As explained in Johanson and associates (1994), the first stage is irregular exporting activities to countries that are geographically near, or to those who are culturally alike or have similar business practices, in order to minimize the uncertainty degree. Since the company does not yet have enough knowledge of the market, investing in that country through the creation of its own stores is not a good decision, which is why the second step is selling through independent representatives to create an information conduct through which they can gather thoughts on whether to put some money to work in that environment. Once they determine that there is a good opportunity for growth through the penetration of this market in a more aggressive way, the firm can open a subsidiary overseas, and obtain more control via the establishment of its own distribution and information channels. Finally, building up a manufacturing facility seems to be the last logic step in this process, and it will guarantee the firm more control over their production and sales.

Psychic Distance

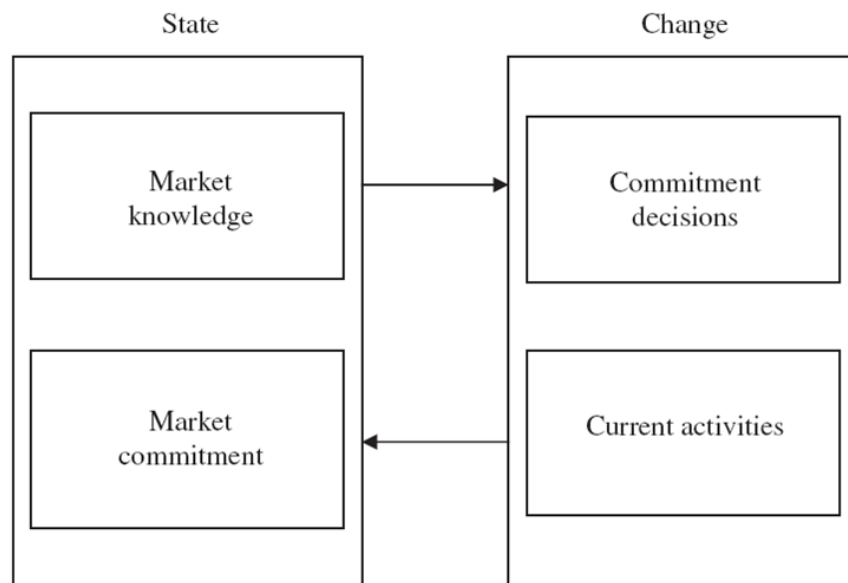
Here, the concept of psychic distance, exposed by Hansson, Sundell & Öhman (2004), comes to play. It proposes that companies are more prompt to introduce their business into markets where the degree of uncertainty is low, where the cultural and customary barriers are lower and where they see a clear opportunity for growth. This happens because, otherwise, firms would have to commit to an specific market and, then, undergo try-and-error processes, which will, in the end, be more costly and counterproductive for the firm. However, this steps are not compulsory, as one firm can decide to skip one or to start by another step if they feel comfortable enough and

confident that it will result in a big success for the company (Argáez, S. & Zwerg-Villegas, A., 2011).

Core Aspects

It is essential not to forget that the Uppsala Model is based in four key major concepts, divided into state and change aspects. The state aspects refer to market knowledge and the resources that the company has available for investment in the foreign country at the time when it is planning to internationalize; whereas the change aspects focus on the current businesses of the firm and the decisions to commit its resources to foreign practices (Johanson & Vahlne, 1977).

Chart 1. Core concepts in the Internationalization of a Firm.



Source: Johanson & Vahlne (1990).

It works as a cycle, and it goes from state to change, as observed in the chart above. The market knowledge aspect relies not only on the general knowledge the company has about the tools and methods required to market their products to customers in general, but also on how well it knows the market it is already in, its business climate, cultural patterns, structure of the market, and specific characteristics of customers and human talent in that market (Johanson & Vahlne, 1977). Further, Johanson and associates (1994) highlight that this market-specific knowledge is mostly acquired through the company's experience in its business dealing, whilst generic knowledge can be taught and learned from other firms, markets and educational institutions.

Once the company has spotted problems and/or opportunities through experience and information gathering from a target in concrete, it is able to make resource commitment decisions to a market it is thinking to expand to, depending not only on the degree of the problem or the convenience of the opportunity, but as well on the level of risk and uncertainty present in said market (Johanson & Vahlne, 1977). According to this, the more information and knowledge that the person in charge of making decisions has on the new target of the company, the less risky they will be, thus, allowing the company to allocate more resources to this business venture.

As stated by Johanson and associates (1994), the activities of the company are important since it is through them that the most market knowledge is obtained, and is this know-how the one that will allow the enterprise to find new business opportunities and to penetrate a new market. It is also relevant, thus, to highlight that companies,

depending on what step of the Uppsala model they are in, have to adapt their processes to a certain degree to those of the already-present industry in the market they are targeting.

Finally, once the company has had enough experience in one market, has detected possible opportunities in a market of interest, and has aligned its activities with its core business and its new target's, it can begin to think about market commitment. In plain english, as suggested by Johanson & Vahlne (1977), the company can decide what will be the amount of resources it will invest and the degree of commitment it has to said market. It is critical to note that the higher the specialization of resources required for a market is, the stronger the degree of commitment to it will be, as the resources invested are not easy to replace or exchange to thrive to another venture.

However, it is also vital to emphasize that the Uppsala model describes only to some extent the possible path that companies can take in order to engage in international business activities. Nonetheless, there are some exceptions to the rule, as the aforementioned model does not consider firms that are directly born global or firms that have large amounts of resources available and can, thus, skip some of the steps in the analyzed model.

In summary, the Uppsala Model presents a rather logical and reactive four-step sequential technique that predicts, to some extent, the way for companies to go international. Whether this is true for the Colombian companies is still to be discussed. According to this, the main question to be answered in this paper is:

How can Colombian enterprises engage in internationalization processes?

Regarding this question, my hypothesis is that they have but most likely they are not aware that they are using an existing model to expand internationally. Whether this is the Uppsala Model or other market-entry technique(s) is to be determined. Within this research is also important to determine if the psychic distance plays an important role in international dealings for Colombian companies. Concerning this, I believe that Colombian companies do feel more at ease in markets that are more psychically close and are eager to exploit them before engaging in commercial activities with countries that are far more different. In this order of ideas, it is also vital to express how Colombian enterprises can engage in international activities with the aid of the Uppsala Model, which I believe that they would benefit from, as they would be conscious of using a global method for internationalization purposes and actively working towards reaching the next stage in the model in order to grow and to aid the Colombian economy.

The purpose of this paper will be to cross-analyze the theory with the data gathered from a group of Colombian enterprises in order to give a clearer perspective about the importance of the Uppsala Model as an internationalization method within Colombian enterprises.

Chapter 2: Methodology

This section intends to explain the research techniques that have been used in this study to access the information that will be the base for our discussion and further confirmation of hypotheses. I will explain why I chose them and the over-all data collection process.

Sample

My target population will be Colombian firms of different sizes and which do not solely belong to one industry. Further, internationalization of industrial processes has been cited as one of the choices for the mainly natural-resource-centered Colombian economy. Focusing on different industries will allow me to understand whether there are changes in the ways firms handle international dealings depending on the industry, or if the Uppsala Model can work as a standard method of internationalization for companies from this country.

Research Strategy

This study will be completed with the aid of part qualitative, part quantitative research. Even though questionnaires tend to depend more on the quantitative side of the situation, this one is slightly qualitative tinted due to the fact that I will be collecting empirical information that has been acquired through the experience of the agents in the field, yet I will be able to categorize it and identify trends in order to verify my hypotheses. I have chosen to rely on empirical data considering that this method is more suitable to answer the research question, also counting on the ability of this method, due to its more dynamic and flexible nature, to emphasize on the

purely cultural and environmental facts related to this research, as stated by Bryman & Bell (2003).

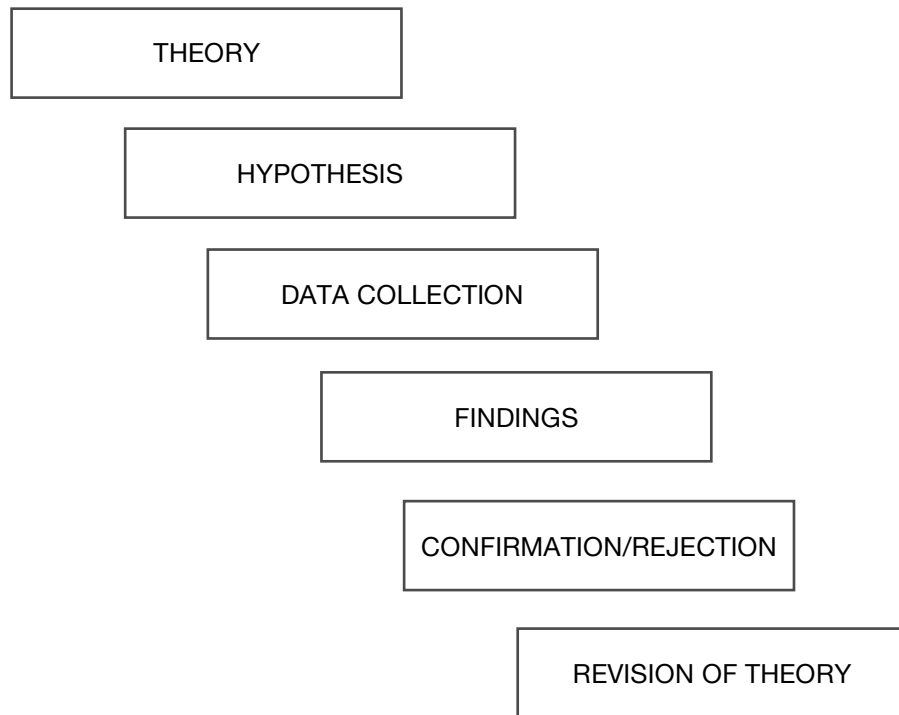
Research Approach

My research system to assess the extent of the usage of the Uppsala Model within Colombian enterprises is based on three steps. First of all, it is important to establish a theoretical framework that describes different market entry strategies, but focusing on the Uppsala Model, in order to present general understanding about the techniques involved in the internationalization process of a firm. Then, it is necessary to gather empirical data through a questionnaire designed specifically for the firms that comprise the sample to obtain information on the application of the Uppsala model within the Colombian business framework. Finally, I will cross-examine the acquired data with the hypotheses in order to obtain a better understanding of the role of this model in the internationalization of Colombian companies.

There are two main paths to take when developing a research methodology, it can be either inductive or deductive. According to Bryman & Bell (2003), if the decision is to go with the inductive technique, it is necessary to screen the reality of a situation and, drawing from these empirical findings, building up a theoretical base that condenses a general model. Contrary, the deductive style first inspects the already-existing theory on the topic, before testing its applicability to the specific case presented in said study.

The research approach implicated in this paper will be of a deductive genre (as shown in the figure below, Chart 2.), which means that the research project starts with the revision of existing theory on market entry strategies and a deeper explanation of the Uppsala Model. I have

Chart 2. The process of deduction.



Source: Bryman & Bell (2003).

created research questions and formulated hypotheses, after which I will need to collect relevant data on the international dealings of Colombian enterprises. Analyzing these findings and cross-examining them with the aforementioned theory will allow me to confirm or reject my hypotheses and give general conclusions on the topic (Bryman & Bell, 2003).

Data Collection

The process of research is usually characterized by the kind of data that you have access to. Whether you acquire it from the primary source of information (primary data) or whether you take into account studies and developments that have already been done regarding the examined aspects is up to each person. My analysis will mainly rely in primary data obtained from key agents that are currently working or have worked in Colombian companies that have already gone international, or that are now looking up to take this path in the development of their

businesses. The secondary data in this case is limited due to asymmetry of information in the Colombian business sector; however, this does not represent a problem for the study due to the predominant primary quality of the information acquired for this examination.

Instrument Development

The data-gathering method chose for this study will be the self-administered questionnaire, a survey in which respondents answer to the questions by themselves. This technique is, in many ways, similar to a structured interview because of the way it is set up. However, for this study, the self-completion questionnaire is a more suitable option. Firstly, thanks to the revolution in the ICTs, it is much cheaper to administer this survey, since it can be done with tools from the Internet, and there is no need for an interviewer to be present while the respondents answer it, and it can be more geographically widely diffused, as opposed to the structured interview method (Bryman & Bell, 2003).

Bryman & Bell (2003) highlight other advantages that this method offers, such as the absence of interviewer effects, meaning that the traits of the interviewer —such as gender, ethnicity and background,— may somehow influence the responses of the interviewed people; whereas, in a self-administered survey, the aforementioned characteristics, and the fact that having different interviewers may affect the way questions are asked and how respondents will reply are not an issue since they will do it on their own. Further, on top of being convenient for the respondents, the questionnaires allow designs to filter the sample or avoid takers to avoid a question, as well as they decrease the risk of fatigue biases because they are usually shorter than an interview (Bryman & Bell, 2003). Finally, the self-completion questionnaires make it easier

for the researcher to filter and ponder the results, as the tools available to create them also allow fast-downloading spreadsheets with a summary of the results.

Nonetheless, there are also disadvantages to administering a survey. Bryman & Bell (2003) suggest that working with this kind of method is hard because there is no one present to help the respondent in case they have any doubts about a query, so if the inquiry is not well formulated and clear and easy to understand, it could be counterproductive for the research at large. Another problem indicated with this methodology is that the right questions need to be asked, as respondents do not usually write a lot and you cannot inquire for additional answers after they have completed the survey, so it is important to use diverse forms of queries, as the simple single-answer and open questions will not be enough to get the genre of responses I am looking for (Bryman & Bell, 2003). Lastly, it is important to note that the survey is not an interface that is meant for everyone, so there is greater risk of missing data and having a low rate of response, on top of not really knowing who is answering the questionnaire if this is not well overseen by the researcher, thus, answers that do not have relevance could trump with the purpose of the examination.

For this reason, the questionnaire built specifically for this analysis will try to deal with these drawbacks, as well as ensuring the best answers for the examination avoiding any bias from respondents. Accordingly, the questionnaire has been designed with sixteen questions, from which there will be a filter question, in order to separate those enterprises that have undergone internationalization processes or are considering this option, from those which do not wish to follow this path. Likewise, there will be two single-answer questions to assess the relevance of the internationalization for the development of the business of these companies, one to determine the reasons why they decide to follow internationalization processes, and one to determine

whether the agents have knowledge of the Uppsala Model, the focus of this research. Additionally, there will be a checkbox section to estimate the level of internationalization that the firms are at; and a Likert scale section to appraise the other characteristics of the Uppsala model and verify if they are being taken into account by Colombian enterprises.

Criticism of Theory Sources

This paper is mainly based on the research made by Johanson and Vahlne in 1997, studying the Swedish enterprises in order to condense their processes into a more generic model through the inductive style of examination, which is now called the Uppsala Model. Notwithstanding, we have also considered different authors when assessing the impact of globalization on enterprises —especially Colombian,— and have also presented different market entry strategies, as the Uppsala Model is not the only one, nor the most validated or necessarily the best for any company in particular, as internationalization depends on the factors within the enterprise as well as the aspects comprised by the environment and the interaction of the enterprise with it.

Presentation of Results

The empirical findings from the self-completion questionnaire will be presented by answer, as the companies do not belong to one industry in general. I believe this to be crucial, as it allows me to look at the bigger picture instead of focusing on each company as a single individual, thus, being able to make a general conclusion about the influence of internationalization opportunities on the Colombian business sector at large, particularly the Uppsala Model.

The questionnaire was designed in that order for a reason, as so will the results. This will allow me to better analyze the results and cross-examine them with the previously mentioned theory, as it is set in the same order of the questionnaire, going from the more general — globalization and internationalization techniques,— to the more specific —the Uppsala Model and its different traits.

Being collected this way will also allow to present categorized data and show proportions to be able to analyze the trend of direction of the management style towards internationalization dealings and regarding specific characteristics exposed in the literature review concerning the Uppsala Model.

Analytical Methodology

For this analysis, it is crucial to take into account that the data that is being collected belongs to the categorical kind. This means that the information cannot be measured in numbers but rather classified into categories depending on the characteristics that distinguishes each variable (Berman & Saunders, 2008). The descriptive data we end up with will allow to count the number of occurrences of an event in the investigation; i. e. whether a company is interested on engaging in international dealings or if it would rather stay limited to the domestic market of the country, in this case Colombia.

The structure of this revision consists on a cross-checking between the theory and the results obtained from the self-completion questionnaires. I have chosen this method of analysis because it is the one that serves best the purpose of this paper. Hence, the structure of the analysis will have its basis on the theoretical review and the research question. I will focus more

on the internationalization techniques than on the importance of globalization for Colombian enterprises. Presenting the analysis this way will allow to frame the research and, then, tackle the main point at issue of how Colombian enterprises can engage in international dealings.

Limits of the Methodology

To analyze the limits of this paper it is important to take into account the group of enterprises that was taken as sample. The study is not restricted to one sector or one industry, so it comprises companies from different environments and with diverse realities and, hence, presents a lot of variation in terms of how the companies respond to threats and opportunities, as well as in the way they manage their resources. However, it is key to note that the sample of enterprises taken is very small if you compare it to the entire population of Colombian firms, so the paper cannot be fully reliable on terms of representation of the approach the totality of companies in Colombia take when tackling the internationalization process of the enterprise.

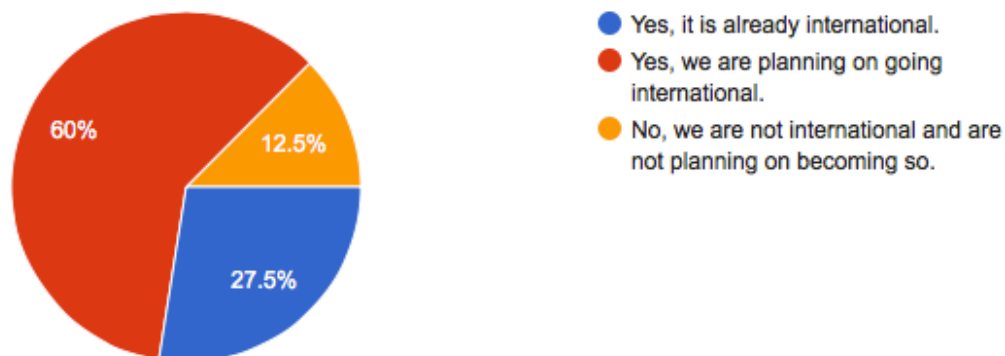
Chapter 3: Results

This chapter pretends to present the results obtained by the instrument mentioned in the previous chapter in such an order so that they can be later cross-analyzed with the theoretical framework presented in chapter one. Moreover, this chapter will include the sample rate of response and the presentation of the results according to each section of the self-completion test distributed to the respondents.

Sample Response Rate

From the 40 firms in the sample, five answered that they had no plans at all on engaging in international dealings (as shown in the figure below, Chart 3). Since this was the filter question, the five enterprises that chose this answer were immediately discarded from the next stage of the inquiries, since it is my goal to examine the companies that already have dealings in foreign countries or that intend on going international in the close future. Hence, 12.5% of the companies examined have no interest on expanding their businesses abroad; whilst out of the

Chart 3. Filter Question: Is your company already international or is it planning on going international?



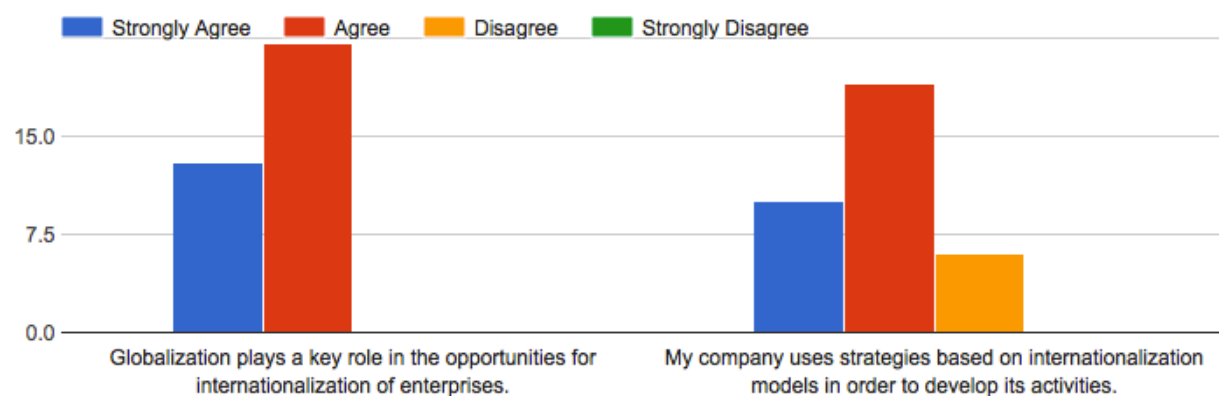
Source: Responses from the self-completion questionnaire.

remaining 87.5%, 27.5% of the enterprises already have operations on the international and 60% intend on doing so in the close future.

Presentation of the Results

From the 35 enterprises left, the ones that have ambition to become international or that are already engaging into foreign dealings with other countries, the entirety agrees that globalization plays a key role in the internationalization opportunities available for Colombian companies; whereas when it comes to using methods based on models that aim at enhancing the international dealings of a company within their organization, 82.9% of the companies that are still left in the ruffle agree that they are important to continue developing the international area of their business, and the remaining 17.1% do not consider them as necessary to develop their international business strategy, as shown in the chart below (Chart 4).

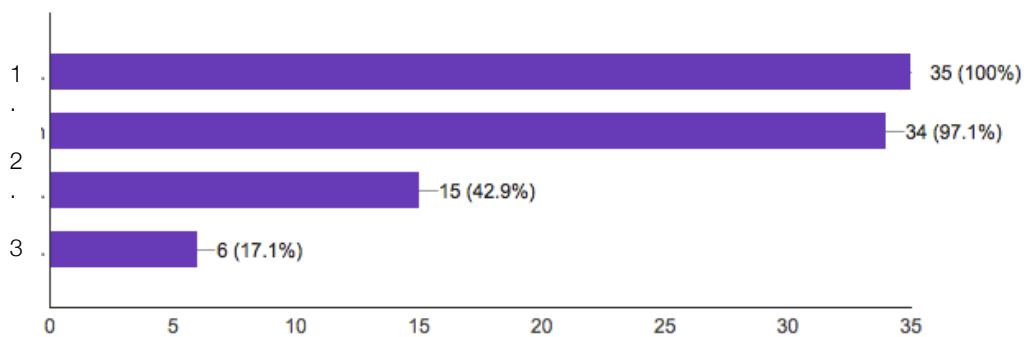
Chart 4. Likert Scale.



Source: Responses from the self-completion questionnaire.

Moreover, when assessing the reasons of why Colombian companies decide to explore their options in a foreign market, the entirety of the sample pinpointed market expansion as one of the reasons why they do it and, after this, the main reason (with 97.1% of acceptance) was the sought for cost reduction for their business. Around 43% of the respondents signaled access to more favorable conditions as one of their reasons for pursuing internationalization; whereas only 17.1% of the companies justified this through the further development and strengthening of their competitive advantage (as seen in Chart 5).

Chart 5. Bars Chart: Stages of the Uppsala Model.

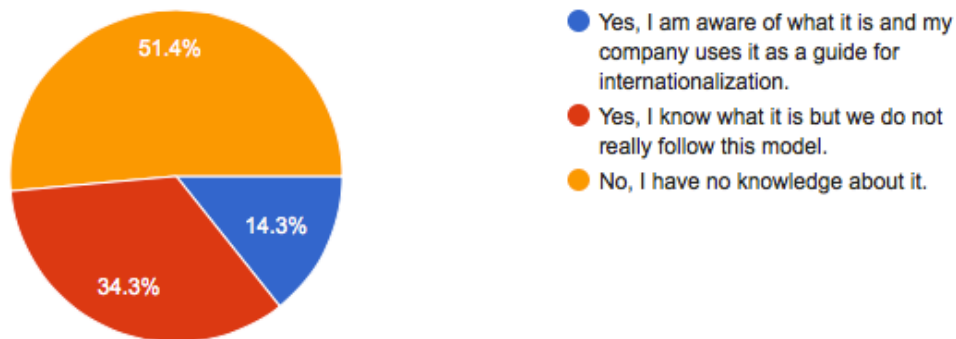


1. Market expansion.
2. Cost reduction.
3. Access to more favorable conditions.
4. Strengthening of competitive advantage.

Source: Responses from the self-completion questionnaire.

Further, about 48.6% of the companies relevant for the examination are aware of the theory of the Uppsala Model as a method for internationalization, but only 14.3% actually use it as a model within their strategies to shape their activities in order to go international. The remaining 51.4% of the firms that intend to engage in foreign dealings do not have knowledge of the aforementioned theory (shown in the chart below, Chart 6).

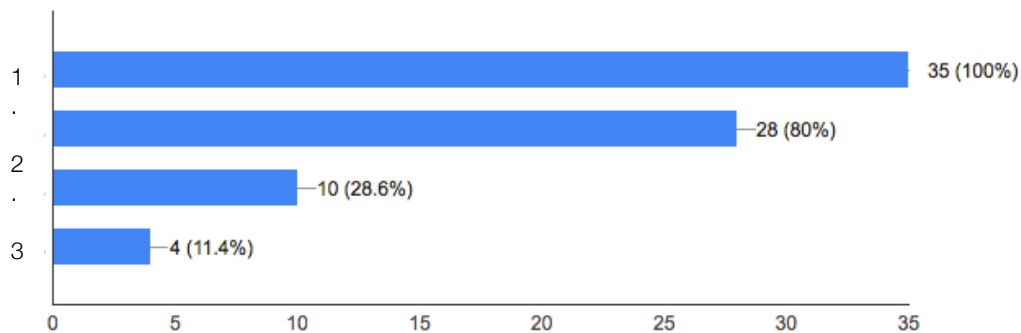
Chart 6. Pie chart: Do you know about the Uppsala Model for internationalization?



Source: Responses from the self-completion questionnaire.

Moreover, when evaluating the stages of the Uppsala Model, the findings give an oversight on how the Colombian enterprises are engaging, or intend to engage in international transactions (presented in Chart 7). The totality of the companies have gained experience from their daily processes before even thinking to penetrate new foreign markets. Once this is done, 80% of the agents who filled out this self-completion questionnaire claim that the companies they work at have started, or intend on starting, exportation to countries with which they have low psychic distance. However, only 28.6% out of the enterprises plan on establishing (or have already established) their own sales subsidiaries in the countries they were exporting to; and even less (11.4%) have engaged in foreign production and sales, or are contemplating this option.

Chart 7. Bars Chart: Stages of the Uppsala Model.

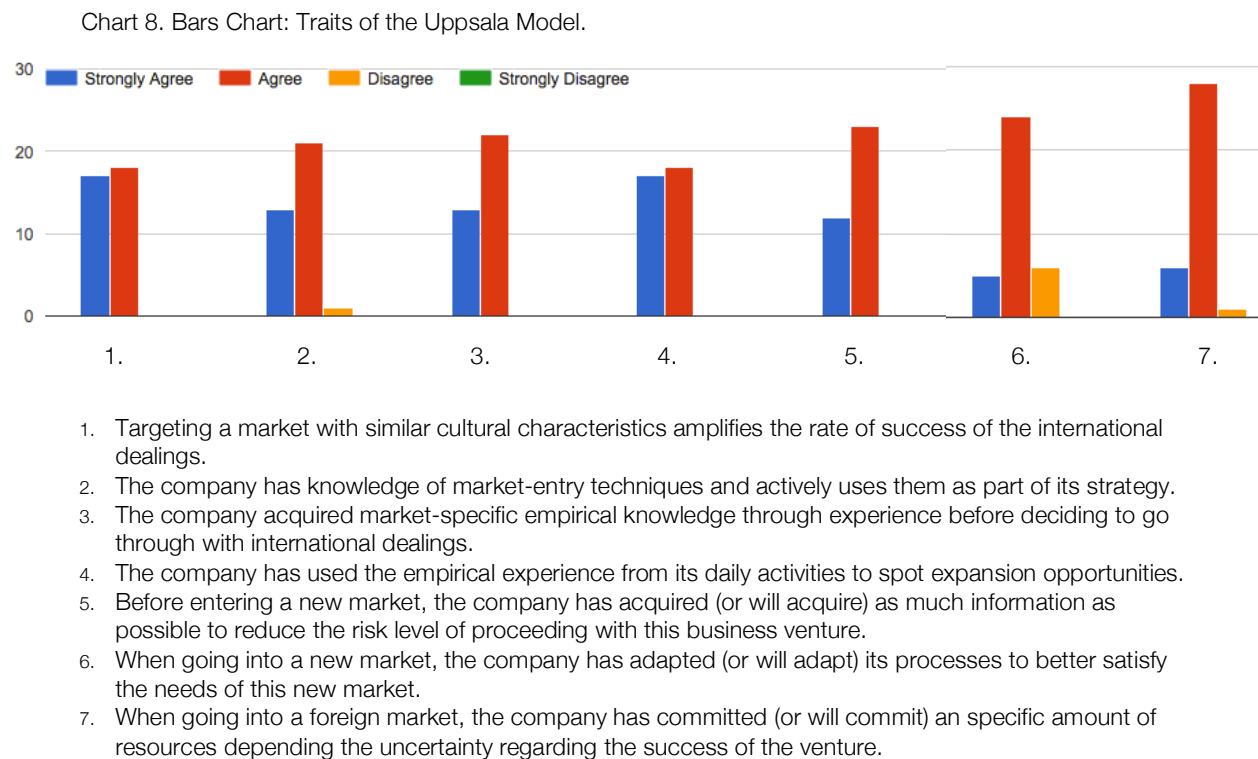


1. The company first gained (or is gaining) experience and knowledge from the domestic market before thinking about going international.
2. The company started (or will start) exporting to countries that are geographically and culturally closer to the domestic market before moving on to less similar markets.
3. The company established (or will establish) sales subsidiaries in the countries where it exports to.
4. The company engaged (or will engage) in foreign production and sales in different counties.

Source: Responses from the self-completion questionnaire.

Concerning the characteristics specific to the Uppsala Model (summed up in Chart 7), all of the firms agreed that targeting a market with a lower psychic distance reduces the uncertainty about the outcome of venturing into this new environment. The entirety of the companies also

concur on the fact that they focus on acquiring knowledge from their existing markets to reduce the risk of failure when penetrating a new one, and recognize that it is due to this empirical experience that they are able to find expansion opportunities for their business. Further, they acknowledge that it is in their interest to gather as much information as possible from their new target market so that the risks of trying to position themselves in this new environment decrease significantly.



Source: Responses from the self-completion questionnaire.

All but one of the companies give special importance to the awareness about market-entry techniques and their involvement in their corporate strategy, and coincide in the fact that when taking their business to a foreign country it is crucial to commit a part of their resources

depending on the uncertainty that they face in the new environment and, also, enough to cover the expenses of taking their activities abroad. Nevertheless, where more companies disagree is in the fact that they have to adapt their production processes to match those of the industry in the target market or the general practices carried out in the country. Only 14.3% deem it as crucial when entering a new market, and 68.6% concede that it is important for increasing the probability of success; however, the remaining 17.1% do not think this is of much relevance when engaging in international dealings or when penetrating a foreign market.

Chapter 4: Discussion

While it is true that the Uppsala Model is just one of the diverse models for internationalization, and it is evident that is not the only valid one, I would like to stress emphasis on it because it seem like one of the most logical, but I do not think Colombian companies are aware of how this is a coherent step for companies that wish to grow but do not have the resources necessary to just burst out into the international scene in just one step.

This chapter will focus on discussing the results obtained from the self-completion questionnaires, presented in the precedent section, and cross-analyzing them with the theoretical framework developed in the first chapter to obtain a general thought on how Colombian enterprises can engage in international dealings, specially through the implementation of the stages of the Uppsala Model.

As Torres Reina (2003) stated, there is a close relationship between globalization and the development of corporations, as they both support each other. This is no different for Colombian enterprises, as it is shown in the results, where 87.5% of the respondents have intentions on engaging in international dealings, and the entirety of the latter view globalization as an important phenomenon that boosts the opportunities for firms to expand their businesses into the international landscape.

But why do companies undergo a change in their original business core and start hinting at the penetration of foreign markets? There is a convergence between the theories exposed by Dunning (1988) and Rueda Galvis (2008), since both sustain that companies consider going international because of the possibility of penetrating new markets and expanding their already-

existing one, which is corroborated in the results, as 100% of the sample firms pinpointed this as being the main reason why they decide to engage in international dealings. This happens because once companies cannot continue growing inside their domestic country, the only other way they can do to keep on developing their businesses is trying to establish their brand in a new market that has a different set of eyes towards their offering. Further, the theory presented by Rueda Galvis (2008) continues to be backed by the data obtained from the self-completion questionnaires, as 97.1% of the subjects justified their need for internationalization with the access to reduced costs, as they can get easier connections with low-cost work force and outsourcing and transportation services as well as cheaper prime resources, and there is also a wider variety to choose from, far broader than that of the home country. The other two reasons through which Rueda Galvis (2008) justifies the strong desire to undergo internationalization processes are less supported by the findings, since only 42.9% of the respondents marked access to more favorable conditions as one of their reasons to pursue foreign markets, and even less (17.1%) selected the development of their competitive advantage as a reason to go abroad. One of the reasons for this could be that the last two are more difficult to attain than the first two. For companies who are established in a fairly favorable environment, it is not in their main interest to look for better conditions, as they are already in a stable business ecosystem; and regarding the competitive advantage, this is only a reason for companies who already have a strong one in their industry and they wish to keep it, or for those who are trying to develop one, even if sometimes thinking the development of this kind of advantage has to be done in the local context before even thinking about straying to different markets.

Furthermore, the majority of the sample (82.9%) expressed their knowledge of internationalization techniques, like the ones proposed by Brakman & Garretsen (2008), Buckley

& Casson (1976), Hymer (1960) & Kindleberger (1969), Johansson & Mattson (1988) or by Johanson and Vahlne (1977), whereas the other 17.1% do not use them as part of their strategy. An answer to this could be the fact that a lot of Colombian enterprises are managed between family members who do not necessarily know about management theory but who have deep knowledge about their industry and do not plan their strategy as a more experienced international corporation would. Hence, this could be an important step into revolutionizing the way companies are overseen in the country and how they are directed, changing from a more empirical style of administration and into a more well thought out decision-making process framed in in a theoretical background.

Now, concerning the Uppsala Model specifically, the model presented by Johanson & Vahlne (1977) is well-known by only 48.6% of the companies comprised by the sample, and even less (14.3%) use it as a model for engaging in internationalization purposes. This means that more than half of the companies from the sample have no recognition that there is an already-established model that can help them ease their transition from a domestic firm to an international entity. This might be due to the aforementioned reasons of empirical direction being dominant over theoretical framed styles of management but, also, as a result of finding better techniques that suit better the operations of the enterprise in question.

In regard to the stages of the model defined by Johanson and Wiedersheim-Paul (1975), it is possible to see that even if companies have no knowledge of this method, they are engaging in the stages of the model one way or another. The totality of the sample has already started learning about their domestic market and drawing as much information as they can from it in order to use this experience as backing for its next decisions, which may be in the international scene, where 80% of them are already venturing in by exporting through representatives to other

countries with lower psychic distance (Hansson, Sundell & Öhman, 2004). This can be explained by the fact that it is important for the companies to establish a conduct of communication between them and the market they are intending to penetrate before actually taking their business in a stronger way over there. Through this conduct of information, they can gather all the data they need to appraise the dynamics of the market and the environment over all before going to the next stage, opening their own sales subsidiaries in the target country, which only 28.6% of the sampled enterprises are doing at the moment or are planning to do it in the near future. For Colombian enterprises, as we can see in the sample, the process stops at the second stage because most of the time going further involves allocating a substantial amount of money to ensure the smooth development of the project and taking a leap of faith, which is why only 11,4% of the respondents are currently engaged in foreign production and sales. Another reason for this might be that companies get comfortable with the presence they can get through agents and, even if that does not allow them to have full control over their sales and marketing strategies overseas, they are not really interested in spending more money that they need into gaining market share in a foreign country, and much less think about opening and operating manufacturing facilities over there.

Apropos of the characteristics specific to the Uppsala Model, exposed mainly by Johanson and Vahlne (1977), the captured results help corroborate the hypothesis of Colombian enterprises being more eager to initiate processes of internationalization in countries that have similar cultural traits, that is, that have a lower psychic distance. As explained by Hansson, Sundell & Öhman (2004) as the decreasing of the level of uncertainty where the cultural and customary barriers are lower, and the whole sample seems to think the same way. This could explain why the key major commercial partners of Colombia are Venezuela, Ecuador and

Panama, and why some of the most recognized Colombian enterprises have also been successful at positioning themselves and penetrating the market with no major faux-pas in these countries, i. e. Alpina and Quala. However, on the theory exposed by Argáez & Zwerg-Villegas (2011), it is remarked that a company can overlook the concept of psychic distance and target a market that does not appear very close in terms of dynamics at first sight. This would require larger sums of investment in transportation costs and in market research but could pay off to the company with the introduction of products or services that seem out of the ordinary for this new market, thus, enhancing their appeal to the public.

Pertaining to the core aspects of the Uppsala Model (Johanson & Vahlne, 1997; Johanson & associates, 1994), drawing from the findings obtained through the survey, it is evident that there is 100% of acceptance regarding the identification of opportunities from development in the daily operations of the company, and in the matter of employing extensive market research in order to minimize the level of risk when permeating a new market; as well as with reference to the commitment of a substantial amount of resources when trying to settle in a new market, even if there is resistance from one of the respondents to this kind of compromise. This can be explained simply by the fact that those are standard *modus operandi* of enterprises (Johanson & associates, 1994), even if they are not going international. To penetrate a new market it is necessary to engage in investigation and the decisions will naturally be influenced by the daily events at the company, and the allocation of resources is also a common proceeding within a firm, which is why most of the Colombian corporations in the sample are not opposed to it. Notwithstanding, where there is struggle is with the fact that not all Colombian enterprises in the sample wish to or consider it is necessary to adapt their operating processes in order to service a new market with a different kind of customer. This can be interpreted as an opposition to change

but it is also understandable because changing procedures that have already been established involves a lot of investment; per contra, it does not mean that the company has to tear everything apart and rebuilt their business from scratch, it just means adapting bits of the current activities, for instance, making small alterations to their logo, their slogan, and trying to provide their new customers with some familiar features, all this in order to enhance the allure of their offering.

Cross-analyzing the results from the knowledge about and utilization of the Uppsala Model and the specific traits to it, it is possible to confirm the hypothesis that Colombian companies are not aware of the model, yet they follow its stages and apply some of its concepts inadvertently. This means that spreading the knowledge about this kind of model and making companies aware of their benefits could lead to a boost in engagement in internationalization processes from Colombian enterprises, as well as making a greater impact in the way they have been pioneering into new markets. Further, Colombian firms could take advantage from already successfully proven methods in order to develop their operations in a less empirical way, shifting to a more conscious decision-making process, thus, making it possible for them to have access to new markets and resources that help them foster the development of a competitive advantage of their own.

Chapter 5: Final Thoughts

Throughout this paper I have analyzed how Colombian enterprises can engage in internationalization processes, appraising their knowledge of market-entry methods and utilization of these strategies for their benefit, particularly the Uppsala Model. In first place, I analyzed the influence of globalization on corporations, and determined the reasons why companies choose to immerse in the international scene. Subsequently, I established the theoretical framework for market-entry and internationalization models, emphasizing in the Uppsala Model, in order to examine its core concepts and to be able to contrast them with the information collected through the designed instrument. After describing the sample and the research approach, I proceeded to creating a self-completion questionnaire to gather the required information for the analysis from the sample of Colombian enterprises and decided on the way to present them, without forgetting to mention the limits of the methodology in question. When classifying the information into data for a smoother analysis, I could already see some of my hypothesis being backed by the findings.

Some of the main findings involve the majority of the companies evaluated in the sample recognizing the role of the globalization phenomenon as a driver for companies to look for opportunities abroad and, as well, most of them being prompt at getting involved in foreign commerce dealings. Regarding the Uppsala Model, the data made it evident that even if more than half of the companies examined had no knowledge of this practice, all of them are still engaging in at least one of the phases of this scheme. Further, all of them agree on the relevance of psychic distance for the development of international businesses, and coincide in three of the

four concepts of the Uppsala Model (market knowledge, market commitment and current activities), while they do not all agree that a company should modify its normal proceedings because it is entering in a foreign market.

After this review, I have come to the conclusion that not all Colombian enterprises might be aware of the techniques that they use when engaging in international dealings, partly because of their predominant empirical style of management. Nevertheless, unconsciously, they achieve to take steps into taking their offerings outside the country and engaging in commerce with foreign partners. According to this, the diffusion of the existent theories on internationalization methods and the raise of awareness of their benefits within the Colombian entrepreneurial sector could further the level of engagement from Colombian companies towards internationalization, on top of provoking a switch in the approach they take when trailblazing into foreign markets. Moreover, Colombian enterprises could draw from these models so as to modify they way they operate, switching from an empirical way to a more consciously designed management style, thus, harboring the creation and strengthening of a competitive advantage.

Now, it is important to note that this research is limited mainly by the lack of access to a bigger sample of Colombian enterprises. Besides, the analysis is based on the answers from employees in high places in this companies and how they oversee the direction taken by their company in the near future, so it is not a unison response from the top management team of each enterprise and might be biased by the perception this single person has of the firm. Additionally, the companies evaluated belong to different industries in the country, so this might not necessarily be a trend that iterates when evaluating each sector on its own.

For this reason, in case of pursuing further research, it is important to determine whether the industry in which the enterprises are established affects the possibility of internationalization for these firms, and whether there are other methods through which Colombian companies can pursue internationalization in a better way than with the Uppsala Model. Another suggestion would be to conduct a research with a larger sample of enterprises from Colombia to assess whether the findings in which this paper is based are still consistent with the Colombian business sector development.

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