

### **“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**

Korh: Going Int1.9-4-09

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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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**Proactive--*Seeking Opportunity***

- 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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**Factors of Production (3)**

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

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**Factors of Production (4)**

- ***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**
  
  - **Cheap loans**
  
  - **Tax holidays**

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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)**

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

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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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### Seeking R&D

- Products
- Technology
- Data bases
- Research team

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### Seeking R&D

- To be in a productive and innovative environment (e.g., Silicon Valley, Hollywood)
- Products
- Technology
- Techniques, processes, systems

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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:  
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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**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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