« International Strategy »

MISM ‘14 – C4

Date
Learning outcomes

• Assess the *internationalisation potential* of different markets.

• Identify sources of *competitive advantage in international strategy*, through both global sourcing and exploitation of local factors.

• Distinguish between four main *types of international strategy*.

• *Rank markets for entry* or expansion, taking into account attractiveness, cultural and other forms of distance and competitor retaliation threats.

• Assess the relative merits of different *market entry modes*, including joint ventures, licensing and foreign direct investment.
International strategy framework

Figure 8.1 International strategy framework
International v global strategy

• *International strategy* refers to a range of options for operating outside an organisation’s country of origin.

• *Global strategy* involves high coordination of extensive activities dispersed geographically in many countries around the world.

N.B. Global strategy is just one kind of international strategy.
Internationalisation drivers

Figure 8.2 Drivers of internationalisation

Source: Adapted from G. Yip, Total Global Strategy II, Financial Times Prentice Hall, 2003, Chapter 2
Location advantages: Porter’s diamond (1)

- **Porter’s Diamond** — explains why some locations tend to produce firms with sustained competitive advantages in some industries more than others.

  - The four drivers in Porter’s Diamond stem from:
    - local factor conditions
    - local demand conditions
    - local related and supporting industries
    - local firm strategy structure and rivalry.
Location advantages:
Porter’s diamond (2)

Figure 8.3  Porter’s Diamond – the determinants of national advantages
Source: Adapted with permission of The Free Press, a Division of Simon & Schuster, Inc., from The Competitive Advantage of Nations by Michael E. Porter. Copyright © 1990, 1998 by Michael E. Porter. All rights reserved
Global sourcing

Global sourcing refers to purchasing services and components from the most appropriate suppliers around the world regardless of their location.

The advantages include:

- **Cost advantages** include labour costs, transportation and communications costs, taxation and investment incentives.
- **Unique local capabilities**.
- **National market characteristics and reputation**.
The global–local dilemma relates to the extent to which products and services may be standardised across national boundaries or need to be adapted to meet the requirements of specific national markets.
International strategies

![Diagram showing four international strategies: Global (High, Concentrated), Complex export (High, Dispersed), Multidomestic (Low, Concentrated), Simple export (Low, Dispersed).]

Figure 8.4  Four international strategies

Source: Adapted ‘Changing patterns of international competition’, pp. 9–39, Figure 5 (Porter, M. 1987). Copyright © 1987, by The Regents of the University of California. Reprinted from the California Management Review, vol. 28, no. 2. By permission of The Regents. cmr.berkeley.edu. All right reserved. This article is for personal viewing by individuals accessing this website. It is not to be copied, reproduced or otherwise disseminated without written permission from the California Management Review. By viewing this document, you here by agree to these terms. For permission or reprints, contact: cmr@haas.berkeley.edu electronic formats.
Market characteristics

Four elements of the *PESTEL framework* are particularly important in comparing countries for entry:

- **Political.** Political environments vary widely between countries and can alter rapidly.

- **Economic.** Key comparators are levels of Gross Domestic Product and disposable income which indicate the potential size of the market.

- **Social.** Factors like population characteristics and lifestyle as well as cultural differences.

- **Legal.** Countries vary widely in their legal regime.
The CAGE framework

- Cultural distance
- Administrative and political distance
- Geographic distance
- Economic/wealth distance
Figure 8.5  International cross-cultural comparison

Source: M. Javidan, P. Dorman, M. de Luque and R. House, ‘In the eye of the beholder: cross-cultural lessons in leadership from Project GLOBE’, Academy of Management Perspectives, February 2006, pp. 67–90 (Figure 4: USA vs China, p. 82). (GLOBE stands for ‘Global Leadership and Organizational Behavior Effectiveness’.)
Assessing country markets

Country markets can be assessed according to three criteria:

- *Market attractiveness* to the new entrant
- The likelihood and extent of *defenders’ reaction*
- *Defenders’ clout* – the relative power of defenders to fight back.
International competitor retaliation

Figure 8.6 International competitor retaliation

The staged international expansion model

The staged international expansion model proposes a sequential process whereby companies gradually increase their commitment to newly entered markets, as they build market knowledge and capabilities.

This is challenged by two phenomena:

- ‘Born-global’ firms - new small firms that internationalise rapidly (usually in new technologies)
- Emerging-country multinationals - building unique capabilities in the home market but exploiting them in international markets very quickly.
Modes of entry

- Exporting
- Joint ventures and alliances
- Licensing
- Foreign direct investment
Modes of international market entry

Figure 8.7 Modes of international market entry
Exporting

Advantages

• No need for operational facilities in host country
• Economies of scale in the home country
• Internet can facilitate exporting marketing opportunities

Disadvantages

• Lose any location advantages in the host country
• Dependence on export intermediaries
• Exposure to trade barriers
• Transportation costs
Joint ventures and alliances

Advantages

• Shared investment risk
• Complementary resources
• Maybe required for market entry

Disadvantages

• Difficult to find good partner
• Relationship management
• Loss of competitive advantage
• Difficult to integrate and coordinate
Licensing

Advantages
• Contractual source of income
• Limited economic and financial exposure

Disadvantages
• Difficult to identify good partner
• Loss of competitive advantage
• Limited benefits from host nation
Foreign direct investment

**Advantages**
- Full control
- Integration and coordination possible
- Rapid market entry through acquisitions
- Greenfield investments are possible and may be subsidised

**Disadvantages**
- Substantial investment and commitment
- Acquisitions may create integration/coordination issues
- Greenfield investments are time consuming and unpredictable
Internationalisation and performance

- Inverted U-curve – complexity may erode the advantages of internationalisation
- Service sector disadvantages – internationalisation may only work well for manufacturing firms
- Internationalisation and product diversity
Roles in an international portfolio

Figure 8.8 Subsidiary roles in multinational firms

Internationalisation potential in any particular market is determined by Yip’s four drivers: market, cost, government and competitors’ strategies.

Sources of advantage in international strategy can be drawn from both global sourcing through the international value network and national sources of advantage, as captured in Porter’s Diamond.

There are four main types of international strategy, varying according to extent of coordination and geographical configuration: simple export, complex export, multidomestic and global.
Summary (2)

• **Market selection** for international entry or expansion should be based on attractiveness, multidimensional measures of distance and expectations of competitor retaliation.

• **Modes of entry** into new markets include export, licensing and franchising, joint ventures and overseas subsidiaries.

• **Internationalisation** has an uncertain relationship to financial **performance**, with an inverted U-curve warning against over-internationalisation.

• **Subsidiaries** in an international firm can be **managed** by portfolio methods just like businesses in a diversified firm.
5 Potential Exam Questions
Relevant book sections

• Pages 264 to 289