working paper 1997/2

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A note on the criticisms against the internationalization process model

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1997

ABSTRACT

The internationalization process model introduced three decades ago still influences international business studies. Since that time, a growing number of researchers have tested the model to show its strengths and weaknesses. Among the critics, some focus on the weakness of the theoretical aspects, while others argue against parts of the model. This paper will review these criticisms and compare them with the original ideas in the internationalization model.

One criticized aspect of the internationalization model is the concept of commitment, which is treated by researchers via measurable indicators, i.e. tangible commitment. The aim of this paper is to study commitment from a different angle and deal with intangible commitments which are connected to the concept of psychic distance in the internationalization model. Exploration of the elements in commitment strengthens the model for the internationalization process. It also opens new doors for the use of the model for other internationalization modes, like project selling. To test the concept, a summary of a historical study in which firms lose their tangible commitments and rely only on intangible commitments is given.

Introduction

International business research has made enormous strides in the last three decades. The research arena for international business -- an arena which includes a variety of theories and models -- has been divided by perspectives ranging from economics to organizational behavior. One is the transaction cost theory, which concerns bounded rationality and opportunistic behavior [Williamson, 1981]. Another, the eclectic paradigm [Dunning, 1981], introduces the three variables of ownership advantages, internalization and local advantages. Advantages are understood from the viewpoint of economic competitiveness, which is assumed to be an economic asset whether it is tangible or intangible. The eclectic paradigm, contrary to the internationalization model, is static in nature. While the eclectic paradigm predicts that production will be established where advantages can be enjoyed, the internationalization model, which is concerned with a firm's behavior, predicts that firms will enter countries where they have more knowledge and experience.

After they appeared, these theories and models were scrutinized and supported or criticized. Later studies like Andersson [1993] and Ford and Leonidu [1991] have gone further, examining the research that scrutinizes these models. They have concluded that theoretical and methodological shortcomings have led to incomplete and/or inconsistent insights into the field of international business.

One of these models, the most cited ever published in the Journal of International Business, has been reviewed and tested in a considerable number of studies. It is the internationalization process model [Johanson and Vahlne, 1977]. The underlying assumption when testing the model is that there is a connection between the progressive stages of the internationalization stage model and the variables of commitment and knowledge in the internationalization process model (IP-model). The stage model is merged with the IP-model and is treated as one, since the concepts are seen as being interchangeable.

This led to some studies completely rejecting the IP-model, since their observations did not correspond with the progressive stages in internationalization modes [Engwall and Wallenstål, 1988]. Others had more modest objections and remarked on some inconsistencies in the appearance of the stages [Calof and Beamish, 1995; Forsgren, 1989; Hedlund and Kverneland, 1985;].

The aim of this paper is to study the IP-model in a different way and to comment on criticisms of the model. The ultimate aim is to increase understanding of the original ideas in the IP-model and provide the legitimacy which the model deserves. The paper will first concentrate on how critics operationalize the concept of commitment and then present a discussion about components of the commitment. The study mainly concerns itself with intangible commitments which are connected to the concept of psychic distance in the IP-model. Examination of the commitment concept extends the province of operationalization. It also opens new doors for the use of the model for other internationalization modes like project selling. To more clearly examine the concept, a summary is given of a historical study in which firms lose their tangible commitments and rely only on intangible commitments.

Internationalization Process Model

The IP-model was first suggested about three decades ago, but still has a dominant position in international business studies. It has its theoretical base in the behavioral theory of the firm [Cyert and March, 1963; Ahroni, 1966] and the theory of growth [Penrose, 1959]. It characterizes internationalization as a process which evolved from the interplay between the development of knowledge and market commitment [Johanson and Vahlne, 1977 and 1990]. Originally, the model [Johanson and Vahlne, 1977] was inspired by the study done by Johanson and Wiedersheim-Paul [1975] which was carried out two years before presentation of the model. These two studies are presented as being interdependent and mutually related to each other.

For the purposes of this study, we need to make a clear distinction between the two studies of Johanson and Wiedersheim-Paul [1975] and Johanson and Vahlne [1977]. In the first study [Johanson and Wiedersheim-Paul, 1975], the internationalization of four Swedish companies became the basis for the hypothesis of four-stage progressive development in internationalization (stage model). These four sequential stages are:

1. no regular export activities
2. export via independent representatives (agents)

3. sales subsidiary, and
4. production/manufacturing

In this view, the assumption is that the firm develops in the domestic market and internationalization is the consequence of a series of incremental decisions. The authors also assume that the principal obstacles are reduced by incremental decision making [Luostrainen, 1977]. This in itself seems to be connected to learning about the foreign markets. The perceived risk of market investment declines and internationalization proceeds by increasing the need to control sales in each specific country.

In this model, the extension of activities in a market is related to the psychic distance [Grady and Lane, 1996]. Firms would enter new markets with successively greater psychic distance. Psychic distance, the dominant concept in this study, is defined as factors, such as differences in the language, culture, political systems, and level of education, which prevent or disturb the flow of information between firm and market. Increasing knowledge of neighbor markets, i.e. decreasing the psychic distance, will provoke a firm to proceed with its internationalization process. The change in market distance occurs fairly slowly.

A critical issue in this paper is the assumption that the internationalization process can be connected both to the level of a firm and the market. There is no clear distinction between the two. The results of the empirical study refer to the firm's internationalization process; but the earlier section of the paper concerns the internationalization process for a firm in a specific market. When operationalizing the model, agreement in the perceptions of internationalization at the firm and market level may lead to results that disagree with the model.

A comparison of the stage model and the study by Johanson and Vahlne [1977] shows fundamental differences between the two. The first study uses four case studies to present a conceptual framework in which the emphasis is on psychic distance. In the next study, the authors refer to other empirical theoretical research, based on traditional microeconomics and marketing theory [Johanson and Wiedersheim-Paul, 1975, Carlson, 1966; and 1975]. The ultimate goal is to present a theoretical model through the behavioral theory of the firm.

The study presents a dynamic model which focuses on an individual firm --particularly its gradual acquisition, integration and use of the knowledge of foreign markets -- and on progressively increasing commitment to the foreign market. The model, which is further developed in the later study [Johanson and Vahlne, 1990], incorporates some results from previous empirical studies of the development of international operations. The internationalization process is explained as the product of a series of incremental decisions. Compared to the earlier study [Johanson and Wiedersheim-Paul, 1975], the role of psychic distance is reduced and the concepts of commitment and knowledge become the underlying basis for the model.

In the studies of Johanson and Vahlne [1977 and 1990], the clear expression of stages from no export to direct investment [Johanson and Wiedersheim-Paul, 1975] is replaced by successive and incremental commitment. The stages are presented as only one of the possible indicators. The concepts of commitment and knowledge are expressed in a broader, more extensive and clearer manner in the IP-studies [Johanson and Vahlne, 1977 and 1990].

The main focus of this model is the distinction between the state and change aspects. The state aspects are market commitment and market knowledge. The change aspect concerns resource commitment decisions and the performance of current business activities. A decision for market commitment depends on what the firm knows about the market and what it has committed to the market. Incremental progress addresses the reduction of risk in the international market. Market commitment is explained in terms of the amount of resource commitment and the degree of commitment. The amount of resources can be seen as the size of the investment and the degree of commitment, which is concerned with transferring and using resources in alternative ways.

For this concept, the authors divide knowledge into general and market-specific categories. Market-specific knowledge can be gained through experience in the market whereas general knowledge can be transferred from one country to another. Knowledge can be considered as a dimension of human resources. The more knowledge a firm has about a market, the more valuable is the resource and the higher will be the commitment to the market. The later study [Johanson and Vahlne, 1990] explains that the firm can be viewed as a loosely coupled system involving different types of actors. This aspect is connected to the relationship in the industrial network model [Håkansson, 1982; Turnbull and Valla, 1986].

The research in industrial networks has shown that relationships develop through an interaction in which the parties build mutual trust and knowledge and a strong commitment to the relationship [Ford, 1979; Young and Wilkinson, 1989]. Therefore, a firm's internationalization process model is explained in terms of incremental increases in knowledge and commitments in the relationships between actors which is connected to change in the trust between these actors. Thus, the changes in knowledge and commitment imply a change in behavior.

Criticisms Against The Internationalization Process

Various criticisms have been made against the IP-model. Some, like Oviat and McDouglas [1994], take a modest position and refer to the partiality of the IP-model. They say that just because the IP-model cannot be applied to some conditions, it does not mean it is invalid and cannot be applied to other situations. Grady and Lane (1996), when studying psychic distance, propose some modifications to the conceptualization and measurement of the concept. There are others who are more critical. The explanatory power of the model is criticized by researchers like Millington and Balyliss [1990] and Sullivan and Bauerschmidt [1990]. They reject the alleged influence of psychic distance and state that incremental internationalization fails to explain the phenomenon of internationalization. In general, the critics can be divided into two fundamental levels: One which primarily concerns the "stage theory," and the other which concerns the IP-model at the conceptual level [Andersson, 1993; Johanson and Vahlne, 1990].

Calof and Beamish [1995] contribute new knowledge by giving broader definition to the concept of internationalization. When discussing stage theory, they state that the research suffers from some key problems. In their view, firms do not necessarily follow the stages. They state that studies showing a positive relation between the theory and empirical findings have a methodological problem. Internationalization is defined as "the process of adapting firms' operations," and they subsequently present a model for executives' beliefs and attitudes for changing the internationalization mode.

Grady and Lane (1996) use the same perspective; i.e. they are concerned with executive behavior and its role in internationalization process. They examine the managers' perception of cultural differences -- explained by the variable of psychic distance -- and suggest modifications to the psychic distance concept.

However, in most of the cases, those who claim theoretical shortcomings also operationalize the IP-model by referring to step-wise strategic changes. Engwall and Wallenståll [1988], when testing the model against the internationalization process in Swedish banks, claimed that internationalization was provider-driven instead of customer-driven. The first commitment is explained as the decision to enter foreign markets. The study disregards the risk factor. The perceived risk is the fundamental belief in bounded rationality [Cyert and March, 1963] which constitutes the basis of the IP-model.

Such interpretation of the model leaves no room for a discussion of other aspects such as general commitment in the network or intangible commitment before market entry. Intangible commitments are investments in the social context. The network concept is explained by the variable of actors' bond [Hadjikhani and Håkansson, 1996; Håkansson and Snehota, 1995].

Contrary to the study of Engwall and Wallenståll [1988], Forsgren [1989] argues that the IP-model provides important knowledge of the early stages of the internationalization process. Market knowledge and market resources are no longer a problem in the later stage. Similar findings, i.e. consistency between the early stages in the IP-model and behavior of the firms, are presented by other researchers. Johanson and Vahlne [1990] explain this criticism as concern with the range of validity of the model. They claim it should be shared with the direct investment theory in which the disadvantage of a foreign market compared to a domestic market is a basic assumption. The concept of knowledge in the IP-model is also criticized by Hedlund and Kvereland [1985]. They found evidence that development patterns of firms were not in accordance with the expected patterns of the internationalization process. Lack of market knowledge, they explain, is no longer a factor limiting the space and patterns of the internationalization of firms.

Other researchers are concerned with the stages, explaining them as deterministic [Reid, 1983; Thurnbull, 1987; Rosson, 1987, Young *et al*. 1989]. They argue that the choice of export mode will depend on several factors, including foreign market opportunity, the firm's resources, types of life cycles and the choice of export mode. Sullivan and Bauerschmidt [1990] found no differences in perceived barriers or incentives to internationalization among managers at various stages of internationalization. They state this may be because recent changes in international competition have weakened the explanatory power of the IP-model. Turnbull [1987], when arguing against the IP-model, presents a strong conceptual and empirical criticism of the stage theory.

For his study of the internationalization process, Cavusgil [1982] presents a model for the exporting firm consisting of four progressive stages. He examines seventeen variables showing low predictive levels on the movement from one stage to the next. The author remarks on the important role of information, specifically to the first stages. Information plays two significant roles. One concerns seeking information from external sources, which he explains does not fall within the term experiential knowledge. The second role is the difference in the perception of information between managers, depending on factors such as the manager's age. In response to the first criticism, it can be said that the use of industrial networks [Johanson and Vahlne, 1990] permits better understanding of the IP-model [1977]. The network model permits further extension of the concepts. The firms function in a network of relationships, exchanging information. The gradual increase in trust between firms is advanced by the coordination of information and commitments among actors. Information exchanged by close associates can become a part of the main player's knowledge.

Czinkota [1982] made an effort to test differences among stages, but did not attempt to explain the successive process in the stages. Like Cavusgil [1982], he divided the export into several criteria which permitted him to differentiate among the stages. Some researchers go so far as to see stage theory as the IP-model.

Some researchers think the studies make critical arguments against the IP-model. Sullivan [1994] refers to the degree of internationalization of a firm and explains that critical studies lack validity in measurements. The critical studies, he says, are mainly concerned with measuring a single variable. The results of that measurement have become a basis for general conclusions against the IP-model. He claims measurement errors can understate or overstate models like the IP-model.

Andersson [1993] has a similar view. When comparing the two models (internationalization process and innovation-related internationalization), he states the problem is a matter of theory explanation. For innovation-related internationalization, the author presents the research of Bilky and Tesar [1977], Cavusgil [1980], Czinkota [1982], and Reid [1981], who all critically study the IP-model and stages of export activities. Andersson [1993] states there is little attention paid to the time dimension of the process; i.e. the problem of time boundaries between stages. Accordingly, the author proposes a case study method to overcome such methodological problems. Similarly, Calof and Beamish [1995] say there is a need to look at the firms longitudinally.

How the IP-Model is Operationalized

Andersson [1993] states some studies diverge from the original idea in the IP-model. But in Andersson's study, it is difficult to see a clear distinction between the stage model and the IP-model, since the author compares a united version of the two models with other studies testing the models.

The review above explores several fundamental aspects of the IP-model. The following section will attempt to show the agreement between the IP-model and what the tests have been examining.

Andersson [1993] concludes that empirical design should be adapted to the theoretical model of the internationalization process. The most critical issue then becomes the operationalization of the tests. In almost all the empirical cases discussed above, operationalization of the IP-model was correlated with the stage processes.

The major objective of the studies was to determine whether firms did or did not follow the stages of the internationalization process. Inconsistency between the two provided a reason to reject or question the IP-model, despite the fact that the IP-model and stage-model have different purposes and different targets. In the stage model [Johanson and Wiedersheim-Paul, 1975], the authors put the main emphasis on the two concepts of psychic distance and stages in the internationalization process. The results from this and other empirical studies constitute the grounds for generalization of the IP-model, which is fundamentally concerned with the three variables of commitment, knowledge and risk.

In the IP-model, the variable of psychic distance is less important than the determinant variables of commitment, knowledge and risk. The studies critical of the IP-model acknowledge there is an equilibrium between the concept of development in the IP-model and progressive stages. This can be observed in the studies of Cavusgil [1980 and 1982], Turnbull [1987] and Forsgren [1988]. In testing the IP-model, they checked if, and how, the firms followed the stages from export to direct investment. When firms did not follow the progressive stages, the IP-model was criticized. These studies interrelate two models with completely different constructions. The stage-model prescribes only one specific aspect in the IP-model and not the whole.

Another decisive area, also related to the first aspect, concerns the definition of the concepts. The IP-model includes the three basic concepts of knowledge, commitment and risk. Reviews of the IP-model are mainly concerned with matters of investment and strategic decision. They fundamentally presume that the strategic decision to select an internationalization mode is related to the factor of commitment. They simply correlate the two variables of strategy and commitment and identify them as one and the same. A closer review also shows that some explain commitment in terms of financial involvement in foreign countries. More precisely, the commitment variable is explained by strategy and high financial commitment.

There is a crucial difference between strategic commitment and the commitment described in the IP-model. Examining the studies testing the IP-model, Sullivan [1994] explicitly criticized the studies having such a tendency. The author instead presents variables such as R & D activities and export sales to measure the performance attribute of internationalization. This explanation covers a broader arena, but still focuses on the component of tangible commitment. Before we criticize the way this concept is operationalized in these studies, we need to look back at what commitment is and how commitment is integrated into the IP-model.

Commitment in Webster's dictionary is defined as: *an act of committing to a charge or use* and committing is explained as: *to carry into action* [Webster's New Collegiate Dictionary, 1979]. The definition includes all types of actions related to another player. Strategic decisions are just one type of commitment (Calof and Beamish, 1995). Export or direct investment are strategic commitments which are demonstrative and easy to study. Demonstration of commitments in terms of financial or organizational measures [Sullivan, 1994, Sullivan and Bauerschmidt, 1990; Engwall and Wallenstål, 1988] can be easily related to the overall commitment of a firm in a market. Since economic commitments are more visible and can easily be quantified, an example may help to understand and differentiate the components of the commitment.

Assume that a firm faces a critical situation where it loses all its investment and must leave the market. According to the definition of commitment which implies capital investment, the firm will have nothing left in the market. Further, it is possible to state that since progressive stages are interrupted and economical commitment is lost, the firm will have no residual knowledge as a result of exiting the market. The local organization will suddenly forget all about the firm and its products.

Arguing against such an explanation, Becker [1961] explains that economic life in commitment shows us the skeleton, but we need to look for more complicated social processes. He states, *"We cannot, of course, often expect social life to be of the classic simplicity of this economic example. Rather, interests, side bets and acts of commitment, and consequently behavior, will seem confounded and irremediably mixed, and it will require considerable ingenuity to devise appropriate indexes with which to sort them out"* [*ibid,* p. 36]. The explanation divides economic input from social input in the commitment. Social input can have side-effects or negative impacts on other commitments. Social input can also be intangible, i.e. the consequences of actions are not necessarily obvious and easily measured. This corresponds to the factor of psychic distance in the IP-model.

Such a broad view discloses several aspects of the commitment. One concerns the differentiation between economical and social commitments. Another relates to the types of commitments, which can be either tangible or intangible. Intangible commitments are sometimes by-products of tangible assets [Itami, 1987]. The third aspect relates to the consequences of the above commitments; which besides having obvious and short term economical signs, can also contain obscure and unnoticed effects. Finally, since commitment is defined as action in a social context (in the embedded relationship), the consequence is related to trust.

A similar point of view is taken in the study of Andersson *et al*. [1996 Commitment is explained as desire to maintain a relationship. Accordingly, they present three components: a) input, which is the investment of resources, b) attitudinal, which concerns the intention or desire to maintain or continue the relationship, and c) temporal, which concerns the durability, stability and consistency of commitments. The explanation does not consider the content of the commitment. The focus, rather, is on the connection between commitment and the trust relationship. In this research, commitment is phrased in a different way. Like the explanation of Becker [1961], components are explained in terms of tangible and intangible.

The types and components of commitments become clearer when Johanson and Vahlne [1990] explicitly compare the internationalization model to the network model. Using relationship and interdependency, they give a clear explanation of what they mean by commitment and knowledge in the first study [1977]. To explain the level of resources, the authors cite an example of resources which cannot be used for other purposes: those which center around the products of the firm and establish integrated customer relationships. The explanation incorporates intangibility of the resources committed to the product and also pertains to the relationship aspect. The tests of the IP-model do not address such aspects in the commitments and only refer to the amount of resources which are easy to grasp. Tangible commitment is measurable and demonstrates itself in terms of changes in the level of investment or in organizational form.

In the above, the explanation specifically notes operationalization of the concept of commitment. The reviewers observed strategic decisions, investment and financial and organizational changes as indicators of the internationalization process. One critical issue left untouched was intangible commitments. Justification of the commitment concept in the IP-model must be explained and demonstrated empirically. The empirical evidence should separate the impacts of different components in commitment as well as illuminate their individual impacts on the internationalization process. This procedure would not only help to define tangible and intangible commitments, but also help to gain a deeper understanding of the IP-model.

To obtain such empirical evidence, nine historical case studies were performed, focusing on tangible and intangible commitments. A summary of these case studies is given in the following section. The cases concern the behavior of Swedish firms in the Iranian market over a 30-year period.

The Procedure

As explained above, studies against the IP-model were derived from the standpoint of “amount of resources” or quantitative manifestation of measurable facts. Changes in the investment or the organization are tangible changes that can be easily observed, calculated and manifested. The aspect of intangible commitment in psychic distance is not as easy to grasp. To overcome such a problem, this study has selected cases which reduce the role of the tangible commitments and subsequently show clearly the aspect of intangibility. Doing this may expose the concept of commitment and identify its impacts on the firms' behavior. There is, however, a need for caution. Cases must be in one specific market and be concerned with drastic changes in the tangible commitments. Any inconsistency in the development of the tangible and intangible commitments would connect each commitment to the firm's behavior.

This is a historical study covering a 30-year span and is divided into two periods. In the first period, the period before revolution (1979), firms were following the progressive process in internationalization and were increasing their commitments in the Iranian market. In the next period (1979-1992) political turbulence forced firms to act rapidly since their earlier tangible market commitments and the future of the market were questionable. Firms lost their tangible commitments regardless of internationalization modes, export, joint venture (JV), or sales subsidiary.

The empirical part of this study is based on information from nine Swedish multi-national corporations (MNC)s operating in Iran, some for more than 30 years. The empirical work has passed through several stages. The information was collected through 42 interviews with Swedish and Iranian mangers in different time periods (1987-1992); and also by studying literature about Swedish firms in the Iranian market.

The primary source of information has been interviews with Swedish managers and Iranian managers involved in business before and after the revolution. Interviews were also conducted with Iranian authorities and the Swedish Export Advisory. The first contact with Swedish MNCs (in Sweden) was established in 1987, followed by interviews with responsible managers. In 1991 and 1992, interviews with Swedish and Iranian managers were carried out in Iran. For the firms under study, interviews were conducted with more than 25 managers from Sweden and more than 17 managers from Iran . Some managers, like those from Electrolux, were interviewed four times; and others, like those from Studsvik were interviewed only twice (since the firm left Iran after the revolution).

The Iranian managers who were interviewed can be categorized in three groups: a) those who were active before the revolution, b) those who became active after the revolution, and c) those who did not have top positions in the firms before or after the revolution, but had information about the firms.

The unpublished study of Kleverman (1984) on the political turbulence in Iran and Swedish firms through 1983 was also reviewed. The study is about 18 Swedish firms and their market operations from 1970 to 1983. It gives general facts about Swedish exports to Iran and also contains information about turbulence in these firms' sales in Iran caused by the revolution (the firms in this study are among these cases).

A major source of information was the group of Swedish subsidiary mangers responsible for the Iranian market during the crisis period. Some managers, i.e. those with Volvo, Atlas Copco, and ASEA, were active during the critical period and then left the country, at which time new managers assumed responsibility. The former managers did return after three to four years, and resumed their positions. In the case of Saab-Scania, the subsidiary had the same manager at different periods. Swedish managers of subsidiaries for firms such as Electrolux, Alfa, Pars, and Ericsson were changed after the revolution, because the type of operation had changed. Some of the firms (such as Alfa and Pars) are operating through local agents, whose managers were interviewed in turn. Ericsson became active in the late 1980s, and a completely new manager took charge. Interviews with him were carried out in Iran.

The major source of information about Electrolux was the subsidiary manager immediately after the revolution. The manager responsible for the market before the revolution was also interviewed. Another main source was the group of Iranian managers who were active in the Iranian market, who left Iran for several years, and who returned later when political conditions were safer. These managers, who became active in other businesses after their return, were also interviewed.

Another category of managers interviewed consists of those Iranian managers who were agents or marketing managers of Swedish firms in Iran. Interviews with Swedish managers and other sources made it possible to compare the findings, Complementary information was gathered in Sweden in 1991 and 1993. The following section contains a summarized version of the facts which only presents issues related to the matter of commitment.

The Cases

The Period Before Revolution: Table 1 summarizes the internationalization modes for the years 1960 to 1992.

In the period before the revolution, Volvo, Electrolux and Atlas Copco followed the so-called stage theory from export to joint venture. Atlas Copco went from export to sales subsidiary. SAAB, which entered the market in the 1960s, did not succeed in penetrating the market; and, in 1976, interrupted its export activity. Ericsson and ASEA had subsidiaries for selling projects. ASEA increased its project commitment every year (from 20 Million Swedish Kronor in 1960 to 1,200 Million Swedish Kronor in 1978). Ericsson, on the other hand, had difficulty in the market.

Table 1. Modes of Operation for Swedish Firms in Iran (1960-1992).

	EXPANSION	REVOL. WAR	WAR	EXI
COMPANY	1960-1969	1970-1978	1979-1983	19
1. VOLVO	EXPORT - THEREAFTER SALE SUBSIDIARY¤	PRODUCTION SUBSIDIARY LICENSING JOINT VENTURE	SALES SUBSIDIARY EXPORT	SALES SUBSID
2. ELECTROLUX	EXPORT TO SALES SUBSIDIARY	PRODUCTION SUBSIDIARY SALES SUBSIDIARY	SALES SUBSIDIARY	SALES S AGENT LICENS
3. ATLAS-COPCO	EXPORT	SALES SUBSIDIARY	SALES SUBSIDIARY	SALES S
4. ASEA	PROJECT SELLING	PROJECT SELLING, JOINT VENTURE	PROJECT SELLING	PROJEC SELLIN
5. SAAB	EXPORT	-------------	SALES SUBSIDIARY	SALES S
6. ERICSSON	PROJECT SELLING	SALES SUBSIDIARY	----------	SALES S
7. PARS	--------------	SALES SUBSIDIARY STARTED 1976 AND CLOSED 1978	EXPORT	AGENT
8. ALFA	EXPORT	EXPORT, LICENSING	------------	EXPOR
9. STUDSVIK	------------	PROJECT SELLING	------------	-----------

Parstorp penetrated the market late in 1976, beginning with direct export and soon establishing a sales subsidiary. The historical process shows increasing commitments for firms like Volvo, ASEA, Atlas Copco and Electrolux. History also shows almost a decommitment process for firms like SAAB.

For firms having JVs, the process of internationalization proceeded progressively, accelerated by knowledge received from dominant local partners. The firms were extending their markets by JV, combined with other modes such as licensing. The experience and knowledge gathered indicated low risk and high market expectation. For its licensing, Alfa committed itself to be a dominant market player and that helped the firm move from exportation to licensing. Since its products had medical uses, the firm operated in the market by licensing. On the other hand, Atlas Copco followed the internationalization process, but did not wish to move further than a sales subsidiary. Because of governmental pressure at the end of the 1970s, the managers planned to establish JVs and keep their position in the local market. During the 1970s, Atlas Copco tried not to engage in JV since the market was expected not to be able to support such an investment.

The study of the internationalization process for these firms indicates increasing tangible commitments. For some firms, the process extended from export to sale subsidiary; for others, from export to JV. Firms committed themselves based on knowledge gained through their own experience, or knowledge that related local partners (in their networks) contributed. The partnership was enhanced by: a) increasing commitment using knowledge gained from the partner, and b) reducing risk through joint capital venture. This study will not test the credibility of positive development processes in the IP-model. The more important question is: if a critical situation arises wherein firms lose all their tangible commitments and accumulated market knowledge, how would they behave? Studies against the internationalization process leave no option for such a case.

The Period After Revolution: This period can be divided into two distinct parts: A and B. (See Table 2 next page) Period A covers the years 1978-1983, and period B concerns the years after 1983. Period A is before political consolidation, when the political situation was unstable and there were several competing political groups challenging for power. After 1983, the regime removed its opponents and the ruling government succeeded in bringing more stability to the market.

Table 2. Commitment and knowledge for Swedish MNCs.

Firms	Commitment and Knowledge		
	Period 1	Period 2	
		Period 2A	Period 2B
Atlas Copco	Growing commitment to service-intensive marketing. Increasing knowledge about private industrial customers. Close interaction with private industrial customers	Commitment only to serve their product. Market knowledge irrelevant-renewing. No interaction.	Resumed commitments to service intensive marketing. Building new market knowledge. Interaction with political and private actors.
Volvo	Growing commitment to local production. Good reputation for 20 years of market operation. Increasing market and political knowledge. Close interaction with JV partner	Staying and negotiating for earlier investments. This was also a **means of** collecting knowledge. Swedish government acted to increase interaction. Market, political knowledge irrelevant-renewing. No interaction.	Cautious market commitments No JV.Building new market knowledge. Interaction with political actors and state departments.
Electrolux	Growing commitment to export and JV. Good reputation for quality. Increasing market knowledge. Close interaction with JV partner	Staying in the market and negotiating with business and political **people** about the market and needs. Swedish government acted to increase interaction. Market, political knowledge irrelevant - renewing. No interaction	Cautious market commitment, no JV. Building new market knowledge. Interaction with political and market actors.
ASEA	Growing commitment to project marketing. Increasing knowledge **of** infrastructural customers. Close interaction with state departments.	Negotiation of earlier and new commitments. Rebuilding knowledge on infrastructural customers. Intensified interaction with new actors.	Increasing project commitment. Increasing market knowledge. Interaction with state departments.
SAAB	Very slow increase in market commitment. Despite good reputation, **unsuccessful** and leaves the market.	Watching the market from Sweden. Knowledge is general and is perceived from secondary sources. Private buyers ask **firm** to return because of product quality.	Returns to the market to **make** an offer. **Starts** to build new market knowledge. Interaction with state departments.

Alfa	Growing commitment to local licensing production units. Good reputation for high quality. Increasing service to the market. Close interaction with licensing partners.	Political accusation and leaves the market. Private buyers **ask firm** to return. Interaction for legal issues to remove accusations.	Returns to the market. Cautious market. End buyers know about the product. Increasing knowledge and very soon, growing commitment. Interaction with private sector and state departments
Pars	Late entry, but growing commitment because of quality. Increasing market knowledge. Close interaction with agents.	Leaves the market. Watching the market from Sweden. Knowledge is general and is perceived from secondary sources.	Returns to the market. Building **new** knowledge through agent. Soon, increase in the commitment. Buyers know the product **has** high quality. Interaction with private buyers.
Ericsson	Project commitment started 1950s but did not have much success. The name was well known for good quality. Not sufficient knowledge to interact with dominant market actors.	Leaves the market. Watching the market from Sweden. Knowledge is general and is perceived from secondary sources.	Did not return before 1988. Despite good name in the market, still has **problems**. Few **successes**. Interaction with state departments.
Studsvik	Project commitment started 1976. The firm is small and known **by** few buyers. Market knowledge is low.	At the beginning, aimed to stay. When interacting partners disappeared, the firm also left the market. Very low market knowledge.	Total exit, despite the fact that the earlier project restarted.

The rapid political change (mass demonstrations in 1977-1978 and revolution in 1979) surprised all of the local and foreign businesses. The dominant local actors, who were mediating the relationships between the political and business actors and were related to the local business people, left the country. Ultimately, Swedish firms like Volvo and Electrolux, were left alone in a collapsed business market. These firms had made a high financial commitment, assuming there would be stability. The response of the Swedish firms varied, however. As Table 3 illustrates, we can find firms like Volvo, which stayed in the market despite coercive actions from the government.

Table 3. Swedish firms' Market Behavior During the Crises.

	Stayed-Sleeping position	Exit-**Quick** Reentry	Exit-Late Reentry	Exit-No Reentry
Joint venture	Volvo, Electrolux			
Export, **sales** subsidiary	Atlas Copco	Saab, Pars		
Licensing		Alfa		
Project selling	ASEA		Ericsson	Studsvik

Table 3 shows there is no connection between the response of the firms and internationalization modes or tangible commitments. Their behavior is not solely related to the aspect of tangible commitments. As will be discussed in the following section, their behavior was mainly connected to the aspect of intangible commitment. A general conclusion is that those firms which had previously made a high degree of commitment stayed in the market. But their major reason for doing so was not to save the earlier tangible commitments. Information in the cases shows that the firms' interest in taking over their own JVs and licensing contracts rapidly declined. The reasons for not taking over the earlier financial commitments were: 1) expected high risk for close cooperation with local businessmen, since the business environment was still turbulent and firms had no way to predict future development, and 2) the market could easily be operated by export. Table 3 shows no connection between the internationalization mode and strategic decisions of the firms.

The firms employed a "sleeping strategy" to: 1) utilize the earlier intangible commitment, and 2) further invest in intangible commitment to reduce psychic distance with completely new market actors. The commitment at this stage was mainly to strengthen the intangible commitments that the firms had made during several decades of operation. The intangible commitment in the crisis period contained simple actions like "showing themselves" to be still in the country.

Despite the internal crisis and the war between Iran and Iraq, 1982-1988, the firms' existence in the market was appreciated by more than just the market actors. Even politicians and the local populace admired Swedish managers who stayed in the market and faced the same social troubles that the local people had been facing. These commitments gained more force, not from former partners, since they had left the country, but from associates standing on the outskirts of the networks. The positive attitude of the local people towards Swedish firms (which had become famous for being honest and having high-quality products), and the position taken by the Swedish government regarding the revolution and war against Iraq, were two examples of such commitments.

The firms' so-called international network -- the factor of general knowledge --also played a significant role. Earlier experience with similar turbulent markets was important to firms like Volvo, Electrolux and Atlas Copco which employed a sleeping strategy. When all of the major business people left the country and new politicians took over, the value of specific knowledge was reduced dramatically. The firms were left completely alone with no active relationships. What was left from their decades of operation was sleeping relationships with people on the edges of the network. The sudden change in the political system required rapid decisions. In such conditions, general knowledge about how the firms acted in similar situations such as Turkey, Brazil and India became important. The combination of these factors (intangible commitments and general knowledge), encouraged the firms to stay in the country despite economic losses and an unclear future.

Threats like the nationalization of properties did not frighten firms like Volvo, Electrolux, and ASEA. All three firms, especially Volvo, had made large investments in the country. These firms also had local assistants whose names were on the political black list. Logically, the risk for a larger loss by staying in the market was high. Their general experience in similar markets, however, yielded a belief that conditions would improve. They decided to stay.

Alfa, active in the market since 1962, did not want to leave. The firm left the country for a short period, mainly because of political accusations, but returned by 1984. SAAB and Ericsson left because neither had much success in the market during the 1970s. Pars entered the market in 1976 and left in 1978. During this short period the firm started with export and then opened a sales subsidiary. They moved to a sales subsidiary because the market was mainly coordinated by a local partner with experience selling products similar to Pars'. The firm returned to the market again in 1984 after the local partner returned to the country. Studsvik exited because of its small size and lack of experience operating in such a country or managing turbulent conditions. The firm entered the market late in 1976 and had a few minor projects. It did not know how to react. When political problems increased, the firm left the country forever.

Eventually, the firms that stayed in the market were those that had made a high level of tangible and intangible commitments before the turbulence. When they lost tangible commitment in the market, only intangible commitment was left ,which they used to successfully build a trusting relationship with market actors. They stayed because they wanted to maintain these commitments and strengthen them for future tangible commitments. General knowledge of similar markets indicated that leaving could cause loss of commitments. When conditions improved, the market would be occupied by those who had stayed. Their presence could complicate re-entry for those who left the market. On the other hand, the strategy of sleeping or increasing commitment could incur extra costs.

Firms began the re-internationalization phase in different periods. Where politically coercive actions were specific (e.g., for Volvo and Electrolux the nationalization of their properties) attempts were made to negotiate with the new politicians and bureaucrats to lessen the impact. The local people and the buyers had high confidence in the products and in Sweden. Several decades of intangible commitments, together with pressure from the people, decreased the level of mistrust. The fundamental problem was mistrust among the local bureaucrats. Such complications, together with problems arising from the war, forced firms to choose the sleeping strategy.

They focused all their efforts toward understanding the situation, since the period of political consolidation (1980-1983) also featured daily changes in the business rules. Investments in intangible commitments were made to show their willingness to help political and business people address industrial problems. ASEA, soon after the revolution, launched two big projects. Firms which increased their tangible and intangible commitments realized that a trusting relationship (even with costs far beyond benefits) with the new market actors was essential for future market operations.

Another example was Atlas Copco. Despite financial losses, the manager stated they wanted to stay; since the firm had made promises before the revolution to give buyers service whatever the conditions. The manager promised the firm would not sell a product and leave the buyer without service.

Comparison of the case studies shows that it was not purely the type of operational mode or tangible commitment that affected the behavior of the firm. The behavior was also a consequence of historical commitments and future expectations. A static picture of the tangible commitments does not reveal all the facts. It must be connected to previous intangible commitments and future expectations. A deeper analysis of the firms' behavior, however, shows two fundamental factors: earlier intangible commitments and future expectation based on general knowledge. The factors have their roots in the IP-process model and are firm and market specific. Regardless of whether a firm follows the stages in the internationalization process (modes), these factors form the basis for decisions in critical situations.

Alfa left the country after the revolution and had no reason to come back and take over its investments in the country. But Alfa's products were known for good quality and Alfa's name had a good reputation. Hospitals and medical doctors pressured the government to ask Alfa to restart exports. Alfa restarted exportation and five years later was negotiating for new licensing. For SAAB, which was not successful before the revolution, re-entry was easy because the competition had changed. The firm enjoyed more support from politicians and people demanded SAAB trucks.

For Pars, it was because the agent was still in the country, and the level of competition was lower. Surprisingly, Ericsson re-entered by 1990, but it was too late. Just as it had before the revolution, the firm entered the market too late. Ericsson sought a general supportive condition; but its competitors stayed and gained specific supports. Ultimately, the only firm which exited and did not return was Studsvik.

Thus, to consider the question of earlier commitment, we need to focus more on the commitment types. International business studies address commitment by considering tangible investments. The IP-model only explains structural change from export of goods to direct investment. When considering other internationalization modes like project selling, the temporary view [Goodman, 1978] mainly treats tangible commitments involving aspects like technological and financial resources for individual projects. Therefore, the project selling mode is not at all connected to the internationalization process model. Project life and commitment is assumed to be temporary (Ghauri, 1984). Further exploration of intangible commitment allows integration of modes like project selling into the IP-model as necessary.

ASEA entered into the market several decades ago. The firm succeeded in achieving a positive position in the market which subsequently increased the size and value of its projects. Buyers knew all about ASEA and its products and service beyond the contracts. The project commitment not only related to the short term resource transaction between buyer and seller, but also contained other commitments that lasted longer than each individual project. The intangible commitments in each project left a network which interconnected the projects to each other. The network derived from the quality of the products, connected services and personal interactions, and ultimately affected the relationships between ASEA and buyers or firms connected to them when the next project was negotiated. Some networks related to individual relationships will get lost because of changes in the buyer's structure. But others will remain and can become stronger if, as ASEA did, the firm tries to maintain it. The stronger the emphasis in the period of discontinuity between projects (containing intangible assets], the more possible it is to increase the value of project commitments in the future.

Atlas Copco's managers believed that the firm had to service its products, despite the political crisis. Intangible commitments before the crisis and after revolution strengthened Atlas Copco’s market position. Two years after the revolution, the new buyers declared their willingness to cooperate with Atlas Copco. The politicians authorized Atlas Copco to help buyers with purchases of the company’s products as well as with other products outside the firm's product category. The buyers stated that the firm might easily have left the market because of turbulence after the revolution and threats to human safety arising from the war. The firm was appreciated because it stayed in the market despite losing money after the revolution.

In spite of the nationalization of Volvo's and Alfa's properties, the firms maintained a positive reputation. However, several years worth of good reputation were damaged during the beginning of the revolution because of the firms’ connection to local partners associated with the former political regime. Shortly afterwards, the firms succeeded in improving their position because of their former commitments and by staying in the market. Even the new authorities, buyers and people knew about these firms and their commitments before and after the revolution.

Ericsson, on the other hand, could not enter the market before the revolution, despite the fact that the firm was known in the country. Failure in the project market was another reason for not being able to assign intangible commitments. Competitors had success in the market before the revolution and acted like ASEA. Ericsson returned to the market after the revolution and a long-term sleeping position, but was faced with a similar situation since competitors had been active during the period that the firm was out of the market. We therefore can conclude that for business people, an earlier intangible commitment is an asset which plays an important role in exploring the IP-model.

Final Comments

Criticism of the IP-model has its origin in the tangible part of the commitment. Because of this fact, sometimes operationalization may not correspond with the model. These studies can be questioned from four fundamental areas:

a) Mixing the stage theory with the IP-model.

b) Measuring commitment by financial or investment data and not covering all commitment aspects in the IP- model.

c) An operationalization method which does not correspond with what the model requires. The model is concerned with behavior of specific firms in specific markets. It is further concerned with successive engagement which has a historical component. The longitudinal case study method can demonstrate the validity of the model (Calof & Beamish, 1995).

d) Interrelating the strategy concept to the IP-model via connection to the stage model.

Studies criticizing the IP-model are concerned with visible, quantifiable measures. Change from one mode to another is connected to organizational change or capital investment. The invisibility of intangible commitments makes operationalization complex, defuse and difficult to quantify. But they are there and develop side by side with tangible commitments. These two types of commitments assist each other. Sometimes one grows faster than the other. Other times one stands still or deteriorates and the other needs maintenance. The degree of invisibility for intangible commitment increases when successive development is positive.

For example, actions of actors far from the core business people can go unnoticed, even while influencing the core operation. When intangible commitment is developed parallel to tangible commitment and is hidden under the quantifiable measures of tangible commitments, the indicators will give no manifestation of the intangible commitment. Intangible commitments function mainly in a social context and their measurement needs qualitative data. This can manifest itself when there is a critical change in the tangible commitment and the firms' actions in saving earlier intangible commitments become more demonstrative and visible.

The case above illustrates one specific fact -- the role of intangible commitments in the IP-model. To simplify the observation problem, the study selected a condition in which the firms had lost their tangible commitments. This is an appropriate method to examine whether commitment contains components other than tangible ones. In the case study, comparing firms that stayed with firms that left the market disclosed that the major difference lay in the level of intangible commitments. If we only concentrate on the matter of tangible commitments, theoretically all the firms should behave similarly. By losing tangible commitments and knowledge, all become equal and react similarly. The study above, however, showed that differences in intangible commitments and general market knowledge were reasons for differences in behavior.

Operationalization of the IP-model in this way also opens new doors for analysis of other internationalization modes. The project selling mode, which abounds in international business studies (stage model), or is treated as a temporary commitment, can gain new features by using the IP-model. Intangible commitments connect projects to each other and give a longer life to project selling firms in international business. Intangible commitments live longer than each project individually. The networks left after every project increase trust between firms and buyers, which subsequently increases the reluctance of the buyers to do business with firms they do not know. Matthyssens and Faes [1985] disclose that even when buyers make completely new purchases, experience with earlier sellers is a significant asset. McMillan's survey [1972] illustrates that buyers commonly perceive that former suppliers are less risky than prospective suppliers. Thus, the internationalization process manifests itself by successive increases in the numbers and values of projects.

Later studies in international business put forward the role of intangible commitments. Intangible commitments are actions not necessarily connected to the specific type of internationalization mode, but aim to position the firm for long-term market operations [Denekamp, 1995]. Intangible commitments can be inward actions within an interaction, or can be outward actions toward members in the network; e.g. to influence a buyer [Hadjikhani, 1996].

The role of the intangible commitment becomes especially significant in critical situations, since tangible commitments may be nationalized or formal contracts may be annulled. These commitments, such as being service oriented or extending assistance beyond agreements, are intangible in nature and provide firm-specific advantages which are connected to response strategy.

In addition to intangible commitments that a business undertakes for its own positioning in the market, there are others in the network that assist the business player with that mission [Hadjikhani & Håkansson, 1996]. There are a number of studies focusing on the country of origin. They examine how the factor “reputation of a country in the international market” influences evaluation and positioning of products or firms originating from that country [Chao; 1993, Roth & Romeo, 1992; Johanson and Nabelzadeh, 1987].

Other studies examine how political risk for a specific firm impacts other firms because they come from the same country [Johansson, *et al*. 1994, and 1987; Hadjikhani & Håkansson, 1996]. The cases in this study also show how actions of actors on the edges of the network affect Swedish firms (e.g. the Swedish government taking sides in the war, Sweden being famous for its neutral foreign policy, Swedish firms generally being known for their good quality). These intangible commitments helped all Swedish firms that stayed in the market. When negotiating with authorities after the revolution, firms were trusted because they stayed in the market. A further conclusion is that intangible commitments also involve other business and non-business people in the network which actively help the firms' internationalization in a specific country.

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