Projected Economic Growth

*Projected growth rates are based on the United Nations’ World Economic Outlook Database.

Classic Rationale for International Diversification: Extend Product’s Life Cycle

- Product Demand Develops and Firm Exports Products
- Firm Introduces Innovation in Domestic Market
- Production is standardized and relocated to low cost countries.
- Foreign Competition Begins Production
- Firm Begins Production Abroad
**Proactive reasons for going global**

- **Lowered costs**
- **Additional resources**
  - access outside home country
- **Increase mkt. share, economies of scale/learning, new mkt.**
  - Domestic mkt. too small (Japanese electronics)
  - Spread costs over a larger base
- **Incentives and taxes**
- **Protect home market via offense in competitor’s home**
- **Exploit firm-specific advantages (brand name)**
- **Synergy, power and prestige**

**Reactive reasons for going global**

- **Trade barriers**
- **International customers**
- **International competition**
- **Regulations**
- **Chance**
Environmental Trends

• Liability of foreignness
  - Legitimate concerns about the relative attractiveness of global strategies
  - Global strategies not as prevalent as once thought
  - Difficulty in implementing global strategies

• Regionalization
  - Focusing on particular region(s) rather than on global markets
  - Better understanding of the cultures, legal and social norms

Business-Level International Strategies

• International low cost
  - Export to international markets
  - Low value added operations in foreign countries
  - High value added operations in home country

• International differentiation
  - Countries with advanced or specialized factor conditions most likely to use this strategy

• International focus strategies-niche players
  - Focused low cost—technologically advances
  - Focused differentiation—compete on image and design
  - Low price imitators

• International integrated low cost/differentiation
  - Can be most effective in dealing w/ diverse markets
  - Relies upon FMS, TQM, rapid communication networks

Strategic Orientation of Global Firms

• Ethnocentric
  - Values and priorities of parent organization should guide strategic decision making of all operations

• Polycentric
  - Culture of country in which strategy is implemented dominates decision making

• Regiocentric
  - Parent firm attempts to blend its own predispositions with those of region under consideration

• Geocentric
  - Parent firm adopts global systems approach to decision making, emphasizing global integration
International Corporate Strategy

When is each strategy appropriate?

<table>
<thead>
<tr>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for Global Integration</td>
<td>Need for Local Market Responsiveness</td>
</tr>
</tbody>
</table>

- **Global Strategy**
  - Standardized products
  - Business-level strategic decisions made from centralized home office
  - SBUs assumed interdependent
  - Emphasizes economies of scale and efficiency
  - Often lacks responsiveness to local markets
  - Often difficult to manage
    - Requires resource sharing and coordination across borders

- **Multi-Domestic Strategy**
  - Decentralized strategy and operating decisions by SBUs in each country
    - Independent SBUs in each country
  - Products and services tailored for local mkts.
  - Assumes markets differ by country or regions
  - Focus on competition in each market
  - Where has this strategy been prominent??

- **Transnational Strategy**
  - Centralized strategic decisions from home office
  - SBUs assumed interdependent
  - Emphasizes economies of scale and efficiency
  - Often lacks responsiveness to local markets
  - Often difficult to manage
    - Requires resource sharing and coordination across borders
Transnational: Corporate Level Int'l Strategy

• Seeks the best of both worlds
  ➢ Global efficiency and local responsiveness
• Difficult to achieve
  ➢ Simultaneously requires strong central control and flexibility
• Any examples??

Development of a Global Corporation

Evolution of global firm entails progressively involved strategy levels (recall Phase Model??)

• Export-import activity
• Foreign licensing and technology transfer
• Direct investment in overseas operations
  ➢ Manufacturing plants and global mgmt. Skills
  ➢ Joint venture, alliances, acquisitions
• Substantial investment in foreign assets
  ➢ Foreign subsidiaries, significant portion of total assets

Choice of International Entry Mode

<table>
<thead>
<tr>
<th>Type of Entry</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting</td>
<td>High cost, low control</td>
</tr>
<tr>
<td>Licensing</td>
<td>Low cost, low risk, little control, low returns</td>
</tr>
<tr>
<td>Strategic alliances</td>
<td>Shared costs, shared resources, shared risks, problems of integration</td>
</tr>
<tr>
<td>Acquisition</td>
<td>Quick access to new market, high cost, complex negotiations, problems of merging with domestic operations</td>
</tr>
<tr>
<td>New wholly owned subsidiary</td>
<td>Complex, often costly, time consuming, high risk, maximum control, potential above-average returns</td>
</tr>
</tbody>
</table>
International Strategy Options

<table>
<thead>
<tr>
<th>Product diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
</tr>
<tr>
<td>High</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
</tr>
<tr>
<td>High</td>
</tr>
</tbody>
</table>

### Dynamics of Mode of Entry

**What’s the best solution?**

**Situation**

The firm has no foreign manufacturing expertise and requires investment only in distribution.

**Optimal Solution**

Export

---

**What’s the best solution?**

**Situation**

The firm needs to facilitate the product improvements necessary to enter foreign markets.

**Optimal Solution**

Licensing
Dynamics of Mode of Entry

What’s the best solution?

<table>
<thead>
<tr>
<th>Situation</th>
<th>Optimal Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm needs to connect with an experienced partner already in the targeted market.</td>
<td>Strategic Alliance</td>
</tr>
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</table>

What’s the best solution?

<table>
<thead>
<tr>
<th>Situation</th>
<th>Optimal Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm needs to reduce its risk through the sharing of costs.</td>
<td>Strategic Alliance</td>
</tr>
</tbody>
</table>

What’s the best solution?

<table>
<thead>
<tr>
<th>Situation</th>
<th>Optimal Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm is facing uncertain situations such as an emerging economy in its targeted market.</td>
<td>Strategic Alliance</td>
</tr>
</tbody>
</table>
Dynamics of Mode of Entry

What’s the best solution?

<table>
<thead>
<tr>
<th>Situation</th>
<th>Optimal Solution</th>
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</thead>
<tbody>
<tr>
<td>The firm’s intellectual property rights in an emerging economy are not well protected, the number of firms in the industry is growing fast, and the need for global integration is high.</td>
<td>Wholly-owned Subsidiary</td>
</tr>
</tbody>
</table>

International Diversification and Returns

- Expanding sales of goods or services across global regions and countries and into different geographic locations or markets:
  - May increase a firm’s returns (such firms usually achieve the most positive stock returns)
  - May achieve economies of scale and experience, location advantages, increased market size and opportunity to stabilize returns

International Diversification and Innovation

- Expansion sales of goods or services across global regions and countries and into different geographic locations or markets:
  - May yield potentially greater returns on innovations (a larger market)
  - Can generate additional resources for investment in innovation
  - Provides exposure to new products and processes in international markets; generates additional knowledge leading to innovations
Complexity of Managing Multinational Firms

- Expansion into global operations in different geographic locations or markets:
  - Makes implementing international strategy increasingly complex
  - Can produce greater uncertainty and risk
  - May result in the firm becoming unmanageable
  - May cause the cost of managing the firm to exceed the benefits of expansion
  - Exposes the firm to possible instability of some national governments

Risk in the International Environment

Political Risks and Economic Risks

Political risks include:
- Instability in national governments
- War, both civil and international
- Potential nationalization of a firm’s resources

Economic risks are interdependent with political risks and include:
- Differences and fluctuations in the value of different currencies
- Differences in prevailing wage rates
- Difficulties in enforcing property rights
- Unemployment
Risk in the International Environment

Political Risks
- War in Iraq and Afghanistan following the September 11, 2001, terrorist attacks
- Continual warfare between the Palestinians and Israel
- Potential of war between Pakistan and India
- The potential of integration between North and South Korea

Risk in the International Environment (cont’d)

Economic Risks
- Failure of the Argentine economy and devaluation of the peso
- Challenges for China in implementing the World Trade Organization agreements
- The proposed constitution as well as entry of new countries into the European Union will strengthen the euro currency and unite Europe more tightly with existing and new partner countries
- Success of privatization and firm restructuring among Eastern European countries

Limits to International Expansion

- Management Problems
  - Cost of coordination across diverse geographical business units
  - Institutional and cultural barriers
  - Understanding strategic intent of competitors
  - The overall complexity of competition