

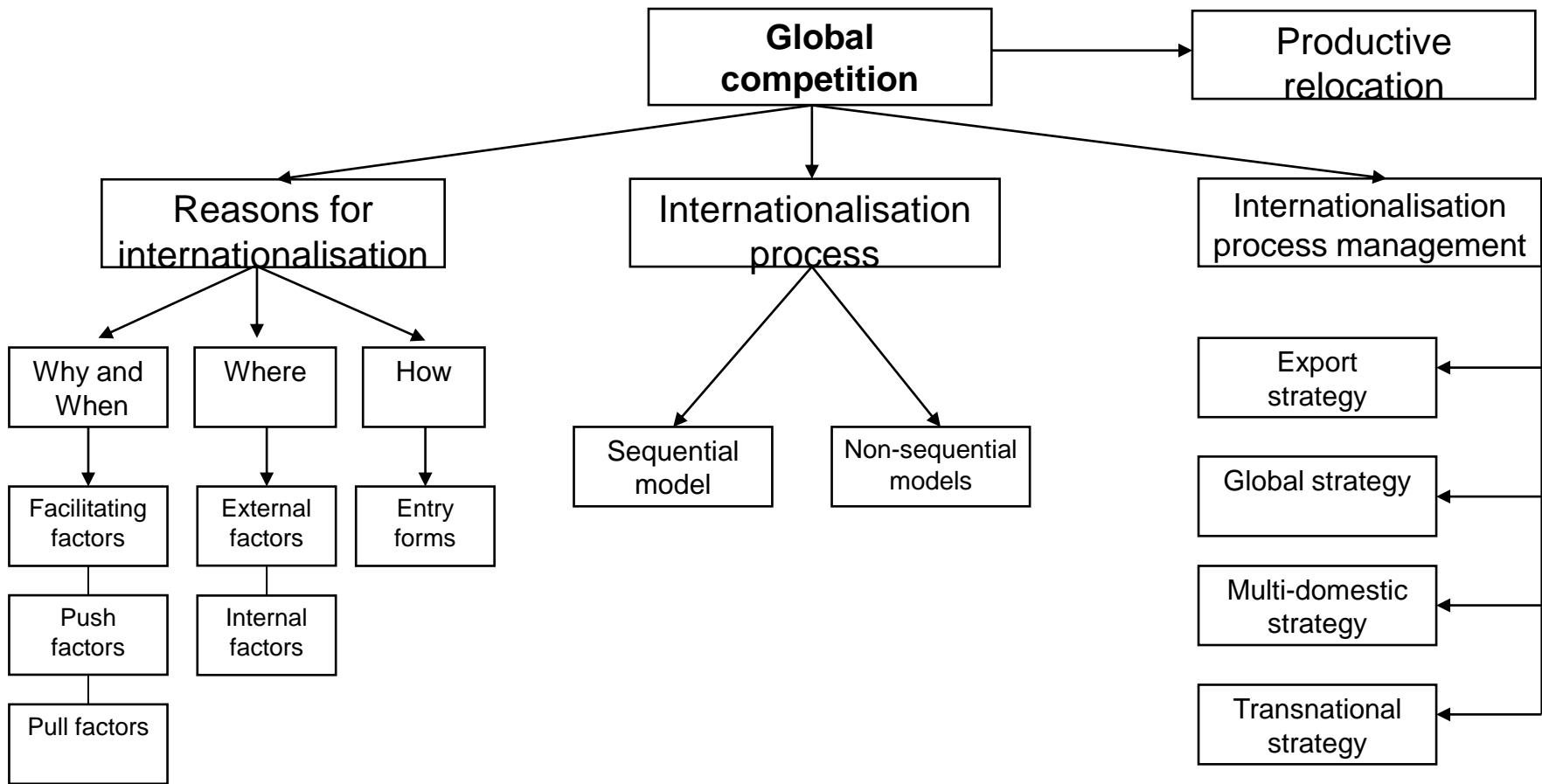
Lesson 7. INTERNATIONALISATION STRATEGIES

Basic references:

- Johnson, G., Whittington, R., Regner, P., Scholes, K., & Angwin, D. (2017). Exploring Strategy: Text and Cases. Pearson Education Limited.
- Thomson, A., Peteraf, M.A., Gamble, J.E., & Strickland, A.J. (2020). Crafting & Executing Strategy. Concepts and readings. McGraw-Hill Education.
- Jarillo, J.C. (2002). Strategic Logic, Palgrave Macmillan, New York, Chapter 5.

Lesson 7. INTERNATIONALISATION STRATEGIES

- 7.1. Global competition: factors and strategies
- 7.2. Reasons for the internationalisation of companies
- 7.3. Internationalisation process: entry strategies and competition in foreign markets
- 7.4. Management of internationalisation process: functional and organisational implications



7.1. Global competition: factors and strategies

- Complete the answer to the question: where to compete?
 - Maintain the previous geographical scope.
 - Reduce the previous geographical area (geographical retreat).
 - Expand the geographical scope
 - When it crosses national borders → internationalisation
 - Distinguish internationalisation vs. productive offshoring.
- The internationalisation of the company involves:
 - Crossing national borders.
 - Export company
 - Multinational company
 - Competing in a new context.

7.1. Global competition: factors and strategies

Key decisions in the internationalisation strategy:

- ✓ Why? When?
 - ✓ Decision to carry out international expansion
 - ✓ Consideration of the reasons and facilitating factors
- ✓ Where?
 - ✓ Selection of markets to attack.
 - ✓ Consideration of the potential of markets and competitive conditions in these markets
- ✓ How?
 - ✓ Choosing how to enter the new markets (entry form).
 - ✓ Consideration of market characteristics and the control degree that the company wishes for its investment.

7.2. Reasons for the internationalisation of companies

WHY? WHEN?

Facilitating factors and/or catalysts

- Globalisation
 - Technological factors
 - Legal political factors
 - Sociological factors
 - Business factors
- Reasons for internationalisation
 - Push factors
 - Saturation of the domestic market
 - Existence of a minimum efficient size
 - Unfavourable economic, social, and/or political conditions in the country of origin
 - Pull factors
 - Opportunities in other markets
 - Prolong life cycle of product
 - Profitability of resources and capabilities
 - Existence of comparative advantages
 - Response to actions of competitors, customers, and suppliers
 - Reduction of economic risk

7.2. Reasons for the internationalisation of companies

WHY? WHEN? Driving factors behind firm internationalisation

<p>Threats in domestic market Push factors <i>(reactive)</i></p>	<p><i>Opportunities in foreign markets</i> Pull factors <i>(proactive)</i></p>	<p>Facilitating factors</p>
<ul style="list-style-type: none">▪ Domestic market mature or saturated▪ Legal restrictions▪ Increasing costs▪ Unfavourable economic conditions.▪ Unfavourable demographic changes	<ul style="list-style-type: none">▪ Corporate philosophy▪ Perception of growth opportunities.▪ Niche opportunities▪ Imitation of competitors▪ Following customers▪ Technology acquisition	<ul style="list-style-type: none">▪ Accumulation of experience▪ Decreasing barriers to international trade▪ Enhanced communication technologies▪ Management drive and vision▪ Learning from other firms' experience

7.2. Reasons for internationalisation of companies

WHERE?

- Consideration of external factors
 - Political risk (country risk)
 - Economic risk:
 - Market growth and profitability potential
 - Characteristics of general and competitive environment of target markets
 - Psychic distance
 - Risks of change
- Consideration of internal factors
 - Possibility of enjoying competitive advantages
 - Possibility of achieving new competitive advantages (comparative advantages)
 - Knowledge of target market

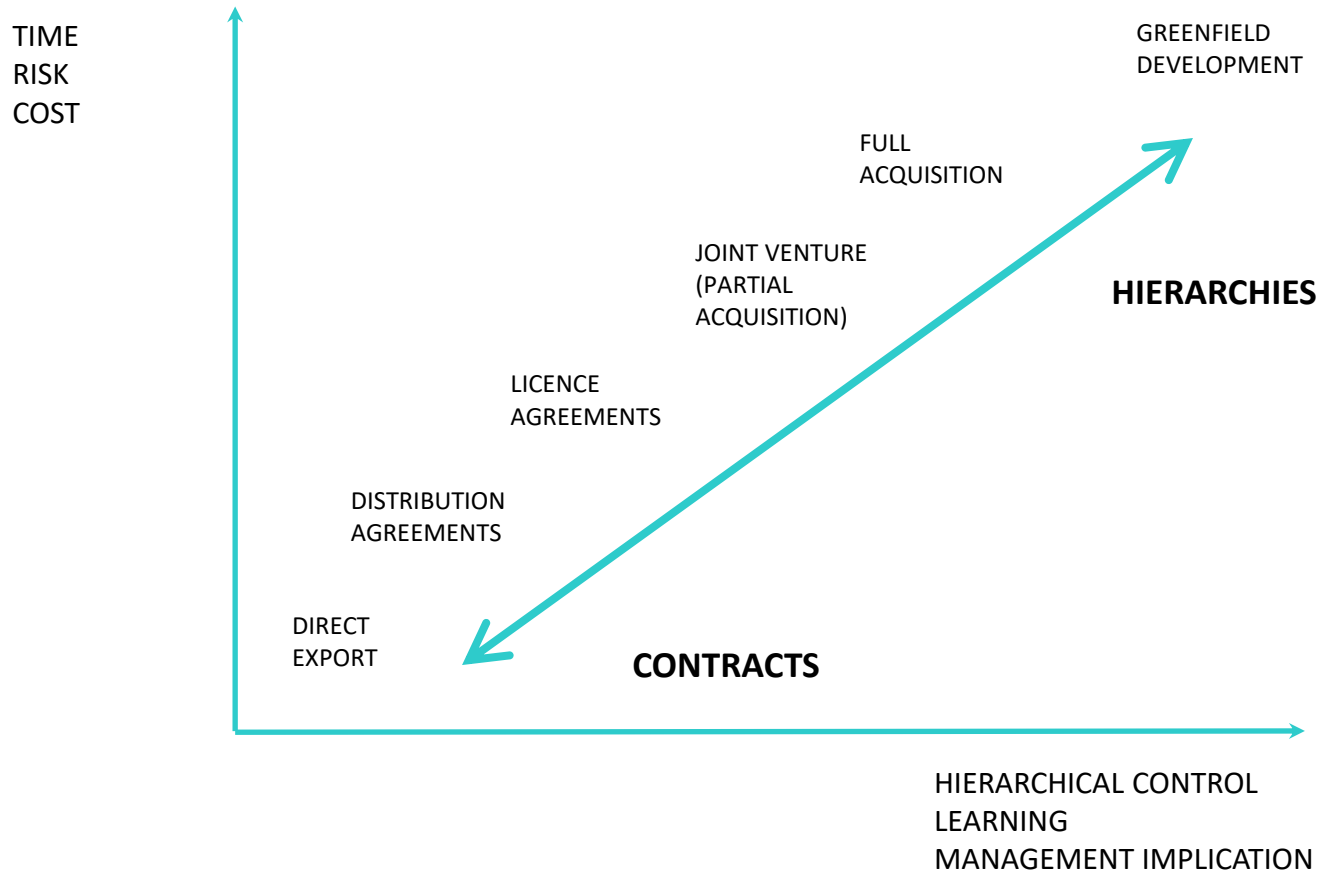
7.2. Reasons for the internationalisation of companies

HOW? Choice of entry form

- Consideration of external factors:
 - Entry barriers
 - Growth potential
 - Country risk
 - Psychic distance
- Consideration of internal factors:
 - Type of transferred capabilities
 - Type of international strategy (global, transnational, and multi-domestic)
 - International experience of the firm
 - Company size

7.2. Reasons for internationalisation of companies

Modes of internationalisation based on firm outputs



Source: Collis, 2014

7.3. Internationalisation process: entry strategies and competition in foreign markets

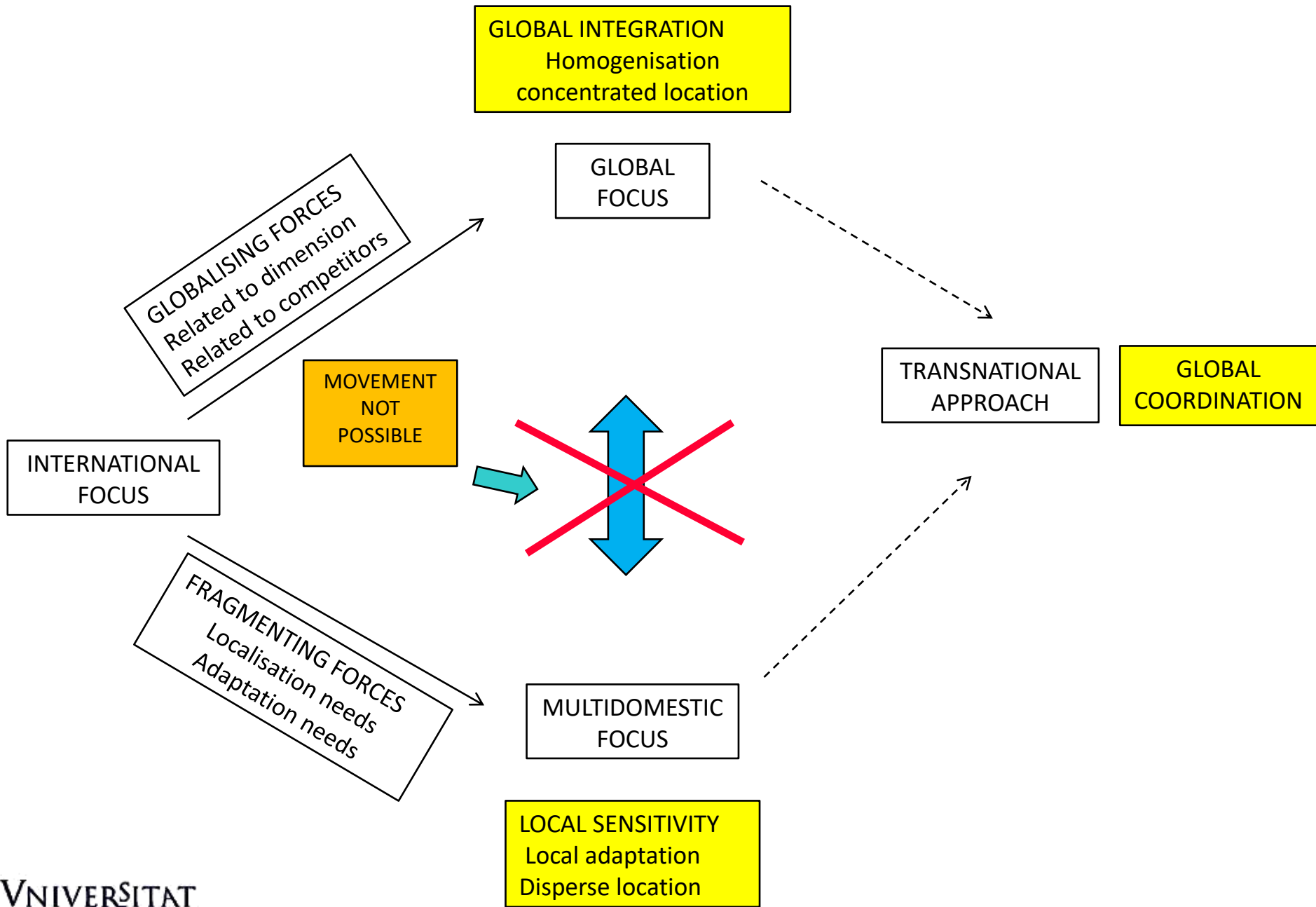
- Sequential model (Uppsala School)
 - Answer question about where and how to internationalise
 - Gradual process of continuous learning
 - Order of entry into countries determined by psychic distance
 - Gradual increase in commitment (forms of entry): exports, alliances, subsidiaries
- Non-sequential models
 - Selection of markets and non-sequential forms of entry
 - Companies do not follow an internationalisation process based on continuous and gradual learning
 - Networking approach
 - Born global / international new ventures

7.4. Management of internationalisation process: functional and organisational implications

- ◆ Determinant factors of international strategy: efficiency vs adaptation.



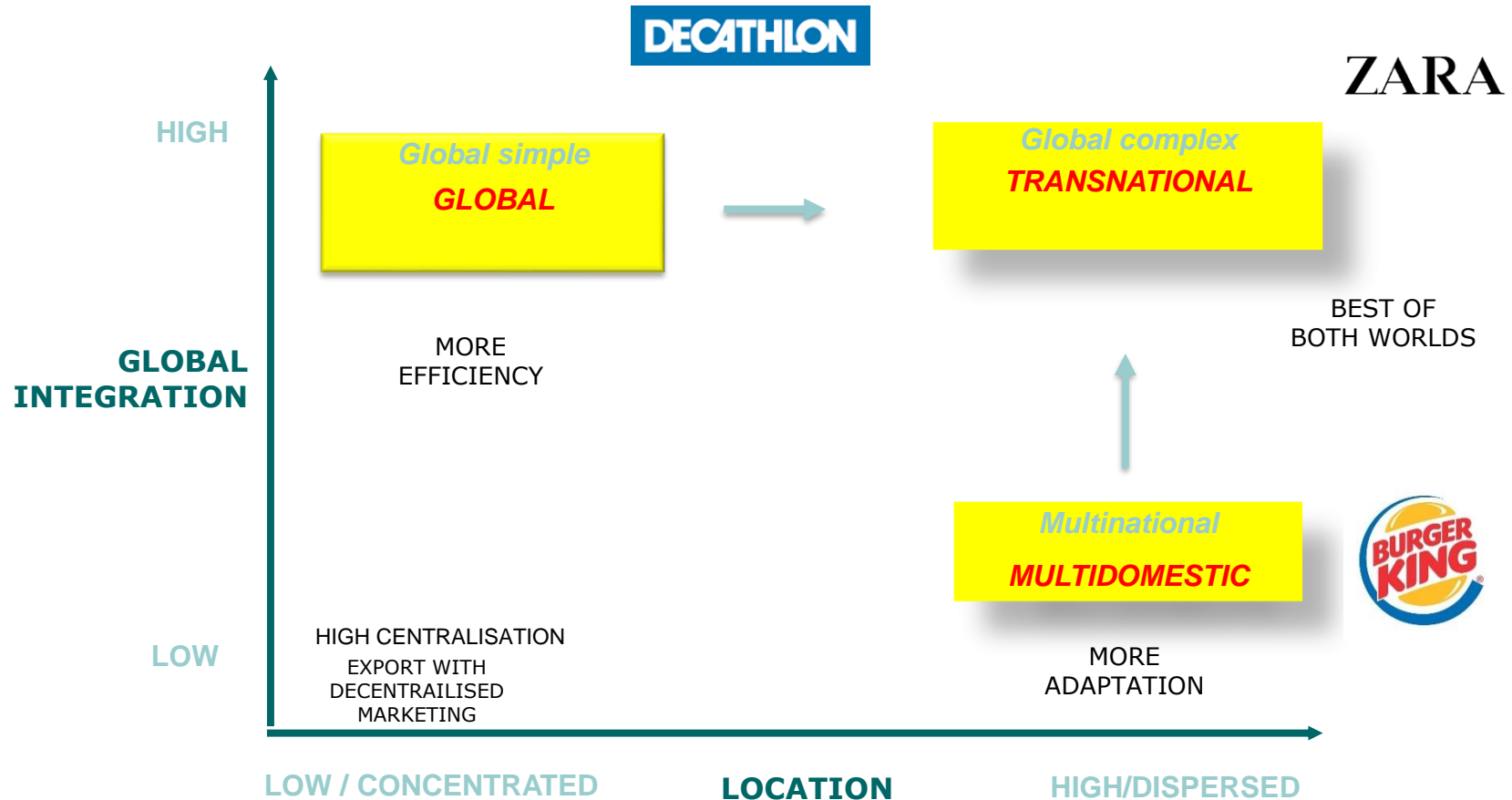
*To adapt or not to adapt,
that is the question*



7.4. Management of internationalisation process: functional and organisational implications

- ◆ Determinant factors of international strategy: efficiency vs adaptation.

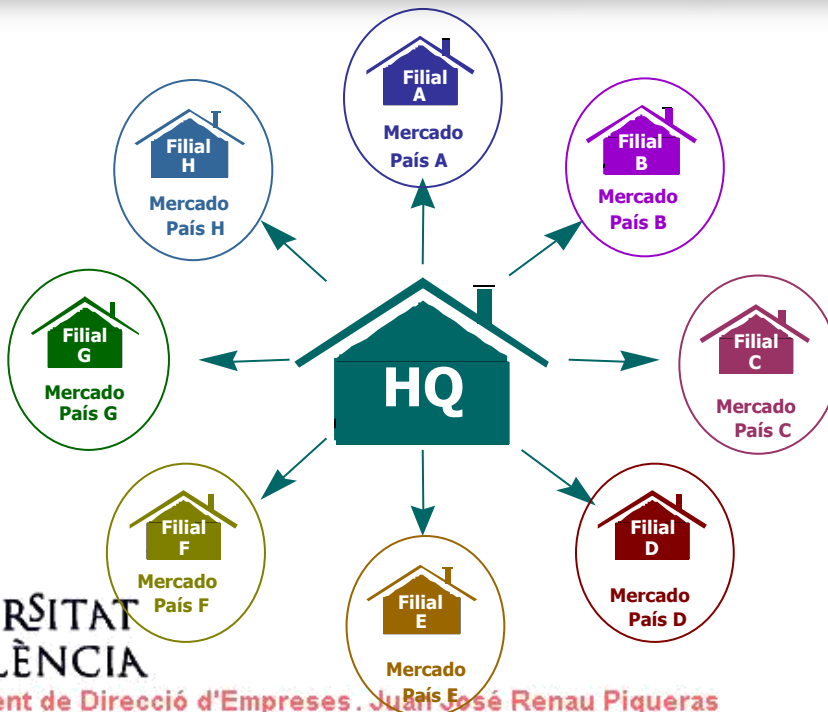
STRATEGY ACCORDING TO PREVAILING INDUSTRY FORCES



7.4. Management of internationalisation process: functional and organisational implications

HEAD OFFICE AND AFFILIATES IN MULTIDOMESTIC FOCUS

- COMPETENCE IN EACH COUNTRY DIFFERS FROM OTHER COUNTRIES. ADVANTAGES OF INITIAL KNOW-HOW TRANSFER.
- LOW INTERACTION BETWEEN MULTIDOMESTIC UNITS: Few advantages of activity integration. Distant relation between affiliates, interaction only with head office.
- HIGH DEPENDENCE ON LOCAL RESOURCES. Local sensitivity (awareness). Market with marked cultural/idiosyncratic features. Polycentric or multicultural focus.
- HIGH AUTONOMY OF AFFILIATES. Typical organisational structure: division in geographical area

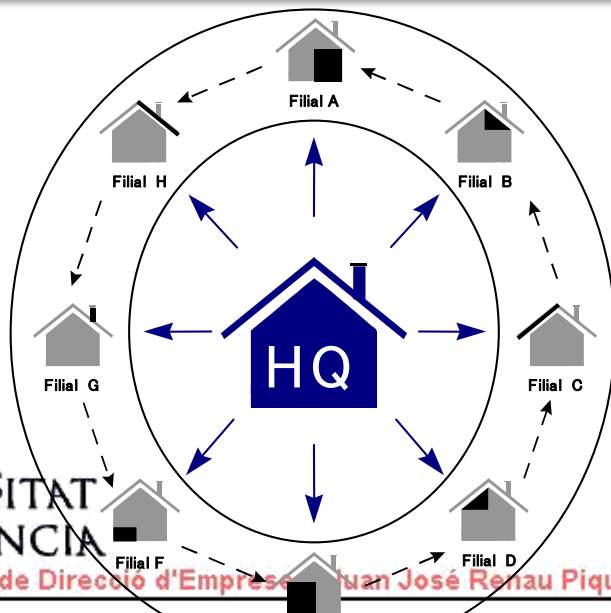


- **High transport costs**
- **Different competitors in each country**
- **Different technical standards in each country**
- **Adaptation of varnishes to substrates, climate, and applications**
- **R+D and production subsidiaries in Chile, Mexico, and Poland**
- **High autonomy of affiliates**

7.4. Management of internationalisation process: functional and organisational implications

HEAD OFFICE AND AFFILIATES IN GLOBAL FOCUS

- A global way to fight inefficiency and eliminate duplications. Economies of scale and global integration to compete in an open global context. Activities integrated across borders.
- Global market competence; a reduced number of competitors working in a global context. Specific locational advantages and global competitive advantages.
- Strategy in a given country is part of global, centralised, and highly integrated strategy. A unified vision of the world as an extension of the local market. Ethnocentric mindset.
- Interdependencies are coordinated by HQ. Outputs of some divisions can be inputs for others. Typical organisational structures: international divisions, or worldwide product divisions (where more economies of scale can be attained), and coordinated by HQ.



CASIO

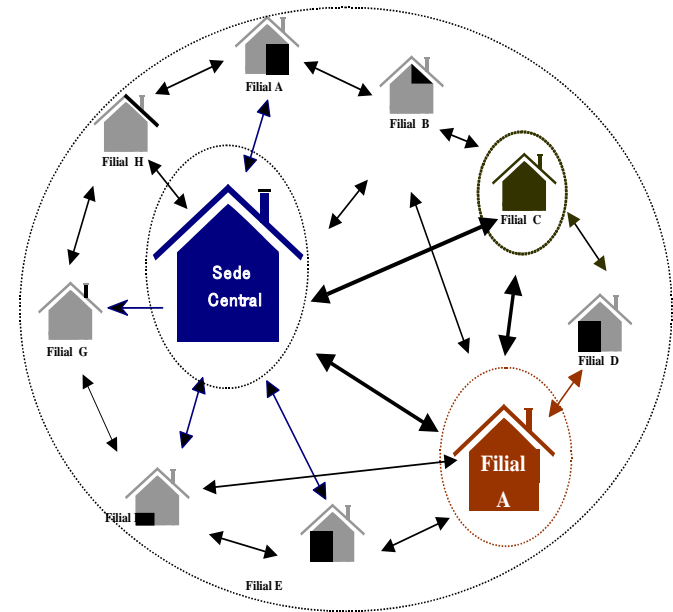


- **Centralisation of authority and R+D capabilities in Japan.**
- **Same products launched in all markets at same time.**
- **Specialised production subsidiaries in low labour cost countries in Far East**
- **Sales affiliates in many countries.**

7.4. Management of internationalisation process: functional and organisational implications

HEAD OFFICE AND AFFILIATES IN TRANSNATIONAL MODEL

- Global integration and local sensitivity. Dispersed assets, specialised, and interdependent. Many types of centres in many countries.
- Subsidiaries as a part of a 'whole', not 'satellites' of HQ, or independent 'state cities'. Flows of people, products, and technologies.
- Knowledge and innovations generated in any part of the organization, shared by all.
- Nationality of executives does not matter (geocentric mindset).
- Organisational structure: multi-dimensional (mixed, matrix structures).
- Mechanisms of coordination and control: socialisation and informal relationships are important.
- Selective centralisation and decentralization.



7.4. Management of internationalisation process: functional and organisational implications



What makes AIR LIQUIDE different?

The men and women of AIR LIQUIDE

Air Liquide is supported by the commitment and professional capabilities of 30,000 people worldwide with a very wide array of responsibilities in many tasks. Thanks to their efforts we have reached a position of worldwide leadership in industrial and medicinal gases.

The diversity of our employees is the key to our success. Present in 60 countries, **men and women of Air Liquide are a crucible of cultures, nationalities, education, and professional experiences. The combination of their competences enables us to profit from the opportunities in any part of the world.**

We have 225 employees of 26 nationalities who work on international missions in 45 countries. Our R+D teams are also international with researchers from more than 14 different countries.



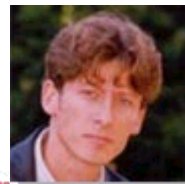
Christiane
Industrial Director
French



Gustavo
Operations Manager
Argentinian



Ryo
Processes Manager
Japanese



Artur
Development Manager
Polish

7.4. Management of internationalisation process: functional and organisational implications

Types of international strategies

Strategy	Advantages	Disadvantages
<p>Global: Maximise global results through integration and participation of different national markets</p>	<ul style="list-style-type: none"> • Strong integration of value chain units • Economies of scale • Global quality standards • Knowledge transfer 	<ul style="list-style-type: none"> • Local adaptation • Concentration of activities in value chain can increase dependence • Risk from tariffs and transport costs (unique locations)
<p>Multidomestic: Maximum global results via maximum competitive advantages, local revenue, and profits</p>	<ul style="list-style-type: none"> • Adaptation of products and services to local conditions • Ability to spot attractive local niche opportunities 	<ul style="list-style-type: none"> • Lower economies of scale • Difficulty in knowledge transfer • Adaptation costs
<p>Transnational: Maximum global results combining global efficiency and local adaptation in national markets</p>	<ul style="list-style-type: none"> • Economies of scale • Local adaptation • Optimal location of activities • Increases knowledge and learning flows 	<ul style="list-style-type: none"> • Determination of optimal locations (costs, quality, and adaptation) • Knowledge transfer challenges • Organisational challenges

7.4. Management of internationalisation process: functional and organisational implications

- Determinants of concentration or dispersion
 - Concentration
 - Economies of scale and experience
 - Comparative advantages
 - Dispersion
 - Transport and storage costs
 - Heterogeneity of needs
 - Political factors
- Determinants of integration or autonomy
 - Integration
 - Ability to accumulate and share skills
 - Autonomy
 - Heterogeneity of needs
 - Managerial reluctance

7.4. Management of internationalisation process: functional and organisational implications

CHALLENGES OF INTERNATIONALISATION

- ✓ Balance between pressures of globalisation and local adaptation
- ✓ Organisational challenges
- ✓ Challenges in human resource management
- ✓ Challenges in knowledge and technology transfer processes and systems
- ✓ Social responsibility
- ✓ Ethical challenges: <https://unglobalcompact.org/what-is-gc>

7.4. Management of internationalisation process: functional and organisational implications

Company offshoring: effects

What is offshoring and what is not offshoring:

- Social costs:
 - Decommissioning of the local productive structure
 - Destruction of local jobs and creation of low-quality jobs abroad
 - Loss of capacity for local economic and social development
- But there is some reshoring:

OM in Action

Trunki Cases Roll Back to the United Kingdom

Like many other manufacturers, Trunki is following the new reshoring trend. The British manufacturer produces children's ride-on suitcases and is now rolling its operations from China back to Devon in the United Kingdom. While this move may be more costly initially, Trunki will see a number of benefits.

While the cost of production in China is less and the original reason why Trunki produced its products in China, prices are constantly rising due to inflation, labor, and currency appreciation. Other businesses are also reshoring, according to the CEO of the flooring business Amtico, which has recently ceased its operations in China. The manufacturing costs in China are increasing by 8% to 10% every year because wages are also increasing and the renminbi is appreciating.

Trunki's manufacturing in the United Kingdom will benefit the business, lead times will be reduced from 120 days to only 30, and there has been a promise of NOOS (never out of stock) by the factory. Not only will there be a significant cost saving on freight and logistics, the carbon footprint of Trunki's products will be significantly reduced due to the reduction in sea and road miles as well as a much more environmentally friendly factory than the coal-powered ones in China.

Sources: Bristol Business News (March 20, 2012, and May 10, 2012); BBC News (March 19, 2012); and Department for Business Innovation & Skills (2012).

7.4. Management of internationalisation process: functional and organisational implications

INTERNATIONAL DECISIONS: LOCATING PRODUCTION

IT IS IMPORTANT TO MODEL ALL THE ELEMENTS OF BOTH LCC SAVINGS AND ADDITIONAL COSTS

Modeled Economics for a Typical Industrial Product Sourced from an LCC

