

“Going International”

- **Why firms “go international”**
- **Mode of foreign entry**
- **Why companies do *not* do more international business**
- **How companies choose where to expand internationally**

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Why Do Firms Go Abroad???

- **There is no simple explanation.**
 - **Some theories work well for certain industries or countries.**
 - **No single theory explains all or even most internationalization.**

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- **Most of the motivations for “going international” are very similar to domestic motivations:**
 - ***Proactive*: Attractions that *pull***
 - ***Reactive*: Constraints or fears that *push***

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Pull Motivations

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**Proactive--*Seeking Opportunity:*
Conditions that Pull Us Abroad**

- Most motivations for “going international” are proactive:
 - Seeking productive efficiency
 - Seeking markets

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**Productive-Efficiency
Motivations**

- Acquiring productive assets that will improve efficiency: *factors of production*
 - Quality
 - Quantity
 - Cost

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Factors of Production

- **Natural resources**
 - Raw materials (e.g., water, minerals, arable land)
 - Biological resources (e.g., forests, fish)
 - Climate (e.g., temperature, weather, rainfall, topography)

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Factors of Production (2)

- **Labor**
 - Inexpensive
 - Highly skilled
- **Technology**

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Other Productive Motivations

- **Good *infrastructure***
- **Diversification of supplies**
- **Diversification of production**
- ***Vertical integration***

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Internalization

- **Taking advantage of existing internal factors of production**
 - Management
 - Technology
 - Other critical factors of production

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Financial Incentives

- **Access to lower-cost funds**
- **Financial incentives of governments**
 - Grants and cheap loans
 - Inexpensive sale or rent of assets
 - Tax holidays
 - Investment in infra-structure

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Marketing Motivations (1)

- **To develop or expand the company's role in foreign markets**
- **To simply protect its existing position in those markets (defensive marketing)**

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Marketing Motivations (2)

- To escape limited market opportunities at home
- To utilize excess capacity (e.g., equipment, management, labor)
- To get behind trade barriers abroad

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Marketing Motivations (3)

- Location -- to be close to customers:
 - To reach customers who cannot be reached from afar
 - To reduce transportation costs
 - To provide *just-in-time scheduling*

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Marketing Motivations (4)

- Quickly respond to changing market conditions
 - Overall demand
 - Style preferences
- *"Follow the customer"*

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Marketing Motivations (5)

- To diversify the customer base
 - *Vertical integration*
 - *Horizontal integration*

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Marketing Motivations (6)

- To extend the *product life cycle*
- *"Follow the leader"*
- To create or enhance an *"international"* image
- To *preempt* strong competitors

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- All of the above motivations have been proactive—business responding to the pull of foreign production or marketing opportunities.

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Push Motivations

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**Reactive -- “Push” Motivations
for “Going International”**

- “Push” motives are defensive.
- Many are similar to domestic motivations.
- However, some are strictly international.

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***Economic* “Push” Factors**

- **Bad economic conditions at home**
 - Protracted recession
 - High inflation
- **High labor costs or labor unrest**

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Economic “Push” Factors

- Intense competition at home
- Saturated home market
- High taxes

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***Political* “Push” Factors**

- Government limitation on the company’s domestic expansion
- Restrictive government controls and bureaucratic obstacles
- Fear of *expropriation*
- Fear of civil unrest or war

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Going International

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**Going International:
Mode of Foreign Entry**

- **Passive:** No active involvement in management
- **Active:** Active involvement in management of international operations

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Passive International Business

- Foreign portfolio investment
- Leasing *intellectual property*
 - *Licensing*
 - *Franchising*

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Active International Business

- Exporting & importing
 - Goods / merchandise
 - Services
- Foreign direct investment (FDI)

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Foreign Direct Investment

- Investment in which the company exercises managerial control
 - Total control
 - Shared control

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FDI: Total Control

- Unilateral venture
 - Merger or acquisition
 - "*Greenfield*"

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FDI: Shared Control

- Cooperative venture with other companies (or government agencies)
 - *Joint venture*
 - Other forms of *strategic alliance*
 - *Consortium*

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Barriers to International Business:

- **Government**
- **Management**

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Why Companies Do *Not* Do More International Business

- **Government barriers**
 - **Explicit**
 - **Implicit**
- **Managerial barriers**

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***Explicit* Government Barriers**

- **Formal government obstacles**
 - *Trade controls*
 - *Exchange controls*
 - *Money & capital controls*

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Trade Controls

- *Tariffs / duties*
- *Quotas*
- Licenses
- *Queues*

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Exchange Controls

- Government control of exchange rates
 - Unrealistic valuation
 - *Inconvertibility*
 - Multiple exchange rates

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Money & Capital Controls

- Government control of money & capital markets
 - Taxes
 - Quotas [e.g., *transfer risk*]
 - Queues
 - Advanced deposits

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Implicit Government Barriers

- **Deliberate, but informal, obstacles imposed by government**
 - Red tape
 - Administrative opposition
 - Erratic behavior

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Political Obstacles

- **War and other international tensions**
- **Domestic unrest [political, labor, religious, regional, linguistic]**
- ***Expropriation***

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Proactive: Government Efforts to *Attract FDI*

- **Assistance (by the *host* country)**
 - Subsidies and loans
 - Tax incentives
 - Infrastructure improvement
 - Facilities
- **Insurance (by the *home* country)**

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Investment Insurance (1)

- **Insurance on investments in *developing countries***
 - War, insurrection, civil unrest
 - Inconvertibility
 - Expropriation
 - Commercial risk

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Investment Insurance (2)

- **Source of investment insurance**
 - Individual government
 - U.S.: *Overseas Private Investment Corporation (OPIC)*
 - World Bank: *Multilateral Investment Guarantee Agency (MIGA)*
 - Private insurance companies

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Managerial Barriers

- **Limited ambition**
- **Limited knowledge**
- **Claims of inadequate resources**
- **Fear**
- **Managerial Inertia**

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Choosing Where to Expand Internationally

- In theory, "going international" should be a thoroughly objective, rational process--
 - Searching for as many feasible alternative opportunities as possible.

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Choosing Where to Expand Internationally

- However, additional motivations and constraints are inevitably involved.
 - Resource limitations
 - Management time
 - Money
 - Corporate policy (e.g., within a four-hour travel time)

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Managerial Biases or Comfort

- *Ethnic bias*
 - English-speaking only
 - Muslim countries only
- *Geographic bias* (e.g., only within NAFTA or the European Union)

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Attracting FDI

Why are some countries so much more successful than others in attracting foreign direct investment?

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