

**The Internationalization Process and Entry Mode under the Uppsala  
Model  
A Case Study of Vietnamese Firm: FPT Software Internationalize in  
Japan**

by

DANG Hoai Huong

521114615

September 2016

Master's Thesis Presented to

Ritsumeikan Asia Pacific University

In Partial Fulfillment of the Requirements for the Degree of

Master of Business Administration

## Table of Contents

<b>1.0 Introduction.....</b>	<b>1</b>
1.1 Background .....	1
1.2 Research purpose .....	3
1.3 Research question.....	3
1.4 Delimitation.....	4
1.5 Structure of thesis.....	5
<b>2.0 Research Context .....</b>	<b>6</b>
<b>3.0 Literature Review .....</b>	<b>11</b>
3.1 Definitions.....	11
3.1.1 Definition of Internationalization.....	11
3.1.2 Definition of Process .....	11
3.1.3 Definition of Entry Mode.....	12
3.2 Internationalization theory .....	12
3.2.1 Uppsala model theory .....	13
3.2.2 The Born Global theory .....	18
3.2.3 The Eclectic Paradigm (OLI Framework).....	19
3.2.4 The entrepreneur perspective .....	20
<b>4.0 Research methodology .....</b>	<b>22</b>
4.1 Research approach .....	22
4.2 Case study .....	23
4.3 Sample selection.....	23
4.4 Data collection and analysis.....	24
<b>5.0 FPT Corporation and FPT Software in brief.....</b>	<b>26</b>
5.1 FPT Corporation.....	26
5.2 FPT Software Company .....	29
<b>6.0 Findings.....</b>	<b>31</b>
6.1 The internationalization process and entry mode of FPT Software in Japan market.....	32
6.2 The main entry barriers in the period of FPT Software when entering Japan market.....	43
<b>7.0 Discussion .....</b>	<b>46</b>
<b>8.0 Conclusion .....</b>	<b>53</b>
<b>Reference .....</b>	<b>54</b>

## **Certification Page**

I, DANG Hoai Huong, ID: 52114615 hereby declare that the contents of this Master's Thesis is original and true, and have not been submitted at any other university or educational institution for the award of degree or diploma.  
All the information derived from other published or unpublished sources has been cited and acknowledged appropriately.

DANG, Hoai Huong  
2016/05/30

## **Acknowledgements**

I wish to express my deepest thanks to many individuals who have supported me through the master thesis and my MBA course at the Ritsumeikan Asia Pacific University. In particular, I want to express my gratitude to my Supervisor, Professor Ali HAIDAR who has transmitted the invaluable guidance and the business lesson that valued both the academic and business issues.

I am especially grateful to my MBA friend, Ms. Nguyen Khanh Diep who bridged me with the Senior Management of FPT Software to conduct the interview. Certainly, the thesis could not finish without the support from Ms. Quach Lieu Hoan and especially Ms. Bui Thi Hong Lien who shared with me time, energy and ideas throughout the interview. Her experience and insightful knowledge help me to dig deeper into my project. I want to thank all my friends, who truly commented and contributed their idea help me fulfill the thesis.

Finally, I want to say thank my family who is the chief source of love and motivation for me to complete the thesis, MBA course and makes my day wonderful to live.

DANG Hoai Huong  
July 2016

## **List of figure**

- Figure 1-1: Research question statement
- Figure 2-1: Worldwide market share of Japan IT Service Industry
- Figure 2-2: Total sales and number of workers in Japan industry
- Figure 2-3: IT Services Market in Japan 2004
- Figure 2-4: Promising countries & region for offshore development
- Figure 3-1: The Uppsala model basic concept
- Figure 3-2: The Uppsala model of the sequential steps
- Figure 5-1: Business sectors of FPT Corporation
- Figure 6-1: FPT Software global delivery model

## **Summary**

The Uppsala model of internationalization process had been widely adopted in the research under the Western economic settings. Using the qualitative method and secondary data, the paper examined a case study of Vietnamese firm from IT technology industry to find out the internationalization process and entry mode under the developing country context in Asian. The findings revealed that firm adopts the Uppsala model to enter Japan market. This process is included no export activity, then export through the sales subsidiary and finally the manufacturing activity in Japan. The firm followed the greenfield entry mode to stay close to the customer and learn technology know-how of the approaching market.

## **1.0 Introduction**

### **1.1 Background**

From 1986, Vietnam implemented the open door policy, officially removed all the trade barriers which before limited business opportunity of the local firms. Therefore, the degree of internationalization of Vietnamese firm has accelerated (Dutta 1995). The following participation into the common economic organizations marked the strong presence of Vietnam in the global economy, including the normalization of diplomatic relation between Vietnam and U.S. in 1994, membership in the Association of Southeast Asian Nations in 1995, membership in the Asia-Pacific Economic Co-operation Forum in 1998 and membership in World Trade Organization in 2007. This movement already created the opportunity and enhanced Vietnamese firm active role in the international market. Hence, it is essential to understand how Vietnamese firms go internationalization.

The history of computer and service sector emerged from the manufacturing industry's demand. Driven by the cost control and effective management necessity, the software outsourcing soon came into the peak. U.S. led the revolution in the packaged software industry and made it the largest world industry during 1980-1994. Nowadays, U.S. has still dominated approximately 50% global market share. By following the niche market strategy, Microsoft dominated the operating system while Oracle and SAP shared the enterprise market under the pressure of IBM and Microsoft's competition. The latter also entered the niche market with less competitive or less contested by multinational incumbents. Meanwhile, in Asia, amongst developing countries, India and China are the most amazingly emerging countries and lead the top number of globalization outsourcing software firms known as Tata Consultancy Services, Wipro Technologies, Infosys

Technologies from India and Huawei from China. From the 1980s, India with their large pool of skilled and low-cost labor force emerged in the market by expanding to the U.S. and European market. Approximately 20 years development, India has climbed into the high-value chain and more centered in designing and manufacturing by themselves. China is the follower and more cautious in their strategy, strongly focuses on their domestic business by working with foreign MNEs operating in China and simultaneously cautiously move abroad by seeking small niche markets that lack competition from the U.S. and European firms (Jorge Niosi and F.Ted Tschang 2009). Under the circumstance of developing country setting, both developed their pathways differently. In comparison with these countries, Vietnam has put the initial steps into the globalization market and participated into the low-added value chain due to existing capability. The question “how and why Vietnamese outsourcing software firms participate into globalization” was raised and inspired me to do more research on the existing materials. The research of internationalization theme in developing countries mostly focused on India and China which majored in exploring the trends, motivation, development pathway and strategy by utilizing the Eclectic paradigm, Uppsala model and some modern theories. In the case of Vietnamese firm, research is a few, especially theme on Vietnamese outsourcing firms is not done beforehand. Driven by this gap in current research, the study is proceeded to contribute the practical case of internationalization process into the field of international management. The objective is to create the reference and encourages the latter to continue to dig deeply into this issue. Moreover, the other technology firms can utilize it as the guidance book in determining their strategies to go. However, due to the limitation of time and resource, this research focuses on the case study and exploits the aspect of how Vietnamese software firm penetrated and developed in the Japan market.



## 1.2 Research purpose

The purpose of the research is to build up the knowledge in the field of international management through investigating, depicting and analyzing the internationalization process of company in the specific market under the perspective of Uppsala model theory. To achieve this purpose, I choose to research the internationalization process in Japan market and entry mode of FPT Software Company who has been ranked #57 in the International Association of Outsourcing Professionals (IAOP) 2014 Global Outsourcing 100 list. The result of the study helped to provide the deeper insight of strategy firm implemented to enter the market and the circumstance decided their choice of strategy.

## 1.3 Research question

The thesis had been driven by the lack of research in the internationalization process of Vietnamese firm into the oversea market. To fulfill this gap, the research was designed to make a contribution by providing an insightful information of the globalization strategy of a representative from the developing country context in the theoretical and empirical side (Figure 1-1).

Figure 1-1: Research question statement

Research questions	Objectives
1. What are the internationalization process and entry mode of FPT Software in Japan market? 2. Can Uppsala model explicate this process?	<ul style="list-style-type: none"><li>• To understand how firm penetrate into Japan market</li><li>• To see whether the internationalization process matches with the Uppsala model theory</li></ul>
3. What are the main entry barriers to FPT Software in Japan market penetration process?	<ul style="list-style-type: none"><li>• To uncover the obstacles of the specific market</li><li>• To learn how to overcome the barrier of the market expansion</li></ul>

#### 1.4 Delimitation

Internationalization of a firm has been influenced by both internal and external element of the firms. These elements such as resources, business culture, institutional changes, laws and politics policy, technology advancement have the strong impacts on the choice of strategy. The adaptability and flexibility of organization have played a key role to decide the success and the speed of internationalization process. Consequently, firm chooses the different strategy and entry mode for different markets. This led to the necessity to compare the different process implementation to bold how the phenomenon had happened. As a matter of this facts, the determination of research on specific market has drawn one detail of the picture instead of the whole overview of it.

Another limitation is the research theme itself. Internationalization study is a broad topic and complex phenomenon. The study's history in the past decades has showed the unstoppable effort to explain the phenomenon. Generally, the presence of these theories brought the more controversies and debates rather than synthesized all the findings to generate the acceptable conclusion (Gao Dawei, 2008). Internationalization is the complex phenomenon; different perspectives are needed to understand it (Bjorkman, 1990).

Another important element was the time limitation. The given time frame restrain the study to one company instead of several companies to be able to make the comparison of internationalization process.

### 1.5 Structure of thesis

This thesis is divided into eight parts: introduction, research context, literature review, research methodology, FPT Corporation and FPT Software in brief, findings and discussion.

The introduction part includes the background information, research purpose, research question, delimitation and structure of thesis.

The research context designs to bring an overview of Japan IT market's demand in the 2000s which significantly sets the position of Vietnam among the other outsourcing countries and provides the look of Japan potential market.

Literature review gives the definitions of major terms in international business field and the knowledge system of the internationalization theory and entry mode. It is included the Uppsala model of Johanson and Weidersheim-Paul (1975), Johanson and Vahlne (1977) and the other theories

In the research methodology part, I will describe the research approach, research strategy and data collection method.

FPT Corporation and FPT Software in brief summarize the birth and the development history of the parent and subsidiary.

The findings presents the analysis of the collected data and makes the brief conclusion.

In the discussion, I explain the internationalization aspects that could not understand under the Uppsala model and examine it under OLI theory of (Dunning, 1988, 1998), entrepreneur perspective of Svante Anderson (2000).

## **2.0 Research Context**

This research focuses on understanding the internationalization process of the Vietnamese IT firm in Japan market in 2000. Therefore, most of the market information and economic indicators is in the period 2000-2005 to provide the deep insight of the market situation that navigated the firm's decision.

In Asia, Japan emerged as the strongest player among India, Korea, and USA (Momaya, 2001) about the competitive power in the selecting industries such as auto components, engineering, construction and telecom. Some large and important industries such as IT contributed to the competitiveness of these industries were mentioned as the key sectors (Fransman, 1995). In 1990s, electronics and automobile export bust with the name of Toyota, Panasonic, Sony, Toshiba and etc. This opened the road for Japan IT industry development. Driven by these factors, Japan soon ranked the second largest IT service industry (Digital Planet Report 2004), accounted for 13.3% worldwide market share after U.S. with 40.2% (Figure 2-1). According to Japan Ministry of Economy, Trade and Industry (METI), the total sales of IT service market in 2004 was 14,555,500 million JPY (equivalent to 132,323 million USD with the exchange rate 110 JPY) and 573,000 workers. Together with textile, steel, automobile, electrics and electronics, IT industry has been one of the most contributing industry in term of firm's revenue and work labor force (Figure 2-2).

Figure 2-1: Worldwide market share of Japan IT Service Industry  
(Source: Digital Planet 2004)

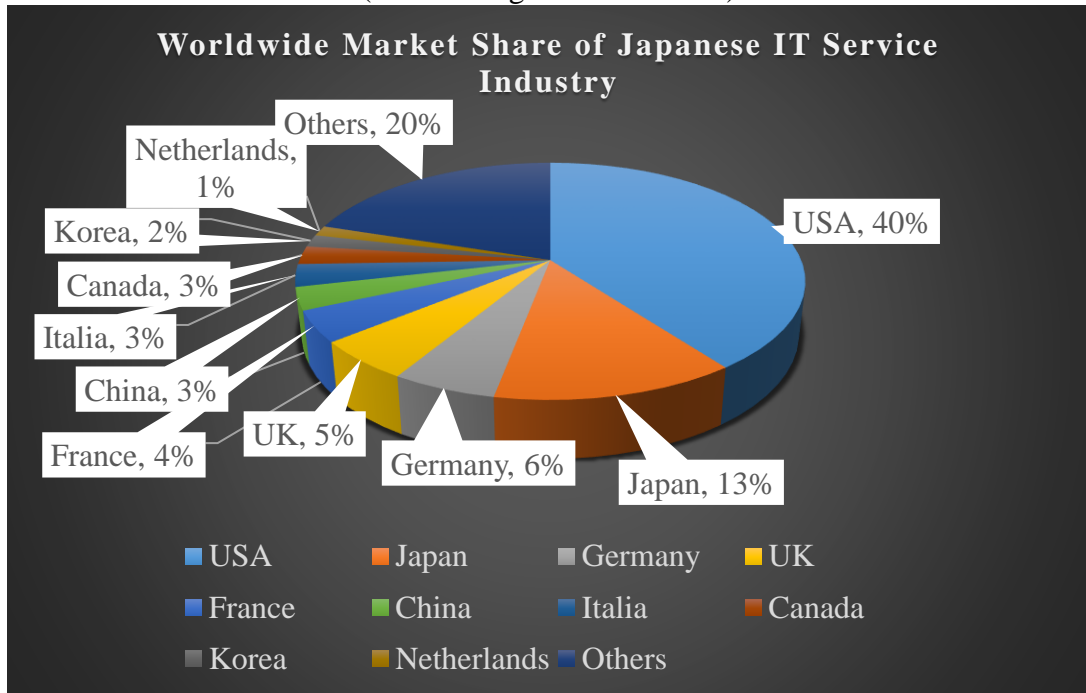


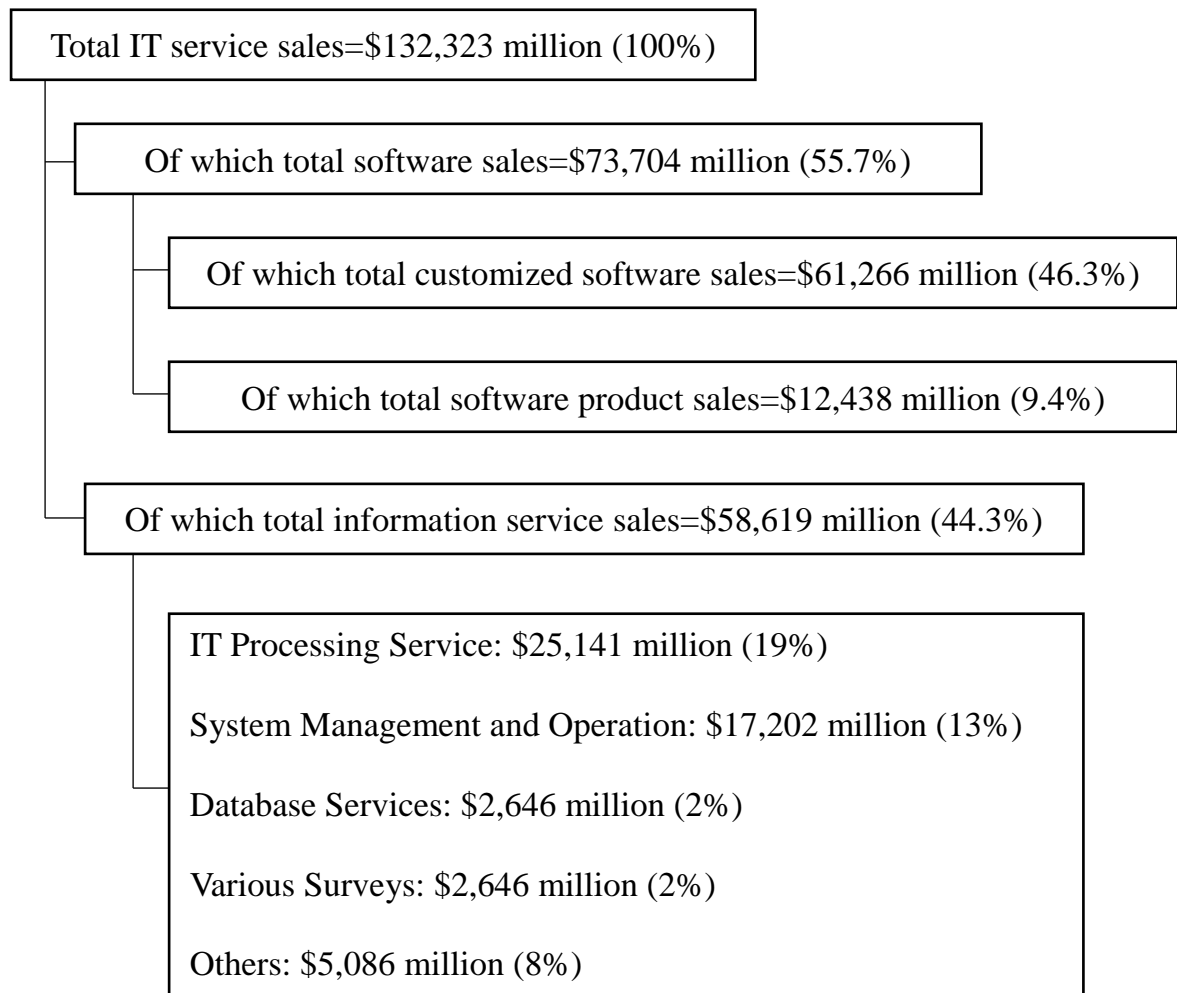
Figure 2-2: Total sales and number of workers in Japan industry  
(Source: METI 2005)

Industry	Year	Total sales (million JPY)	Number of workers
IT Service	2004	1,455	573,000
Textile	2000	810	680,000
Steel	2003	1,200	210,000
Automobile	2002	4,320	719,000
Electrics and Electronics	2004	4,500	1,960,000

The IT industry is composed of the information service and software industry in which the software industry accounted for \$73,704 million (55.7%) revenue. Software industry provided added values through the packaged software product by using production and distribution scheme like manufacturer. In the software industry, the embedded software or customized software achieved 46.3% of the total software industry revenue, presented widely in most of the industry such as the consumer electronics, entertainment, personal equipment, communication, transportation, aerospace, industrial equipment, medical equipment, etc. Embedded software can be very simple such as the

chip in the home lighting control system or complex in the aviation navigation.

Figure 2-3: IT Services Market in Japan 2004  
(Source: Digital Planet 2004 and METI 2005)



Nevertheless, Japan has been facing the challenging issues of high manufacture cost and shortage of labor force. To maintain the competitiveness with the powerful export country like China, Japan had to keep manufacture cost as low as possible. Moreover the high personnel expense in comparison with the other countries in the same area also created the burden for the export industry. To tackle these issues, Japan mainly opted to invest in the developing countries such as Southeast Asia, China, etc. and gradually move out the whole production activity to these locations. The huge industries like automotive,

shipbuilding, motorbike, P/C electronics pushed the development of supporting industry, including part component production, processing of plastics, heating, cutting, etc. and took them out in their moving out process. To solve these issues in the IT industry, the strategy is to offshore outsourcing. The offshore outsourcing, also called international outsourcing, is the hiring external organizations to do some or the whole business function in a country other than the one where the product or service is sold or consumed (Robinson and Kalakota, 2004). It is often related to the research, development, administrative or technical support process to third party vendors in a lower-cost location. The important issue in the IT industry is the constant shortage of qualified engineer, especially in the embedded software. In the recent report, the figure of 25 times embedded software sales volume in comparison with U.S. is the impressive facts. The embedded software required the specific expertise with a correct set of skilled even becomes harder in the present labor's situation. In 1980s, Japan priority cooperated with Korea and Taiwan partner for doing the software development for Japan market. Due to the advantage of similarity in the culture background, Japanese speaking engineers and lower cost production, this collaboration was prolonged until 1990s. From 1990s, Japan altered to utilize India and Philippines because of the software development demand for global market in English version. In the 2000s, China has become the favored destination with unbeatable labor cost (Robinson and Kalakota, 2004) (Figure 2-4). In 2010s, the outsourcing concentration expanded to Vietnam and the other Asean countries. The gradually increasing labor cost and the recent politics conflicts between 2 countries made the Japan move the concentration into Vietnam, Philippines and Thailand. From 2012, Vietnam officially has been one of the countries replace the China+1 program and became the partnership in Social. Mobile. Analytics. Cloud (S.M.A.C) and Internet of Thing (IoT)

projects. Meanwhile, India firms have been climbing to the value chain and had the tendency to refuse the outsourcing contracts from Japan. The large India firms now have accumulated the strong capability enough to move to manufacture the technology products by themselves. The word of Says Srini Rajam, CEO of Ittiam Systems is “Today, we do see a momentum picking up among small companies getting into products. When they get bigger, you will see a significant proportion of exports coming out of products. Today (the end of 2001) it is probably 5%, but it will be 10-20% in 2004”.

Figure 2-4: Promising countries & region for offshore development  
Source: A survey of overseas Transaction and Employment of Foreigners in Japan July 2004 (JEITA, JPSA, JISA)

No	Country	Number of firms
1	China	173
2	India	76
3	Korea	64
4	Vietnam	34
5	Chinese Taipei	20
6	USA	15
7	Hong Kong	10
8	Thailand	6
9	Singapore	5
10	Philippines	4
Note: The result of 251 firms (plural choice up to 3)		



### **3.0 Literature Review**

#### **3.1 Definitions**

##### **3.1.1 Definition of Internationalization**

The term “internationalization” was approached in many different perspectives and variables. Welch and Luostarinen (1988, p.36) defined internationalization as the process in which firm increased the involvement in the international operations. Based on this, Welch and Luostarinen approached the internationalization from the macro/micro perspectives and considered the variables such as labor, management know-how, profit that directly influence the oversea expansion in the other countries. Johanson and Vahlne (1977) agreed with this definition. Penrose (1959) defined the internationalization as the process that company focused on core competences and opportunities in the foreign environment. Calof and Beamish (1995, p.116) explained the internationalization as the process of adaptation of product/service in the foreign environment; defined as “the process of adapting firms operation (strategy, structure, resources, etc.) to international environments”.

##### **3.1.2 Definition of Process**

According to Oxford Dictionary, process means a series of actions or steps taken in order to achieve a particular end, but the scholars interpret it in different way. One interpretation of process is a concept that relates to actions of individual or organization. Hirsch (1991) defined process as a sequence of events that describe how things change over the time. The definition of Hirsch is suitable to research the strategy which mainly related to the behavioral action of the individuals, organizations within or between the firms. Since the

purpose of the research is to explore the overseas expansion of the firm as strategy, the definition of Hirsch is the most suitable and thus adopted in this paper.

### 3.1.3 Definition of Entry Mode

The global market has created the global competition. To succeed in the competition, company must have an appropriate strategy to enter the new market. A foreign market entry mode interprets as “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into a foreign company” (Root 1987, p.5). Firms adopted a number of different modes to enter the market. The mode of entry can be categorized in exporting, contractual agreement, joint venture and wholly owned investments (Kumar and Subramanian, 1997). According to Johanson and Vahlne (1977), the entry mode is divided into the sequential steps, including no regular export activities, export via independent representatives (agents), sales subsidiary and finally production activity. Pehrsson (2006) classifies entry mode into two types: full control entry modes and share control entry modes. My paper examined the entry mode of Johanson and Vahlne (1977).

## 3.2 Internationalization theory

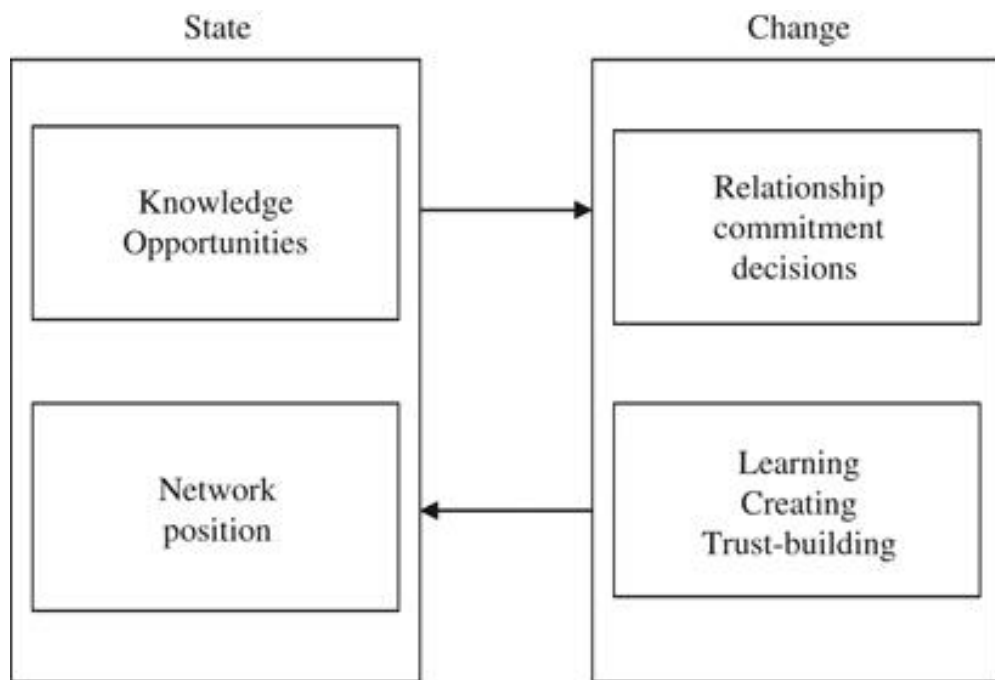
The paper mainly examined the internationalization process and entry mode of the software company. The study of process is obliged to have the tangible model to compare with the company phenomenon. The most well-known process theory is the Uppsala model. The model considers the internationalization as an incremental process of

acquisition, integration and use of knowledge of foreign market. Moreover, the characteristic of my company research is the service provider with the mainly tangible asset of human capability and technology know-how. The organizational learning process, the core competence in the internationalization road is vital to understand in this research case. Hence, Uppsala model is the most appropriate tool to analyze in this situation. In this literature review part, Uppsala model is explicate in detail, including the most applicable and inapplicable aspects. Accompanied with Uppsala model theory, the presence of Born-Global theory, Eclectic Paradigm of Dunning and entrepreneur perspective of Svante Anderson (2000) also concerned in this part due to the practical association with the analysis part.

### 3.2.1 Uppsala model theory

The internationalization of firms from cross-border operation has been the critical research of the international business. From the perspective of Uppsala model, Johanson and Vahlne described the internationalization of firms are the process of experiential learning and incremental commitment as they gain more market knowledge and experience over time. This conclusion was withdrawn through empirical observation on Swedish manufacturing firms from their studies at the Uppsala University.

Figure 3-1: The Uppsala model basic concept  
(Johanson & Vahlne 1977, p.26)



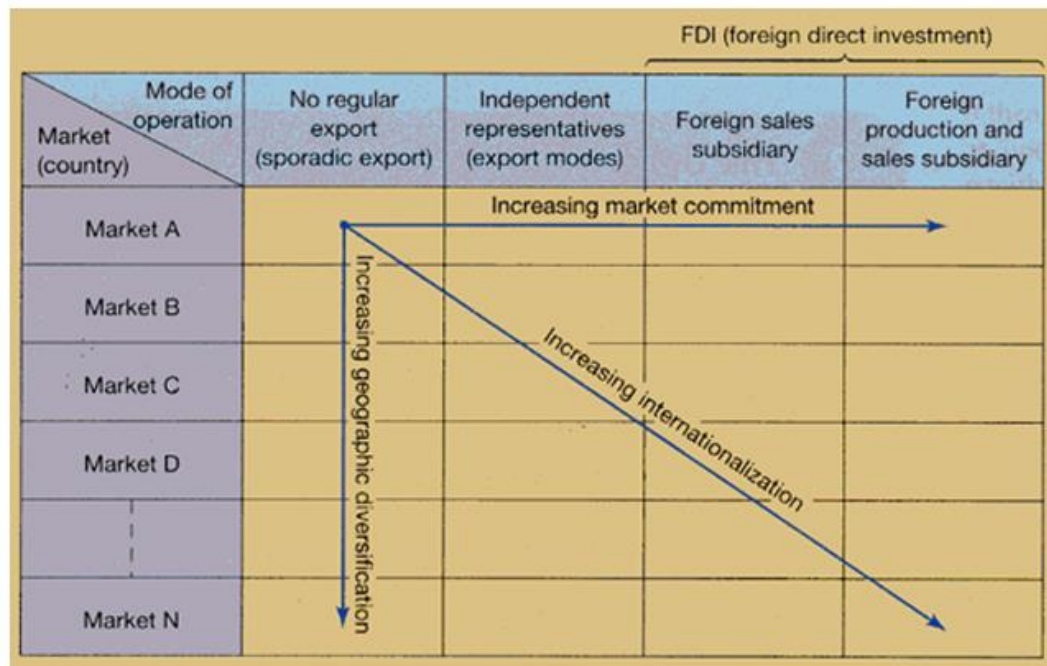
The basic assumption of the model is that “the lack of knowledge is an important obstacle to the development of international operations” (Johanson and Vahlne, 1977, p.23). This idea is influenced by the prior work of Simon (1947), Penrose (1959), Cyert and March (1963), Aharoni (1966) and Vernon (1966). These scholars laid the foundation of understanding how knowledge is learned and decisions are made in the complex organization settings. Commitment decision is based on both general market and market-specific knowledge. While the general market knowledge can be taught, the market specific knowledge can only be learnt through personal experience and can never be transferred or separated from the primary source. By the gradual process of learning and making decision related to foreign market and operation, firms gain knowledge (state aspect), thus they increase commitment (change aspect); the more commitment they make (change aspect), the more knowledge they get (state aspect). This is the closed cycle in which the output (change) constitutes the input (state) of the next. By this cycle, firm

acquires knowledge, reduces risk and enhances the market commitment. Therefore, it explains the reason why the internationalization always proceeds slowly.

In 1975, Johanson and Weidersheim-Paul also explicate the theory of internationalization in steps. The theory assumes that firm first develops in the domestic market and accumulates the knowledge and experience. This action is to solve obstacle of lacking knowledge and experiences of the international market. Then firm starts exporting to neighboring countries which have the same business practice, culturally and/or geographically close countries due to reduction of the large existing uncertainty risk, so-called psychic distance, of the international market. Psychic distance is interpreted as “sum of factors preventing the flow of information from and to the market. Examples are difference in language, education, business practices, culture and industrial development” (Johanson and Vahlne, 1977, p.24) and the degree to which a firm is uncertain about a foreign market (Kogut and Singh 1988, p.413). The Uppsala model is summarized in the chain of four sequential steps:

- Step 1: no regular export activities
- Step 2: export via independent representatives (agents)
- Step 3: sales subsidiary
- Step 4: production/manufacturing

Figure 3-2: The Uppsala model of the sequential steps  
Source: Johanson and Weidersheim-Paul, 1975



Through these steps, the firm's top management learns more about the host country, the perceived risk of market investments decline, thus the more commitment they made which in turn enrich the different knowledge and information for the firm. The psychic distance is the correlation with the time factor. The greater the psychic distance is between two countries, the longer time will be required to gain knowledge to reduce the uncertainty risk. Nevertheless, firms do not need to follow all of these steps due to the potential of the market or the market size. If the market size is not large enough for company to set up manufacturing, company just establish sales subsidiary and export activities. Or, if company is more extensive experience from other foreign market, they may jump the stages. In conclusion, size of the market, psychic distance, existing knowledge and experience are the key factors to decide the internationalization step in Uppsala model.

Through the times, more research about the internationalization phenomenon are presented differently. Obviously, Uppsala model could not explicate all of the happening aspects of the firm's internationalization which are proved by later research:

- The model is not always applicable (Lau 1992, Bell 1995). Since the empirical evidence was studied on the Swedish firms in the manufacturing sector, it is valuable and true for developed countries and could not utilize to explain the emerging and newly developed countries.
- Entry and growth strategies in foreign markets are changing toward more direct and rapid entry mode than what is illustrated in Uppsala models of gradual and incremental steps (Hedlund and Kverneland 1985). Even firms from developing countries are able to internationalize more rapidly than the models predict (Lu and Beamish 2001)
- A large number of firms established their first foreign manufacturing subsidiary without initially having formed export and sales subsidiary as the result of the research on small companies in the United Kingdom (Newbould et al.1978).

Uppsala model could not explain the whole of process of internationalization due to these important reasons. Firstly, it approached the internationalization at the marketing and sales aspect. Secondly, the model considered knowledge and experience are the center of internationalization's decision and ignore the individual's decision-making. In reality, top senior management would determine strategies and entry mode of the company based on company's existing capability and their point of view. Thirdly, model did not discuss internal and external elements that would influence the process and strategy due to they expect that the "the internationalization process, once it has started, will tend to proceed

regardless of whether strategic decisions in that direction are made or not” (Johanson and Vahlne 1990, p.12).

### 3.2.2 The Born Global theory

The Uppsala internationalization model (Johanson and Vahlne, 1977) considers the internationalization as a gradual process. The slow and incremental internationalization process is due to lack of knowledge of the foreign market, perceived uncertainty, risk-avoiding management. However, Uppsala model is insufficient to depict the growing number of firms that provide the goods and service globally from the birth-the Born Global firm.

The concept of Born Global was first used by McKinsey in 1993 in the survey for the Australian Manufacturing Council (McKinsey & Co., 1993). In this study, a born-global firms was defined as “one which views the world as the marketplace from the outset; they do not see foreign markets as useful adjuncts to domestic market”. Cavusgil and Knight (1997) described the born-global firm characteristics as “generally small, less than 500 employees and annual revenue under \$ 100 million. In the initial two years of establishment, they export one or several products and tend to export at least 25% of total production.” The definition of Cavusgil and Knight makes sense within the context of developed and large economy countries. However, in the context of emerging countries, a born-global firms is likely to own less than 500 employees, annual revenue less than \$50 million and obtain the export 25% of production in at least 3 or 4 years after the firm birth. The certain reason is due to the longer time requirement to raise the capital,



understand the target niche market and develop the network (Elif, Emin, Suzanne, 2007). According to Bell, McNaughton, Young & Crick (2003) born-global firms operate in the knowledge-extreme environment and pay no or little attention to their home market. The decision of domestic operation is never a part of the firm's strategy. All the resources are committed in the international marketplace.

The motives for the birth of born-global firm originate from the numerous factors. The attraction of the niche market and greater demand for customized or specialized product is one of the most important element to form the born-global firm. Another factor is the shorter product life cycle urges the born global firm to adopt the internationalization strategy regardless of their age, size, experience and tangible resources (Ohmae, 1990 and Oviatt and Mc Dougall, 1997). The great advances in the communication, production technology and transportation field, the closer global network, and the more elaborate people, including the young entrepreneur/founder who starts the internationalizing very early.

### 3.2.3 The Eclectic Paradigm (OLI Framework)

The OLI theory (Ownership, Location and Internationalization) of Dunning explain the internationalization behavior under the aspect of market-seeking and asset-seeking. In this theory, firm possess some ownership advantage (the first letter "O" in "OLI") to do investment, which allows firms to generate the profits. This ownership advantage must not be available with their competitors. The second "L" must be Location advantage suggests that company will choose the market that can maximize their specific ownership advantage or access the market to get the advantage of cheap labor cost, natural resources, investment policy, technology, etc. In the case of software outsourcing industry in

developing countries, firms start up with the limited finance resources and knowledge base or capability. Therefore, they will seek the market that allow them to maximize their ownership and labor advantage. They also be “proximity” with their main customers to communicate with the lower cost and go oversea together with customer. The second aspects of this theory is asset seeking which most of company in developing countries had to struggle in order to go up in the value chain. Most firm start with the low base technology and core competence. Therefore they just can participate in the “low value added” work and make profit through the low retained earnings. They will join in the acquisition in both domestic and foreign market to grow their capability. It is worth noting that foreign multinational enterprise may provide demonstration effects and learning opportunities to firms. They can grow from their clients. The final is the firm itself, they can also engage in the self-development of capability when they reached the mature stage.

#### 3.2.4 The entrepreneur perspective

According to Svante Anderson (2000), the enterprise internationalization process is also influenced by entrepreneur. Svante Anderson defines three types of entrepreneur: technical entrepreneur, marketing entrepreneur and restructure entrepreneur. The technical entrepreneur is the person who mainly focus on product innovation and production development. The internationalization is not their main interest but the new product can be spread through the request from the oversea market through the exports or licensing. Most of the technical entrepreneur owned the technical background. The marketing entrepreneur is the person who found a need in the market and provide the idea how to fill the demand. He considers marketing more important than product innovation. This person is dynamic in the internationalization process and looks for developing the

new ventures and model establishment such as greenfield and franchising. These establishment model makes it possible to penetrate the new market. The third is restructure entrepreneur who works in the mature industries and implement the strategy at the corporate level. He does not involve directly in the operation and prefer to activate in the mergers and acquisition to increase the capacity of the organization.

## **4.0 Research methodology**

### **4.1 Research approach**

This study is utilized the qualitative method. The purpose of the qualitative research is to answer the research question related to the social phenomenon with as little disruption of the natural settings as possible (Patton, 1990). Qualitative research produces rich, descriptive data and thus can contribute to the theoretical knowledge and practical application. The key important of the qualitative analysis is to understand the meaning of social behavior “what it all mean for the people involved” (Bryman, 2008). In order to analyze the behavior, people are the key data resource in qualitative study and fieldwork is the common means of collecting data (Merriam, 1998).

As we know that, internationalization as a part of business strategy mainly manipulated by the top management’s various decisions. The qualitative method is the most suitable for this aim since it allows to dig deeper into the company key strategic decisions through the primary data collection.

In this research, the primary data is collected through the interview with Ms. Bui Thi Hong Lien. Ms. Lien had the strong abroad study in the technology field at Technische Universitat Dresden, Germany and Master Degree at University Of Tsukuba. She has currently been the Senior Advisor of the 10K BrSE project. 10K BrSE (Bridge Software Engineer) project has aimed to supply 10,000 Bridge Software Engineers for FPT Software in particular and Vietnam labor market in general. The engineers must qualify in both professional technology and Japanese proficiency enough to work in Japan and Vietnam IT collaboration project. Ms. Lien has been participated in FPT Corporation

since 1999 as the CEO of FPT India. Since 2005, she was appointed as CEO and President of FPT Japan. Also in this year, she served as the Vice President of FPT Software and had taken the full management control of Japan market. From 2009 to October 2011, she served as the CEO of FPT Software Joint Stock Company. Since 2011, she has been the Assistant to Chairman of FPT Corporation (Bloomberg 2016). The research also had reviewed existing literature, documental research and publications on the Internet, company website, newspaper and magazine.

#### 4.2 Case study

Case study provides the researchers with the opportunity to challenge or confirm the models of theories (Gummesson, 1998). According to Ying, 1994 case study is the suitable tool to answer the question “how” and “why”. Research the internationalization process by case study allows the researchers to utilize the model and theory to test the real life business situation. This paper adopted the Uppsala model as the theoretical framework. The authors of the Uppsala model also used the case study approach to find the final conclusion. Therefore, the case study approach was deemed appropriate in this study. For this study, I synthesized the relevant information and combined with the in-depth interview data to conclude the internationalization phenomenon of the firm.

#### 4.3 Sample selection

Based on the theme of the thesis and the time constraint, I applied the case study to observe the behavior of one or many subjects. The target company had to satisfy all these

requirements. Firstly, firm had to involve in the industry that cited in the literature as being global. Secondly, the large number of companies in this industry had the extensive global operations. The specific characteristics of this involvement in the international market consisted: the intense global competition, high degree of product standardization in the worldwide scale; the existence of the competitors in the global market, strong international marketing activity, high degree of similarity in the customer needs, manufacturing in a few oversea countries. These requirement brought me to FPT Software who satisfied all above key points. Through the connection of my two MBA friends who are currently studying at Ritsumeikan Asia Pacific University and used to work in the Strategic Unit of FPT Software, I approached Ms.Quach Lieu Hoan by email and got an appointment with him in Tokyo office on 25<sup>th</sup> March 2016. Ms. Hoan was one amongst the first people to come to expand Japan market. Since the strategy of the company was unite, thus the answer for the internationalization process would be the same amongst the interviewees. In her opinion, it is necessary to interview the key person who knew and worked in the international expansion process. That is why she recommended me to her senior manager Ms. Bui Thi Hong Lien. In-depth interview is an excellent tool to gather and understand the researching case.

#### 4.4 Data collection and analysis

My thesis relies on many the primary data and secondary data. Primary data is collected through the observations and interviews (Lewis, 2003). I focused on qualitative research, in-depth and semi-structure interview since it is possible to answer the question “how” and “why”. While the secondary data was based on information deducted from

Annual report, news release and publication from company website.

Before conducting the actual interview, I looked at the newspaper, existing literature, industry report, publications and internationalization history in company's website to understand the past activity, core business and market information. After doing the careful research, I prepared and sent preliminary interview questions in advance so that company had time to respond. In the day of interview, I got permission to record the interview and publish all the interview information. The firm had the requirement to cover all the content before the paper comes to public. During the interview, I let the interviewee freely answer the questions without interrupting in order not to affect their answer. After completing the whole questions in paper, I asked a set of question relevant to the topic not yet covered.

After collecting the raw data of interview, I categorized the answers in the research question and continue with the literature review to understand the collected data's meaning. By breaking data in line and in paragraph following the flow of internationalization events, the whole picture of internationalization came out. Through the continual research, I finally came to the conclusion by being able to compare and contrast the data with my theoretical framework. The secondary data strengthened my inferences and made the conclusion more reliable and measurable.

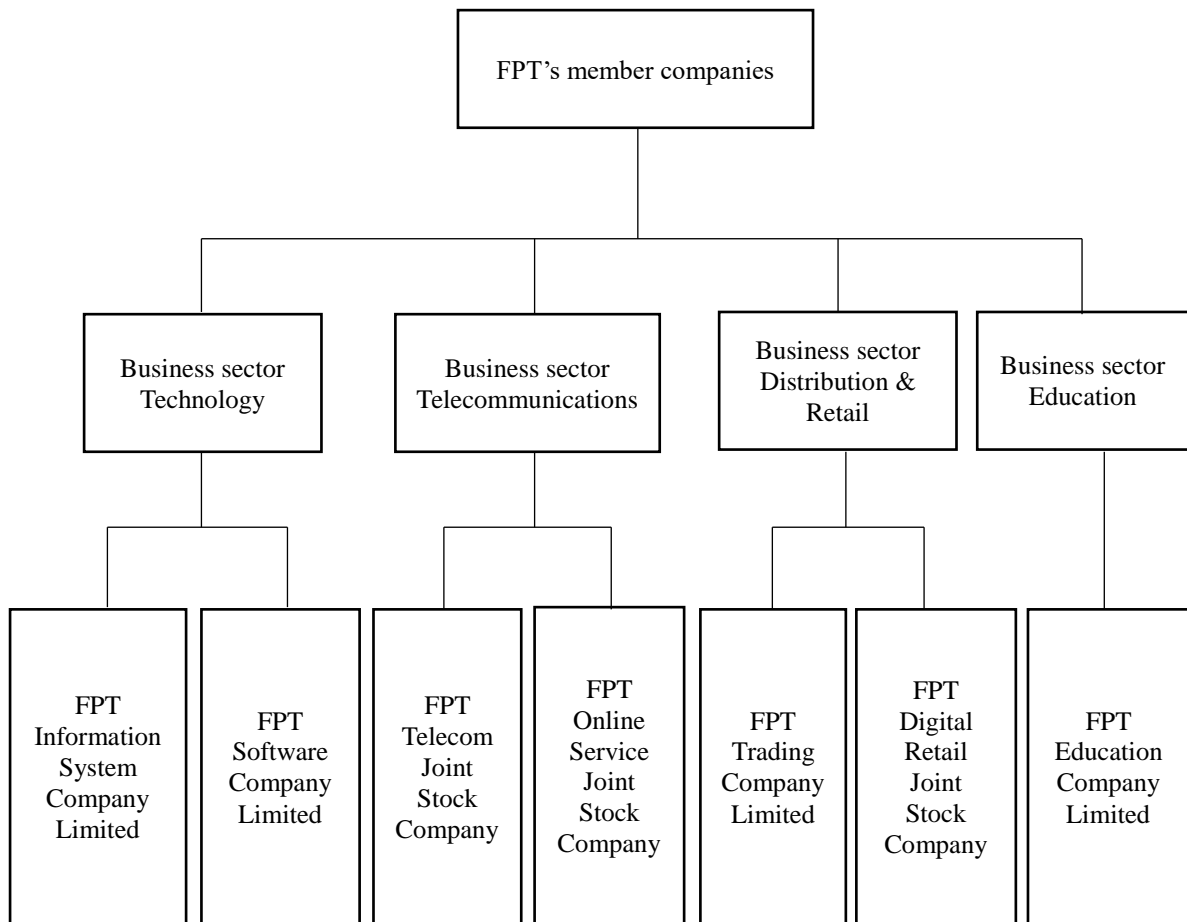
## **5.0 FPT Corporation and FPT Software in brief**

### **5.1 FPT Corporation**

FPT is the leading technology corporation in Vietnam, established on September 13<sup>th</sup>, 1988 with IT and Telecommunications as its core business. With seven member companies working in four business sectors (Figure 5-1), FPT has pioneered in the technology trend in Vietnam and contributed to the technology advancement of the home country. After more than two decades of development, FPT has put its presence in 19 countries and built up the workforce of more than 26,800 people. In 2015, FPT achieved the revenue of \$1.8 billion, rose up to 14%, of which, nearly 12% (\$218.6 million) came from overseas market; growing significantly at 40.9%; the overseas revenue of technology sectors exceeded the revenue of domestic market, accounting for 52% of the revenue of this sector. Compared with 1988, FPT established with no capital, assets or cash, then in 2006, less than 3% of the total sales of FPT came from the overseas market; in 2015, FPT put its presence in 19 countries, achieved 12% of the total sales from the overseas market. With these performance figures, it is said that FPT has achieved critical success in globalization in the past few years.



Figure 5-1: Business sectors of FPT Corporation  
(Source: FPT Corporation website)



The history of FPT Corporation dated back 1986 when Vietnam initiated Doi Moi (English: Renovation) Policy. The new policy offered a chance for individuals to own business and base their business decisions on their beliefs and experiences. As a result, the number of the private company rose sharply from 14,457 in 2000 up to 36,000 in 2004. Mr. Truong Gia Binh, an entrepreneur with ambition to “make a lot of money while continuing to do science” established a team of 13 young scientists. In June 1988, Truong Gia Binh was appointed to be Director of The Food Processing Technology Company (FPT’s original name) which had established under the decision of the National Institute of Technology Research. The first foundation for the IT department which later became

the core business of FPT from the contract to provide computers for the Russian Academy of Sciences along with a partnership with Olivetti in 1989. In October 1990, the company was renamed The Corporation for Financing and Promoting Technology (FPT for short). In this year, FPT had obtained the first project with Vietnam Airline for Reservation and Booking System. This agreement allowed FPT to implement the technology to solve the real business issue. In 1994, after removing the US embargo, the foreign manufacturer needed a distribution partner to enter the Vietnam market. Binh cooperated with IBM, Compaq, HP to import the technology products and redistribute to the domestic retailers. In 1997, Vietnam officially connected to the global Internet network and FPT became one of the first of four Internet Service Providers (IPS) to be licensed in Vietnam. In 1999, FPT sought to globalize and presented a 10-year strategic plan defining software outsourcing as a key direction. In 2000, FPT was the first technology in Southeast Asia to obtain the important quality certificates-CMM level 5 and ISO 9001:1994. These certificate was a tool for company to penetrate the high-tech standardized market such as Japan and Europe. The growth of the oversea market and the high demand of foreign language skill and the experienced IT workforce pushed the birth of FPT University in 2006. In 2014, the first M&A deal with RWE IT Slovakia built the new business model named “Bestshore”. Bestshore allowed FPT simultaneously use both domestic (offshore) and foreign (nearshore) resources to most efficiently provide services to customers. In 2015, FPT did get license to provide telecom services in Myanmar.

## 5.2 FPT Software Company

FPT Software was established in 1999 as the strategy of seeking globalization of FPT Corporation. After 15 year development, FPT Software ranked 57 in the Top 100 Global Outsourcing Company by International Association of Outsourcing Professionals (IAOP) and successfully made the first M&A deal with RWE IT Slovakia (2014); ranked among “50 best Vietnamese listed companies” by Forbes Vietnam (2013); internationally recognized and featured in Global Services 100 and Software 500 (2012). The revenue of 2014 stood at \$138 million; contributing 7.7 % for the total revenue of FPT Corporation. According to Mr. Hoang Nam Tien, chairman of FPT Software, the target in 2016 is to reach 10,000 employees and revenue of \$200 million. The strategic presence in EU (Germany, France, Slovakia), Southeast Asia (Myanmar, Philippines, Singapore, Malaysia), USA, Vietnam, Australia and most significantly in Japan has built the foundation and accumulated experience to penetrate the new markets such as Tanzania, Congo, South Africa, etc. In 2016, FPT Software reached 7000 employees and established the strategic partnership with important technology companies and association such as Microsoft Gold Certified Partner, SAP Partner for Mobile Application Development, Xamarin Authorized Consulting Partner, Smart TV Alliance, GENIVI Alliance, etc.

Japan is the second destination after the first globalization wave in U.S. and India had gotten the failure. Learning the valuable internationalization lesson from the India and defining the market’s barrier and challenge, FPT Software had taken the incremental steps to equip the necessary tools and skilled workforce. In 2000, with the support of Sumitomo CEO’s Mr. Nishida, FPT Software started to explore the market and sought first clients through the customer visit of FPT Chairman - Truong Gia Binh. They also

got first client- NTT-IT in this year. In 2004, FPT Software opened their official office in Tokyo. One year later, FPT Software Japan Ltd was established, named FPT Japan. Now FPT Japan operates 3 office in Nagoya, Osaka, Tokyo with nearly 500 employees.

## **6.0 Findings**

This research focused on the internationalization process of the Vietnamese technology company in Japan market. Moreover, the paper also explored the barrier factors of Japan market which directly affected to the globalization strategy of the company. Due to the time constraint and resource limitation, I examined the company's internationalization process and entry mode under the case study approach. The original Uppsala model also had been researched under the case studies of four Swedish manufacturers. Data had been collected by in-depth interview with Ms. Bui Thi Hong Lien, former CEO of FPT Software Company. Her enriched experiences with FPT Software and FPT Corporation helped the key internationalization strategy of FPT Software pointed out with the strong reliability and validity. Relied on the research question and internationalization theory framework, the interviewee was asked the question concerning the choice of the international market, how the entry strategy was adopted and the market's obstacle in the initial penetration period. Due to the nature of the unstructured and opened interview, the findings was presented in the reorganized and categorized method under the researcher's analysis. The relevant information gathered from the company's publication, website, newspaper and magazine was also presented in this research. Moreover, I also utilized the result of the IT industry report and market survey in the period of 2000 to 2007 to provide the deep insight of the market situation that directly determined the firm's globalization strategy.

## 6.1 The internationalization process and entry mode of FPT Software in Japan market

The globalization story of FPT Software should be told from the India and U.S. market. However these two markets soon failed due to the dot-com crisis in 2000. This turning point pushed them to look for the new market. FPT came up with the place to go from the suggestion of Japanese friend. The research revealed that Japan market requirements by chance assisted to set up the business model, upgrade the Capability Maturity Model Integration (CMMI) certificate and build up the qualified IT force for both FPT Software and Vietnam society. The obstacles from the market created the quick learning capability, adaptability and flexibility in both the staff and senior management. The close relationship between FPT Software with the Japan leading technology firm also opened the long-term collaboration and reliable partnership between the Vietnam IT industry and Japan. Therefore, the case of Japan can be well-illustrated the incremental learning process and the strategy's shape. In my opinion, it becomes the valuable case to study and is the reason for my priority research. According to Mr. Truong Gia Binh, the Chairman and Founder of FPT Corporation, the entry into the Japan market has been divided into three periods. The first was period 2000 to 2007 when FPT obtained first contract in 2000 and later years built the mutual understanding, collaborated in some pilot projects and learnt to work with business culture of the partner. The second from 2007 to 2012 was the strong market expansion. From 2012 afterward, this time has marked the important turning point in the collaboration of FPT Software and Japan when Vietnam has become one of the countries to replace China plus one (China +1) program. China's cheap labor cost, large market and attractive investment policies was the driving force for FDI inflow for the last 20 years. Recently, China has been gradually losing their cost

advantage and competitive advantage in comparison with the Asian countries. Consequently, firms went out of China to diversify their operation by adding another location in Asia. This strategy is often known as “China plus one” model which allows firms to lessen the operating cost, enter the new market, access the cheap labor force, natural resource and avoid the operating disruption if the market was deteriorated in the other. The production status in Vietnam today is so closely similar with China 10 years ago. The low salary, low technology base and low value chain position attracted the FDI inflows. Since China has gradually moved up the high value chain in manufacture, Vietnam becomes the next ideal destination for the FDI flow and replaces China in China +1 model. In the technology collaboration project with Japan, FPT Software has come to important upward step to become the partner in the new technology base, including Social, Mobile, Analytics and Cloud (S.M.A.C) and IoT (Internet of thing). The trend of Internet of Thing (IoT) has created the “smart” product generation with the amazingly excellent functions. The IoT product can access the internet, interact with the other products and interface with “the cloud” resource. For instance, the smart refrigerator with the Internet connection can go shopping online at the Amazon or any appointed place when the stock level touches the bottom. In the S.M.A.C field, after the burst of “the cloud” technology known as the unlimited storage ability, FPT Software focuses on the A (Analytics) and S (Securities). In 2015, FPT Software launched security software, named CyRadar. This software applies the Big Data analytics technology that can detect the outside threat to the firm and government’s network. This paper first covers the India and U.S. expansion from 1998 to 2000 then next goes to Japan market from 2000 to 2016. The reason I focus on India and U.S. market first originates from the cause and effect relationship of these market transition to Japan.

From the research, I found that FPT Software who owned the low technology base and lacked skilled labor force follows the two parallel actions. The first action was to focus on building up the required technology capability; simultaneously developed customer list and strengthened customer relationship through the collaboration and learning process. In term of entry mode, FPT Software opted the greenfield ventures which allowed them to retain the greatest control and stayed close to customer. Their action first followed the low market commitment mode by establishing the small office for sales force, then gradual commitment with the official firm establishment for Sales and Bridge Engineer. The highest level of commitment is that the whole manufacture process has brought directly to Japan. The investment commitment of FPT Software is expanded by the market size they explored. This findings is totally true with explanation of Johanson and Weidersheim-Paul (1975), Johanson and Vahlne (1977).

Back to FPT Corporation's story, 1999 marked the oversea market entry with the software outsourcing as the strategic direction. The idea of globalization was totally new and rare in Vietnam in 2000s and FPT was the first to come up with the "globalization mind". In the meantime, the other East Asian countries had achieved the outstanding success in integrating in the world economy which had been experiencing a fast growing trend of regionalization and globalization. To attain the outsourcing contract, FPT Software had to compete with Israel, China, India and Malaysia who had advanced in global software outsourcing experience, technology process, productivity, language proficiency, etc. The most important, these countries was branded as the outsourcing countries with the long list of Fortune 500. The experience of FPT Software in the outsourcing to address the business problem was humbly packaged with Booking and



Reservation system for Vietnam Airlines in 1990 and some simple software such as Smartbank in banking and Balance in the accounting for the domestic market. The often question of customers “why I had to move the contract to Vietnam” (IBM customer). In 1990s, FPT Software had no answer. The obvious problem was FPT Software lack of technology and customer, two necessary factors for global expansion.

### **The first globalization wave in India and U.S. market in period 1998 to 2000**

Under Uppsala model, market knowledge means information about markets and operations in those markets. Johanson and Vahlne (1997) believe that the lack of knowledge is an important barrier to decision making connected with the development of international operations. At that time, the human force of FPT Software was only 70 people in which 40 people were in charge the domestic software contract. The graduate students was below the standard to work in the software industry. In common, they owned the poor English skill, lacked practical software or programming background and had no experience in managing foreign projects. The education system did not concentrating on educating informatics technology especially software or programming. With the leaders of FPT Corporation, the labor issue was considered to be the most challenging. Then, their idea was “to go to the crowded place”. In 1998, Mr. Truong Gia Binh went to India to find the solution for the human resource. He had a chance to meet Mr. Naraputyana Murthy, chairman of Infosys and visited the largest software center of Infosys in India. Then he came to see Tata, Aptech, NIIT. He saw the potential of the cheap and abundant labor force for the future expansion of FPT Software. In Asia, India was a technology hub and a part of the Global Production Network in IT sector. The demand for Indian software exports to North U.S. came from factors such as the shortage of skilled workers in U.S.,

cheaper labor cost in India and time gap between U.S. and India which make it possible to have 24 working days in the U.S. through networking (Arora et al., 2000). Another was the technology acquisition in India. Technology acquisition came from these three sources. The first was through the own R&D activities; the second was through technology import and the final was the mergers and acquisitions. With the great accumulation of technology, India firms has soon tended to move up the high value chain. In September 1999, after India business trip of Binh, FPT Software launched the international program education center-FPT Aptech. In India, Aptech was the leading training company with 1000 centers in domestic and 200 in oversea countries. The newly established education center target was to provide 2 year program with the practical know-how and suitable skills to become the qualified programmer. In November 1999, Ms. Lien and two people from FPT Corporation established the office in Bangalore, India and employed the IT engineers with the aim to build up the labor force. This period, FPT Software opted the engineer rotation to multiple the skilled labor forces in Vietnam and equipped know-how for the first leader generation.

The distinguishability of the software industry is customization which means to develop the product following the customer requirement. Different customer, different industry was the different product. Most of the customer was in developed countries with the hi-tech application such as U.S., Europe and Japan. To understand the customer's technology language and develop the product, it is required to have the great extension of technology know-how and the qualified engineers enough to communicate in the "same language". In the case of FPT Software, they understood that the technology gap was greatly huge and learning process took long time. The waiting time for forming the skilled

force enough to work with customers would put the great pressure on the flow of finance. The option to go India seemed the good method to settle the issue of labor math, gradually narrowed technology gap and took advantage of the brand name of the powerful IT country. The second issue was to seek the customers. On June 1999, Binh came to U.S. to knock customer's door. He had the talk with Vice President of Microsoft, IBM and other 15 software companies. These talk promised a bright vision in the U.S. market. FPT Software opened office in January 2000 at Silicon Valley and aimed to establish at least 15 offices in next 2 years. Every office earned 400 thousand USD, total revenue in U.S. market would be 6 million USD in 2001.

The dot com crisis in 2000 made the 500 start-up companies went bankrupt. U.S. market could not bring back the customers. FPT Software had no profit and sent some contracts from Vietnam to India office to maintain the operation. Until June 2000, the office in Bangalore was closed and donated all computers to university. According to Ms. Lien, FPT Software followed the right strategy and obtained the significant technology and process management. That was the profit. Nevertheless, FPT Software withdrew market so soon to protect the financial status. By this action, they simultaneously left the information hub, customer information and the advanced technology. According to Ms. Lien (CEO of India market), if FPT Software was patient enough, accepted the loss and followed the action of Indian IT firm, they would pave fast on the road of internationalization. The explanation can be understood under Vietnamese business culture perspective. Vietnamese firms are driven by the profit more than the stable growth and put under the pressure of fast revenue payback. The second reason was the lack of experience in the first globalization wave that made FPT Software confused in finding

the reaction strategy. Mr. Khuc Trung Kien, leader of India office confirmed that India presence was the bridge of domestic software manufacturer with the international IT advancement. This bridge opened the collaboration, learnt the updated technology and management experience of the leading technology corporation for the software export projects and technology exchange in the future. After 2 year setting internationalization strategy, FPT Software totally invested 920,000 USD (1998-2000) and got 400,000 USD revenue.

### **The second globalization wave in Japan market in 2000**

The internationalization process in Japan divided into 3 periods. The first period was from 2000 to 2007 when FPT Software and Japan collaborated in some pilot projects and learnt to work with business culture of the partner. The second from 2007 to 2012 was the strong market expansion. From 2012 afterward, this time has marked the important turning point in the collaboration of FPT Software and Japan when Vietnam has become one of the countries to replace China plus 1 (China +1) model.

The failure of the India and U.S. obliged FPT Software to find the new market. According to Ms. Lien, this failure had the positive effect to push the internationalization process in Japan. In 2000, Mr. Nishida, CEO of Sumitomo who supported the idea of “Digital waterfall” of Mr. Binh and encouraged him to expand to Japan market. “Digital waterfall” idea emphasized the benefits to work with the countries such as Vietnam. Due to appearance of the Internet, the world is flat and job flow moved to everywhere. To maximize benefits, customer had to move the job to a place with the maximum cost difference, for instance, Vietnam with the labor cost of Vietnam equal to  $\frac{1}{2}$  India and  $\frac{2}{3}$

China. Nishida bridged FPT Software with the other Japanese partners. In 4 days of December 2000, Binh made presentation in twenty places by English and had the translators to translate it into Japanese. In his opinion, most of Japanese leaders did not understand his idea. At the end of the day, NTT-IT sent email to offer job. This was the very simple job to test the ability of FPT software and NTT was willing to pay.

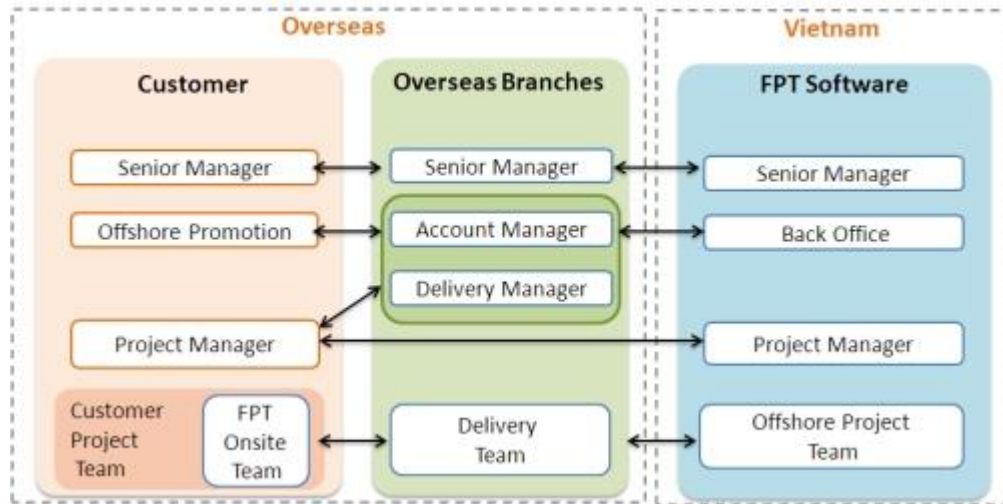
FPT Software recognized that Japan market gave the job opportunity but the most difficult market due to the high technology, quality requirement and language barrier. Japan clients were also more cautious to evaluate their partner before deciding the long-term collaboration. The learning process in India resulted a tool, called CMMI level 2 and project management tool. CMMI is the Capability Maturity Model Integration, is a process model that provides a clear definition of what an organization should do to promote behaviors that lead to improved performance. Project management tool which FPT Software learnt from the India management system was later modified to suit with the utilization purpose of FPT Software. Unlike the other industry with the tangible asset investments and tangible products, the software industry needs two assets: computers and human. The other special characteristics in software product is intangible factor. FPT Software did not own too much software production experience but they had already applied the CMMI level 2 certificate. The business culture of Japan often organizes in order and trusts in the physical assets such as manufacture process, rules, code of behavior. The owner of CMMI level 2 and Project management tool were by chance the most efficient tool for marketing and sales strategy to convince Japanese clients to collaborate with them.

To penetrate the market, FPT software implemented the parallel actions like in India and U.S which consisted of searching clients and building up the IT force. Since firm did not have the strong IT workforce and infrastructure to show up the customer. They applied the concentration strategy which hid the weakness and kept it far away from customers. They gathered all the IT force in Vietnam and asked customer to send job to Vietnam. Only the Japanese speaking sales staffs were in Japan to contact with customers. At the initial penetration, they set up the small unofficial sales office for the sales force to contact the customer, manufactured in Vietnam and exported the finished product back to Japan. The attention to the quality requirement and technology upgrade were illustrated in the ISO 9000:2000 (2001), the first IT company in Southeast Asia achieved this certificate. In 2002, FPT Software upgraded to CMMI 4, the first Asean company and one of 120 companies to achieve this prestigious certificate. FPT Software obtained CMMI level 5 in 2006, the highest level in the quality management standard of Software Engineering Institute (SEI), U.S.

In 2000s, FPT Software has no fame and international experience in the software industry. Moreover, Vietnam in the world's eyes had been the war-devastated and poor country. Japan had no cooperation with Vietnam in any field. To penetrate the market, FPT Software make the gradual penetration. They utilized the direct Japanese speaking sales force, established Comtor (short abbreviation of Communicator) system and used the other supporting tools from Japan government. Their action was to use AOTS program- The Association for Overseas Technical Scholarship which supported to train and shared technology between Japan and the other countries in the area. FPT Software sent the senior management to learn in this program and later managed Japan office. In

2003, FPT Software had the three clients in Japan and still send job to manufacture in Vietnam. Parallel, they established FPT University with the initial purpose to provide human resource for FPT Software in Japan market. They sent the Bridge Engineers to Japan to work directly with the customer. Actually, Bridge Engineers were more efficient than sales since they could listen, understand the technology language and gave solution directly and immediately. In 2004, FPT Software established company in Japan, named FPT Japan. This was the greenfield venture which meant 100% wholly owned subsidiary, retained complete control and ownership of technology. It took FPT Software 4 years to transform from low commitment with the product export and office establishment to the highest level of commitment, wholly owned subsidiary. Obviously, this internationalization process was totally matched with the Uppsala model theory of Weidersheim-Paul (1975) and Johanson and Vahlne (1977). The highest commitment clearly demonstrated in moving the manufacture from Vietnam to Japan in the three offices (Nagoya, Osaka, Tokyo) with the labor force of 500 people. The investment in the campus model to ensure the accommodation for staff has also demonstrated the long term commitment in Japan market. The office and manufacture in Japan help to save the cost of transportation, often visit customer or do maintenance service. However, the IT industry advantage has been the cost reduction and FPT Software has always found the solution to maintain this advantage. Not all the project has manufactured in Japan but moved to the labor cheap countries such as Vietnam, Myanmar and Philippine market. The procedure is depicted in the global delivery model (Figure 6-1).

Figure 6-1: FPT Software global delivery model  
Source: FPT Software Corporation website



Through the collaboration process, FPT Software have recognized the characteristics of Japan market that can help FPT survive and stay growth. The first characteristic can be summarized in “slow, long but stable and durable”. Japanese clients examine their partner very well before making collaboration decision. It is always small, simple job in the initial but grows medium and large contracts later if firms are able to work well and trust. They need the time to test ability, quality, process and management. When they decide the collaboration, they never leave their partner. The second is “win-win spirit”. If Japan firms choose the partner, they are always willing to help their partner and push them ahead. That is the evidence for the success of OJT and AOTS program. Another thing is Japanese has been treated the person instead of company. They look and evaluate company through people they are working with and respect their effort rather than where they come from. In their opinion, Vietnamese is intelligent, hard-working and quick adaptability. The next importance is the unity of Japan market. Unlike U.S. market with the difference management style and procedure, Japan firm is united in business process, culture and business management style. Therefore, the process and management



of FPT Software built up can be applied and showed up to all clients. Last but not least, Japanese collaboration network has made them become the user and sales force for FPT Software. Recently, most of the new customer of FPT Software came from the introduction of their present customers. These characteristic has made the presence of FPT Software in Japan market more durable and stable. Again, this also provided time and supported FPT Software to grow up in the market.

## 6.2 The main entry barriers in the period of FPT Software when entering Japan market

Japan has been evaluated as the strict market due to the language barrier, different business culture and high quality requirement. Especially, Japanese language is considered difficult to the western countries since there are no common in Japanese and foreign language. At first, Japan cooperated with Korean and China. These countries have a lot of similarities in the writing, grammar and some aspects of speaking. So Korean and Chinese can reach very fast Japanese proficiency than the others countries. Most of Japanese firm could not speak English. Consequently, they did not use India and the other western countries much because of the huge different in language and culture to build up the common understanding. Japan business math was not similar to the case of India and U.S. FPT Software defined language as the emergent obstacle, started to build and multiplied the Japanese language speaking staff in their human resources. All the staff were mandatory to study Japanese. In the initial establishment, FPT Software did not hire Japanese people in their sales force and management team. When company came into the expansion period, they utilized Japanese as consultant or the strategic planner role in the

management group. In 2014, FPT Corporation appointed Tomokazu Hamaguchi in the Board of Chairman to utilize his global operation experience in NTT Japan. Tomokazu Hamaguchi is known as CEO and Chairman of NTT from 2003 to 2007 and now CEO and Chairman of NTT Data. Recently, FPT Software had to face the big challenge since they lack the global experienced personnel in the management team. Their intention to increase the foreign specialist up to 10% to serve for the internationalization strategy. Another method implemented to break the language challenge was to hire all the Japanese learning students in Vietnam to become translator group, named Comtor (short form of communicator). This group was in charge of translating Japanese into Vietnamese and versus for the IT engineer in projects, meeting and conference. These translators was trained the technology terms and basic understanding of software outsourcing process. FPT Software recognized the weakness of China engineers was that they lacked the necessary attention and united understanding in the meeting. The use of Comtor system could ensure the unity in understanding and the extreme attention in the IT teams. Client was convinced by this system and supported FPT Software to make the technique term dictionary.

The technology know-how had been accumulated through the projects supported by the Japan government to the other countries in the area. These project was known as AOTS and OJT. AOTS - The Association for Overseas Technical Scholarship - is a non-profit organization privately run with Japanese government subsidies from the Ministry of International Trade and Industry (MITI). The main purpose of AOTS is to promote technical assistance to developing countries and to enhance mutual understanding and friendly relations between those countries and Japan. Every year, FPT Software sent 2 to

3 people follow this program. The program included 3 months study Japanese and 3 months internship in Japanese company. When FPT staff went internship in these company, they studied know-how and establish the relationship with these firms. FPT Software utilized this program around 5 years. The second was the OJT – Onsite job training program which was the paid internship job in Japanese company. This program was founded by FPT Software to send technician to their collaboration partner's firm in their studying process. Nowadays, FPT Corporation set up the education system to supply not only FPT Software but also Vietnam society demand. It has been included the effort to bring Japanese language in high school and university in Da Nang area (the central of Vietnam) or the 10K BrSE until 2018. FPT University also contributed 1000 BrSE to the IT force of FPT Software. The target will be 10,000 IT engineers in 2016 and 30,000 in 2020. From now until 2020, every year FPT Software recruit at least 4,000 people, all of these position required the oversea adaptability.

## **7.0 Discussion**

Obviously, from my findings, Uppsala model itself could not explain the whole firm's internationalization behavior. The time factors, the industry, the technology advance and the institutions nowadays shortens the penetration process and builds the fast, creative method. The most important reason of the imperfect is originated from Uppsala model itself. The background of the model was attached with developed Swedish economy in the manufacturing field in 1977. This background unfitted with FPT Software birth environment and maturity in developing country settings. The different characteristic between the manufacturing and the service sector led to the dissimilarity in the conclusion. Firms in the service sector considered to achieve the fast internationalization due to the investment in specialized skilled, capabilities and knowledge with which they can compete internationally. The final is the theory birth time in 1977 before the technology burst in 2000 which led to the revolution of global network, communication, technology advancement in production, transportation, etc. This huge change made the world become flat and more active in internalizing activity. According to Hedlund and Kverneland (1985), entry and growth strategies in foreign markets are changing toward more direct and rapid entry mode than what is illustrated in Uppsala models of gradual and incremental steps. Even firms from developing countries are able to internationalize more rapidly than the models predict (Lu and Beamish 2001). Hence, to explore FPT Software's globalization I had to reach out of the Uppsala model and see some globalization aspects under the perspective of Dunning and McDougall & Oviatt theory, and entrepreneur perspective of Svante Anderson (2000).

Dated back the first globalization wave, FPT Software's first overseas market in India and U.S. was originated from the demand of seeking "customer market" and "resource market". The result showed that the overseas expansion of FPT Software has been to seek the potential "customer markets" where firm can earn profit and grow for a long time. Normally, these markets were characterized as the developed and matured economy in which there has been the high need of technology application to reduce the production cost. U.S. was the main customer of the software outsourcing partner who accounts for more than 50% of the global market. Meanwhile, in Asia, India emerged as the powerful IT technology country that owned the resources to become the successful IT outsourcing supplier, including skilled and cheap labor force, technology and information hub, partnership of Fortune 500 companies such as IBM, Microsoft, Oracle, etc. If the Uppsala model is used to explain this case, the initial presence of FPT Software should be in the neighbor countries such as Lao, Cambodia, or Philippines, then move to the culturally and geographically distant countries such as China, Korea, Japan, Europe and U.S. Their initial presence in India, U.S. and then Japan was basically out of the statement of Uppsala theory. Again, Japan market also has no common in terms of business culture, language and management style. From the firm's choice perspective, the Uppsala model could not explain the firm behavior and internationalization motives. This consequence matched with the conclusion of Dunning in his work in 1988. Dunning theory (1998) introduced the internationalization motives including four types of motives. These are market seeking, resources seeking, efficiency seeking and strategic resource seeking motive. The next research in 2000 of Dunning gave explanation how market seeking and resource seeking are the two most recognizable motives. Especially, these two types of motives correspond with the initial internationalization. Furthermore, internationalization

was more driven by opportunity than threat. The rationale for acquiring knowledge asset is perhaps even more critical for sectors depending largely on R&D, such as software (Jorge Niosi and F.Ted Tschang, 2009). We know that software firms seek to upgrade their capabilities at all times (Athreye, 2005b). From Dunning theory, we can clarify that FPT Software seeks the customer market in Japan and U.S. where they have advantage of the cheap supplier. In Japan market, recently the collaboration trend moved to Asean +1 instead of China +1 due to the political conflict between these two countries and the gradually increasing labor cost. India is more advanced in their technology and move to self-manufacture product. Therefore, India recently has tendency to refuse the small value contracts. No doubt that these factors has weakened the attractiveness of these countries and made it less competitive than the Asian countries. To maintain the competitive advantage, FPT Software had to move small contracts to Vietnam and develop more offices in the cheap labor cost countries such as Philippines and Myanmar (July 2013). The appearance in these countries not only brought FPT Software opportunity cheap labor market but also provided the collaboration in telecommunication, one of the business sector of FPT Corporation. The recent achievement in the telecommunication provision contracts with Myanmar government showed the potential perspective in this area. Perhaps, in the next coming year, we can see the similar achievement happened in Lao, Cambodia and Africa market.

In 1994, Oviatt and Mc Dougall defined established companies that go internationalize from the very beginning and known as the International New Ventures (INVs) or the Born Global firm as “a business organization that, from inception, seek to derive significant competitive advantage from the use of resources and sales of outputs in

multiple countries”. Their definition suggested that a new venture should control assets, especially unique knowledge that create value in more than one country. Another definition of INVs or born global is developed by Knight and Cavusgil (1996) who mentioned that there are small firms that strive to achieve competitive advantage based on technology and from the earliest days of their foundation operate in multiple international markets. In 1999 when FPT Software decided to export outsourcing software, there are no demand in the domestic market and Asian market. India explored U.S., Europe and then Japan market. While China focused on domestic market by working with foreign MNEs, while they move cautiously abroad (Jorge Niosi and F.Ted Tschang, 2009). In the case of FPT software, there was no domestic market for the outsourcing product. Therefore, they went globalization directly to India, U.S. and Japan. Their good strategy was to take advantage of the available resources in India and gradually transformed to their own technology. It meant that they would find a place that could provide or modify their weakness. From inception, FPT Software had no clear strategy and lacked experiences, they observed and imitated the business model of Indian outsourcing firms. The Indian business model is included the complex of hi-tech center, training center and campus with the large capacity of thousands of people such as Mysore Campus of Infosys with 12,000 people. FPT Software already developed the similar system with the university, campus and hi-tech center. Ms. Lien said that the complex has been the commitment of FPT Software with their career and built the trustworthiness with their customers. The accommodation and facility equipped for the staff also the key strategy to increase the high retention.

According to the entrepreneur perspective of Svante Anderson (2000), the entrepreneur plays important role in defining the global strategy and set up the international pathway. The result revealed that Mr. Truong Gia Binh is the founder and chairman of FPT Corporation, thus defined as the entrepreneur of FPT Corporation. His career history illustrates three types of entrepreneur inside. We can recognize that the strategy of FPT Software has been changed from 1988 to 2012 since his role changed from the technical entrepreneur to the restructure entrepreneur. Binh had studied in Lomonoxop university, Soviet Union and worked as the scientist before establishing FPT Corporation. This time gave him an idea of “earning profit by making technology” by establishing a Heat and Substance Exchange team. To implement the contract to provide computer For Russian Academy of Science, Binh obtained a subsidy that enabled him to specialize in the technology import, export and transfer business. It was obvious that Binh was the technology entrepreneur when founding FPT Corporation. From 1988 to 1998, he developed FPT Corporation with the number one leading orientation in technology field in Vietnam. Binh successfully made his dream come true in 1998. Over this success, he did not satisfy with the present position of FPT Corporation and dream to bring Vietnam outsourcing industry out of the border. He said that FPT could enter the depression if they satisfied with the number 1 position in Vietnam and there were no challenge ahead. From 1994, he had seen the necessity to build up the relationship between the firm and government. He understand that if FPT Software wants to succeed, it must had the support from the government. Under the impact of FPT Corporation, the government officials including Prime Minister Nguyen Manh Cam, Vice President Tran Duc Luong, Prime Minister Pham Gia Khiem came to visit the technology model at Bangalore, India. By this visit, Vietnam government recognized the possibility of



outsourcing export and implemented the supporting policy for this industry. It consisted of free tax in 4 years for software firms, free VAT for software products and zero import tax, etc. From 2000 to 2012, Binh worked as the marketing entrepreneur in exploring the new market. His business trip to U.S. and India opened the globalization perspective for FPT Corporation. From this trip, he paid more attention to build brand, built own school and trained staff. In the sales role, he believed that leader must pioneer in the battle. If firms want to see customer's leaders, they had to send the equal level to talk with them. When the leader goes directly to market, they can understand clearly what is going on and make the right decision if necessary. In 2001, Binh came to France to meet IBM and get the first software contract from IBM. To answer the question "Why IBM should move job to Vietnam". He presented the idea of "Digital Waterfall" which emphasized the benefits to work with the countries such as Vietnam. Before 1986, job had been limited because of geographical location. When Internet came to commercial flow, job flow would go everywhere, the world became flat. If IBM wanted to explore the benefit of the job flow, they had to look for a place with the maximum cost difference. That is Vietnam where has the cheap labor force. By this conclusion, he had successfully convinced IBM. Binh was the son in law of General Vo Nguyen Giap who has been considered one of the greatest military strategist of all times. Therefore, his leadership has been influenced by "human is the root" mind and implemented the democracy management style. According to Mr. Bui Quang Ngoc, General Manager of FPT Corporation, Truong Gia Binh developed Fractal structure from the military theory and often consult it from the military general, besides that he also learnt the human utilization strategy of Uncle Ho. Another perspective is that he can draw the picture and convinced the other people follow his road. The picture named 528 with "5,000 programmer in 2005, 200 million USD outsourcing

revenue, 8 billion value market in Nasdaq stock market”. FPT got achieved all except Nasdaq stock market. From 2012, Binh changed to restructure entrepreneur role by involving mergers and acquisitions. The first project acquire RWE IT Slovakia and changed to FPT Slovakia. This M&A made FPT Software become the biggest customer of RWE in Europe in next 5 years and brought FPT Software 50 million USD. Their intention to M&A with the IT Corporation in the important market such as U.S., Japan, Singapore, Western Europe and put the priority to do M&A in the area selection or country selection. Besides outsourcing software, Binh’s strategy also has focused on distribution, telecommunication and education. These industries has been anticipated to enhance the core competence in both technology and human resource of FPT Corporation.

## **8.0 Conclusion**

Despite the limitation of time constraint and thesis itself, I believe the research conclusion of the internationalization process of FPT Software Company under Uppsala model perspective can set the good sample to learn. Especially, this was meaningful for the firms in the IT industry to transform from the domestic market to the global market. The discussion opened the internationalization aspects that Uppsala model could not explicate and highly recommend the further research under the perspective of Dunning and McDougall & Oviatt theory, and entrepreneur perspective of Svante Anderson (2000).

## Reference

### Journal

- Abraham, V. (2011). Internationalization of India's Information Technology Sector and Its Implications on Market Structure. *Transnational Corporations Review*, Vol.3, No.2, 117-127.
- Ari Kokko & Fredrik Sjöholm. (2006). The Internationalization of Vietnamese Small and Medium-Sized Enterprises. *Asian Economic Papers*, Vol.4, No.1, 152-177.
- Bogunovic, B. (2006). On measuring the degree of internationalization. *Zagreb International Review of Economics & Business*, Vol.9, No.1, 99-108.
- Canabal, A. a. (2008). Entry mode research: Past and future. *International Business Review*, Vol.17, No.3, 267–284.
- Chang, S. J. (1995). International Expansion Strategy of Japanese Firms: Capability Building through Sequential Entry. *Academy of Management Journal*, Vol.38, No.2, 383-407.
- Dawson\*, J. A. (2007). Scoping and conceptualising retailer internationalisation. *Journal of Economic Geography*, Vol.7, No.4, 373-397.
- Dunning, J. H. (2000). The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International Business Review*, Vol.9, No.2, 163-190.
- Eisingerich, H.-T. T. (2010). Internationalization Strategies of Emerging Markets Firms. *California management review*, Vol.53, No.1, 114-135.
- Fortanier, Fabienne & Tulder, Rob van. (2009). Internationalization trajectories: a cross-country comparison: Are large Chinese and Indian companies different? *Industrial and Corporate change*, Vol.18, No.2, 223-247.
- Jan Johanson & Jan-Erik Vahlne. (December 2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies*, Vol.40, No.9, 1411-1431.
- Jane Wenzhen Lu, Xueji Liang, Mengmeng Shan & Xiaoya Liang. (2015). Internationalization and Performance of Chinese Family Firms: The Moderating Role of Corporate Governance. *Management and Organization Review*, Vol.11, No.4, 1-34.
- Javidan, M. T. (2010). Managing yourself: Making it overseas. *Harvard Business Review*, Vol.88, No.4.
- Jorge Niosi & F. Ted Tschang. (2009). The strategies of Chinese and Indian software multinationals: implications for internationalization theory. *Industrial and Corporate change*, Vol.18, No.2, 269-294.
- Kumar, N. A. (2011). Impact of global recession on Indian IT industry and effectiveness of E-business in the era of recession. *Global Journal of Business Management and Information Technology*, Vol.1, No.1, 9-25.

- Kumar, N. A. (2011). Impact of global recession on Indian IT industry and effectiveness of E-business in the era of recession. *Global Journal of Business Management and Information Technology*, Vol.1, No.1, 9-25.
- Lindblom, C. E. (Spring 1959). The Science of "Muddling Through". *Public Administration Review*, Vol. 19, No. 2, 79-88.
- Long W. Lam & Louis P. White. (1999). An adaptive choice model of internationalization process. *The International Journal of Organizational Analysis* Vol. 7, No.2, 105-134.
- Mai Thi Thanh Thai & Li Choy Chong. (2013). Dynamic experimental internationalization: Strategy of SMEs from a transition economy. *Journal of International Entrepreneurship* , 370-399.
- Melin, L. (1992). Internationalization as a strategy process. *Strategic Management Journal*, Vol.13, No.2, 99-118.
- Momaya, K., Hayashi, T. & Tokuda, A. (2006). Competitiveness of Japan: Opportunities and Issues with Focus on Software Industry. *Institute of International Relation and Area Studies, Ritsumeikan University*, Vol.4, 71-93.
- Osuna, M. A. (2014 ). Innovation and Internationalization as a Single Strategy of the Firm: A Unification of Theories. *International Journal of Management and Marketing Research*, Vol.7, No.1, 73-84.
- Pettigrew, A. (1997). What is a Processual Analysis? *Scandinavian Journal of Management*, Vol.13, No.4, 337-348.
- Robert E.Cole & Yoshifumi Nakata. (Fall 2014). The Japanese Software Industry: What Went Wrong and What Can We Learn from It? *University of California, Berkeley* Vol 57, No.1, 16-43.
- Su, N. (2013). Internationalization Strategies of Chinese IT Service Suppliers. *MIS Quarterly*, Vol.37, No.1, 175-200.
- Suma Athreye & Sandeep Kapur. (2009). Introduction: The internationalization of Chinese and Indian firms—trends, motivations and strategy\*. *Industrial and Corporate Change*, Vol.18, No.2, 209-221.
- Thai, M. T. (2008). The Internationalization of Vietnamese Small and Medium-Sized Enterprises. *Dissertation, University of St. Gallen*.
- W. Chan Kim & Peter Hwang. (1992). Global Strategy and Multinationals' Entry Mode Choice. *Journal of International Business Studies*, Vol.23, No.1, 29–53.
- Xiaohua Yang, Yi Jiang, Rongping Kang & Yinbin Ke. (2009). A comparative analysis of the internationalization of Chinese and Japanese firms. *Asia Pacific Journal of Management*, Vol.26, No.1, 141-162.

#### Website

Tổng kết FPT 2000 Một năm. (n.d.). Retrieved May 30, 2016, from <http://chungta.vn/tin-tuc/nguoi-fpt/tong-ket-fpt-2000-mot-nam-thoat-hiem-1960.html>

15 năm phát triển CNTT của FPT tiến tới thị trường Nhật. (n.d.). Retrieved May 30, 2016, from <https://www.trangcongnghe.com/tin-tuc-cong-nghe/tin-trong-nuoc/3410-hanh-trinh-15-nam-tien-vao-thi-truong-cntt-nhat-cua-fpt.html>

FPT's milestones on the way of globalization. (n.d.). Retrieved May 30, 2016, from <https://fpt.com.vn/en/newsroom/activities-and-events/fpts-milestones-on-the-way-of-globalization->

Trương Gia Bình và công cuộc kiến tạo nền công nghiệp phần mềm VN (tiếp) - Chungta. (n.d.). Retrieved May 30, 2016, from <http://chungta.vn/tin-tuc/nguoi-fpt/chan-dung/truong-gia-binh-va-cong-cuoc-kien-tao-nen-cong-nghiep-phan-mem-vn-tiep-29643.html>

History. (n.d.). Retrieved May 30, 2016, from <https://www.fpt.com.vn/en/about-us/history>

FPT Software. (n.d.). Retrieved May 30, 2016, from <https://www.fpt-software.com/history/>