Executive expectation in the internationalization process of banks

The study of two Swedish banks foreign activities

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Abstract


Since the late 1980s, deregulation of the banking sector has opened new avenues for the internationalization of banks. There are, however, few studies on the internationalization of banks – particularly Swedish banks. The purpose of this thesis is to deepen our knowledge of bank’s internationalization process by studying how the executive function’s expectation of market conditions influences internationalization patterns. This thesis makes an empirical contribution by describing how the Swedish banks Svenska Handelsbanken AB and Swedbank AB have internationalized during the period 1995-2014. The empirical evidence comprises all of the two banks’ activities in foreign markets and the qualitative cases describing this process have been constructed using archival data (newspaper articles, press releases, and reports) complemented with interviews.

Beside the empirical contribution the thesis makes a theoretical contribution to internationalization theory and more specifically to Johanson and Vahlne’s (1977) internationalization process model. While Johanson and Vahlne’s model does have a strong explanatory value, it does not fully explain its mechanisms (Andersen, 1993; Leonidou & Katsikeas, 1996) and only firm’s internationalizing incrementally (Liesch et al., 2002). For explanation of both incremental and non-incremental behaviors this thesis provides a proposed view of bank’s internationalization where the concept of executive expectation is developed as a mediating variable in Johanson and Vahlne’s internationalization process model. To this end, executive expectation is described as the driving and hindering force in bank’s internationalization process influenced by exogenous and endogenous changes.

Keywords: expectation, executive, internationalization, banks, knowledge, commitment
Dedicated to my ever supporting and loving
Emma
List of Papers

This thesis is based on the following papers, which are referred to in the text by their Roman numerals.


IV Hadjikhani, A. I., Thilenius, P. ‘Steady-as-she-goes’ or by ‘fits and starts’ – On the pivotal effect of executive expectation in the firm’s internationalization process. *Submitted to Journal of World Business*.

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Foreword

There is an ancient story from the Indian subcontinent about a group of people who touch an elephant in the dark. Each person is assigned to touch a different part of the elephant, for example one touches the trunk, another the leg, a third the tail, a fourth the tusk, and so on, and each one tries to make sense of what the object is despite perceiving it differently. They try to discuss and compare their observations but are in complete disagreement as to what the object is. Each one is also fairly convinced that their perception is ‘true’. In this thesis it is assumed that even if two individuals in the dark would touch the same part of the elephant they could still be in disagreement. What people perceive is to a large extent based on what they expect, their experiences and the prior knowledge they have, which are influenced by the context of the perception. Perceptions are in other words subjective and our past influences what we perceive and expect. Therefore different people will perceive contexts differently, expect different outcomes, and take different decisions accordingly.

Though this thesis will not cover the concept of uncertainty in great depth I would like to take the opportunity and present my view on how uncertainty and knowledge is captured in the concept of expectation. My point of departure is that expectation, what we expect, is molded by our knowledge and perceived uncertainty. The degree of knowledge and uncertainty that fuel expectation varies depending on context and time, thus the two moderators of expectation will always be in imbalance and it is up to us to manage our expectation. Therefore we strive to keep the imbalance tipping towards knowledge in order to, for example, reduce risk. Without bringing in emotional attachment or conditional expectation, the following example seeks to illustrate the relationship between experience and expectation in the management of expectation; how experience can help when making a sound expectation about investments and in the development of specific expectation.

Think about expecting a baby, if you have no or little prior experience of babies and no previous children your expectation will be fuzzy and vague. You do not really know what to expect, you may have some general ideas but you cannot know until you have experienced having a baby and how that will influence your life. If you work with babies and children or have a lot of experience of them then uncertainty decreases. Your expectation will be clearer and less fuzzy. When you are expecting you may be fortunate to receive suggestions from others, such as what to prepare and think about and
so forth. These suggestions are helpful in understanding what to expect. You may start to plan and invest in things that you believe helpful once the baby has been born. Some of these things you invest in may prove extremely helpful compared to what you expected, while others may not. If you are expecting a second baby you may have a clearer depiction of what to expect based on your prior experience. Knowing exactly what to expect is impossible but with the experience you can plan and prepare more efficiently. This time around you may be able to use things that you invested in earlier but the situation since then may have changed. Some things may no longer be functional and perhaps the baby will not behave like its older brother/sister. For example, what calmed the first child may not calm the younger baby. One cannot know in advance what to expect but with experience one can have a clearer idea of what the future might bring.
Introduction

It was just over a decade since the Swedish bank Swedbank AB had begun to internationalize. Since Swedbank’s entry into the Baltic countries (Estonia, Latvia and Lithuania) around the mid-1990s, the bank had developed a strong and leading position in the market. During the expansion, executives in Swedbank had continuously increased their anticipations of the performance of operations in the Baltic market. Each year these anticipations had been surpassed, spurring further investments, several times with bigger investments like acquiring Baltic banks in an effort to push profitability and the market position forward. Around mid-2000s, executives wanted to replicate the success achieved in the Baltic countries and expected to find a new ‘goldmine’. In the course of searching, executives became convinced that Ukraine was ‘awakening from its slumber’. They also anticipated that an entry and expansion would transition smoothly because Ukraine was perceived to be in a similar phase as the Baltic countries when Swedbank started to expand there.

In early 2007, to the surprise of the Swedish media and external experts, Swedbank swooped into Ukraine by acquiring Ukrainian bank TAS-Kommerzbank at the cost of $740M. This was the second largest acquisition in Swedbank’s history and shortly afterwards the executives laid out ambitious plans to expand in Ukraine. Within a few months the number of staff members and offices rapidly increased and lending increased by 112 percent. Simultaneously, several warnings about the possibility of a forthcoming financial crisis were received but dismissed by Swedbank’s executives. Less than two years after the acquisition, and to the surprise of Swedbank’s executives, Swedbank found itself in a completely different situation. Plans and statements that emphasized short- and long-term gains and potentials in Ukraine were abolished once the financial crisis emerged in 2008. What was once ‘crystal clear’ was now ‘challenging’ as Swedbank scaled down and struggled for survival. Swedbank changed all its executives and its organizational structure, and with a helping hand from among others the Swedish government, Swedbank was able to survive. What had been built up was pulled to pieces and in 2013 Swedbank dismantled its operations and left Ukraine at the total loss of almost $1.7B (including activities in Russia, which were minor in comparison).

Around the same time that Swedbank started to internationalize, the Swedish bank named Svenska Handelsbanken AB (SHB) also began to expand. While Swedbank focused on expanding into the Baltic countries (and later
into Russia and Ukraine), SHB had no desire to enter the same countries and instead initially expanded into the Nordic countries. From the beginning of the 1990s up until today, SHB has gradually established operations in the Nordic countries. Meanwhile in early 2000s, SHB’s executives wanted to see if an expansion in the United Kingdom (UK) was possible. After a few years of testing with a few branch offices, the executives became convinced that expanding into the UK would be a success. So from the mid-2000s onwards SHB slowly started to expand in UK. When the financial crisis broke out, the situation for SHB was very different to that faced by Swedbank. The landscape across Europe changed and though no one knew what the future would hold, SHB’s executives believed the situation offered possibilities that would not be present once the dust had settled. Instead of scaling down operations, SHB dramatically increased its activities in UK by for example, increasing the number of offices from 42 in 2007 to 161 in 2013 and staff numbers from 380 to 1260, and lending at 150 percent. SHB was not challenged by the financial crisis as much as Swedbank but had also chosen a completely different path.

The two illustrations above raise several interesting questions about the dissimilarities in the actions of banks, such as how a financial crisis affects the internationalization of banks or how to explain the speed at which banks internationalize. The main point of interest that has inspired this thesis is more general and concerns why the two banks have internationalized so differently. Considering that both started to internationalize around the same time when they were of a similar size, age and despite offering similar services and having similar resources and knowledge about the foreign markets they perceived market potentials differently. They chose different markets to expand into and different approaches to internationalize. So how can we explain these differences and what other questions may be raised by scrutinizing these behaviors over time? Neither bank started to internationalize until early 1990s following the deregulation of Swedish and other foreign banking markets. These two examples illustrate that the Swedish banks not only internationalized dissimilarly but also the executives in the banks seem to have perceived the markets differently. The financial crisis seems to have surprised Swedbank’s executives, who were seemingly optimistic until financial losses became unbearable and were anticipated to escalate. While SHB’s executives may have been surprised, they seem to have perceived their chances differently since they started to invest rather than detract investments like Swedbank did.

Hence, there are a number of differences in the internationalization of these banks, differences that cover firstly how the executives in these banks perceived the markets and acted accordingly. On the one hand executives in Swedbank aimed for rapid internationalization through acquisition of foreign banks. On the other hand SHB executives chose a completely different internationalization path based on gradual growth, increasing investments step-by-step. As disclosed by the simple observation above, executives’ percep-
tions of the markets were also different. The differences in behavior were so distinctive that one bank’s executives perceived the market as stable, despite the financial crisis knocking on the door, while the other bank’s foreign investment policy of avoiding acquisition of foreign banks and instead building its own, became a guarantee for its survival. Thereby the illustrations raise several interesting questions, for example, a) how banks internationalize in foreign markets, and b) how bank executives perceive the market and in following, how executives’ decisions influence bank’s internationalization process. To answer these questions the following section will briefly summarize what we know about internationalization in Swedish banks. A more comprehensive presentation of previous studies on the internationalization of banks will be presented after this introduction chapter.

Some may propose that the differences in the banks’ actions or changes in one bank’s market activities simply derive from differences in strategy, or changes in strategy. However, this thesis assumes this view on bank’s internationalization process to be too simplistic. As banks internationalize they reallocate more resources towards a market and by doing so, the available alternative choices are reduced. Thereby, commitment decisions and strategy in a certain state are fueled by past commitment decisions. To illustrate, it seems that in the case of Swedbank, executive decision makers perceived the context of the Ukrainian market to be equal to the Baltic market rather than making a strategic and objective analysis of the Ukrainian market and therefore expected past success in the Baltic to be replicable in Ukraine. Swedbank’s past and present activities in the Baltic seem to have influenced the analysis and decision to enter and expand in Ukraine. Viz, internationalization decisions and actions are intertwined over time. Therefore it can be more interesting to study the internationalization of banks as a process in order to capture not just single events but to connect and seek explanation of various events, decisions and actions over time.

The internationalization of banks

From a public perspective in Sweden, many are somewhat familiar with these two banks due to their impact on society and extensive media coverage. Yet from a research perspective we know very little. This is quite surprising considering that banks are crucial actors in our society, which became severely apparent in the financial crises in the late 1980s and 2008. The four largest Swedish banks account for 40 percent of the total assets in the Swedish financial market (Swedish Bankers’ Association, 2014). Given their size and importance, there is also extensive information available from the media that scrutinizes these banks and since they are heavily regulated, the banks’ own reports increase year by year. The markets in which the banks are active have also changed greatly in recent decades. Compared to two decades ago, these four banks are today large multinational banks in-
cluded in the Forbes 2000 list and inevitably face a variety of internal issues to manage by being active in multiple markets. Nevertheless, most studies on the internationalization of Swedish banks are from the early 1990s. As several studies on Swedish banks have shown, the banks were until then limited in their operations to mainly representative offices in a few foreign countries in order to support domestic customers, i.e. minor foreign market commitment (Engwall & Wallenstål, 1988; Marquardt, 1994; Engwall, Marquardt, Pedersen, & Tschoegl, 2001). Thus we have little knowledge on the process of how they became large multinational banks and what were the driving or hindering forces behind the internationalization process of Swedish banks.

Since the extensive liberalization of financial services in the late 1980s, Swedish banks have increased their exchange of resources in foreign markets (Marquardt, 1994; Engwall, 1995b; Engwall et al., 2001) and have thereby become increasingly interconnected in international networks and sensitive to what happens in other countries’ banking systems (Engwall, 2015). This was apparent in the global financial crisis of 2008. The crisis also provided evidence that market conditions are highly dynamic and an idea of how sudden and unexpected changes in the market can affect firms. Naturally, managing changes in those markets influencing the firm’s market activities is fundamental for any internationalizing firm. This also includes critical periods when market change is sudden or rapid (brought on by for example financial crisis). Therefore sudden or radical changes in the market are vital influences in internationalizing banks and addressed in this thesis. Interestingly, despite the vital role of banks for industries and society, studies of the internationalization of banks have not attracted the attention of researchers. Instead, explanations of firm’s internationalization process have mainly derived from studies on manufacturing firms (Buckley, Pass, & Prescott, 1992; Eriksson, Johanson, Majkgård, & Sharma, 1997; Ørberg Jensen & Petersen, 2014). While banks certainly bear semblances to industrial firms they do not have the same structure or value chain as industrial firms. They are also, as mentioned earlier, exposed to a greater extent to external actors such as regulators, legislators and the media, which both indirectly and directly influence banks’ actions and possibilities (Sharma & Nguan, 1999; Bowen, 2000; Stein, 2010). Banks are in other words active in complex dynamic markets that may be more changeable than other industries. With regard to these factors it is likely that the internationalization of banks may differ from the internationalization of industrial firms. Beside the question of how banks internationalize, this thesis also explores why banks in different foreign markets behave differently.

One difference found in previous contributions on the internationalization of banks is that distance has less influence on the internationalization process of banks than on firms from other industries (Engwall, 1992; Blomstermo, Deo Sharma, & Sallis, 2006). It seems that how banks internationalize would therefore be somewhat different from other firms. Some even claim that the internationalization of banks is more dynamic than for other service firms.
(see for example Alvarez & López, 2008). But we do not yet know if this is the case or if so, how. This has been an important inspiration to this thesis, trying to understand the process of the internationalization of banks over time and analyze what has influenced this process. By understanding what the influences are in this process we may find an explanation for why some firms (such as the two illustrative examples shown earlier in this introduction) internationalize rapidly on some occasions and slowly at other times, and why this differs between firms despite similarities in contextual aspects such as competitive situation, products/services, resources, and so on. To capture endogenous and exogenous changes influence on the internationalization of banks over time, the study applies a process approach. To address questions regarding the speed and path of bank’s internationalization process, this thesis elevates the executive function and its expectation. In other words, emphasis is placed on executive expectation of future gains and loss as a possible explanation for rapid internationalization, market exit, and so forth.

Focus of this thesis

This study applies a process view on the internationalization of banks in order to focus on the context of executive commitment decisions over time rather than snapshots of decisions in a specific time, which may not capture the context or the influence of past decisions. The thesis uses this approach to connect internationalization activities across all markets as a coherent process rather than singling out and seeking to explain the rationale for one market entry decision. Thereby the process itself generates a context for single decisions for exit or entry into one market or investment/divestment in a market. With this approach, the study may highlight the complexity and context of executive commitment decisions in the internationalization process over time and the influence of endogenous and exogenous changes.

Although this thesis contributes knowledge on the internationalization process of four major Swedish banks, the main focus of this thesis concerns the internationalization process of the two aforementioned banks (SHB and Swedbank) from 1995 to 2014. By observing the two banks over a long period of time, the thesis makes several empirical contributions. The lengthy time frame is a contribution in itself, since there are few studies of firm’s internationalization process over a long period of time (Glaum & Oesterle, 2007; Welch & Paavilainen-Mäntymäki, 2014). With this extensive time frame, the thesis covers the banks’ behaviors in both developed and developing markets and contributes knowledge on the banks’ behavior both in stable periods and in periods undergoing sudden market change.

Since this thesis seeks to explain how the banks have internationalized over a long period of time and why they have acted differently (as discussed earlier in the introduction), the theoretical frame for this thesis applies a pro-
cess approach. While focusing on the two concepts of market commitment and market knowledge, the analysis of the empirical evidence in this study highlights the vital role of the executive function and its expectation (see Paper III and IV). The concept of executive expectation has thus far been neglected in internationalization process studies, however this study seeks to elevate the concept as a mediating concept. Executive expectation can be defined as the driver of commitment decisions and willingness to what these commitment decisions may bring and how willing the executive is to make further investments, to what extent that may fulfill a satisfactory outcome and how likely the commitment decision is to bring the desired outcome (Stogdill, 1959, p. 63).

Internationalization process studies such as Johanson and Vahlne (1977) also assume the market to be stable and changing smoothly. But as highlighted by the illustrative examples discussed in the introduction, sudden changes in the market can have major influence on bank’s internationalization process in terms of changes in executive expectation. The role of executive, also explained in the study of Booth (1993), sometimes becomes more explicit and apparent when a firm is threatened with critical market changes or has to make drastic decision like acquisition for international expansion or market exit (see also Figueira-de-Lemos & Hadjikhani, 2014). Furthermore, though market knowledge is accumulated over time, it can also be lost over time (Forsgren, 2002) or become obsolete if the market suddenly changes (Carlson, 1974; Hadjikhani & Johanson, 2002).

It is assumed in this thesis that commitment decisions to, for example, increase investments to the market are executive decisions. Thus market knowledge and perception of market commitment, on which commitment decisions are assumed to be based (Johanson & Vahlne, 1977), only influence commitment decisions when they are part of the executive function. The concepts of market knowledge and market commitment in this sense mainly add explanatory value when they are embodied in the executive function. Furthermore, market knowledge and market commitment are not static and their development depends on what the executive function expect of market commitment and market change.

This thesis presumes that executive expectation, both explicitly and implicitly, is the driving and hindering influence in the process of commitment decisions. Since the primary function of the executive is to anticipate and take decisions accordingly (Abell, 1978), executives will be concerned with different problem areas, threats and opportunities at different times. The presumption is that ultimately, it is the available market knowledge and the executive expectation that drive or hinder the firm to commit or decommit resources in foreign markets. Evidently the executives’ view in periods of radical or sudden market change can influence the firm’s process of internationalization (Lee & Makhija, 2009). Therefore, this thesis holds as Quinn (1980) and Almaraz (1994) suggest, that the firm’s activities do not only follow what the firm ‘knows’ but more importantly what executives expect.
When the market suddenly changes, it becomes more unpredictable and market knowledge may no longer be applicable or may be lost (Hadjikhani & Johanson, 2002). In a scenario of sudden market change, executives are likely to seek to revise their expectation by seeking market knowledge perceived necessary to better understand these market changes. New market knowledge may be acquired but since ambiguity may persist the executive will have to guess and take commitment decisions on how to manage contemporary business activities and align with expected market commitments in the long-term. These are reactive commitment decisions but executives can be proactive as well and take commitment decisions based on expected market changes. Addressing executive expectation explanations of the firm’s proactive commitment decisions and responses to market changes can deepen our understanding of firm’s internationalization process.

This thesis follows the internationalization process perspective with the two concepts of market knowledge and market commitment, which concern the past and present of the firm’s internationalization activities (Johanson & Vahlne, 1977). In order to deepen our understanding of how change can occur in market knowledge and market commitment and how exogenous change may influence commitment decisions, the study adds the concept of executive expectation and will seek to explain the role of the executive function in firm’s internationalization process in the theoretical frame chapter. By adding executive expectation to the theoretical frame of this thesis, the hope is to facilitate explanations over firms’ different commitment building activities in different markets under different circumstances. With the addition of executive expectation, a future dimension is added to Johanson and Vahlne’s (1977) internationalization process (IP-) model and provides room for the executive function to interpret market commitment, changes in the market, and to respond to these evaluations based on what and how the executive function expects changes in the market to influence market commitment. In this proposed view, market knowledge and market commitment, the state aspects in the IP-model, are mediated by executive expectation to the change aspects (commitment decisions and current activities). This reasoning may strengthen the explanatory power over changes in firm’s internationalization process. It provides conceptual tools for deeper understanding of not only path dependence or incremental behaviors in foreign markets but also behaviors such as rapid internationalization (Welch & Luostarinen, 1993; Chetty, 1999), market exit (Hryckiewicz & Kowalewski, 2011), and market failure (Ghauri & Park, 2012).

**Research questions and purpose**

There is an extensive body of research on the internationalization of industrial firms using economic theories (Blanc-Brude, Cookson, Piesse, & Strange, 2014) and behavioral theories (Vahlne, Ivarsson, & Johanson, 2014).
However, research on the internationalization of banks has gained less attention and mainly applies economic theories (Buch, 2003; De Nicolò, Bartholomew, Zaman, & Zephirin, 2004). Research questions in these studies concern, for example, the impact of financial crises on banks (Beltratti & Stulz, 2012), the role of governments in the banking business (Rötheli, 2010; Stein, 2010), and the acquisition of foreign banks (Buch & DeLong, 2004; Buch & Lipponer, 2007). In these offerings the crucial aspects under observation are the actions of banks in for example crisis situations, the impact of environmental factors like government intervention or rapid internationalization by way of merger and acquisitions. The main topic in these efforts concerns the actions of banks in a specific time period and not the internationalization process of banks over time.

Though there are some studies that for their purpose employ a process view, the number of contributions becomes very few when narrowing the empirical part to cover the international process of the Swedish banks. The contributions that do have a process perspective mainly cover smooth or sudden changes and not the question of how banks internationalize during both stable and critical market changes. Furthermore, the role of executives is neglected in the above efforts. Thus this thesis seeks to make a theoretical contribution by discussing the role of executive expectation in internationalization, and an empirical contribution by studying the internationalization process of two Swedish banks during both stable and critical market changes. Hence the thesis poses questions like, how can bank’s internationalization process be described and explained? How do each bank’s executives perceive their bank’s internationalization over a long period of time? How have market changes influenced the banks’ internationalization activities? What dissimilarities and similarities can be found in the banks’ approaches to internationalization? In order to seek explanations of the questions posed above and to contribute to internationalization theory, this thesis emerges from the following purpose:

The purpose of this thesis is to enhance our understanding of the internationalization process of banks by longitudinally studying how the executive function’s expectation of market conditions influences internationalization patterns.

This study, hence, explores the expectation of the executives as an explanatory factor when it comes to firm’s internationalization process. Based on this purpose the thesis contributes to the further development of Johanson and Vahlne’s (1977) IP-model by developing the concept of executive expectation and elevating the executive function to better understand firm’s process of internationalization. The crucial analytical concepts in the IP-model are market commitment and market knowledge and the process is explained by the view of incrementality. There are critics against this model for aspects including, losing knowledge (Forsgren, 2002), decommitment
or rapid internationalization (Welch & Luostarinen, 1993; Hurmerinta-Peltomäki, 2003). But these studies, specifically in the field of the internationalization of banks, do not always provide or contribute new conceptual tools for deeper understanding. These shortcomings made the purpose of the study more interesting. Alongside these shortcomings the empirical findings showed that there were large differences not only between banks but also in each bank’s activities in different national markets and between the activities of the same bank in the same market at different times. These empirical findings aided the theoretical frame to supplement the IP-model with the aim of increasing its explanatory value.

Disposition and contents of the thesis

The longitudinal examination of the internationalization of banks and how executive function perceptions of market conditions have influenced banks’ internationalization patterns has resulted in three papers and a licentiate thesis (see Figure 1 below). These papers are listed in chronological order and a summary of the papers is presented in the chapter Summary of papers. In these papers, while the focal concepts of market knowledge and market commitment are explicitly discussed, the role of executives is treated differently depending on the paper. Some papers preserve the concept of executive expectation implicitly (Paper II), others center on the concept of expectation (Paper I) while other papers undertake it in a more explicit fashion (Paper III, IV). All the papers employ a process approach with longitudinal data to cover critical changes within the organization and in the market and the role of executive expectation.

The study in Paper I (licentiate thesis) revealed interesting facts not only about the banks’ actions in the period 1995-2010 but also about executive actions. These empirical facts are the basis of three of the papers included in this thesis. All four papers are related to the process of the internationalization of banks, covering the process of stable and critical changes in the market and explicitly or implicitly how executive expectation affected the banks’ internationalization activities. The comprehensive empirical description in the licentiate thesis highlighted the dissimilarities between the internationalization of SHB and Swedbank. In order to capture these differences, the study developed an analytical framework based on the key concepts of market knowledge, market commitment and expectation. Thus the study contributes with the concept of expectation to incorporate a future dimension and facilitate explanation of the banks’ aims and intentions. Analysis of these cases revealed how differently the two banks had perceived different foreign markets and market opportunities over time and what was expected of their internationalization activities.

To better understand how each bank’s commitment decisions have been influenced by market conditions and perceived competitive situation, Paper
II set out with a more quantitative approach to seek correlations between the internationalization activities of all four of Sweden’s largest banks during 1961-2010, allowing further comparisons and coverage of all the activities of internationalizing Swedish banks. The study in Paper II revealed that the banks were influenced to different degrees by competitive actions in their commitment decisions. Some were highly mimetic while, for example, SHB followed its own evaluations rather than those of its competitors, illustrating that executive expectation is indeed subjective and different executive functions will perceive, evaluate and the market and resource commits differently and expect different outcomes from market opportunities and resource allocations. The undertaken commitment decisions were also strongly influenced by changes in the market following the financial crisis in 2008, implying that executive commitment decisions are influenced by expectation of how market changes can influence the bank’s market commitment. These findings in the licentiate thesis and Paper II served as a foundation for narrower studies, specifically how Swedbank executives’ strategy formulation has influenced the process of internationalization (Paper III) and how changes in SHB and Swedbank’s executive function affect the internationalization process (Paper IV).

Figure 1. Research topic and connection of papers included in this dissertation.

In the licentiate thesis, expectation was described as subjective but specified at firm level. Both the licentiate thesis and Paper II showed that the banks
had applied different approaches to internationalization and had different strategic intentions. In the licentiate thesis and Paper II, the influence of executive behavior was mentioned but was not a main focus. In order to deepen understanding of the role of executives, Paper III sought to contextualize executive commitment decisions by contributing knowledge on how executives expected changes in the environment, specifically the regulatory environment, to influence their strategy formulation. The paper added knowledge on executives’ proactive activities to change the market into a more desirable state. Furthermore, Paper III highlights the importance of experiential and market specific knowledge in executives’ expectation development and how executives revise expectation in the process of strategy formulation and market expansion based on the attainment of new knowledge and expected changes in the environment. Accordingly, the focus of the licentiate thesis and Paper II-III was placed on how exogenous changes influenced the process of internationalization.

Paper III also concluded that the frequency of major or minor revisal of executive expectation, i.e. how long executive expectation lasted, was inter-dependent of the degree and rate of changes in the market and regulatory environment. Simultaneously, the empirical findings in the licentiate thesis and Paper II indicated that there were significant strategic shifts in one bank despite the market changing progressively and smoothly. Thus, the drive of Paper IV is to capture the influence of endogenous changes rather than exogenous changes on the banks internationalization process, specifically how changes in the executive function influence bank’s internationalization process, adding knowledge on how executive expectation influences the process of internationalization and changes in the speed and path of this internationalization in relation to changes in the executive function.

The content of this study (as described in Table 1) is structured as follows. After this introduction chapter the theoretical frame will be presented. The theoretical frame chapter begins with an overview of prior studies on the internationalization of banks, applying economic and behavioral theory. Their findings and research gaps are described, in order to push the study towards the theoretical view deployed in this thesis. The way in which the internationalization process of banks can contribute to a broader understanding of firm’s internationalization process is also explored. In the second subchapter of the theoretical frame Johanson and Vahlne’s (1977) IP-model is discussed, along with its explanatory strengths and weaknesses. The model’s logic is assumed as a cornerstone in the study. In the third and final subchapter of the theoretical frame the executive function and the concept expectation is deliberated and defined. The way in which executive expectation can influence firm’s internationalization process, and how it can increase the IP-model’s explanatory strength and our knowledge on firms’ internationalization, is also explored. Once the theoretical frame has been presented the study’s research process is depicted, its main purpose is to offer a comprehensive overview of methodological considerations relating to this thesis and
describe the data collection process of archival data that is complemented with interviews. The method chapter is followed by a short summary of the licentiate thesis and Papers II-IV, followed by some general reflections on the role of executive expectation in bank’s internationalization process. This chapter highlights some empirical observations and connects them to the theoretical frame. Finally, the study is concluded with its main contributions.

Table 1. A summary of the contents in this thesis.

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Theoretical frame

Internationalization can be described as the process in which a firm learns how its international activities influence its future, how to establish a presence in a foreign market and how to develop relationships in the market (Johanson & Vahlne, 1977). In this light the theoretical frame of this thesis is specifically aiming firstly to explain how banks internationalize over time and secondly to facilitate explanation of changes in bank’s process of internationalization over time. In order to explain change, the theoretical frame contributes on how sudden exogenous changes can influence the process of internationalization as well as how endogenous changes (with an emphasis on changes in the executive function) may influence the process of internationalization. This thesis is hardly the first attempt to find such explanations and researchers have been seeking understanding of how firms internationalize for many years. Despite considerable progress there is still much left to discover. Based on these shortcomings, the theoretical frame of this thesis adds knowledge on how firm’s internationalization process can be influenced by executive expectation.

The illustrative examples at the beginning of the introduction chapter highlighted the complexity of the internationalization of banks. The discussion was followed by how and why studies like this thesis are necessary. In the two upcoming subchapters the effort is to provide more knowledge on how previous studies in bank research have dealt with similar problems. Since this thesis seeks to analyze the internationalization process of two Swedish banks, the following subchapters seek to provide a broader picture of earlier findings on the internationalization of banks. These presentations deal largely with different theoretical fields and the underpinning questions are if and how these contributions can aid this thesis. They begin with entry modes and how risk issue dominates the decisions for entry and expansion in foreign markets. This is followed with another perspective that views the internationalization of banks as incremental behaviors, often found to be driven by mimicking competitors. After the presentation of contributions to the internationalization of banks, Johanson and Vahlne’s (1977) IP-model will be presented. The overview on the internationalization of banks will also show that the IP-model has been supported by previous findings and that this is also the case with studies on other types of firms (Sharma & Blomstermo, 2003; Barkema & Drogendijk, 2007). The final part of the theoretical frame aims to complement the IP-model and propose a theoretical view including executive expectation. The focus will lie on explaining the
role of executive expectation in bank’s process of internationalization and explaining this role as a mediator of state and change aspects in the IP-model’s theoretical framework.

Previous studies on the internationalization of banks

There are many studies of the internationalization of banks, of which some relate banks’ foreign direct investments (FDI) to country growth and trade openness (Pradhan, Bagchi, Chowdhury, & Norman, 2012) while others focus on the potential issues and impacts of foreign banks entering into the domestic market (Murinde, Miroux, & Lim, 2008; Xu, 2011). The role of state governance has also received much attention, with contributions highlighting banks’ risk taking following governmental intervention (Mohsni & Otchere, 2015) and the effects of conflicting policy making in different countries (D’Hulster, 2012). The internationalization of banks in times of crisis has also captured interest, in particularly in relation to the recent financial crisis. Studies by Ivashina and Scharfstein (2010) and Shin (2009) of banks’ lending during the financial crisis of 2008 highlight the role of the state and lack of governmental regulation. Several of these studies highlight society’s pressure on banks and implicitly how society seeks (or needs) to control banks. But these studies hold a macro perspective and unlike this thesis do not seek explanations on a micro level.

There are, however, several researchers studying the internationalization of banks on a micro level. These studies can be condensed into two separate research streams that will be presented within this chapter. The first research stream studies the internationalization of banks from a strategic decision making perspective and is predominantly concerned with decision making in the context of market entry and managing risk. This literature dominates the contributions in terms of the number of publications. However, this research stream does not hold a process perspective and does not offer explanations of the internationalization of banks over a long period of time, which is the aim of this thesis. This thesis could therefore be viewed as part of the second stream, which holds a process perspective and is less concerned with strategic aspects at a particular point of time and more interested in explaining the internationalization of banks over time based on accumulated knowledge. Though this thesis belongs to the latter stream, there are important contributions highlighting how banks’ expectations influence their internationalization from a strategic decision making perspective. Since the study concerns issues like the process of entry and expansion and the impact of market changes, the following review concerns how these issues are treated in different fields of research in the internationalization of banks.
Strategic decision making in the internationalization of banks

Most contributions on the internationalization of banks have their roots in FDI theory (Engwall, 1995a; Furusten, 2009). A vast body of this literature presented in the two forthcoming subchapters applies eclectic theory (Dunning, 1988) and internalization theory (Rugman, 1980) to study banks’ FDIs in pursuit of explanations for how firms select and search for suitable markets and entry modes. The underlying assumption is that firms search for market imperfections to exploit with their competitive advantage. Three broader lenses will be presented in the following three subchapters, where the first brings forward studies on banks’ market entry and what may attract banks to enter a new market. Because this thesis stresses the influence of sudden changes on banks’ behavior, the following subchapter summarizes contributions related to bank performance and how sudden changes in the market have impacted banks’ decision-making. The two succeeding subchapters on the internationalization of banks as strategic decision-making seek to underline a red thread in most of these studies: the risk dimension in decision-making.

Market entry mode

Similar to other internationalization studies with a more market based decision-making view, e.g. FDI theory, researchers have predominantly been occupied with studying banks’ market selection and entry mode; rather than viewing internationalization as a process over time, including pre- and post-entry. These studies view the internationalization of banks as a series of static and binary choices motivated by strategic lenses that emerge from what the firm anticipates of the future rather than its past experience, knowledge and resource commitments (see for example Ball & Tschoegl, 1982; Petrou, 2009; Hryckiewicz & Kowalewski, 2010). There may be several explanations for why market entry has attracted researchers but one possible explanation may reside in the opportunity to study more diverse entry mode options compared to other types of firms. To illustrate, banks can enter via a representative office, branch, subsidiary, Internet banking, agent, alliance, joint venture, merger, or by acquisition of minor, major or full ownerships, while the options for other types of firms are generally fewer. Furthermore, since banks operate in a more regulated environment (both nationally and supranational) compared to other firms, these opportunities can differ from market to market (Engwall, 1992; Engwall et al., 2001), which is likely to attract researchers to make both theoretical and empirical findings.

To mention a few contributions on banks’ market entry, Magri et al’s (2005) study on foreign banks’ entry into Italy demonstrates that the distance from home market to foreign market has less effect on banks’ market entry than is the case with industrial firms, which typically enter markets with closer proximity. Ursacki and Vertinsky (1992), supported by Buch and Lipponer (2007), study factors influencing the scale and timing of the entry
of foreign banks into Japan and Korea. They conclude that larger banks acquire foreign local banks to enter a market to a greater extent. Buch and DeLong (2004) use a large dataset covering the period 1985-2001 with more than 3000 international bank mergers in OECD countries, with several interesting findings. On the one hand, deregulations in Europe and North America lowered merger activity and the increased supervisory reduced banks’ incentives to merge. On the other hand, increased supervisory power and transparency made banks in such markets more attractive to merge with. Thus larger (and efficient) banks from developed markets were more inclined to merge with banks from less developed markets. One possible explanation of their findings may perhaps be that increased supervisory in developed countries reduces attractiveness as cost efficiency decreases, in contrast with less developed countries, where an increasing access to information reduces uncertainty and increases possible information flows, attracting more banks from developed markets. This can be supported with Focarelli and Pozzolo’s (2001) similar findings and conclusions, which add that the consolidation process of an international merger is more difficult for an outsider firm since it has limited information. Had the international merger been within a transparent market it can be assumed to have been a smoother consolidation process since information flows pre- and post-merger would be more extensive. The discussions above expose, for example, the important aspect of the role of local and international governments, which has also been scrutinized in different parts of this thesis. Initiation and expansion of such behavior during critical periods is, for example, sometimes triggered by the behavior of governments.

**Risk minimization and performance issues**

The topic of performance and risk has also attracted many researchers. For example, Hejazi and Santor (2010), study on Canadian banks between 1994-2004, demonstrates that a degree of internationalization increases the bank’s performance. Related to performance is the impact of sudden changes in the bank’s environment, a topic that has attracted and has received much attention especially in light of the recent financial crisis. Arena (2008) study on the banking crisis in East Asia and Latin America found that although the likelihood of failure is higher for weaker banks, sudden changes also have destabilizing effects on stronger banks. From a similar point of departure, Beltratti and Stulz (2012) suggest that these ‘stronger’ banks are larger banks with less short-term oriented funding and they originate from more regulated countries. In line with earlier findings, large and international banks are also less affected by sudden local changes, mainly because they have more resources and can therefore manage sudden local changes with internal cross-border funding (Cetorelli & Goldberg, 2012). Interestingly, Bae et al.’s (2002) study on the impact of sudden changes in 1997-1998 on Korean banks shows that it not only had negative impact on the value of Korean banks but on their client firms, too.
Several researchers conclude that one crucial aspect in firms’ market entry and expansion performance depend on how long-term oriented the firm’s activities and intentions are. Similar to the authors above, Fahlenbrach, Prilmeier, and Stulz (2012) found that short-term oriented banks took on higher risks and had superior growth pre-crisis but performed worse during the crisis. More interestingly, Fahlenbrach et al. (2012) found that the same banks had behaved similarly in previous crises, indicating that they did not learn much from previous experiences or change their strategy. Less surprisingly, they show that assessing risk ex ante is difficult. In light of reliving the past Allen and Snyder (2009) attempt to deconstruct financial crisis cycles, while Markman and Venzin (2014) urge firms to seek long-term profitability and avoid maximizing short-term performance, thereby becoming less growth oriented and more risk avoidant (Rötheli, 2010), reducing systemic risks as banks’ risk taking is often driven by competitive actions, i.e. mimicking their competitors (De Nicoló et al., 2004). Another interesting finding is from the Japanese banking crisis in the 1990s, where the empirical evidence highlights firstly, that Japanese banks anticipated the crisis one year before it occurred and secondly, that more than half of Japanese banks de-internationalized during the crisis (Allen, Chakraborty, & Watanabe, 2011).

Implicitly, several of the aforementioned studies seek to find what drives banks to internationalize and enter new foreign markets, such as Merrett (2002), who found that Australian banks’ FDIs were motivated by knowledge spillovers. Others have more explicitly tried to capture what lures banks abroad with findings such as, asset seeking (Moshirian & Van der Laan, 1998) for the search for long-term profitability (Moshirian, 2001), access to new information (Barron & Valev, 2000; Buch, 2003; Portes & Rey, 2005) and keenness to follow domestic clients (Dahl & Shrieves, 1999; Mutinelli & Piscitello, 2001). National culture has been found to influence managerial behavior and banks’ risk propensity (Kanagaretnam, Lim, & Lobo, 2011).

In the above offerings the central aspect, which is also of interest to this thesis, is their consideration on the future dimension. Researchers declare that information relating to the present (which can be calculated) drives the bank’s strategy for future investment in foreign markets. In these studies, however, both the present and the future are state conditions and are not analyzed as a process. Although the process of the internationalization of banks is not explained, the studies presented above do provide explanations of how banks take short-term decisions that motivate movement from one state to the next. This strength has been a weakness in internationalization process studies for a long period of time (Reid, 1983; Turnbull, 1987; Fina & Rugman, 1996), a weakness that has inspired the theoretical frame (that will be presented in Chapter 3) to include executive expectation as a driving or hindering force in commitment decisions.
The internationalization of banks as a process

As noted in the introduction of this chapter, the number of studies on the internationalization of banks applying something closer to a behavioral perspective is few. Similar to the earlier presented research stream, those who have studied the internationalization of banks as a process have also studied the internationalization of large groups of banks to a larger extent, predominantly by seeking patterns of how and where they go and explanations of motives from a relationship perspective rather than possible economic incentives. The forthcoming subchapter will provide a brief overview of such contributions, while the subsequent subchapter will present studies seeking explanations of the internationalization process of one or a small number of banks over a longer period of time.

Mimetic behavior

The topic of pace and patterns has attracted several researchers in internationalization studies, as is the case for studies on the internationalization of banks, often by studying the internationalization process of a cluster of Swedish banks (Engwall & Wallenstål, 1988), Nordic banks (Engwall et al., 2001), Spanish banks (Cardone-Riportella & Cazorla-Papis, 2001; Álvarez-Gil, Cardone-Riportella, Lado-Cousté, & Samartín-Sáenz, 2003; Sanchez-Peinado, 2003), Spanish and Finnish banks (Cardone-Riportella, Álvarez-Gil, Lado-Cousté, & Sasi, 2003), or a selection of Central European banks (Venzin, Kumar, & Kleine, 2008). Interestingly, their empirical findings show that geographical distance, which is one of the crucial aspects in the IP-model (Johanson & Vahlne, 1977), has less significance on banks’ market entries and that internationalization patterns differ from those of other industries, including service firms. Compared to other industries, the internationalization of banks is driven to a larger extent by market-seeking strategies (Engwall, 1992; Cardone-Riportella et al., 2003), following their clients (Jain & Nigh, 1989; Blandón, 2001; Qian & Delios, 2008), or by following competitive banks and mimicking their entry modes (DiMaggio & Powell, 1983; Engwall & Wallenstål, 1988; Álvarez-Gil et al., 2003). There are also observations suggesting that banks tend to enter financial centres (Chan & Wong, 1999; Gulamhussen, 2007; Clare, Gulamhussen, & Pinheiro, 2013). Following the findings above there seems to be plenty of evidence that banks, at least in terms of minor market commitment, are less limited in their internationalization behavior by implications of distance.

Several of the abovementioned contributions as well as Hellman (1996) maintain that banks must internationalize in order to retain their customers but that these are motives for minor foreign market commitment and not major foreign market commitments, which are perhaps more driven by market-seeking motives. Following a mixed framework of sequential internationalization with FDI theory, Clare et al. (2013) study what keeps foreign banks present in London. They found two distinct but interrelated explana-
tions, namely maintenance of relationships and information flows. Interestingly, they found that bank executives view their minor foreign market commitments very differently from their major foreign market commitments, indicating that the internationalization of banks should display mixed patterns of minor and major foreign market commitment activities, where the distance and speed of internationalization may depend on how bank executives view the bank’s market commitment. Motives found so far may perhaps be too general to explain both minor and major foreign market commitments. One possible explanation may be that relationship driven market commitments generate minor commitment while market seeking motives aid, over time, more substantial market commitment when seeking to achieve those motives that drove market entry. In this view, relationship driven market commitment from a bank perspective may not necessitate more than for example a single office in London, whilst market seeking motives are likely to yield more substantial investments in order to position the bank in the market. In terms of such commitments, Chan and Wong (1999) study on bank performance in Hong Kong found that those with superior performance applied multiple strategies simultaneously and exercised a higher degree of managerial commitment.

Finally and in line with Chetty (1999), who addresses the impact of the market change on the internationalization of firms, there are contributions highlighting the impact of sudden changes in the market on banks’ behavior. Engwall’s (1994) study on deregulation effects found a knowledge gap related to speed of change in the market and speed of learning. The study found that Swedish banks’ learning (and unlearning) process lagged behind changes in the market and by lagging behind failed to prevent and predict sudden changes in the market. There are also lessons to be learned from the financial crisis in Sweden in the late 1980s, one explanation of which derives from banks’ escalating overinvestments, driven by competitive actions and lack of policy making (Engwall, 1995b, 1995a; Englund, 1999). Though these authors make important contributions they all study groups of banks, as do studies with an economic view such as Kho and Stulz (2000) and those studying the internationalization of banks as strategic decision making. They assume that all banks experience sudden changes in the market similarly and that the sudden changes affect all banks alike, while studies such as Lee, Song, and Kwak (2014) show that past experiences, current resource commitments and network context affect each bank disparately.

**Incremental internationalization**

Bank’s internationalization process has mainly been explained by tracing patterns of group of banks. There are, however, some studies of a single bank’s process of internationalization and comparative cases. Hirst and Taylor (1985) study the first steps taken by the Australian bank ANZ to internationalization and focus on the benefits and disadvantages of this pro-
cess. Drogendijk and Hadjikhani (2008) comparative study of the entry of two banks into emerging markets highlights the importance of managing socio-political relationships. They also found support for Johanson and Vahlne’s (1977) IP-model, where the two banks slowly increased their market knowledge and market commitment. Marquardt’s (1994) empirical evidence on the internationalization of Swedish banks 1900-1993 also supports the IP-model, where the banks incrementally established in new foreign markets, albeit with minor resource commitments due to preventative regulations during the period. Parada et al’s (2009) study on Banco Santander’s two decades of internationalization also found support for the IP-model.

Similar to the empirical evidence in this thesis (see Paper IV), Cattani and Tschoegl (2002) case study on the internationalization of Chase Manhattan Bank during 1917-1996 illustrate two different internationalization modes; one incremental based on risk-aversive behaviors and a second that is more similar to portfolio investment, based on risk-seeking and willingness to experiment. Hence, the process of internationalization is highly dynamic and indeed the firm might exhibit different commitment building activities in different markets. One explanation for the disparity in commitment building activities held by this thesis is that the executive function perceives different markets differently and has different expectations of the development of the market as well as the performance of the firm’s business activities in that market. What market changes are expected and the firm’s market commitment may also change over time through changes within the executive function. In Cattani and Tschoegl’s (2002) case where the bank applies different modes in different markets, executives are likely to have a different expectation of different markets, leading to different commitment decisions for each particular market. The explanation for when a bank changes internationalization mode during the process may derive from changes in the market that influence the executives to revise their expectation of the market and the firm’s market commitment. Based on these new and revised expectations, new commitment decisions are taken that differ from previous decisions, which direct the bank onto a different internationalization path.

Besides the contributions mentioned thus far there are alternative theories that might be relevant for studying the internationalization of banks, such as theories emerging from born global firms or firms that internationalize in early age (Oviatt & McDougall, 1994; Knight & Cavusgil, 1996; Chetty & Campbell-Hunt, 2004). The banks in this thesis, however, all have traces back to earlier than the 20th century and did not internationalize until much later, when they were already large companies. In terms of major foreign market commitment they did not start to internationalize until the last two decades. Therefore these theories hold little explanatory value for the internationalization process of Swedish banks. Furthermore, since the purpose of this thesis is to study the internationalization of banks over time, the theoret-
tical frame must facilitate explanations of the process of internationalization over an extended period of time.

When studying firm’s internationalization process over a long period of time, there is no other available theory as well established as the IP-model (Prange & Verdier, 2011). The theoretical frame of this thesis is therefore built on Johanson and Vahlne’s (1977) IP-model. However, as the following subchapters will highlight, the IP-model has been found to lack explanatory power over some behaviors, including findings in this thesis. Following criticism from the network perspective (see for example Coviello & Munro, 1997) Johanson and Vahlne revised the IP-model in 2009 to include network theory, and by doing so acknowledged learning from others as well as mimicking others. The revised model includes the concept of trust, described as a prerequisite for commitment building and developed from learning about each other, aiding the parties to become able to foresee one another’s behavior (Johanson & Vahlne, 2009; Vahlne & Johanson, 2014). The core of the IP-model has remained largely untouched; it is still an incremental learning and resource binding process. Instead of becoming embedded in a market position with resource commitments, the firm becomes embedded in a network. This thesis holds a market perspective and not a network perspective but it assumes that part of being embedded in a market is being embedded in a network and (developing experiential knowledge) thus learning from others in the network remains crucial. The thesis also assumes and acknowledges that trust is an important aspect for the stability of the network; however, such trust can also be vaporized by sudden changes in the market. Thus, the network can be severely affected by what is happening in the market. The strength of network theory lies in explaining structures, which in turn facilitates explanatory value over stability or a particular state. This thesis is however, more interested in explaining change and underpinning drivers for change. In an effort to increase the IP-model’s explanatory power, this thesis complements the theoretical frame with the concepts of expectation and executive function. Thus the following subchapter seeks to present the IP-model and some criticism against it. The last subchapter introduces executive expectation before moving to this thesis research process.

Overview of the internationalization process model

In the 1960s and 1970s, several studies observed that the internationalization of industrial firms followed a sequential increase in foreign market commitment with exportation as an early step starting in markets with low physical distance (Hörnell, Vahlne, & Wiedersheim-Paul, 1973; Johanson & Wiedersheim-Paul, 1975) followed by a later advancement into more distant markets (Forsgren, 1990; Benito & Gripsrud, 1992). The stage model’s explanations were inferred to as too deterministic and offering insufficient
explanation of that start and change of stages (Reid, 1983; Turnbull, 1987; Fina & Rugman, 1996). The findings on sequential steps were theorized further, whereby instead of steps or states the process of internationalization became described as an incremental and gradual market commitment and a building of knowledge over time (Hadjikhani, 1997), evoking patterns of path dependence as the firm becomes embedded in its market with resource commitments (Johanson & Vahlne, 1977; Welch & Luostarinen, 1988; Johanson & Vahlne, 1990, 2009; Vahlne & Johanson, 2013).

Though many of the observed cases referred to above showed that the internationalization process had begun following a crisis, the market changes during the observed firm’s internationalization process were stable and thereby predictable to some extent. Post-crisis, when the study’s observations start and the firms’ expansion starts, the industrial setting was changing smoothly and the market progressed in a ‘positive sense’. Since the market conditions were considered stable there was little reason for the firms to change their behavior due to sudden changes in the market or market turbulence. In these cases, the firms’ efforts towards long-term profitability were not questioned by external shocks aiding severe short-term (and perhaps even long-term) losses. Instead, theory development of internationalization process studies assumes that the firm’s process of internationalization is driven by ‘trial and error’, or ‘learning by doing’ in an incremental manner (Lindblom, 1959; Quinn, 1980; Johnson, 1988). The firm’s external environment in studies based on Johanson and Vahlne (1977, 1990, 2009) IP-model is assumed stable, despite observations of the impact from sudden changes in the market on firms’ internationalization behavior (Hadjikhani, 1998; Hadjikhani & Johanson, 2000; Chung, Lee, Beamish, & Isobe, 2010). Furthermore, the growing body of literature on crisis situations (Skorvagova & Pasztorova, 2014; Skouloudis, Chymis, Allan, & Evangelinos, 2014) and emerging markets (Öniş, 2009; Sandberg, 2013; Yılmaz, Bengtson, & Hadjikhani, 2015) highlights that though changes in emerging markets occur more quickly than in more developed markets, and emerging markets experience turbulence more frequently, all markets experience a crisis cycle.

As previously mentioned, firm’s internationalization process are depicted as incremental process of learning by doing, hence there are two interacting dimensions (see Figure 2 on next page): understanding contextual aspects about the market (i.e. market knowledge) and allocating resources in the market towards opportunity and problem areas during the process (i.e. market commitment). Market knowledge is generated from trial and error and typically classified as objective or experiential (Penrose, 1959). Objective market knowledge can be taught from e.g. textbooks and even in the case of abstractions like mathematical equations objective knowledge is easier to transfer, code and store. Experiential market knowledge stems from what has been done and is context (market) specific, personal and more difficult to transfer and store into e.g. organizational routines. Since market knowledge
is crucial for the firm’s success and survival (Johanson & Vahlne, 1977, 2006; Sandberg, 2014) a large body of research focuses on the conversion of tacit knowledge (Lam, 2000; Petersen, Pedersen, & Sharma, 2003), absorptive capacity (Lane & Lubatkin, 1998; Eriksson & Chetty, 2003), knowledge development (Andersson, Björkman, & Forsgren, 2005; Andersson, Holm, & Johanson, 2007) and knowledge transfer (Lazarova & Tarique, 2005; Raab, Ambos, & Tallman, 2014).

Figure 2. The Internationalization Process of the Firm (Johanson and Vahlne, 1990, p. 12)

Impeded by resource commitments, speed of learning and thereby opportunity discovery, the firm’s internationalization process progresses incrementally. The commitment decisions taken by the firm and performance of current activities (change aspects) depend on the firm’s market knowledge and market commitment (state aspects) at a specific point in time. The following two subchapters will give a more comprehensive description of the state and change aspects of the IP-model.

Model logic

In Johanson and Vahlne’s (1977) logic, the firm’s internationalization process is a balanced interplay between its market knowledge and market commitment. This logic is similar to van de Ven and Poole’s (1995) description of teleology process theory, as internationalization is a purposeful process of searching, evaluating, implementing and modifying. Since there is no end state or stage the logic does not follow life cycle theory, although some may suggest that the interplay of market commitment and market knowledge regulates the firm’s internationalization process in a specific state and moves the firm into a prefigured state. The IP-model is, however, not deterministic or a life cycle model though some perceive it as such (see for example, Andersen, 1993; Leonidou & Katsikeas, 1996). However, clarification is
needed on the purposefulness of the model, that is, the motors of change in the unit. Some may also perceive the model logic as an evolutionary process since competition and changes in the environment influence the process. But evolution theory is used to describe multiple entities; although the environment does influence the process, the IP-model’s unit of analysis is of a single entity. In this regard the IP-model follow Penrose’s (1959, p. 41) view that the environment is not treated as an objective fact that is discoverable before the event and can be changed by the firm’s own actions. Following this reasoning, the future is assumed unpredictable and therefore planning is based on subjective expectations of the future.

In Johanson and Vahlne’s logic, market knowledge and market commitment progressively increases and sets the stage for the next state of market commitment and market knowledge. Simultaneously it is a process of incremental decisions based on ‘learning by doing’. Lacking experiential and market-specific knowledge, the firm will gradually increase resource commitment in the market. Commitment decisions regarding problem areas and opportunities in the market are taken based on the firm’s knowledge about that specific market. Likewise the evaluation of the performance business activities in the market is constructed based on market knowledge. Continuously in the firm’s current activities, adjustments are made to the changing market and new knowledge is gained about problem areas and opportunities. Over time, as adjustments are made iteratively and the firm’s current activities and resource allocation becomes increasingly integrated with other parts of the firm, the firm’s market commitment increases and the firm becomes increasingly embedded in the market, which also makes the firm less flexible, in terms of both possible alternatives for resource allocations and what market knowledge is obtained about perceived relevant aspects for the performance of current activities. Thus the continuous process of resource allocation to problem areas and opportunities for current activities in the market sets the firm into a path-dependent internationalization process where the accumulation of new knowledge and commitment decisions are restrained by commitment building activities specific to the market. In other words, perceptions of opportunities and risk are influenced and bounded by contemporary market knowledge and commitment building activities.

To summarize some of the criticism aimed at this explanation; (1) much is directed towards the balance in market knowledge and market commitment and the speed of firms’ internationalization with observations of firms’ executives increasing market commitment more rapidly or with higher investments than anticipated by the IP-model (Forsgren & Hagström, 2007). Furthermore, the more internationalization experience and knowledge from several foreign markets the executives have, the higher the pace at which the firm can internationalize (Clark, Pugh, & Mallory, 1997; Chandra, Styles, & Wilkinson, 2012). (2) Others show that firms lean on general knowledge to a greater extent than predicted (Chang, 1995; Padmanabhan & Cho, 1999),
and that (3) some firms are more proactive and entrepreneurial (Sapienza, Autio, George, & Zahra, 2006). (4) Several empirical findings illustrate leapfrogging in market commitment, showing that the process is not linear and includes not only steps taken forward but also backward. This is particularly evident with findings on firms taking decisions to exit a foreign market (Dixit & Chintagunta, 2007; Alvarez & López, 2008), decommit resources (Abell, 1978; Hayward & Shimizu, 2006; Chung et al., 2010), deinternationalize (Bianchi & Ostale, 2006; Agndal & Chetty, 2007; Turner & Gardiner, 2007; Turcan, 2013), or even re-internationalize (Welch & Welch, 2009). (5) Another aspect concerns the aspect of time and learning, specifically the impact of knowledge loss and assumed stability within and outside the firm (Forsgren, 2002). Loss of market knowledge may be due to changes within the firm where members in the organization with experiential market knowledge can, for example, leave. It can also stem from changes in the market, for example a crisis, which can make past market knowledge obsolete. Similarly, although not explicitly addressed at the IP-model but still of relevance, market commitment can wither due to changes in the market to which the firm is not able to adapt (Abell, 1978) or to which executives are unwilling to adapt. (6) Finally, also concerning the assumed stability of the market, some researchers highlight the influence that sudden changes in the market can have on the firm’s market commitment (Hadjikhani & Johanson, 2000; Ashton, Cook, & Schmitz, 2003).

The following part of the theoretical frame seeks to, firstly, provide an overview of the IP-model and the state and change aspects in it and secondly, to provide conceptual tools that can complement the IP-model and increase its explanatory value for the findings mentioned above. Although the logic of the IP-model follows van de Ven and Poole’s (1995) description of teleology theory, since the firm is described by Johanson and Vahlne (1977) as adaptive, resource constrained and influenced by environmental constraints, this thesis assumes that the IP-model can benefit by moving closer to a teleology view on process by, to a greater extent, acknowledging firms’ purposeful efforts to reach a desired state and thus capture envisioning and goals as part of the motors of change in the process of internationalizing. This thesis assumes that past actions set the frame for what the executive function can expect, what knowledge the executive function has about a market as well as what level of market commitment the firm has but also that this frame does not drive the process forward. The executive function’s commitment decisions also derive from what it expects and thus the executive function’s expectation is the driver forward – the purposeful intentions. This means that the firm’s history influences executive commitment decisions but does not necessarily predetermine current and future executive commitment decisions. The past can dictate the future but we will also try to shape our future and influence it.
State aspects

A state is the conditions existing at a certain point in time that the researcher chooses to observe; it can be in the present or the past. Since internationalization takes time, the researcher can study the process at several points in time, hence several states, and search for explanations of the process. For analytical purposes each state will feature the scrutiny of the firm’s accumulated market knowledge and market commitment in that particular time, which has been fueled by past and current commitment decisions and business activities in the market (Johanson & Vahlne, 1977). Between the states, changes in market commitment and market knowledge occur, driven by commitment decisions and business activities in the market.

The state and change aspects are, as explained above based on Johanson and Vahlne’s (1977) explanation, interdependent. The state aspects consist of the firm’s market knowledge and market commitment, which influence the change aspects: the firm’s decisions to commit resources and the performance of current business activities. In Johanson and Vahlne’s (1977) view the change aspects - commitment decisions and current activities - are influenced by the firm’s knowledge about the foreign market and its operations, and what resource commitments the firm has in the foreign market at that point in time. In the continuing process of internationalization, the firm’s market knowledge in each specific state has been developed in a cumulative process based on past and current activities.

Following the explanations insofar, market knowledge influencing market commitment and vice versa, and commitment building activities are assumed to follow the firm’s learning curve. The firm’s process of internationalizing will be incremental where market knowledge and market commitment are in equilibrium. Over time, by being active and allocating resources in the market, the firm becomes embedded in (and adapted to) the market. This process of learning about contextual opportunities, problem areas and threats will propel the firm into stronger market commitment (Andersen, 1993). There are several interesting findings in other studies about, for example, sudden major foreign market commitment and rapidly internationalizing firms that deviate from explanations based on incrementality and path-dependence. From the incrementality perspective these behaviors are associated with high risk since the firm might be operating too quickly (Barkema & Drogendijk, 2007).

Johanson and Vahlne (1990) describe market commitment as the size of investments over time and the general explanation of market specific commitment follows as previously mentioned assumptions of incrementality and path dependence. The degree of market commitment depends on how integrated resource commitments and activities are with other parts of the firm (Johanson & Vahlne, 1977). In order to come closer to how the firm perceives its market commitment, the concept of market commitment must be seen from two different dimensions. Firstly by tangible market commitment,
which includes measurable financial investments such as, in a banking context, allocated branches, staff members, lending, and so on. In this regard tangible market commitment seems closer to the definition of market commitment since it can consist of observable investments over time.

Intangible market commitment, the second dimension, can be more closely associated to how the firm perceives its tangible market commitment, thereby connected to a relationship view and investments in a social context of for example actors (Håkansson & Snehota, 1995; Hadjikhani & Håkansson, 1996; Hadjikhani, 1997). In this sense intangible market commitment, since it embeds tacit trust and adaptation process to a specific context and/or actor, is more difficult to measure and transfer. Since the degree of market commitment relates to how it can be perceived, the degree of market commitment depends on how executive decision makers perceive and evaluate market commitment. As discussed by Clare et al. (2013) some executives in the decision making body may perceive a firm’s market commitment as strong while others may perceive the same market commitment as minor or, for example, less important. Intangible and tangible market commitment is interwoven but can evolve at different speeds. This complex relationship can be illustrated with earlier observations of firms that decrease resource allocations or even exit a market with their tangible market commitment (for example the bank closes all/many branches in a market), while maintaining an intangible market commitment (business relationships) and applying a sleeping position, for example, to weather out sudden or radical changes in the market in order to possibly re-enter the market with tangible market commitment once the market has stabilized (Hadjikhani, 1997; Sull, 2005).

Market knowledge is described by Johanson and Vahlne (1977, 1990, 2009) as market experience that influences decisions about the level of commitment and activities. It is assumed that market knowledge of opportunities and problems initiate commitment decisions and that the evaluation of opportunities and problems is based on a combination of experiential knowledge and general knowledge about a particular market.

By market knowledge we mean information about markets, and operations in those markets, which is somehow stored and reasonably retrievable – in the mind of individuals, in computer memories, and in written reports. In our model we consider knowledge to be vested in the decision-making system: we do not deal explicitly with the individual decision maker. (Johanson & Vahlne, 1977, p. 26)

As highlighted in citation above, written reports and computer memories about the market can facilitate knowledge about the market. Prior to market entry this information may derive from first hand or second hand experiences but since it is not personal experiential knowledge deriving from the firm’s own operations in the market, written reports and computer memories are examples of general market knowledge. Even post market entry, since
experiential knowledge is tacit and difficult to transfer, we can assume that this type information is relevant and can increase knowledge, though not as crucial as experiential knowledge. Reports and stored data may be complex and informative but to reduce uncertainty the decision-making system requires experiential knowledge. Therefore, the IP-model highlights experiential knowledge about contextual aspects of the specific market, which is tacit and difficult to transfer, code, and store. A firm’s long-term survival and profitability in the market, as well as the development of a market position and relationships in the market, hinges on experiential market knowledge, in particular in order for the executive decision-making body to reduce their degree of erroneous commitment decisions. Although market knowledge is aided by trial and error, errors need to be learned from and applied in future commitment decisions. Executives, who are commitment decisions-makers, need to understand the context in order to evaluate the market and the firm’s current activities in the market and this requires experiential market knowledge to be transferred to the executive decision-making body.

Some researchers have criticized the emphasis put on market-specific experiential knowledge. On the one hand Chang’s (1995) study on the internationalization of Japanese firms demonstrates that general knowledge was applied to a greater extent than anticipated by process theories such as the IP-model. On the other hand Chang (1995) reasons that this was due to superior competitive advantage, the exploitation of which would necessitate inter alia relationship-building activities in the market and therefore require experiential knowledge. Similar to Chang (1995), Padmanabhan and Cho (1999) show in their study on Japanese firms that they relied on past internationalization experiences rather than market-specific experiences. Interestingly, they note for managers that drawing conclusions on a market based on internationalization experience may be erroneous, implying that market-specific experiential knowledge is required for the firm’s future gains and survival. These findings are thus not contradictory to the IP-model since general knowledge is acknowledged as useful and serving a purpose.

Of greater interest is instead studies such as Sapienza et al. (2006), which illustrate that some firms ignore the assumed equilibrium in market knowledge and market commitment and are proactive opportunity-seekers driven by individuals in the organization with capacities and experiences that may differ from those of the firm and therefore perceive market opportunities, problem areas and threats differently. While the firm may be conceived to lack market-specific knowledge, these individuals may have experiences and relationships with actors in the market and thereby bring in new perspectives into the executive decision-making body. Furthermore, some executives may perceive internationalization as a necessity for the firm’s future survival. Sapienza et al.’s. (2006) discussion resonates with that of Johanson and Vahlne (1977, 2009) since experiential knowledge is personal and since the latter authors are not concerned with the identity the knowledge holder as long as they are within the organization. Nevertheless, Sapienza et al.’s. ...
(2006) depiction of proactive behaviors and indication of decision makers’ anticipation do offer explanatory value that is not included in the IP-model, indicating that the decision making body in the firm, the executive decision makers, can differ in different organizations and thereby influence firm’s internationalization process differently.

Moving back to the explanation of market knowledge and learning, experiencing and learning about contextual aspect in the market inevitably includes and is based on interacting with other market participants (Lane & Lubatkin, 1998; Agndal & Chetty, 2007) and organizations within the same industry (Chetty, 1999). Another possibility is to learn from a party in the market that the firm acquires (Cattani & Tschoegl, 2002; Forsgren, 2002) or to reduce uncertainty by mimicking others (Forsgren, 2002). Firms may also apply their accumulated experiences and knowledge from internationalization or from a specific market in entry into another market (Johanson & Vahlne, 1990; Andersen, 1993). However, as assumed in this thesis, all markets are heterogeneous and subsequently there will be important contextual differences. Decisions and perceptions of one market can be based on experiences from a different market but in terms of market-specific knowledge, since decisions and perceptions based on general knowledge do not capture contextual aspects specific to that market, these will be general assumptions, i.e. general (market) knowledge.

How applicable the assumptions are depends on how similar the contextual differences can be perceived. Thus, and as acknowledged by Johanson and Vahlne (1990), knowledge from one market can be useful to reduce uncertainty about another market. This is not to refute general market knowledge, indeed as previously observed on multinational firms, a high degree of general internationalization knowledge has been shown to increase the speed of the internationalization process (Clark et al., 1997). Instead, the intention to stress on the important role of experiential market knowledge to reduce the perceived uncertainty of the market and increase the success of the firm’s market commitment (Johanson & Vahlne, 2009; Hilmersson, 2014; Sandberg, 2014). Larger multinational firms entering a market may have a competitive advantage but in order to increase the chances of a successful expansion the executives will need to assimilate market specific knowledge over time. Since general market knowledge is somewhat accessible for all firms it will not provide the firm with a competitive advantage. The can use its experiences in the market to learn how to adapt its activities and how to make use of its competitive advantage.

To summarize, the state aspects consist of the firm’s market commitment and market knowledge at a particular point in time. Commitment decisions and current activities are influenced by the state aspects in t₁ and can spur change in state aspects in t₂. It is assumed that the firm’s market commitment and market knowledge will increase incrementally and will be in balance in order to reduce perceived uncertainty whilst capturing perceived market opportunities. Experiential market knowledge in t₁ can influence the firm
into a stronger market commitment in $t_2$ by, for example, further resource allocations towards an opportunity or problem area. The degree of market commitment is also subjective and depends on how executive decision makers evaluate the firm’s tangible market commitment. How the executive decision makers perceive the firm’s market commitment is influenced by the type and degree of market knowledge the executive decision making body has.

Change aspects

In Johanson and Vahlne’s (1977) IP-model the change aspects consist of commitment decisions and current activities in the firm’s internationalization process. Commitment decisions are the responses of executives to perceived problems and opportunities in the market, while current activities are the undertaken actions and day-to-day activities to strengthen the firm’s position in the market. According to Johanson and Vahlne, these aspects are driven by the firm’s past and contemporary market knowledge and market commitment and can influence change in the firm’s market knowledge and market commitment. Commitment decisions and current activities are part of the firm’s investment and resource building process in the market from which knowledge and experience is generated. Interestingly, these premises are focally concerned with past and present market knowledge and market commitment, while the future dimension includes changes in the market and anticipated changes in market commitment and the market is out of the scope of the IP-model. Instead, change in market commitment in the IP-model is influenced by commitment decisions based on past market experiences and current market knowledge.

Although the firm can increase the speed of internationalization by for example recruiting experienced staff members or receiving advice from other actors (Johanson & Vahlne, 1977). Absorptive capacity limits the speed of internationalization since the process of internationalization is assumed to be moderated by the strive to keep a balance in market knowledge and market commitment (Vermeulen & Barkema, 2002). Interestingly, several studies show that some firms internationalize more rapidly than predicted by internationalization process theories (Acedo & Jones, 2007; Barkema & Drogondijk, 2007; Casillas & Acedo, 2013). Others have made interesting findings whereby firms have exited markets (Dixit & Chintagunta, 2007; Alvarez & López, 2008), decommitted (Abell, 1978; Hayward & Shimizu, 2006; Chung et al., 2010), de-internationalized (Bianchi & Ostale, 2006; Agndal & Chetty, 2007; Turner & Gardiner, 2007; Turcan, 2013), and re-internationalized (Welch & Welch, 2009). These behaviors deviate from above explanations and indicate that market knowledge and market commitment can be in imbalance.
Another more critical aspect that could be addressed in the IP-model concerns changes in the market and how market change is perceived in relation to commitment decisions. The state aspects and change activities are interdependent - the market knowledge and market commitment the firm possesses in a certain state of time is assumed to derive from the firm’s past and current market operations and commitment decisions. Likewise, commitment decisions and market activities are molded by the firm’s market knowledge and market commitment. It could be argued that commitment decisions include deliberation on changes in the market but this is only implicitly addressed in the IP-model. Thereby explanations on market change and executives’ perception of market change falls outside the scope of the IP-model. Abell (1978) proposes that market commitment might erode over time due to changes in the market to which the firm is incapable, or executives perhaps unwilling to, adapt. Similarly Salvato, Chirico, and Sharma (2010) comment that through new visions by the executives the firm can abandon one market commitment in order to exploit another or a new opportunity in a different market. One interpretation of the explanations thus far may be that perhaps firms do not always have long-term intentions, and instead executives sometimes make investments based on opportunities aiming to be exploited in the short-term, similar to portfolio-logic investments. Furthermore, as noted by Forsgren (2002), not only does the IP-model assume the market to be stable and develop smoothly, it also assumes stability within the firm and consequently it does not directly address the loss of knowledge over time.

The contributions on early and rapidly internationalizing firms as well as leapfrogging commitment behaviors (Malhotra & Hinings, 2010; Casillas & Acedo, 2013; Nordman & Tolstoy, 2014) highlight a blind spot in internationalization process studies over which this thesis seeks to increase the explanatory power by complementing the existing explanations with executive expectation. While the following chapter summarizes the logic of the IP-model, the subsequent parts of the theoretical frame seek to explain the role of the executive function in the firm’s internationalization process and how state and change aspects are mediated by executive expectation.

Executive expectation

Although the concept of expectation is well-established, only a few studies such as Hadjikhanii and Johanson (2002) and Cort, Griffith, and Steven White (2007) have applied the concept of expectation as a direct construct in the explanation of firm’s internationalization process. In classical economic theory, however, the concept of expectation is more explicit as the decision maker calculates and chooses the alternative that is expected to result in superior profitability (Simon, 1947; Cyert, Dill, & March, 1958). In a similar
view, transaction cost theory involves assessing the future costs and outcomes of a single entity or several in comparison (Williamson, 1975, 1985). There are also several studies that use the concept of foresight, which accordingly mediate the present with the future. In these studies, it is assumed that foresight emerges from the organization’s learning process, consisting of its perception and interpretation of data and its own experiences (Blackman & Henderson, 2004). Expectation is also explicitly used to explain, for example, consumer behavior or buyer-seller-relationships, which emanate from participants’ ex ante and ex post expectations (Dwyer, Schurr, & Oh, 1987). It is also an explicit variable in firms’ stock and demand planning (Moon, Mentzer, & Smith, 2003; Fildes, Goodwin, Lawrence, & Nikolopoulos, 2009). In relationship theory, the concept of expectation is used as a direct construct for the explanation of, for example, the concept of trust, which is in general defined as one party’s belief that another party will fulfill its obligations and not take unexpected actions (Morgan & Hunt, 1994). Expectation is also sometimes used to explain the degree of commitment in a relationship by emphasizing expectation of continuity, i.e. willingness to invest in and with intentions of future investments to go deeper in the relationship (Kumar, Scheer, & Steenkamp, 1995).

These are only a few examples to illustrate that the concept is widely acknowledged, has explanatory value, and is applied more explicitly in other fields compared to internationalization process studies, which embrace the future as unpredictable to a greater extent, evoking concepts like knowledge, adaptation, trust and commitment to explain firms’ ‘muddling through’ behavior in order to reduce perceived uncertainty or in spite of the ability to predict the future. These are relevant concepts when explaining firm’s internationalization process but to explain some of the deviating behaviors the concept of expectation needs to be elevated along with the executive function.

In the following subchapters the concept of risk will only be dealt with implicitly. Risk could be viewed as the actual outcomes of a decision compared to what was a priori expected (Nickerson & Feehrer, 1975). This thesis is more concerned with executives’ subjective perception of risk, i.e. what they expect, and how that influences their commitment decisions (Baird & Thomas, 1985). Although some decisions can in hindsight be proven to be perilous, this thesis assumes like Johanson and Vahlne (1977) that firms strive to keep risk-taking low. Yet since risk is perceptive, willingness to allocate resources towards, for example, an opportunity or problem area will differ between organizations. Some will be more risk averse and some will be more risk prone depending on what market knowledge, expectation, resource commitments and resource restraints the executive has to consider. Therefore, although two organizations will have strong semblances they can still act differently towards an opportunity, threat or problem area.
The emphasis in the following subchapters therefore lies on explaining how the executive expectation can influence a firm’s internationalization process and how state and change aspects are mediated by executive expectation. Of focal interest is to find explanations of change in firms’ internationalization process and what may influence this change. Several researchers also point towards the executive function in their explanations of change. Ford, Lawson, and Nicholls (1982) and Rosson (1987) conclude in their studies that changes in the behavior of internationalizing firms derive from executives’ dissatisfaction. They also discuss that dissatisfaction and changes in firms’ internationalization are responses to changes in the market. Gomes-Casseres (1987) found that changes in internationalizing firms arrive from executives sensing that the current strategy has run its course, while Calof and Beamish (1995) highlight the role of executives by suggesting that firm’s internationalization process are driven by executives attitudes. In their study they suggest, similar to this thesis, that changes in the firm’s internationalization process are mediated by executives’ beliefs. Hence, executives seem to influence the firm’s internationalization process. To frame the concept of executive expectation and give a short background, the two subsequent chapters seek to give some sense of the role of the executive function and put expectation into the executive context. The subsequent chapters will begin by discussing more generally about the concept of expectation before arriving at a definition of executive expectation. Finally, the concept of executive expectation is explained in the context of internationalization as a mediator of state and change aspects in the IP-model.

The role of the executive function

The aim of this thesis as discussed in the introduction chapter is to develop a theoretical frame that can deepen our understanding of firm’s internationalization process and changes in process. The main interest is to elaborate on the function of executive decisions, executive expectation, and how the latter can influence firm’s internationalization process. Therefore this thesis is focally interested in those who take executive decisions in the firm’s internationalization process. The essential functions of the executive are “first, to provide the system of communication; second, to promote the securing of essential efforts; and, third, to formulate and define purpose.” (Barnard, 1938, p. 217) Furthermore, “it is an entire executive organization that formulates, redefines, breaks in to details, and decides on the innumerable simultaneous and progressive actions that are the stream of syntheses constituting purpose or action.” (Barnard, 1938, p. 231) The function and primary task of these decision makers, i.e. the executive function, is then to anticipate and respond to changes that may affect the market and the firm’s market commitment (Abell, 1978). This includes executives’ perception of possibilities and threats that they chose to manage and their evaluation of these problem areas, threats and opportunities in the market.
The executive function will vary between organizations since several members of the organization that may not be perceived as executives can be part of performing the executive function (Barnard, 1938; Lumpkin & Dess, 1996). The role and adoptions of the executive function also depend on what is expected by other members of the executive function and how executives perceive their role (Tosi, 1966). Irrespective of organizational setting the primary role of the executive function remains to expect, evaluate and respond to changes that may affect the firm’s market commitment.

Carlson’s (1951) study on executives’ behavior exposed the connection between the role of the executives and their duties. Planning and coordinating, which may seem to be important tasks in the firm’s daily operations are duties that the executive function is scarcely involved in. He states that while these may be important, these are responsibilities that executives seldom find time for (Carlson, 1951). Instead, most of their time involves problem solving or searching for symptoms. In other words the executives seek to learn what to expect and this process is limited to the firm’s market commitment, meaning that the time spent by the executive on developing expectations has a frame holding certain elements or scenarios of what is to be expected from certain activities and changes in the market (MacKay & McKiernan, 2004). These are the symptoms for which the executives need to devote time to search and which they should seek to manage. Naturally, this is a complex and dynamic task that may be easier and less time consuming to manage when changes in the market and current activities are smooth, mainly because past market experience is more easily applicable, or to put it differently; expected changes occur more or less continuously and therefore do not require new market knowledge to reduce perceived uncertainty. This is assuming that executives’ perceived uncertainty remains at the same level, however, if changes in the market occur more rapidly (than expected) or happen suddenly (unexpectedly), the executive function indeed becomes significantly challenging. Depending on how problem areas are perceived, and executives’ degree of uncertainty, the executives must then choose whether to ignore changes and trust that what was expected before will still be a sound way to progress, or to revise from their a priori expectation and take new commitment decisions that may have significant effects on contemporary or future market commitments (McCain, 1986; Brockner, 1992).

Explanations of the concept of expectation

Building on the role of the executive as a function to expect, evaluate and respond to changes that may influence the firm’s market commitment, a large body of this function is to execute those assessments expected to bring most gain or solve a problem issue. In this section, before arriving at the definition of executive expectation, a brief overview is provided of how the concept of expectation can be viewed. One interesting aspect is that all the views below have in common that that they explain expectation indirectly,
not only as a driver for executing decisions but also as the driver of the executor’s learning process. Hence, although important lessons can be made from the unexpected, these contributions highlight that the learning process is to a large extent motivated by and within the frame of what to expect and what not to expect in the market and changes related to the firm’s investments and resources.

Steindl (1941) describes expectation as quantified predictions based on past observations that are influenced by personal feelings and risk attitude. To predict the future the individual applies objective data. Since the numbers of measures and variables that can be applied on the objective data are infinite, the selection of measures and variables depends on what is readily observable and on one or a few factors that is believed to influence the firm’s profitability. These variables will be measured over an extended period by compiling a frequency distribution of errors from past predictions and value outcomes. Over time, as the number of observation points increase, cyclical uncertainty is reduced as fluctuations and rate of change can be included, which provides the individual with more confidence in the predictions. Knowing that these variables and measures are subjective choices and to factor in risk, the decision maker makes a rough probability estimation of the likelihood of deviations that may influence the prediction. This will provide a few alternative predictions, where the one chosen to be acted upon will be the one believed to be least uncertain. In this view, expectation is to a large extent molded by general market knowledge but experiential market knowledge influences what general market knowledge is applied and perhaps also risk attitude.

With some similarity to Steindl (1941), Cyert et al. (1958) describe perceptions as biased by hopes, small but critical biases that influence decision makers’ evaluation and selection from a list of alternatives. This evaluation and selection process is, however, described somewhat differently. Cyert et al. (1958) assume that organizations always lack information as they do not and cannot scan the environment at all times. Even if they could they would never be able to abstract all information. Their search therefore needs to be motivated by a problem area where decision makers need to generate some rough expectation of inappropriate actions and suitable possibilities. Since decision makers must manage with scarce resources they seek feasible alternatives. Some of these alternatives are expected to be more feasible and are scrutinized more deeply. Searching and expecting is thereby highly restricted by its relevance to the firm’s resources and problem areas. In this sense although information can be obtained in many ways it is primarily a result of deliberate activities committed to gain information in order to compare constraints and improvements for specific alternatives (Rajagopalan & Rasheed, 1995). According to Cyert et al. (1958) the alternative perceived as the most feasible will be chosen as the one to invest in.

While Cyert et al. (1958) has an internal perspective, Spencer (1962) puts greater emphasis on exogenous influences by including changes in the mar-
ket that cannot be known in advance. Spencer (1962) describes expectation in short as subjective guesses that involve varying degrees of uncertainty. How decision makers measure uncertainty is a subjective process deriving from a lack of historical data or non-repeatable and rapid changes in the economic environment. Compared to Steindl (1941), Spencer (1962) has a significantly different explanation for how expectation is formed. Lacking perfect knowledge, managers form mental visions of the future, visions that cannot be confirmed in any quantitative manner. These visions hold different degrees of belief by integrating facts with expectations. To do so they gather information about elements that is believed to reduce uncertainty about, for example, profitability. The degree of uncertainty and probability in expectation depends on the knowledge the manager has (Oliver, 1980; Hunt, 1991).

When a new expectation begins to form it is relatively fuzzy and plans are subsequently ambiguous. As discussed by Hadjikhani and Johanson (2002), these are vague and general expectations based on general information about the market at a certain point in time at country level. In the planning process, market knowledge will be sought and, as general market knowledge and experiential market knowledge increases over time, expectation clarifies and becomes more specific to actors and changes in the specific market.

Since the market is not static, expectation will change over time and more drastically so if major changes occur in the market (Spencer, 1962). In such cases, new expectations with new plans may emerge that may be completely different from previous ones. From this perspective, what the firm knows and wishes to happen in the future (Cyert & March, 1963) will change continuously, sometimes more and sometimes less. In the instance of sudden or major change in the market, accumulated knowledge may no longer be useful in reducing perceived uncertainty and predicting future changes (Wu & Chen, 2014). Some of the firm’s (past wishes) resource commitments may perhaps become perceived as problem areas or even threats and thereby new wishes will arise. Therefore, part of the executive function is to expect different scenarios that may occur, how likely they are to occur and to generate feasible alternatives for how to face that scenario.

Defining executive expectation

The studies presented above elaborate on what may influence expectation and how expectation influences decision-making. Closer to a process perspective and focusing more on the execution of expectation, Stogdill (1959, p. 63) defines expectation as “readiness for reinforcement, is a function of drive, the estimated probability of the occurrence of a possible outcome, and the estimated desirability of the outcome”. This thesis follows this definition to allow a deeper understanding of influences on commitment decisions in firm’s internationalization process. Readiness for reinforcement exposes the connection between the evaluation and expectation of current activities and
the expected level of market commitment. The estimated probability stresses executives’ perceived uncertainty of the market and the expected state in relation to expected opportunities, threats and problem areas. Desirability highlights the executives’ expected gains, which motivate commitment decisions towards reaching a desired level of market commitment. The function of drive relates to all the above and connects to search for market knowledge. Implicitly, it also captures what hinders the process, since investments towards a desirable outcome also mean evaluation and responses to the undesirable. This can mean markets or opportunities that the executives avoid, for which the executive does have readiness for reinforcement. By contrasting the literature presented above with Stogdill’s definition, the following example on buying lottery tickets seeks to illustrate executive decision making from a process view.

Based on earlier explanations by for example Steindl (1941), Cyert et al. (1958) and Spencer (1962), one would through observation find the chances of winning the lottery to be fairly low, to say the least. One’s belief is also likely to be that the chances of winning and the possibility of return on investments is low (Anderson, 1955). Even if one has a high-risk attitude and actually buys a ticket, and for the purpose of this example let’s assume they do not win, the chances that one would go and buy another lottery ticket is even lower (despite having the time and money to do so). Obviously considering the size of the industry, many people do buy lottery tickets, so how can this be somewhat included in the definition?

Going back to Stogdill’s definition, we may estimate our chances of winning to be fairly low but our desire of gains may be superior and aid our willingness to purchase a lottery ticket. Despite not winning on the first ticket we may even be ready to buy another ticket in the hope reaching a desired outcome. Stogdill’s (1959) definition and the lottery ticket example do not explicitly include changes in the market and are mainly concerned with the firm’s own resource allocations. Based on a more calculative and economic reasoning, expectation of change would be based on past and present trends to make trajectories in the future. But even if these trajectories may hold most of the time they will never capture unpredictable changes in the market (Enserink, Kwakkel, & Veenman, 2013). Application of past and present trends to predict the future become increasingly difficult if the market changes rapidly and is highly volatile (Marks, 1977; Wu & Chen, 2014). The past and present can help in understanding what is to come but can never fully predict it. Extending the definition more towards a process perspective allows the inclusion of the market and change over time and the emergence of expectation through learning and committing over time. Therefore, this study assumes that probability assumptions, willingness, and desires are dependent on expected exogenous changes and are not just endogenous. Most of the time, these aspects will emerge over time and past commitment decisions will influence future commitment decisions.
Illustrating executive expectation

Building on Stogdill’s definition of expectation, it seems that expectation also includes conditions with the executioner’s experience of the progress towards what is expected. The executive may learn about an opportunity in the market that is perceived as sufficiently desirable and allocate resources in order to seize the opportunity and in the process achieve ‘readiness for reinforcement’. Thereby, Stogdill’s (1959) definition allows a time perspective since expectation carries conditions, similar to what Carlson (1951) discusses as symptoms. The executive will look for symptoms during the process that are conditional to their expectation. Over time, as experience and market knowledge increases, unknown probabilities can become known probabilities with feasible alternatives to manage different situations (Aharoni, 1966).

In the context of allocating resources based on executives’ expectation, the executives’ patience and readily available resources will never be limitless and some kind of progress will be expected during the process, progress that executives will evaluate during the process and respond to, as the example below seeks to illustrate, if it is perceived necessary and/or the conditional expectation is not fulfilled. If evaluations during the process do not align with expectations, i.e. the conditional expectation, the executives will revise their expectation, with the degree of revision depending on how unexpected the outcomes are (Shackle, 1937) and the conviction, i.e. trust in the expectation, the executives have. The level of trust or conviction executives have in their expectation stems from previous successful experiences (Starbuck & Milliken, 1988a). A high degree of trust or conviction in executive expectation will also help executives disregard other types of information that disconfirms expectations (Halbesleben & Buckley, 2004; Söderholm, 2008; Rundh, 2015). Despite acknowledging that the progress has not developed as expected, the executive may expect that the process will develop and align with what is expected in the long-term, or indeed for different reasons have a fear of what may happen if the firm does not reach their desired goal, in particular when it is expected that a highly desirable goal is close to being reached (Rubin & Brockner, 1975). There is also a possibility that the executives develop sheer ignorance where they believe they know all the probabilities of risk (Baird & Thomas, 1985).

For illustrative purposes, let us assume that the executive function in a bank learns about an opportunity in a foreign market and after some time of searching for information an expectation emerges of future gains and profitability if the opportunity is seized. General market knowledge, prior to market entry, contributes to the executive function expecting that opening up 12 branches will suffice to seize the market opportunity. A commitment decision is taken and 12 new branches are opened but over time the executive function learn that the allocated resources and investments have not led to a desirable level of market commitment. During reevaluation of current activities the executive function develops a few feasible options to manage the
situation. The executive function could wait and see if improvement can come on its own over time. Perhaps the branches need more time and resources to develop relationships and understand how to position in the market. The executive function may expect short-term losses but also that in the long-term the market commitment will reach the desired goal. Both options - to wait and see or to make small investments - will, however, require the allocation of more resources to improve the level of market commitment or keep market commitment at the same level. Another option is to make substantial investments by, for example, opening up several more branches. There is also the possibility that the executive function expect that the market opportunity will not be captured, that the costs are greater than the gains and that the scales are not expected to change either in the short- or long-term. In this scenario the executive function may reduce market exposure by closing some of the branches or even deciding to dismantle all current activities and exit the market. It could also be that, since resources are not unlimited, the executive function finds another market opportunity in another market to be more desirable and therefore reduces resource commitments in this market in order to allocate the resources towards the other market opportunity, depending on how the executive function perceives the market and past commitment decisions as well as market commitment, how desirable the market opportunity is and how willing it is to make further investments.

Which alternative the executives choose depends on what the executives expect and this expectation will be bounded not only by what the executives perceive to know but also by feasibility in terms of available resources. Different executive functions will perceive the context differently, not only in terms of what a market opportunity may comprise but which alternative is the most feasible. Since executives’ perceptions and expectations are filtered by what resources and market commitment the firm has (Starbuck & Milliken, 1988b), different executive functions will perceive the problem area differently depending on what knowledge the function has, past and contemporary resource restraints and market commitments, how the market is perceived and how future changes are expected to influence, in this case, sales. In this example the executive function’s expectations are rather specific for a problem and have developed a specific and (primarily) short-term expectation on how to manage the issue. The development of specific expectation can also take place because the executive function at an earlier point in time had the same goal but vague expectation and perceived the uncertainty to be too great (Hadjikhani & Johanson, 2002). Thereby, the executive function set in motion a learning process to reduce uncertainty and learn about feasible alternatives and possible scenarios specific to a particular context (e.g. market).

Thus, the willingness of executives to make, for example, further investments depends on if and to what extent they expect further investments to solve the problem area and if they expect to be willing to make further investments in the future. This phenomenon has been coined escalating com-
mitment and captured several researchers’ interest in explaining commitment entrapment, since decision makers operate in an uncertain context where they do not know whether, or to which extent, they should persist or refrain from previous commitment decisions (Brockner, 1992). Escalating commitment refers to when decision makers allocate their own and the firm’s resources in the hope of attaining one or more goals. In many cases post commitment decision, the decision maker learns that the goal(s) that motivated further investments might not have been attained or worse, and it is difficult to estimate whether further investments will suffice (Baird & Thomas, 1985; Brockner, 1992). Executives’ willingness to increase investments and to trust that what is expected in the long-term will in the long-term increase the firm’s profitability, will therefore be continuously challenged throughout the firm’s internationalization process since the process is complex and will not always go smoothly.

The influence of executive expectation on internationalization
Similar to Johanson and Vahlne (1977) this thesis assumes that state aspects influence (change aspects) commitment decisions and the performance of current activities. How the state aspects influence change aspects and vice versa is where this theoretical frame seeks to complement the IP-model. Johanson and Vahlne’s (1977) analytical framework may on the one hand have a high degree of explanatory power over firms’ incremental internationalization. On the other hand, as commented earlier by Andersen (1993) and Leonidou and Katsikeas (1996), the explanations are rather deterministic and do not explain how change and state aspects are mediated.

Assuming a deterministic view on the firm’s process of internationalization leaves little room for change in what and how the firm reflects on and perceives its market commitment. Hence, it does not offer much freedom for the executive function to express a desirable future, to evaluate market commitment and take to preparatory decisions for expected changes in the market. Since the model still has a strong explanatory power for firms that have a path-dependent and incremental internationalization, it seems that some firms have a low variation in how they evaluate market commitment. Variations are iterative but unidirectional as the firm increases its market commitment incrementally (Lamb & Liesch, 2002). Knowledge and expectation is continuously confirmed in those firm’s internationalization process and biases in expectation such as emotions and optimism remain largely unchanged (Berscheid, 1994; Corredor, Ferrer, & Santamaria, 2014).

In the process of market expansion, exploitation of opportunities and managing of problem areas can increasingly entrap the firm’s market commitment as it becomes more embedded in the market. Furthermore, since expectation develops from knowledge and commitment, how the firm commits in the market not only entraps the firm in terms of commitment but also
in terms of what the executive function can expect. In the initial phase, as discussed earlier, the executive function develops expectation from a learning process. What is learned and expected is related to what can influence the firm’s current and future market commitment. Over time as the process drives forward, expectations evolve from being general to including specific problem areas and opportunities, and scenarios and feasible alternatives. The more specific executive expectation becomes, the more bounded it becomes to aspects that may influence the firm’s market commitment.

In contrast to these firms, we know that these assumptions do not apply to all firms. Patterns of both rapid internationalization and leapfrogging commitment behaviors (Oviatt & McDougall, 1994; Malhotra & Hinings, 2010; Casillas & Acedo, 2013) and de-internationalization (Lamb & Liesch, 2002) display deviations from these assumptions and illustrate how dynamic and complex firm’s internationalization process are. In order to explain these deviating internationalization behaviors from the IP-model’s explanation, this thesis proposes that change and state aspects in the IP-model are mediated by executive expectation (see Figure 3 below). How the performance of current activities is measured depends on what executives expect. If the performance positively confirms or disconfirms executive expectation, the executive function may be more willing to maintain or increase market commitment (Cadotte, Woodruff, & Jenkins, 1987), although a positively disconfirming expectation is likely to generate a searching and learning process in order to find out what made a priori expectation erroneous. For negatively disconfirming expectation (as implied in the earlier example about increasing sales staff to increase sales) the executive function will also need to revise their expectation. In such a scenario there is a higher likelihood that more substantial changes will be made in commitment decisions. The evaluation and a priori expectation is developed from the executive function’s knowledge and experience (Cadotte et al., 1987).

![Figure 3. Proposed theoretical view based on Johanson and Vahlne (1977)](image)

From this thesis point of departure explanations of, for example, sudden market exit, decommitment, or investments, can be increased by studying
what the executive function expect. In some cases these behaviors may occur
due to sudden changes in the market calling the executive function to revise
expectation and change the firm’s position in the market. Such changes may
also derive from the introduction of new knowledge into the executive func-
tion. Small but important changes in the executive function may also aid the
revisal of executive expectation of market commitment, and thereby new
commitment decisions that differ from preceding decisions. Perhaps the ex-
ecutive function’s conditional expectation is not fulfilled by the firm’s cur-
rent activities and the performance is below what is acceptable. These are
critical deliberations for the executive function and depending on what is
expected, can drive the firm to further investments to strengthen, for exam-
ple, performance or market position, or divest and perhaps reinvest where
the executives expect superior short- or long-term profitability. This kind of
reasoning could aid our understanding of firms’ dynamic internationalization
process.

The development of executive expectation is to a large extent related to
what knowledge is not only included and introduced to the executive func-
tion but what knowledge is deemed useful. In some organizations the execut-
ive function can be broader and more vertical and because of its width can
include different types of knowledge. It may even be the case that the func-
tion has been deliberately broadened in an effort to introduce more experien-
tial knowledge, which the executive function perceive as important in under-
standing how, for example, the market is changing and the probability of
future scenarios influences the firm’s market commitment. In other organiza-
tions it may be that the executive function is narrower and this may also
have been on purpose. It can be assumed that in such organizations, the ex-
periential knowledge necessary to understand specific market problems and
opportunities is not perceived as important, as described by Johanson and
Vahlne (1977). Otherwise the executive function would have been wider in
order to provide more nuanced perspectives on the firm’s market commit-
ment and what the future might hold. For both types of organization we can
assume that different types of knowledge will be mediated by executive ex-
pectation in commitment decisions and interpretation of current activities.

The type of knowledge used, general or market-specific experiences, de-
pends on what the executive function is inclined to perceive as useful in
order to reduce uncertainty and increase expectation probabilities. Some
executive functions may to have greater conviction than others in economic
trajectories while others rely on experiential knowledge specific to the mar-
et. In both extreme cases, the executive functions are likely to perceive the
same opportunities, problems, and threats in a market but expect different
outcomes from investing time and resources in the market. Since the two
disparate executive functions rely on different types of expectation and
knowledge, they will likely also view not only potential market commitment
differently but also market commitment. Executive functions with a more
calculative expectation, closer to economic theory, are likely to be less influenced by what may be referred to as affective expectation, i.e. emotional attachment. The former executive function may view a market commitment as tangible entrapments measured by (to simplify) past, current and future calculated benefits and costs (Geyskens, Steenkamp, Scheer, & Kumar, 1996). The latter executive function may view the same market commitment as close to immeasurable, intangible, because entrapment is not only related to tangible resources and investments but to, for example, relationship ties. In both extreme cases entrapment may have evolved from escalation of executive expectation where despite negative feedback the executive function expects future gains. However, depending on what knowledge is used in the development of executive expectation, what these future gains are and what and how negative feedback is interpreted will differ between the organizations. Entrapment is therefore perceptive and depends on how the executive function values market commitment and expects it to be valued in the future.

In this theoretical frame it is assumed that over time as the firm becomes embedded in a market, the executive function will develop a more affective expectation on the firm’s market commitment. This includes executive functions with a more economic view although its affective expectation can be specific to the market and for other markets the executive function may still rely on a more calculative expectation. In other words, executive expectation initially mediates general market knowledge in commitment decisions but over time, by changing its perception of market commitment, mediates more market-specific knowledge for commitment decisions and evaluation of current activities. On the one hand the executive function may still perceive calculative expectation as more useful to evaluate and anticipate future changes. On the other hand as the firm has become embedded in the market the executive function may have learned how it can proactively try to influence the changes in the market (Bass, 1985). By becoming embedded it develops relationships with other actors in the market, including socio-political actors for which the executive function has specific expectation. Through these relationships, the executive can attempt to influence changes in the market into a path that is more desirable to the executive function.
Research process

The aim of this chapter is to provide a comprehensive overview and discussion of the overall methodological considerations relating to this thesis. The thesis is a compilation of four papers, each containing method descriptions directly connected to the specific research questions. This chapter will therefore not discuss details in the individual papers but rather those issues that are common to the research process of the thesis. This includes how the study was conducted in an effort to increase the explanatory power of Johanson and Vahlne’s (1977) IP-model and elaborate on the data collection process from archival sources and interviews. To some extent this process will also be captured in the next chapter (Summary of papers) of the thesis but from a different perspective with less emphasis on methodological aspects.

The next subchapter presents the research design of the study followed by why Swedish banks were chosen to be studied. The third subchapter provides an overview on the process of collecting archival data, and fourthly, the purpose of, and how, archival data was complemented with interviews. In the fifth subchapter focus is on the iterative process of coding, using NVivo, and analysis of the retrieved information. The final subchapter elaborates on some reflections of the research process and the trustworthiness of the study.

Research design

In order to gain a comprehensive understanding of the banks’ foreign market activities in different periods of time, the study applies a process view (as suggested by Bryman & Burgess, 1999; Ghauri, 2004). Having a process view facilitates the establishment of the influence of contextual changes on bank executives’ decisions and actions. The focus on executive expectation was not initially decided as main topic but resulted from the empirical observation in the licentiate thesis and strengthened by Papers II-IV. Thus the observations emphasize the banks’ development in multiple contexts; not just single events or sequences, but as a process (see Maxwell, 1997; Pettigrew, Woodman, & Cameron, 2001; Blazejewski, 2011). Qualitative methods are well suited for this purpose as they “provide a guarantee against the temptation to rely on a single theoretical lens because they make obvious to the researcher that any single lens will shed only partial light on the phe-
nomenon being researched” (Doz, 2011, p. 583). The qualitative method applied in this study is chosen in order to deepen our knowledge on how the banks have internationalized, and by being active in multiple contexts how the banks approached different, for example, markets, and how multiple contexts influenced the process (see for example Dul & Hak, 2008; Birkinshaw, Brannen, & Tung, 2011; Lervik, 2011; Piekkari & Welch, 2011). The study was, hence, designed with the purpose to exploring the banks’ executives’ perception and expectation of different markets and activities and executive decisions and actions in different foreign markets at different times (see for example Welch & Luostarinen, 1988; Hunt, 1991; Johanson, 2001, p. 41).

The study of expansion aims requires rich and thick descriptions of real-life, for which qualitative case studies are appropriate in order to uncover complex contexts over time (Doz, 2011). The qualitative approach with cases can also, as described earlier, help the researcher to break free from theoretical lenses in order to discover new patterns and generate or expand a theory (Birkinshaw et al., 2011; Doz, 2011). Since the purpose is to expand a theory, the study was designed to have a qualitative approach using case studies. In order to unpick the phenomena and take into account complex contextual changes over time, the cases are constructed from archival sources and interviews, as suggested by Doz (2011). In order to enrich the study and explore internationalization as a coherent process instead of singling out specific events or decisions, the study was designed to include internationalization activities in all markets. Because the study applies a process view the cases needed to cover a certain period of time. In order to fulfill the study’s purpose and capture how contextual changes have influenced executives’ expectation of different markets and outcomes of the executives’ expectation, the cases were designed to be longitudinal. With the longitudinal empirical descriptions it was assumed that more findings and more interesting empirical findings could be made, revealing the influence of change in the process of internationalization.

When the research process began, the study was not very aware of banks’ foreign activities and required more knowledge to understand what to look for (Åberg, 2013). One of the strengths of retrospective qualitative studies is that they can facilitate an understanding of the big picture (Walsham, 1993). Due to the lack of knowledge about banks the study chose archival data as source for empirical description. The application of archival data to study internationalization and/or Swedish banks is not uncommon (Engwall & Wallenstål, 1988; Marquardt, 1994; Holmstedt, 2015), and is a common approach in, for example, economic and business history (Larsson & Lindgren, 1989; Larsson & Sjögren, 1995; Amdam, 2009).

The archival data in this study consists of news items, reports, and press releases. Indeed as Alexander (2011) comments, archival data can offer detailed pictures on, for example, market selection, market entry, market activities, operational structures, market characteristics, performance, and
statements, and thereby provide the opportunity to study how banks internationalize and the context in which they operate. Archival sources such as the database Bisnode provide quick access to information and in the case of banks, extensive and rich information due the banks’ exposure.

Table 2. Overview of the methodological approach in the four papers.

<table>
<thead>
<tr>
<th>Papers</th>
<th>Paper I</th>
<th>Paper II</th>
<th>Paper III</th>
<th>Paper IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research purpose</td>
<td>Describe and analyze the two SHB and Swedbank’s internationalization process.</td>
<td>Study the influence of ‘Tit for tat’-behavior and financial crisis affects on the Swedish banks internationalization patterns.</td>
<td>Study when and how regulatory environments affect the executive’s internationalization strategy formation process.</td>
<td>To introduce executive expectation into Johanson and Vahlne’s (1977) IP-model-</td>
</tr>
<tr>
<td>Analytical frame/ concepts</td>
<td>Market commitment, Market knowledge, Expectation</td>
<td>Market commitment, Commitment decision</td>
<td>Environment, Market knowledge, Market commitment, Expectation</td>
<td>Market conditions, Executive function, Expectation</td>
</tr>
<tr>
<td>Method</td>
<td>Qualitative and process approach</td>
<td>Qualitative and process approach</td>
<td>Qualitative and process approach</td>
<td>Qualitative and process approach</td>
</tr>
<tr>
<td>Exerted data</td>
<td>Archival data</td>
<td>Archival data</td>
<td>Archival data with interviews</td>
<td>Archival data with interviews</td>
</tr>
<tr>
<td>Empirical presentation</td>
<td>Chronological longitudinal comparative case study</td>
<td>Quantified archival data on market entry and market investment</td>
<td>Situational single case study</td>
<td>Comparative case study</td>
</tr>
</tbody>
</table>

This archival data forms the basis of the case studies in this dissertation, thus the case descriptions are largely designed from archival sources (as seen above in Table 2). The empirical evidence in the licentiate thesis and Paper II is solely based on archival data. Later on in the study, in order to reduce possible bias in the collected data, the research design included interviews since they offer the opportunity to study complex processes and tacit information (see for example Vissak, 2010). Although the main reason for including interviews was to increase the reliability of the study by triangulating the archival data with interviews of bank informants; the interviews were also aimed to enrich and complement the archival data with additional perspectives and personal experiences. By interviewing members in executive positions (for example CEOs) the study added narrow depictions on some decision making processes concerning important events such as market entry or exit. The empirical evidence in Paper III and IV is therefore based on archival data complemented with data from interviews.
Framing the study

This is a study of the internationalization process of Swedish banks. The decision to study banks was influenced by an assumption that the role and influence of executives would be more vivid in banks. In an industrial setting changes are generally more inert compared to a banking environment, which is more frequently influenced by external non-business actors. Since changes are more frequent in the latter it was assumed that the role of the executive would be more apparent as changes require evaluation and response. The research interest in studying banks was also intensified by the fact that, as demonstrated in the chapter ‘prior studies on the internationalization of banks’, studies on the internationalization of banks are scarce, especially those applying a process view.

The decision to study Swedish banks was motivated by an empirical gap. Marquardt’s (1994) study covered the internationalization of Swedish banks in 1900-1994, offering an opportunity for this thesis to update and contribute knowledge on how these banks have internationalized since then. In fact, most studies on the Swedish of internationalization of banks covered periods prior to the 1990s. These contributions illustrated that the Swedish banks did not start to internationalize (with major foreign market commitment) until after the deregulation of the late 1980s. Since only four of Sweden’s banks (Nordea, SHB, SEB and Swedbank) have internationalized there are only four to choose if the aim is to study the internationalization of Swedish banks.

In order to enable comparisons without reducing the richness of the cases, the study focuses on two banks. Despite being of similar size, age, and having started to internationalize around the same time, as well as being exposed to similar external conditions over a long period, prior findings indicated that of the four large Swedish banks, SHB and Swedbank were the two most dissimilar banks in terms of internationalization behavior. For these reasons the two banks SHB and Swedbank were purposefully selected to enable comparative studies and increase the study’s potential for generalization (as suggested by Ghauri & Grønhaug, 2005; Blazejewski, 2011; Halinen & Mainela, 2013), as well as to aid a greater understanding of the phenomena of the internationalization of banks.

During recent decades the legislative and regulatory framework has changed both domestically and internationally, which has increased the frequency and specification of banks’ reports. Since banks are important actors in society that continue to receive much attention from the media and from society in general (Bowen, 2000), it was anticipated that there would be rich and numerous archival sources with descriptions of the banks’ foreign activities. The sheer size of the four large Swedish banks also increases their coverage by external actors. By being present in foreign markets they reach a wider audience, not just in terms of domestic interest but also media coverage as well as reporting made by the banks in these foreign countries. Natu-
rally, crises such as that of the early 1990s and 2008 also generated increased interest from external actors. Finally, the banks themselves are also for various reasons eager to ‘speak to the market’.

Collecting archival data

All relevant archival data that could be found in this way has been systematically searched for with the banks’ names as keywords in the databases Factiva, Retriever Research, and Bisnode (at the time named Affärsdata [Business data] until it was acquired by Bisnode), retrieved and stored in NVivo. Bisnode was used because it stores news items from a total of 1,120 sources of digital and printed Scandinavian business and daily newspapers, including major English-language ones such as the Financial Times and The Economist. It also stores annual, semiannual and quarterly reports, press releases and other official statements by firms. The database Factiva mainly stores news items from international sources and was therefore used to increase the reliability of the study by extending the sources of information. The database Retriever Research stores Swedish newspaper items and was mainly used to replicate and cross-reference collected data from Bisnode and to ensure there was no missing data. All of the banks’ press releases and reports have been reviewed in order to search for descriptions of foreign markets and activities, internal changes and for collecting information about, for example, lending, allocated offices and staff members.

Table 3. Summary of archival data in applied in the thesis.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Newspaper items</th>
<th>Retrieved internal items</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Found</td>
<td>Retrieved</td>
</tr>
<tr>
<td>SHB</td>
<td>162137</td>
<td>1200</td>
</tr>
<tr>
<td>Swedbank</td>
<td>146608</td>
<td>3500</td>
</tr>
</tbody>
</table>

In order to increase detailed information about the context, ad hoc searches have also been made. When, for example, one bank mentioned a possible partner or bank to acquire the study searched for complementary information about that particular organization or person. Google was also used with the same keywords, and since 2011 with Google alerts on the banks in order to help the data collection process. Besides external sources, internal reports from the banks, press releases, presentations and videos were also retrieved. From the internal reports, data relating to the size of investments and allocated staff, lending, and offices per country per year was also compiled. Table 3 above presents a summary of the found and collected archival data. Found newspaper items are the total number of hits in the databases. Retrieved newspaper items are those found to be of use to in Papers I-IV describe the banks’ foreign market activities, decisions, relationships, knowledge, in-
vestments, divestments, anticipations and so forth. The number of retrieved newspaper items (seen in Table 3) has a margin of error due to duplicated items that have been stored and used. This has not been carefully overviewed and the numbers are therefore an approximation. There are two reasons why the numbers of retrieved newspaper items are substantially higher for Swedbank than for SHB. One, Swedbank has been much more ‘active’ in its internationalization process with frequent divestments and investments each year throughout the reference period. Secondly, while SHB has been predominantly active in the UK and Nordic countries, Swedbank has been active in Eastern Europe. In the process of data collection the study went greater lengths and was more meticulous in using international sources to cross-reference news items with different international sources. ‘Other’ in Table 3 refers to books, videos, and presentations found useful for the study.

Collecting, coding and making sense of the archival data was complex and took over a year. Exclusionary keywords such as robbery and burglary were used to reduce the amount of hits. Even so, the number of hits was several thousand per year and manual exclusion by reading the headline and synopsis of each item was necessary. The focus was on finding information relatable to investments, decisions, and activities in foreign markets as well as changes in the foreign market and banking environments. Often a major newspaper reported something that was then replicated by all the small local newspapers. In event of, for example, a possible market entry, the sequence and rate of reporting intensified, giving rise to different perspectives on contextual aspects from different sources. For this thesis, however, the emphasis of the analysis of this reporting was placed on the bankers’ (and specifically executives’) perception. Similarly, some sources often made short notes on, for example, SHB receiving a banking license in China. Subsequently, multiple other sources replicated the item and extended it by adding, for example, a quote from a manager. Each year also includes numerous interviews with managers, often on the theme of internationalization. These were more difficult to replicate and more source reliable but the quotes by the banker in the interview were coded and compared with other bankers and with earlier and latter interviews.

To illustrate what a news item is, Figure 4 on the next page is a typical news item that has been found and retrieved. This particular item is in Swedish and replicated from another Swedish newspaper and can be cross-referenced with other newspaper items, press releases and annual reports from the acquiring bank Kaupthing and selling bank Swedbank. Before the sale agreement was signed, 12 news items reported (with bankers’ citations) that Swedbank was planning to sell the Danish bank FIH and 15 items reported about the sale once it was settled.

The item contains interesting information about Swedbank’s divestment of FIH in Denmark in 2004 but all but one of the citations are from an external person (a banking analyst at an investment bank named Alfred Berg). According to this external banking analyst, Swedbank received more than it
might have anticipated. Such information is sometimes confirmed or dismissed by the bank, other types can be traced back in time to see earlier statements by the bank. In this case, for example, Swedbank state in the first quarter report of 2004 that a divestment of FIH would bring in around 8-9 billion Danish kroner, which in accordance with what this external individual is stating. The same or similar cross-referencing technique was used for all items to retrieve as much information as possible about the context and to connect different events over time.

This particular item in Figure 4 adds information about Swedbank’s divestment, which is a relevant event for the bank’s internationalization activities. But it does not offer much value in terms of what knowledge the decision of divestment is based on, what is expected of it, how FIH is perceived by Swedbank executives and so on. It is merely an empirical fact including a hint that a board chairman expects to reinvest the money in another opportunity or distribute it to the shareholders. Other news items, however, provided more detailed descriptions of how certain executives anticipated reinvesting the money into another investment (market) opportunity. Hence describing an event required multiple sources of evidence to capture what was happening and how it connected to previous and future events. Analyzing the event also required a comprehensive chain of events including not just empirical facts but detailed descriptions of why and how they occurred and their relationship to the past and expectation outcomes. Thus, the emphasis in analysis of executive expectation was on the scrutiny of a priori, for example, visions and anticipations, and study not only expectation outcomes and decisions but also succeeding decisions and outcomes over time.
Föreningssparbanken i dansk miljardaffär

Interviewing bankers

Based on empirical knowledge and personal theoretical development, the study clarified the role of executives and how their expectations affected the internationalization process. These thoughts were initially raised from the interpretation that it was mainly executives who spoke about foreign market
entries, exits, acquisitions and other critical processes and decisions. They formulated internationalization with a more holistic perspective concerning, for example, internal and external conditions. They were the ones describing decisions to enter, exit, invest or divest in a country more comprehensively, while other members spoke more about local conditions and activities over time and how executives influenced their activities. Of course staff members spoke about critical processes but these processes were dependent on, for example, executive decision makers’, strategic shifts or adjustments, investment and divestment decisions. These realizations, however, were far from clear and developed gradually from fuzzy interpretations to eventually focus more on how the executives described their experiences. Hence, towards the end the targeted informants were mainly executive managers.

In the archival data several relevant managers, both active and formerly active, had been found, contacted and interviewed. Other bankers at all ‘levels’ of the organization in Sweden, England and Estonia were also interviewed in order to gain a better understanding of, inter alia, decision processes and outcomes from different internal perspectives. These informants gave suggestions on other possible interviewees that in some way been germane in the internationalization of the banks, who were contacted and interviewed. Those of particular interest were those that had in some way been part of activities or taken decisions about activities in other foreign countries. Each person interviewed was also searched for background descriptions in order to gain a better understanding and to specify some questions towards their personal experiences.

In total, 29 interviews were performed with bank representatives from SHB and Swedbank for on average 1.5h each. All were performed face-to-face, recorded and transcribed. In order to ensure the validity of the transcriptions they were sometimes sent to some respondents. The informants included a former or active chairman of the board in both banks, various CEOs, vice CEOs and CFOs connected to the banks’ international operations, regional and branch staff in Sweden and in the UK (for SHB) and the Baltic region (for Swedbank) and an executive advisor in Swedbank. Not included in these 29 interviews is one pilot interview conducted by another PhD student with a manager with experience from both SEB and Swedbank’s activities in Eastern Europe. Both I and the other PhD student interviewed the same manager once more (an interview that is included in the 29). At an early stage of the research process, one additional interview was performed with a manager from Nordea who was responsible for the bank’s expansion in Poland. Though it has not been used in the study it provided a learning opportunity on how to perform an interview and for a comparative background of banks’ foreign market activities, expansion, and problems and opportunities. In the beginning of 2014, another interview was made with an emeritus professor with a long background of banking studies, who helped with access to three executive bankers and providing a different perspective on the banking environment and on banks’ past foreign activi-
ties. One interview with the CEO of the Swedish Bankers’ Association helped provide an in-depth understanding of banks’ socio-political environments and relationships both at a national level and internationally. Likewise with a Polish economist, formerly chairman of the National bank of Poland and deputy minister in Poland. This interview has not been used in the thesis but gave a perspective of e.g. banking in Poland and the socio-political setting in Poland over a period of time.

Inductiveness prevailed in the data collection of archival data but the approach in the interviews embodied more of a deductive approach. The informants were given freedom and time to express their own experiences but were through discussion probed with knowledge that had been gained from the archival data. Much of the broader empirical gaps already had been filled with the archival data and in-depth knowledge had been gained of the bank’s internationalization process and specific foreign market activities. This knowledge, gained from the process of developing Papers I-II and other papers not included in the thesis, was helpful during the semi-structured interviews. The interviews also aimed to go deeper into various episodes and complement the empirical facts generated from archival sources. Since the study did not have formal access to all possible informants, the deep empirical knowledge also gave credibility, which likely helped in the discussion with respondents and gaining access to other interviewees. Knowing the dates of critical events or names of people and organizations helped prevent respondents getting stuck with details, allowing them instead to discuss episodes and contexts from different perspectives, focus on the ‘why’s’ and ‘why not’ in certain decisions and connect the decisions with other decisions at different times. Hence, the interviews sometimes nuanced and underlined patterns from a different perspective and although the archival data displayed the same patterns the interviews could validate their significance.

Since this is a study about internationalization, cultural differences between interviewer and respondent can generate e.g. misunderstandings (Lervik, 2011). This study is not aware of any such misunderstandings and since the interviews were semi-structured discussions, any possible misunderstandings were managed during the interview. Simultaneously, understanding the contextual aspects like cultural differences was important when recognizing social and business contexts and facilitating analysis of market knowledge, expectation, and market commitment, as well as for scrutinizing differences in, for example, the knowledge of a foreign market expressed by HQ compared to a subsidiary and differences in the perception of market change and market commitment.

Coding and analyzing the data

One of the challenges this study faced is data overload, a typical issue for longitudinal studies (Pettigrew, 1990). To this extent NVivo was helpful in
making the data more manageable and therefore making it easier to code and combine different sources. Coding and making sense of the data was performed chronologically in the first rounds and then more iteratively once pieces of the puzzle became evident. The archival data and the interviews were iteratively coded thematically in NVivo according to the key concepts of knowledge, commitment and expectation, instigated by internationalization theory and research purpose (as suggested by Fox-Wolfram, 1997). Beside the themes, there were also primary codes of bank, date, country, event, organization, setting and source. This coding scheme was developed firstly for the archival data and then developed further with additional subcodes (‘child nodes’/subcategories) during the coding of the interviews. The news items were generally coded at parenthesis level or by the whole piece. This was intentional, in order not to take fragments and narratives out of context or lose contextual richness.

In order to provide some sense of the coding of concepts and their commitment, subcodes such as lending, investment, divestment, market share, and relationship were included. In the analysis of these codes, the focus was not only on the tangible measures of lending, instead emphasis was placed on how they were described, in order to scrutinize the perception of the commitment. Knowledge included subcodes like learning and experience, in order to seek out primarily on an individual level what they noted they had realized or learned from the past. Usually, for example, when the banks commented about their investments, they related the investments to previous successful or unsuccessful events in order to point out what they had learned. Expectation composed subcodes of, for example, guess, potential, gut feeling and projection, thus descriptions of, for example, the anticipated outcomes of an event or activity. The analysis of the data was more concerned with connecting bits and pieces of different puzzles. Hence, rather than measuring, the analysis set out chronologically to analyze fragments (events) and explore their relationship with past and future fragments (events), seeking to find a timeline and understand its underlying mechanisms. In order to find the underlying mechanisms, the analysis involved a stepwise deepening empirically and analytically of finding relatable patterns and an understanding of how they could be conceptualized. Since the study concerned two banks exposing different patterns, the analysis searched for conceptual tools that could unite the cases. By seeking out how the internationalization process was constrained by the bank’s perceived context and how the banks tried to influence it and for what purpose.

Reflections on the research process

The study was initially concerned that gathering data that might be biased by the banks or by external actors could impact the reliability of the study. In order to reduce bias, archival data was collected from multiple sources cov-
ering a long period of time (as proposed by Yin, 2009). Because archival data is not retrospective it offers the opportunity of not having to deal with reluctance of informants to release negative information, forgetfulness, or post rationalizations (Dye, 1985; Golden, 1992; Blazejewski, 2011). The archival data, hence, contains statements about not just ex post but also ex ante, thereby offer the opportunity to analyze what the organization and individuals expect at a particular point in time with limited ex post bias (Golden, 1992; Blazejewski, 2011). These statements also infer what market knowledge individuals have and their past/current/expected business activities in the market. In this view, archival sources offer an often-neglected opportunity for researchers to study process over an extended period of time. Hopefully other researchers can recognize the strengths of archival data since it can provide comprehensive information stretching over a long period of time. In addition, since it does not require access to the firm it can address sensitive issues that may be difficult to study (for example bribes and other scandals).

The fact that the two banks were extreme cases was a surprising finding spurring the study to discover an analytical frame or conceptual tools that could unite the cases. Case study research can be generalizable by discovering generalizable processes and by theory testing and building (Flyvbjerg, 2006; Vissak, 2010). I will not claim that the cases in this thesis can be generalized to all firms but that they can be generalized to firms in, for example, an oligopolistic setting and to financial firms, the first because of the empirical setting of the Swedish banks being oligopolistic, and the second because the two banks (are polar extremes and) had such dissimilar approaches in their internationalization approaches. Nevertheless, in qualitative case study’s the goal is not to produce generalizable results but instead seek credibility, transferability, dependability, and confirmability to increase the rigorousness of the study (Yilmaz, 2013).

To evaluate a qualitative study Miles and Huberman (1994) offer some criteria’s, such as, context-richness in the descriptions, if the descriptions make sense, and if complementary methods have been used. This study has taken great lengths to increase the credibility of it and follow, among others, Miles and Huberman’s (1994) suggestions. Because the proposed view in this thesis does capture the internationalization process of both banks, I believe the conclusions in this study are generalizable. The proposed view is based on an iterative idea generation from questioning and scrutinizing the empirical evidence and established theory from different perspectives. The study offers rich, and not just single, comparative cases on events over a long period of time, which has helped to reduce my subjective bias and increase the study’s external validity (Voss, Tsikriktsis, & Frohlich, 2002). Furthermore, the study expanded and included interviews to triangulate data and thereby increase the study’s validity further (Voss et al., 2002). I also believe that the study is trustworthy since the constructed cases are based on different sources that reconciles multiple realities where emphasis put on
rich and thick descriptions of bank’s internationalization decisions and activities. Since the proposed view builds on established theory and a well-established model (the IP-model) and the idea generation is dependent on findings deviating from established explanations, rival explanations have been thoroughly searched for (as suggested by Miles & Huberman, 1994). In fact, some rival explanations like the external factors and the future dimension’s influence on the process and the role of the executive, have contributed to the study’s proposed theoretical view on internationalization. The longitudinal data and process approach in the study also increase the reliability of the study as it covers the process of internationalization in different settings in different times (Pettigrew et al., 2001; Birkinshaw et al., 2011). Furthermore, the cases have been externally reviewed and member checked by being presented in several conferences and published in books and journals. The empirical findings in the licentiate thesis have also served for narrow interviews with bankers to discuss how they conceived the events and how they would describe the coherence in the various foreign activities and events. Some interviewees have also received full transcripts of the recorded interviews and thus far no one has objected or ‘edited’ the material.

If someone tried to replicate this study I would suggest using more detailed strings in their searches of archival sources. Rather than relying on the banks’ names, add a country or organizations too, to deduce the amount of hits (data overload will be an issue anyway). Another approach is to start from the banks’ own reports and press releases, identify critical events and then search for relatable news items. Since I have not tried this approach I am not sure how much valuable information would be missed but it should be a feasible approach that can save time.

Concerning interviews I would press more to receive a formal access and thereby, hopefully, not have to chase bankers to the same extent. Regarding coding I would suggest starting thematically but having more themes and having a clearer idea (be a little less iterative and more abductive than inductive in coding) than this study. Removing information about changes in the environment, which has been important for this thesis, involved many sub-codes. I believe the advantages of software like NVivo is simple and quick access to relatable fragments of information. However, this depends on how one has coded, so one has to be more systematic and perhaps refine the coding scheme more frequently than this study has. This does not mean the results would be different but that the time spent to take out relevant information would be reduced.

Although the research goal was fairly clear in the study, the road to the goal could have been more clearly defined a priori rather than when it was found and defined iteratively. This process will always, as Pettigrew (1990, 1997) notes, involve cycles of deduction and induction. However, this process can be structured to help in, for example, recognition of patterns. In this research process there have been structures but they have been difficult to
concretize and rather remained latent and required the experience of the research process to concretize it. This is also why I believe if I would start all over again and be in the same position as before I would do all the same again. But that if I restarted with the same experience and knowledge I have today, I would have a more balanced cycle of deduction and induction. However, to design a study, retrieve and analyze data, these are skills gained from the experience of the research process that will benefit me in my future studies. Thus, would the process be different if restarted with the same experience and knowledge I have today? Yes, of course. The outcomes would likely be the same but the design of the study would be more concrete and focused on the purpose of the study.

Finally, as noted above, the research process has also benefitted from attending and presenting various papers at various conferences. Some papers have been published as book chapters but have not been included in this dissertation because they are not as closely related to the purpose of the dissertation. These papers have been made to explore different areas and find interesting research issues. They have, in other words, helped in my research process to better understand the phenomena of internationalization and banks. One of the papers, for example, that is not included in this dissertation was published in the journal International Business Review. Although the paper has strongly influenced the theoretical development in the research process of this study, focus in this paper was uncertainty and not on expectation. For similar reasons these papers were not included in this study.
Summary of papers

In this chapter a short summary will be made of Papers I-IV. For the method of Papers II-IV, please see their respective appendix included in the thesis. The licentiate thesis, Paper I, is not printed in this doctoral thesis but can be retrieved from DiVA, Mälardalen University, or by contacting me.

Paper I: Licentiate thesis

Prior to the 1990s, Swedish banks’ foreign activities were regulated and consequently the banks primarily only had minor foreign activities. In the late 1980s the restrictions were lifted and since the mid-1990s Sweden’s four largest banks, which dominate the Swedish banking market, have expanded to become large multinational banks. Two out of the four banks seem to have taken disparate paths in their efforts to internationalize. The purpose of the licentiate thesis is to describe and analyze the two Swedish banks Handelsbanken and Swedbank’s internationalization process between the years 1995-2010. As described in the research process chapter, the empirical evidence in the licentiate thesis is composed of archival data. In order to analyze the cross-case study the study develops, similar to this thesis, an analytical framework based on the concepts of market knowledge, market commitment and expectation. Analysis of the two banks shows that the banks have internationalized differently and that the stability of the market can have a strong influence on this process. The empirical evidence suggests that the internationalization of banks can to some extent be described as mimetic behavior and that the banks were not as limited by distance factors as earlier studies on industrial firms would suggest (Engwall & Wallenstål, 1988).

With a process approach and an extended time frame (1995-2010) covering all relevant foreign market activities, the licentiate thesis discloses several interesting empirical observations of the internationalization activities of these two Swedish banks and how these activities were influenced by exogenous changes over time. A core lesson for this thesis is to view the process of internationalization as highly dynamic, since the banks seemed to apply different methods in order to internationalize over different periods of time. It seemed important that if one seeks to understand the internationalization of banks, one must also capture change in the process to allow it to be dynamic. The analysis of the two banks’ process of internationalization re-
revealed several interesting aspects. To begin with, the analysis demonstrates that Johanson and Vahlne’s (1977) IP-model does have some explanatory value over the bank’s internationalization process but more so for one of the banks. The analysis of SHB’s internationalization showed that the bank sought to maximize control (Stopford & Wells Jr, 1972), which influenced its commitment building activities to be incremental (Buckley & Ghauri, 1999). Thus, SHB’s process of internationalization followed the logic of incrementality in multiple markets over time, verifying the IP-model. In contrast, Swedbank seemed to be more opportunistic and apply different resource building activities in different markets and at a different pace. In fact, Swedbank’s internationalization process was filled with commitment decisions to decommit and exit, and sometimes re-enter, the foreign market. These activities and decisions seemed disjointed and deviated from the logic of incrementality as well as path dependence. The past influenced commitment decisions but the bank’s expectations influenced commitment decisions more.

The analysis also demonstrated that the environment and expected changes in the environment had a deeper impact on the banks’ commitment decisions than was anticipated by Johanson and Vahlne (1977), to such an extent that past business activities in the market and commitment decisions had less influence than changes in the environment on banks’ decisions on commitment building activities. When the financial crisis emerged in 2008, Swedbank gradually revised its expectation and subsequently decommitted in all foreign markets. Swedbank eventually began exiting Russia and Ukraine as the bank expected future financial losses to be greater than the gains. Interestingly, the impact of market change on the bank’s internationalization was not only evident in the financial crisis period around 2008 but also during periods where the environment was changing smoothly. Swedbank made several market entries, exits and re-entries during periods of stable changes in the environment. These commitment decisions were sometimes driven by expected future gains and losses in the market. More interestingly, Swedbank decommitted and even exited markets based on the expectation of ‘better’ market opportunities in another market.

The analytical framework in the licentiate thesis was the first attempt in this thesis to conceptualize the process of internationalization. In this effort and based on the findings, my licentiate thesis has been integral to the development of this thesis. One important contribution to this thesis is the first steps towards conceptualizing the concept of expectation and explaining its role in the process of internationalization. This role was described as a driving and hindering force – the engine – in banks’ internationalization that is fueled by market knowledge, market commitment and market change. The licentiate thesis also concludes that this role can change over time; expectation may be positive and drive the firm to further market investments in one period while in another period negative expectation prevents the firm from increasing investments and perhaps even encourages the firm to divest. With
the addition of expectation rather than relying on market knowledge and market commitment as an explanation of the bank’s internationalization process, the explanatory power increases and allows a more dynamic view, uncovering both bank’s process of internationalization and not just one. The idea of executive evaluation and perception of market commitment was also developed from the licentiate thesis, chiefly from the connection of market investments and perceived value of market investments and activities over time. For example, Swedbank perceived a market commitment as highly valuable and allocated resources to establish its presence in the market over one period of time while in a later period of time perceiving market commitment as disposable and deciding to decommit. The licentiate thesis also illustrate the impact of market change and how sudden changes in the market can influence what the firm expects in the short- and long-term and the firm’s decisions and actions in the process of internationalization. Furthermore, licentiate thesis addressed the differences in perceived uncertainty. This is more vivid during the financial crisis of 2008, when Swedbank began de-internationalizing based on perceived high uncertainty and ‘negative’ expectation. In comparison, SHB’s perceived uncertainty was lower and expectation of contemporary possibilities and future gains was high. However, this was also evident, in particular in the bank’s perception of foreign markets. One bank would perceive one market as highly uncertain and would not expect, for example, any return on investments either in the short- or long-term, while the other bank would perceive the market, at the same point in time, as more predictable and expect market investments to aid increased profitability in the short- or/and long-term.

The analysis of the cases also showed that the bank’s internationalization process had some semblances by, for example, following other Swedish competitive banks into new foreign markets. Interestingly, according to the data the following-the-herd behavior also seemed to correspond to where the banks’ customers were active. Hence, the banks followed their customers rather than their competitors. However, although they had presence in the same markets the degree of market commitment varied. This led to the development of Paper II, focusing on understanding mimetic behavior and how sudden external changes influence the process of internationalization, specifically to provide an updated view on the internationalization of Swedish banks that addresses the heterogeneity in banks’ internationalization behavior.

Paper II

Prior to the 1990s, previous studies found that the internationalization of Swedish banks was driven by ‘Tit for tat’-behavior (Engwall & Wallenstål, 1988). However, until the late 1980s the banks were limited by regulations in their modes of operation and increased their levels of foreign market
commitment following deregulation (as the licentiate thesis demonstrated). Thus, the purpose in Paper II was, firstly, to study whether the internationalization of the banks was still driven by ‘Tit for tat’-behavior (mimetic behavior) or whether other internationalization patterns could be traced since the deregulation in the late 1980s. Previous studies on banks generally assume that sudden market changes, such as the financial crisis in 2008, affect all banks homogenously. Therefore, the second purpose of Paper II was to investigate how the financial crisis in 2008 affected the internationalization of banks. The empirical evidence was constructed on archival data of the four largest Swedish banks. Compared to the qualitative approach in the licentiate thesis, Paper II quantified the internationalization of these banks with ranked correlations (see the paper’s method for a more detailed description on this endeavour).

The study demonstrated that different banks had internationalization differently. Some banks market commitment followed a portfolio-logic (Axinn & Matthysssens, 2002) including frequent market exits, re-entries, and divestments simultaneously having internationalized more rapidly. Other banks market commitment followed a more incremental logic by expanding organically in foreign markets. The formers commitment patterns contained more willingness to exposing the bank to risk generating short-term profits, but when the financial crisis emerged in 2008 so did the banks risk exposure. Prior to the crisis these banks commitment behaviors yielded high profitability but the crisis impact led to fight for survival and de-internationalization patterns. Regarding the latter banks, they seemed more risk-aversive by carefully selecting markets, and keen to expand organically to ensure long-term profitability. Their patterns also indicated that their strategies evoked less responsiveness to competitors’ internationalization patterns and behaviors. Banks of the latter also fared better during the financial crisis, seemingly incremental commitment behaviors with long-term objectives reduce exposure from critical events.

Compared to the pre-deregulation period 1961-1985 studied by Engwall and Wallenstål (1988), the results in Paper II on the one hand show that the banks’ behavior still follows ‘Tit for tat’-behavior. On the other hand, the internationalization of these banks has accelerated and the analysis shows that the previous ‘small steps’ of lower levels of market commitment has shifted to ‘big steps’ with higher levels of market commitment. By taking bigger steps the banks’ modes of operation also diversified and thus the types of internationalization behaviors could no longer be fully captured by the analogy ‘Tit for tat’-behavior. Because differences in the internationalization of banks have increased over the years, the effect of the financial crisis in 2008 also varied depending on how and where the banks have internationalized. Furthermore, Paper II also found behaviors like decommitment and market exit in not only SHB and Swedbank’s internationalization (as seen in the licentiate thesis) but also in the cases of the other two Swedish banks, Nordea and SEB.
In Paper II the focus was not on executive expectation as the character of the study (to replicate ‘Tit for tat’-behavior) and the ranked correlations with such an extensive time perspective did not allow the inclusion of executive expectation. However, the outcomes of the paper were highly relevant for the thesis development of the concept. At that time the study had not yet realized the executive function but it was clear that the empirical results in Paper II were outcomes of commitment decisions based on expectation. The facts that the banks’ commitment decisions and internationalization patterns diverged and that the crisis affects were not homogenous were no revelation. On the contrary, it was a confirmation that banks’ perceptions and expectation of market operations, market potentials, and market changes, were dissimilar. The results were also thought provoking; it seemed that the banks mainly searched for developed markets to expand into and emerging markets on the verge of becoming developed. In the markets that the banks entered the competition was not as challenging and although SHB entered the UK and SEB entered Germany, these were further indications that the banks were seeking markets rather than driven by competitive actions. Rather than mimicking each other the banks quarreled over market positions, being the first one to enter, and with low competition in the entered markets they sought to monopolize the foreign market. Thus expectation outcomes were influenced by both the competitive setting and market knowledge.

Consequently, mimetic behavior is also aided by what is expected. The bank can mimic to reduce perceived risk and uncertainty. But there are other considerations for why they mimic, for example, during market expansion other actors’ investments in the same market can reassure and validate that the firm’s own expectation and investments are sound. Mimicking may also derive from fear of what may happen if the bank does not follow its competitor(s) or from trust that the other actors’ expectations of a probable market opportunity should be a feasible opportunity for their own firm. too. Hence instead of developing market-specific expectation, the firms rely on others’ expectations. Comparing the results in Paper II, it is evident that SHB was less mimetic and made its own path, which implies that SHB’s commitment decisions match their expectation of the market rather than competitive actions. In contrast, Swedbank was more mimetic and yet included more irregular commitment decisions. The aggregated depiction of the internationalization pattern of Swedish banks enabled a visualization of expectation outcomes. Simultaneously because it was on an aggregated level it was difficult to see whether these assumptions described above were valid and to capture all commitment decisions besides entry, exit and larger commitments. In order to better understand specific actions in specific markets. further studies were needed with a more qualitative approach.
Paper III

Similar to the licentiate thesis and Paper II, this paper was mainly concerned with the influence of external factors on expectation. Gradually realizing the executive function, Paper III sought to come closer to commitment decision makers in the bank’s internationalization process. Because decisions like market entry and expansion are executive decisions, Paper III focused on how market changes influenced the process of strategy formation. The purpose of the paper was to study “when and how regulatory environments in general or in specific foreign local markets affect the executive’s internationalization strategy formation process”.

In order to analyze Swedbank’s expansion in the Baltic region and Russia, a conceptual model based on the IP-model was developed. In the dynamic and changing environment the executive must constantly increase market knowledge and adjust market commitment (Andersson, Forsgren, & Holm, 2002; Cantwell, Dunning, & Lundan, 2010) based on expectation of the future state of the environment (López-Gamero, Molina-Azorín, & Claver-Cortés, 2011). What can be expected is limited by prior experience and what the executive considers to be relevant information (Weick, 1995). In this process of strategy formation while the executives seek to maintain strategic congruence, external legislators and regulators pressure the bank for uniformity. These uniformal pressures may stem from a regional level (for example, the European Union), but each national market will also have its own conditions, which the banks can choose to try and influence. Since the rate of change in the market’s conditions differs between markets some will be more/less predictable than others. In order to reduce uncertainty the executive requires market experience but if the environment is in turbulence, past experience may not reduce uncertainty and may even be deceptive (López-Gamero et al., 2011). Therefore, executives’ decisions follow their maximum tolerable risk (Johanson & Vahlne, 1977).

Over time, as the bank is active in the market, executives’ market knowledge increases and further investments are adjusted based on new knowledge of, for example, market opportunity. The bank becomes embedded in the market, making it harder to decommit (Andersson et al., 2002). The executives do not always have to adjust to the market conditions, they can also choose to proactively try and change the conditions by developing relationships with business actors and with regulators and legislators (Hadjikhani & Thilenius, 2005; Sharma, Aragón-Correa, & Rueda-Manzanares, 2007). They can also choose to apply a sleeping strategy or de-invest if they are unwilling to adjust to market conditions (Hadjikhani, 1997; Bengtson, Ljung, & Hadjikhani, 2013). In markets where changes in the environment are smooth, the future state of the environment is easier to predict. Thus deviations from incrementality, such as sudden market exit, are likely to stem from radical changes in the environment.
Similar to the licentiate thesis and Paper II, the empirical evidence is constructed by archival data. The archival sources have, however, been complemented with 10 interviews with representatives from Swedbank, primarily those with experience from Swedbank’s activities in the Baltic region and Russia. The cases consist of Swedbank’s expansion (1) in the Baltic region and (2) in Russia. One explanation for Swedbank’s entry into the Baltic region was these countries’ socio-political ties with Sweden. Swedbank executives were optimistic and the deregulated markets in Eastern Europe spurred executives to form a strategy of becoming a leading bank in the Baltic Sea region. The idea was to enter Russia too but the executives believed that such an expansion would require more internationalization experience. Swedbank entered the Baltic region by acquiring a minority ownership of a young and growing local bank. Gradually the investments were increased and executives became increasingly optimistic about their investments. After some time, Swedbank became the leading bank in the region with direct and strongly influential relationships with regulators, legislators, politicians and other institutions. Swedbank was able to set the rules of the game by changing the regulatory setting according to its own perception of how the banking environment should work. During this process Swedbank continued to make large profits in a blooming market until the financial crisis in 2008. The suddenly changing landscape forced Swedbank executives to review their vision and intentions. Relationships with socio-political actors in Sweden and the Baltic region became twisted as they openly criticized Swedbank’s actions. Swedbank decreased its exposure and the regulatory landscape changed.

The executives feared that the bank would fall behind its competitors and about ten years after entering the Baltic region, Swedbank acquired a small local bank in Russia. The local bank was, however, mainly purchased in order to receive a banking license in the perceived complex regulatory and legislative Russian setting. Opportunities in the market were expected to be immense and the executives assumed Russia would become a home market for the bank. They also wanted to establish relationships with the regulators and legislators as they had done in the Baltic region. In order to establish these relationships, the bank partnered with the European Bank for Reconstruction and Development, which was believed to be influential and could help in this endeavour. But no one listened and after some time, Swedbank realized that the regulatory setting was far more formalistic and bureaucratic than the executives had anticipated. Swedbank was even suspended for three months for failing to comply with regulations. The executives were, however, still convinced by the market’s potential and continued to allocate more resources to the perceived market opportunities. Swedbank’s activities peaked just before the financial crisis started. Executives then almost immediately made a U-turn in their assessment of Russia, whereby the regulatory environment was deemed too complex and costly. Swedbank started to dismantle their operations and made a complete market exit.
The paper highlights the importance of having market-specific knowledge in the development of expectation. It also illustrates the executives’ pro-active actions and decisions to influence the market conditions and changes into a more desirable ‘state’. In these efforts and the executives’ strategy formation process, the paper adds knowledge on learning process rather than being driven by problem solving, searching for knowledge to grasp the issue. Learning was driven by what the executives expected – generating knowledge to implement expectation – and by issues that were not in accordance with expectation. When expectation did not align with market conditions and changes, rather than learning to adjust the firm the executives searched for opportunities to adjust the market conditions and changes (in this case the regulatory environment). The executives’ expectation, for example, lasted (remained largely untouched) until radical changes in the market forced the executives to revise their expectation. As long as this was not absolutely necessary the executives searched for patterns that confirmed their expectation. When radical changes occurred the executives invested time in, to certain extent, better understanding what to expect but mainly in seeking alternative routes to adjust market commitment in accordance with expectation rather than objectively analyzing and adjusting market commitment in accordance with market condition.

By attempting to connect expectation to strategizing, the study’s view on expectation was further enhanced by the realization that executive expectation was more complex than just strategic envisioning and decisions. The executives’ strategies were looser and more decoupled than anticipated, and closer related to dynamic processes that generated more flexible expectation. The paper also added knowledge by observing that it was not just external factors influencing expectation but equally the executive per se. This led to Paper IV, which aimed to capture executive perception and expectation and how changes of executives influence expectation.

Paper IV

Different individuals will interpret market conditions and future market commitments differently (Andersson, 2000; Kontinen & Ojala, 2012). Compared to the licentiate thesis and Papers II-III, this paper elevates the influence of internal factors on executive expectation and the role of the executive function. In Johanson and Vahlne’s (1977) IP-model the executives are left in the periphery and decisions are assumed to be bounded rational. The model logic based on incrementality has been described as unidirectional and ineffective in fully capturing the dynamics of internationalization (Axinn & Matthysens, 2002; Malhotra & Hinings, 2010). Similar to the licentiate thesis and Papers II-III, some have highlighted sudden or radical changes in the market as triggers of non-incrementality (Ghauri & Park, 2012). In order to explain non-incremental commitments in periods of sudden or radical
changes, some have included the concept of expectation in their analytical framework (Hadjikhani & Johanson, 2000, 2002). To this end, Paper IV assumes that sudden and radical changes in the market can have a significant impact on firm’s internationalization process (Hadjikhani, Hadjikhani, & Thilenius, 2014). However, these contributions do not explain non-incremental behaviors during stable market conditions. By exploring the dynamic executive function and how changes in the executive function can influence the process of internationalization, explanations of non-incremental behavior can be extended. The aim of the paper is to introduce executive expectation into Johanson and Vahlne’s (1977) IP-model, thereby contributing to internationalization process studies by developing the IP-model further and deepening the understanding of non-incremental commitments. In line with the recommendation of Vahlne and Johanson (2013, 2014) the paper also adds an empirical contribution by studying the internationalization process of two banks (financial firms) longitudinally.

The function of the executive has often been downplayed in internationalization process theory and the view on internationalization follows the logic of path dependence and incrementality (Andersson & Forsgren, 2000; Hutzschenreuter, Pedersen, & Volberda, 2007). In this self-reinforcing process the executives have limited freedom to influence the process or perceive the market conditions. Nevertheless, according to Johanson and Vahlne’s (1977) logic, experiential knowledge and the perception of market opportunity are influenced by a feeling of fit between the present and future. Herein the paper advocates executive expectation as a key-mediating concept in the evaluation of potential outcomes of a commitment decision. Similar to Calof and Beamish (1995) the paper asserts that the drivers and hinderers of internationalization are executives and not external factors. Hence by building on the IP-model the analytical frame is composed of market conditions, the executive function and expectation.

Previous contributions show that continuity in executives aids incremental growth (Fredrickson & Iaquinto, 1989) and that managerial intentions influence the speed and path of firm’s internationalization process (Hutzschenreuter et al., 2007). Prior findings also show executives that individual characteristics can influence this path (Herrmann & Nadkarni, 2014) or the speed of the internationalization process (Loane, Bell, & McNaughton, 2007). However, as noted earlier, different executives will perceive the environment and market commitment differently. The differences or similarities in how executives behave may stem from differences or similarities in experience. If they are recruited externally their views will more likely be incoherent with others or with the firm’s preceding views on market conditions and market commitment, while if they are promoted internally the similarity is likely to increase, yielding a more similar view on market conditions and market commitment. Expectations are subjective views biased by hopes and wishes (Penrose, 1959; Cyert & March, 1963), including pessimistic attitudes like disbelief. An expectation also includes a temporality of
when and how an action should be taken or when something will occur or prolong, which can be soon (short-term) or much later (long-term). These are formed by past experience and knowledge and influenced by perceived uncertainty of market conditions.

The empirical evidence consists of two longitudinal case studies based on archival sources that have been complemented with 28 interviews. The first case illustrates an incremental internationalization process. SHB expanded initially and gradually in the Nordic region primarily through organic growth. Later on SHB entered and expanded, also gradually and based on organic growth, in the UK. Turnover of managers was low and recruitment of new managers was done through internal promotion. Although the slow pace and the path of the expansion followed the IP-model’s assumptions, the case also manifests that it was also affected by the managers’ expectation. With the low turnover of individuals, their experience was kept within the organization. The low turnover is, for example, illustrated by the fact that it took almost 50 years to go through five CEOs. Thus there was a high continuity and the members were molded within the organization over a long period of time. The expectation thus remained largely unrevised until the financial crisis broke out in 2008. Interestingly, instead of decelerating, SHB dramatically accelerated its organic growth in UK and expanded into the Netherlands. During the sudden changes in the market, new opportunities arose that executives expected to be available only during this period of turbulence.

The second case is that of Swedbank, a non-incremental internationalization process. The turnover in managers in Swedbank during the reference period was high and they were often recruited externally. In the initial period, Swedbank’s managers posed that the bank had to expand to ensure its future survival. By acquiring minority ownerships in neighbouring countries, assumed by the chairman of the board at the time as the safest route to take, the bank started to internationalize. One of the investments was put up for sale soon after (and later on sold), which was anticipated to bring further profitability. When the investments in a Baltic bank turned out better than estimated, the managers revised their anticipations and became more optimistic. When the chairman of the board retired the bank made a U-turn in its internationalization strategy and with the exception of this Baltic bank all foreign ownerships were sold despite them not being costly. The divestments were made to fund other investments, from which the new executives expected greater profitability. Despite lacking prior experience Swedbank entered Russia and made a large acquisition to enter Ukraine and large resource allocations to expand its operations in the market. Swedbank also accelerated its expansion in the Baltic region. When the financial crisis in 2008 emerged, Swedbank’s losses drastically increased and the bank came close to bankruptcy. Old executives were replaced through external recruitment and the new executives expected different outcomes from the on-going
activities. Swedbank reduced its exposure in the Baltic region and exited Russia and Ukraine.

Similar to this thesis, Paper IV makes an important theoretical contribution by illustrating the influence of executive expectation on firm’s internationalization process. Compared to previous studies, the thesis and Paper IV extend previous explanations that mainly focus on the influence of external changes on the process. Instead, this paper has more of an internal perspective to show that, for example, an irregular internationalization process can also stem from changes in the executive function. Changes in the process of internationalization can thereby also stem from executives revising their expectation. Significant changes, however, are more likely to be driven by changes in the executive function where new executives share similar experiential knowledge and expectation to preceding executives. Hence incrementality and non-incrementality can stem from continuity and discontinuity in executives and from perceived market stability.
Executive expectation in banks internationalization process

This chapter seeks to connect previous chapters by commenting on some of the more intriguing observations. Although the empirical evidence and conclusions in Papers I-IV show that the IP-model does have an explanatory value over the internationalization process of banks, this is to varying degrees in different periods of time and mainly for one of the banks. One bank’s internationalization process largely follows the assumptions of the IP-model, while another bank follows it less and its process of commitment building is more irregular. One way to further investigate the empirical findings diverging from the IP-model’s explanation is to attempt scrutinize or falsify the IP-model as several others have done (Andersen, 1993; Forsgren & Hagström, 2007). Another way, which this thesis aims to do, is to accept that the fundamental pillars of the model and that its logic has explanatory power and then add components to increase the explanatory power over the behaviors used to falsify the model. For many cases the explanatory power of Johanson and Vahlne’s (1977) IP-model is high, hence the emphasis on tweaking the explanation to cover more cases, mainly by exposing executive expectation as well as exogenous and endogenous changes in the theoretical explanation of firm’s internationalization process.

The empirical evidence presented in Papers I-IV comprises two key components, market change and change within the executive function, and highlights the explanatory value of the concept of expectation for these components. The first component (see Papers I-III) elevates how the banks’ internationalization process was affected by sudden and radical changes in the market. The explanation of how market change influenced the bank’s internationalization process and why it influenced the banks to different actions derives from executive expectation: how market change was expected by the banks’ executive function to influence market commitment in the short- and long-term.

Regarding the second component (see Paper IV), changes in SHB’s executive function did not facilitate much change in executive expectation of market change and market commitment. The executives promoted to the executive function shared similar market knowledge and experiences as predecessors since they were promoted internally. Consequently, perceptions and executive expectation remained largely intact compared to Swedbank,
where changes in the executive function were more frequent and executives brought in executives from external sources more often. With more changes in the executive function, revivals of executive expectation were more radical. Perceptions and evaluation of market commitment in different markets changed and the expected market changes changed as well as how these changes would influence the bank’s market commitment. Since expectation is developed from knowledge and uncertainty it is subjective, thus path-dependent and incremental internationalization or leapfrogging may depend on variations within the executive function. If variations are small, executive expectation is likely last longer. Subsequently, even if the market suddenly changes, the executive expectation of long-term market changes and market commitment may remain intact. Thus commitment decisions follow long-term executive expectation that may be perceived retrospectively as an incremental and path-dependent internationalization process. In contrast, as the empirical evidence on Swedbank demonstrates, greater variations in the executive function aided impermanent long-term expectation of market commitment. With changes in long-term executive expectation, past executive expectation did not impede substantial changes in market commitment. Hence, explanations of leapfrogging internationalization may derive from changes in the executive function and/or from changes in the market aiding revision of executive expectation. Furthermore, as disclosed in Paper IV, market change and changes in executive function may be intertwined since market change may influence change in the executive function.

One interesting aspect in firm’s internationalization process is the dynamic relationship between uncertainty and expectation. The manifestation of this relationship varies depending on the knowledge of the unit of analysis, how uncertainty avoidant the unit is and how uncertainty is perceived, i.e. the degree of uncertainty. This manifestation will also depend on how the unit perceives the market and the various future scenarios that are believed to occur, the likelihood of each of these, which one is allocated resources to preparing for it and which ones are allocated resources in order to avoid them. Papers I, II and IV, show that the two banks, SHB and Swedbank, and have internationalized in completely different ways. On a general level the executives in both banks are likely to have perceived their options and the market opportunities in, for example, the Baltic countries in similar ways. But SHB executives expected the return on investments to be more uncertain than to Swedbank’s executives. Changes in the Baltic market were perceived as unpredictable and unstable by SHB’s executives, which increased executives’ uncertainty. Simultaneously, the function of executive role in SHB was expected be risk averse. Furthermore, executives in SHB expected that the Baltic market would remain uncertain for a long period of time. This combination of perceived high uncertainty and aforementioned aspects influenced SHB executives to have negative expectations, preventing SHB from investing in the Baltic market.
The role of executive expectation is dynamic and as the empirical evidence suggests it can be both a driving and a hindering force in the process of internationalization. For example, it can be related to the perception and expectation of opportunity, problem areas and threats. What is considered as problem area for one executive function may be perceived as a threat by another executive function. Based on the behavior of SHB and their avoidance of expanding into the Baltic market, areas which Swedbank expected to be manageable problem areas were perceived by SHB as expected threats. Swedbank’s executives perceived the same conditions as undesirable as SHB’s executives, but expected these to change. Furthermore, Swedbank’s executives perceived the opportunities in the Baltic market to be desirable and possible to grasp, which drove the executives to invest and to increase investments over time in order to increase the possibility of reaching the desired position. Finally, during the expected transition of the Baltic market, Swedbank executives estimated that the probability of reaching a desirable position would be more likely and require fewer resources than after the transition had transpired.

Another interesting aspect in the firm’s internationalization process concerns the dynamics of experiential knowledge and the issue of absorptive capacity. Experiential knowledge plays a vital role in the IP-model’s reasoning to explain firm’s process of internationalization as incremental since the IP-model focuses on individual experiences especially those closer to the firm’s market activities, and therefore emphasis is placed on middle-managers’ knowledge accumulation. In this view, in-depth knowledge of actors and developing expectations of market-specific activities requires experience of market-specific activities, especially for the increase of probability and likelihood that expected changes actually occur not only in the short-term but in the long-term. Although members of the executive function may have experiential knowledge from the market, this will not always be the case.

The influence of experiential knowledge raises two interesting aspects. One is fairly straightforward and based on the thesis assumption that based on executives’ market knowledge and perception of market commitment, executives’ commitment decisions are mediated by general and specific, short- and long-term expectation of market changes and current and future activities. Centring attention on the relationship between experiential knowledge and expectation; executives’ accumulation of market experience is usually reliant on the effort of other functions to transfer experiential knowledge to the executive function. For commitment decisions to be based on market experiential knowledge, the latter needs to have been absorbed by the executive function. If other functions cannot transfer it, commitment decisions will rely on vague expectation based on general market knowledge or perhaps previously transferred experiential knowledge that may no longer be relevant. It could be that the executive function is confident in its expecta-
tion and perceive it as a specific expectation with a high probability. From a more objective standpoint, however, the expectation does not crystalize into contextual specifications and is, therefore, still vague.

The second interesting aspect relates to generalizations of previous experiences (Johanson & Vahlne, 1990; Andersen, 1993); although executives may lack experiential knowledge of the market, the function is exposed to other kinds of experiential knowledge and experiences of earlier expansions. Since internationalization is a learning process based on trial and error, learning by the executive function of what commitment decisions are feasible and likely to aid in the development of the firm’s process of positioning itself in the market may derive from experiences of decision making process over time. Previous discussion and reflections from earlier trials and errors may also benefit the executive function in understanding the market (increasing the speed of learning about a market) and what to expect. Interestingly, lacking market experience the executives will likely perceive uncertainty as high and errors may bring larger problem areas compared to commitment decisions undertaken during low uncertainty, since the margin of error is likely to be reduced here. Nevertheless, due to absorptive capacity, the matter of transferring experiential knowledge, the executive function will always face the issues and dilemmas discussed above to some degree.

The focus of the licentiate thesis (Paper I) was to provide an empirical contribution and the study made several interesting empirical observations. One interesting aspect it found in Swedbank’s internationalization process is the bank’s persistence to increase market commitment despite warnings of the possibility of sudden and sometimes critical changes in the market. There may be several explanations for this behavior; one may be from escalating commitments that in a sense escalate expectation, such that a priori expectation endures despite repeated negative feedback (Baird & Thomas, 1985; Halbesleben & Buckley, 2004). As the case of Swedbank shows, escalating commitment can be profitable when a market changes smoothly. Negative feedback mainly arrived from external actors while the executive function and the organization as a whole remained optimistic with positive feedback and expectation. When a major crisis arrives, however, an escalated high commitment becomes a burden. Swedbank was profitable until the markets suddenly changed and market commitment turned into a threat for the future survival of the bank.

The empirical findings in Papers I-IV clearly show that commitment entrapment is perceptive and depends on executives’ perception of market commitment and what the executive function expect. In the phenomena of escalating commitments the premise is that the decision maker only has the choice to either persist or withdraw from a previous course of action (Brockner, 1992). Yet the study of McCain (1986) show that individuals withdrew from investments when the investments were repeatedly unsuccessful. This is also in line with findings in Papers I-IV, where for example, Swedbank’s market commitment in the Nordic region during smooth periods
was discontinued on several occasions because Swedbank executives expected Nordic market commitment to be less profitable than alternative market commitment.

In contrast to escalation of commitments, some researchers have included ‘de-escalation’ as an explanation of repeated negative feedback emitting emerging expectations of failure (Zikmund-Fisher, 2004) in contrast to escalating commitments emphasizing emerging expectations of success. Interestingly, since expectation is personal, the willingness and persistence as well as the expectation of the executive function is also dependent on the degree of continuity in the executive function, as shown by Paper IV. If for example several members of the executive function change, it is plausible that the executive functions’ expectation changes, too.

On the one hand, the focal interest in escalating commitments has been to understand decision makers’ willingness to continue investments despite reoccurring problem areas that the decision maker attempts to manage with further investments. On the other hand, Bass (1985) suggests that as long as the firm performs well it will be unwilling to change. The empirical findings in this thesis, as referred to above, show that the escalation of market commitment is multifaceted and that banks have sometimes become entrapped in their foreign market commitment. Becoming entrapped is of course not necessarily something bad and depends on what executives’ intentions were. Becoming entrapped reduces the resource allocation options but is likely to strengthen the firm’s position in the market in that it is embedded in a network.

In the process of internationalization, the escalation of market commitment is driven by escalation of executive expectation. This process will always incur challenges but positive reinforcements and executives’ perception of coming closer to e.g., a desired position in the market, will also influence the escalation of market commitment. SHB expanded incrementally in the UK and over time executives’ expectation became positively reinforced as the bank’s investments achieved, and even overachieved, executives’ conditional expectation. This strengthened both executives’ short- and long-term expectation of market commitment in UK and aided further expansion and investments. Once the crisis emerged, executives were thoroughly convinced and trusted in their long-term expectation of market commitment in the UK. The sudden changes were only expected to be short-term; in the long-term, executives expected the market to stabilize. These sudden changes in the market offered opportunities that executives expected would not be offered otherwise and subsequently executives made substantial investments in an effort to grasp the present opportunities. By making these investments, SHB dramatically increased the speed of its UK expansion. For the analysis of this escalation, SHB’s executives’ expectation escalated incrementally and escalation of market commitment was gradual up until the crisis. Once the crisis emerged, executives’ expectation escalation increased and along with it, the bank’s market commitment. Escalation of commitment is there-
fore highly dynamic and can include both smooth periods and periods of more rapid or substantial commitment building activities.

One final and general reflection concerns the literature’s explanation of internationalization and different perspectives on why, how, and when firms internationalize. In studies with a more strategic view on the deployment of internationalization, for example, FDI theory, emphasis is placed on why firms’ internationalize and while explanations of when and how are also offered, these are not the primary focus. Process studies like the IP-model, in contrast, focus on how firms internationalize and the why is the explanation of how. To elaborate, those applying a strategic view focus on future gains to elaborate on why the firm internationalizes and explanations of how and when derive from the why. While explanations like Johanson and Vahlne’s (1977) start from how the firm internationalizes in order to reach the explanation of how, i.e. the firm expands incrementally because it is uncertain and risk avoidant. These are two fundamentally different perspectives and although they draw explanations from one another they emanate theoretically from two completely different standpoints. While process researchers defend their explanations with many how explanations (Johanson & Vahlne, 2009) they are also criticized for a lack of explanation of why (Andersen, 1993). Although the two perspectives may be argued as irreconcilable and this thesis belongs to the process perspective, they are both acknowledged in this thesis. This type of criticism of the IP-model in particular has greatly inspired this thesis to attempt to contribute explanations of why firms internationalize, firstly by including executive expectation as the driving and hindering force (willingness) in the firm’s internationalization process and secondly, by emphasizing what mediates change and how change is mediated through executive expectation. In combination, further explanations of why change occurs in internationalization behavior can hopefully be developed.
Concluding remarks

This thesis makes an empirical contribution by illustrating how Swedish banks have internationalized and in doing so the dynamics of bank’s internationalization process. The internationalization process of banks do follow the IP-model’s explanation to some extent but there are also examples of market decommitment, market exit, market re-entry and de-internationalization, examples which deviate from the explanation. The theoretical contribution of the thesis is the attempt to explain these deviations. It is clear in Papers I-IV that there are weaknesses in the IP-model that limit our explanations of these empirical findings. In an effort to complement the IP-model and enable explanatory value over these shortcomings, this thesis contributes with the concept of executive expectation. Without this concept the explanations are generally limited to explaining one bank’s internationalization process. The explanation of the other bank’s internationalization process, filled with market decommitment, market exits and so on, is not captured since commitment decisions were connected to expected gains or losses. When the concept of executive expectation is added, however, not only do such explanations arise but also a deeper understanding of the internationalization process of both banks is enabled. The concept of executive expectation allows a more dynamic view of internationalization as it captivates to greater extent change based on executives’ perceived uncertainty and outcomes of expectation.

The IP-model is in one sense a dynamic tool to explain firm’s internationalization process. Paradoxically, the model’s explanations are self-reinforcing and leave little room for interpretation by members of the organization. Hence, although the explanation per se is not deterministic, the explanations can be perceived as deterministic and thereby providing a unidirectional internationalization path. How the path or the firm’s market commitment is interpreted is left unexplained, as the evaluation of current activities and the perceived market change is assumed to follow preceding evaluation and perception. Commitment decisions, according to the IP-model, will be more or less replicated because commitment decisions build on past commitment decisions with similar perceptions of the market and market commitment. In this logic, change predominantly occurs in the light of new market knowledge but since this is a process of learning by doing, new market knowledge will be based on earlier perceptions and more or less reaffirm earlier perceptions or provide alternatives on how to increase mar-
ket commitment rather than decrease market commitment or provide other alternatives.

Papers I-IV, similar to studies like Bianchi and Ostale (2006), show that firm’s internationalization process are not always path-dependent and incremental. Indeed, firms do sometimes de-internationalize, decommit, and can expand sometimes at a slow and steady pace and sometimes more rapidly. We could assume that the steady pace of internationalization indicates a balance in the firm’s market knowledge and market commitment. Analysis in Paper I-IV, however, indicates otherwise. SHB’s internationalization process, which to a large extent was incremental and path-dependent, was always in imbalance in terms of market commitment and market knowledge. This is particularly evident in the licentiate thesis as SHB’s executives on several occasions wanted to expand the bank in for example Denmark, Norway and the UK, had a high degree of market knowledge and were convinced in their short- and long-term expectation about profitability that investments could bring. Simultaneously, the executives had a high threshold for perceived uncertainty and would only push the go button if conviction in expectation prevailed over perceived uncertainty. Likewise, the empirical evidence indicates that Swedbank strengthened market commitment on multiple occasions with a low degree of experiential market knowledge or made commitment decisions based on general market knowledge rather than on experiential market knowledge. Executive expectation in, for example, Swedbank’s market entry and expansion in Ukraine was molded by general market knowledge and internationalization knowledge from experiences in the Baltic. Market-specific knowledge was not acquired until much later and, more importantly, commitment decisions were not molded by market-specific knowledge.

One interesting remark relates to incrementality and criticism about the IP-model being self-reinforcing. This thesis views firm’s internationalization process as highly dynamic; the process can be incremental or non-incremental. The process can also be incremental in one market expansion whilst being non-incremental in another. A process view per se does not exclude non-incremental commitment behaviors. On the contrary, a process view invites dynamic, complex and contextual influences. While the IP-model may be self-reinforcing it can become a highly dynamic analytical tool if it can come even closer to a process view on the internationalization of firms. Although the IP-model is a process model, the explanation of the process does not fully capture the influences that create a more dynamic view on internationalization. Therefore this thesis elevates the concept of executive expectation in order to allow a greater emphasis on how market changes are perceived and expected to influence the firm’s market commitment. By elevating executive expectation, the IP-model can provide greater freedom for an individual’s interpretation and evaluation of the process. In this view, individuals do not always influence the internationalization process but they do matter. When they influence the process we need to include
them in the explanations, and when they influence the process they are more likely to be part of, or influence, executive commitment decisions and can therefore be captured by studying executive expectation.

Executive expectation mediates the speed and path of firm’s internationalization process. During the process of internationalization executive expectation will change, influencing the speed and path of internationalization. Slow or rapid internationalization in that sense can change during the process depending on what executives expect. Since expectation and knowledge as well as evaluation of current activities are subjective, different executive functions can have different perceptions and expectations. Executive expectation will always influence the firm’s internationalization process but for analytical purposes the explanatory value increases in explanation of firms displaying irregular commitment behaviors; essentially to explain change in the firm’s internationalization process. If there is no change in the process, we can assume that executives are mainly reaffirming their expectation and with no new experience or knowledge or perceived market changes that revise expectation, the firm will continue on the same path and pace.

In the theoretical frame a short note was made on risk being perceptive, composed by executives’ knowledge, expectation and the firm’s resource commitments. One interesting aspect disclosed by the licentiate thesis is the influence of time and crisis. The case of Swedbank’s entry and expansion in Ukraine is explained by executives’ expectation of future gains based on past experiences and gains in the Baltic market. In hindsight these decisions, in combination with the sudden major changes in the market, can be viewed as highly risky but this is not how or what executives’ expected. Any decision that necessitates extensive resources, as did the decision to enter Ukraine and acquire a large Ukrainian bank, does nevertheless require high risk. This highlights an important aspect that may be useful for executives’ scrutiny of not only what to expect, but also for attempts to expect different scenarios, their estimated probability of occurrence and examination of readiness for reinforcement of these scenarios. Not just deliberation based on simple hypothesizing but taking into account the possibility of sudden changes in the market and how willing the executive is to commit in various scenarios, how various scenarios may affect the firm and what can be done to influence, or prevent, these scenarios.

The empirical evidence in this thesis and Paper IV highlights an important managerial implication concerning the stability and continuity or incremental versus radical change. Organizations seeking stability and continuity and which are not looking to change should aim to recruit managers internally. These individuals are more likely to have been molded by the organizational culture, share similar values, similar experiences and knowledge, and subsequently to a greater extent share more similar evaluations of resource commitments, perceptions and expectations of, for example, business opportunities and market changes. In contrast, organizations that are looking for more radical change should look to recruit managers externally. Since these indi-
viduals to a greater extent have dissimilar experiences, knowledge, and so on, they may evaluate resource commitments and perceive the market and future market opportunities, threats and problem areas, differently from managers that have been in the organization for a long period of time.

For theoretical development this study contributes knowledge to business studies by highlighting the value of studying decisions over time and as a process in the context of past decisions and expectation. With its comprehensive empirical evidence from several decades of internationalization of the two banks’, the study also offers a valuable tool for managers in SHB and Swedbank to trace the bank’s process of internationalization from more or less the beginning up until today. Since the study is conducted from a research perspective and not carried out by the banks it can also provide bank managers with a different perspective and nuance to the banks’ internationalization activities and decisions over time, providing a historical description of the banks’ internationalization decision outcomes including contextual changes that may bring valuable knowledge for the banks’ future internationalization endeavours.

This thesis has not had an explicit customer’s perspective and has instead been focally concerned with the explanation of bank’s internationalization process. Unfortunately, many customers and bank employees were strongly affected by the financial crisis in 2008. Though this has not been the topic of this thesis it acknowledges not addressing the ethical issues that internationalization and crisis can bring as a limitation. On this topic, the thesis has instead been concentrated to the executive function’s knowledge and expectation. Crisis and executives’ knowledge and expectation are nevertheless relevant for ethical and managerial implications, though due to its purpose the study may not offer tools for managers to deal with such implications. It can highlight the importance for managers to try and reduce perceived uncertainty and in commitment decisions take caution through understanding that the future is unknown and uncertainty will always hold elements that cannot be known and perceived (Hadjikhani et al., 2014). Hence, managers ought not only consider to a greater extent what is perceived as uncertain but also acknowledge expectation of unknown uncertainty that can bring detrimental value. The dark sides of internationalization can become particularly evident if the firm is internationalizing quickly, as risk exposure can be in imbalance with long-term benefits and problem areas. Managers in such a scenario need to consider management of the unexpected, i.e. the balance or imbalance in available resources and to what capacity the firm can readily manage a potential crisis, to what degree and at what cost.

This thesis contributes to the development of internationalization as a process with a focus on making the IP-model more dynamic. Johanson and Vahlne’s (1977) IP-model can to a certain extent be perceived as deterministic. In order to make the model more dynamic this thesis develops the concept of executive expectation, described as a mediating variable and the driving and hindering force in the process of internationalization. In all business-
es there are people who interpret and evaluate market changes, resource commitments, business opportunities, problem areas, threats, and so on. Their bounded rationality limits how they interpret, for example, the market, and this will differ not only in a particular state but also over time. Since individuals execute decisions these perceptions do matter and will differ between organizations. In some executive functions these individuals are more cautious and risk aversive, though they may perceive things somewhat similarly to executive functions that are more willing to develop and bring the business forward. The two contrasting executive functions will evaluate things differently and expect different outcomes.

This is not to say that one may be preferable to the other. Being cautious can be beneficial to avoid the unexpected or reduce the implications from the unexpected but being cautious can also hinder development and therefore can also add elements of risk. Courage and willingness to develop the firm further is therefore also necessary. Therefore what it is more interesting to relate the two contrasting executive functions to, is how they can influence the process of internationalization. Since the individuals in one executive function are more cautious they will hinder the process of internationalization and aid the firm into a process that is more incremental as the emphasis in evaluation market activities is placed on expected threats. In the next executive function the individuals are more opportunity seeking and since they are more willing to commit resources towards expected market opportunities they will drive the process forward. The firm’s process of internationalization in the latter can thereby be less incremental as the executive function is more willing to take bigger leaps. Firms with a low turnover in their executive function will develop an enduring organization (Barnard, 1938) since the rate of changes in the executive function will be small. In doing so the firm develops an incremental and path dependent internationalization process. Because executives are around longer, executive expectation lasts longer and the conviction in expectation increasingly grows.

On the contrary, a high turnover in the executive function creates more frequent changes in the executive function and thereby a more impermanent organization. Since executives change more frequently executive expectation will not last over a longer period of time as executive expectation and perception holders are no longer around. To share a conviction in expectation, individuals need to share the experience of working together and implementing an expectation. This requires that they occupy their position for a long period of time. New members of the executive function will have to share similar knowledge to perceive and expect similar things. If the changes in the executive function are less frequent then the role of the executive function is more clearly defined by what is expected of it both by other members of the organization and by members of the executive function (since it is an enduring organization). Therefore as discussed earlier above and by Penrose (1959) an important aspect for owners and recruiters of managers to consider is what they are looking for. Perhaps a more radical change is perceived
necessary by the owners or recruiters of the firm, in which case the firm should look to recruit externally. In such a scenario, the freedom of the executive function in the sense of what is expected of its role should also be considered. If the firm seeks stability and continuity then it should look to promote internally to the executive function.

Future research

The empirical description in the licentiate thesis touched upon banks using Internet banking to internationalize. Technological advancement has provided alternative ways to, for example, manage relationships, and has also provided an opportunity for banks to expand using Internet banking. Simultaneously, banking is often described as relying on trust building activities face to face with customers. Studying how banks have used Internet banking in the development of market commitment can highlight interesting aspects and possibilities in bank’s internationalization process. For instance, there are examples where Swedish banks have relied solely on Internet banking to enter and expand in a foreign market while other Swedish banks seem to regard Internet banking as exclusively complementary to other resource commitments. Further studies on how banks have used Internet banking could shed light on how Internet banking can offer new possibilities for banks in their internationalization process and how it has been used. What implications does internationalization using Internet banking bring, and to what extent and how does trust matter for banks in efforts to establish a presence in a foreign market. It may also provide an empirical input regarding the banking context, how it has evolved and whether banks still perceive trust building activities as fundamental.

The empirical evidence presented in the licentiate thesis and Paper II indicates that the banks have adopted different approaches to growth and acquisitions. One bank seems to lean towards organic growth to enter and expand in foreign markets while the other bank seeks possible acquisitions to enter and expand. Both banks have acquired foreign banks but with differing intentions. Studies with longitudinal data could contribute knowledge on how acquisitions are used in relation to the speed and path of the firm’s internationalization process. What are the purposes for acquiring another firm and is this part of an internationalization strategy/mode or is it ad hoc? How can acquisitions in the process of internationalization be explained and does this relate imbalance in market knowledge and market commitment, i.e. lack of market knowledge or a high degree of market knowledge? This may shed further light on incremental and non-incremental internationalization behaviors and how acquisitions are used in the process of internationalization. The longitudinal data could find out if the firm, for example, changes its internationalization mode in mergers and acquisitions over time.
Further studies could also explore the assumed strive for balance in market commitment and market knowledge and to what extent these concepts are interdependent. While trial and error may seem almost trivially plausible one could wonder if change in market commitment require change in market knowledge? In this thesis it is assumed that executive expectation mediates state and change aspects. In this discussion executive expectation has been described as the driver in the learning process and moderator of commitment decisions. Market knowledge and market commitment has been described to influence executive expectation and revisal of executive expectation dependent of perceived and expected market changes. One aspect that the discussion has not comprehensively touched upon is the matter of input and output of executive expectation and commitment decisions in spite of no new market knowledge. Based on the empirical evidence in Papers I-IV it seems that the internationalization process can progress for some time without much new market knowledge being gained. Commitment decisions can be taken to increase investments in order to come closer to executives’ expected market commitment and as long as investments meet conditional expectation the process can continue without embracing new market knowledge. The trust and conviction in executive expectation may even be so strong that new market knowledge can be ignored or dismissed. This thesis has illuminated this to a certain extent but further studies can investigate what implications this can bring for the firm and the managerial function of the executive as well as internationalization process theory.

Finally, emphasis in this thesis is on how exogenous changes is perceived and mediated by executive expectation. But more studies are needed to deepen our knowledge on market conditions addressing how change aspects are influenced by market turbulence and crises. In this dissertation the empirical evidence only consist of bank’s internationalization but there are many more industries yet to study or to deepen our knowledge of. Interestingly, Paper IV show that endogenous changes also impacts executive expectation and consequently firm’s internationalization process. But to what extent do the internal conditions influence the freedom of executive managers to express and implement their expectation? What other explanations than sharing of similar experiences influence how long executive expectation lasts and to what extent does administrative heritage and organizational culture influence executive expectation? Assuming that each organization has a unique set of learning processes and knowledge transfers, how do these factors influence forming of executive expectation?
References


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