

Hubbard, N. (2013). Chapter 4: *How Do Companies Go Global: Choices & Issues between Entry Strategies* (pp.40-58)

PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)

International Business & Trade
Università degli Studi di Bergamo
Dipartimento di Scienze Aziendali
Bergamo, ITALY

Theories to Internationalization



■ Globalization & Regionalization (1/2)

- ❖ **Globalization** has been driven by the **MNCs** & facilitated by rapid advances in **information & communications technology**.
- ❖ **Regionalization** of production, trade & investment.
- ❖ Why does the ‘**region**’ really matter? (**3 reasons**)
 - (1) Global economic activity is overwhelmingly concentrated in **3 regional blocks**:
 - (2) ‘**MNCs**’ have been shown to be **overwhelmingly regional** in the nature in terms of both **markets** & **organizational structure**.
 - (3) The **multilateral trading system** under the WTO has stuttered to a halt as repeated attempts to conclude **the Doha development round** of further trade liberalization have **failed**.



■ Globalization & Regionalization (2/2)

❖ **WHAT** drives the **evolution of the MNCs**?

– A **fast paced & highly competitive** economic environment.

❖ Applying a **conceptual framework** leads us to effectively analyze the **ways** in which regions & networks of firms interact.

❖ **A regional production network**

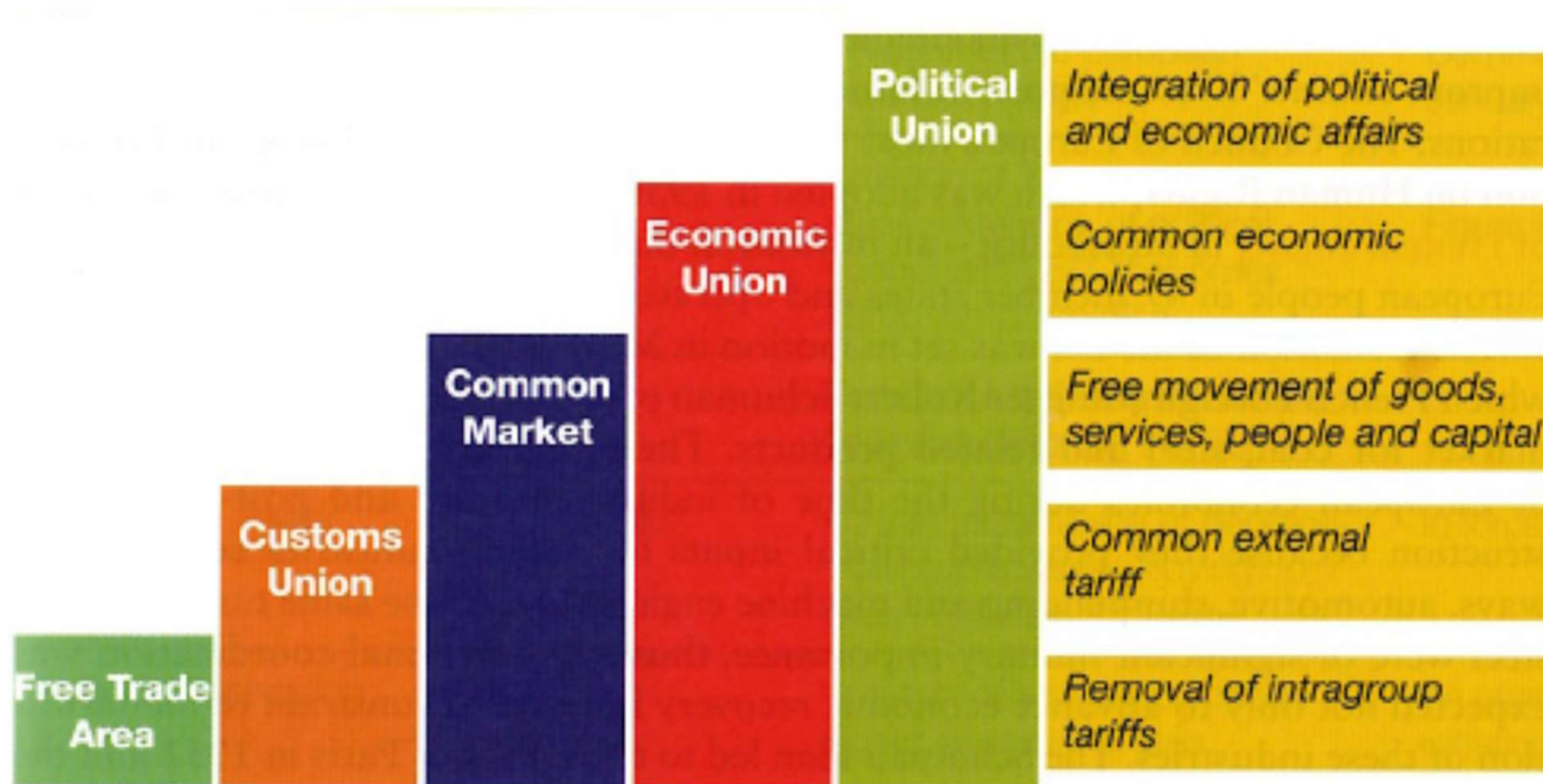
– A series of between economic actors in a geographically defined space.

❖ The precise **nature & extent** of **regional production networks** will **vary** with (1) industrial sector, (2) geographic region & (3) the cultural embeddedness of firms.

Theories to Internationalization



■ Types of Regional Integration



Source: Peng & Meyer (2019:211).

Theories to Internationalization



■ Trans-Pacific Partnership (TPP)

❖ What is TPP?

- ... is a proposed **regional free-trade agreement**.
- ... serves as one possible pathway toward realizing **the vision of a free trade area of the Asia-Pacific**.

❖ Who Participates?

- As of 2014, **12 (→ 11 in 2017) countries** throughout the Asia-Pacific region have participated in negotiations on the TPP: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, ~~the United States~~, Vietnam, & **UK (since 2024)**.

❖ Issues?

- The TPP suffers from a serious lack of transparency, threatens to impose **more stringent copyright** without public input, & pressures foreign governments to adopt unbalanced laws.

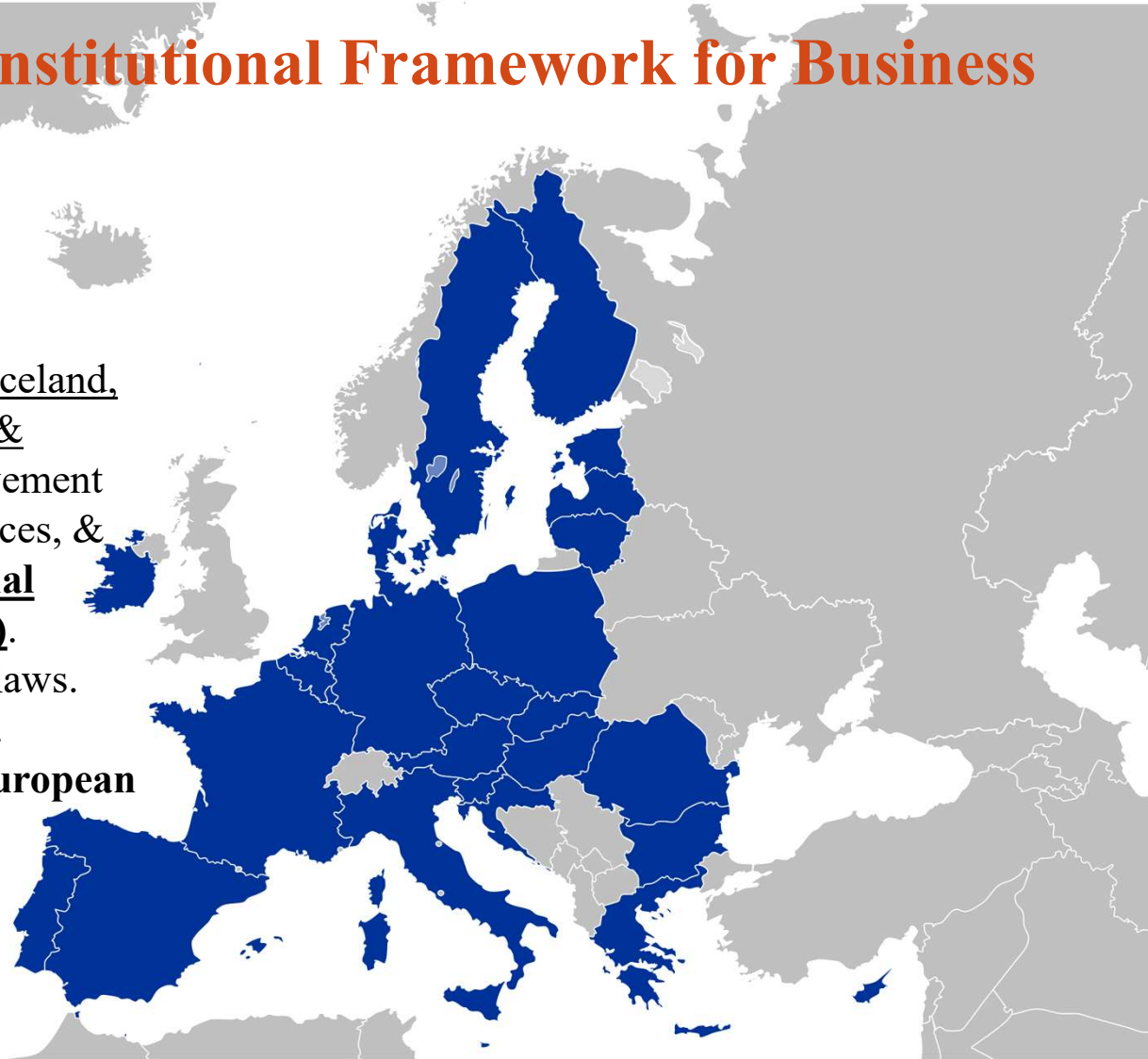
Theories to Internationalization



■ The EU as Institutional Framework for Business

KEY POINTS

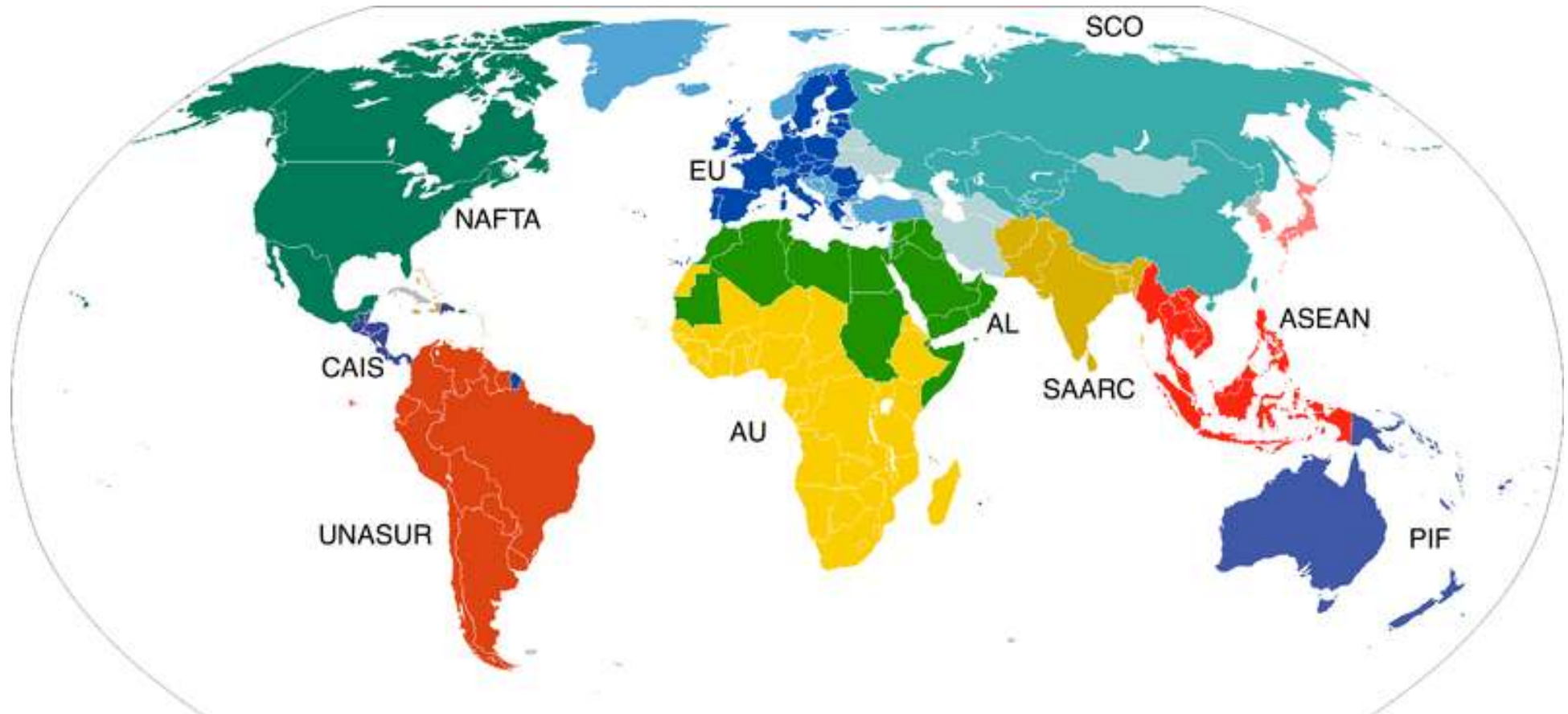
- 27 members.
- European Free Trade Association (EFTA): Iceland, Lichtenstein, Norway & Switzerland (Free movement of people, goods, services, & capital BUT **no external common tariff policy**).
- EU laws vs. domestic laws.
- Immigration problems.
- Weak transparency (**European Partialment???**).



Theories to Internationalization



■ Map: International Trade Blocs



EU: European Union; **NAFTA:** North American Free Trade Agreement; **CAIS:** Central American Intergration System; **USAN:** Union of South American Nations; **AU:** African Union; **AL:** Arab League; **ASEAN:** Association of Southeast Asian Nations; **SCO:** Shanghai Cooperation Organisation; **SAARC:** South Asian Association for Regional Cooperation; **PIF:** Pacific Islands Forum.

Theories to Internationalization



■ A Comparison of East Asian & European Integration

	<u>East Asia</u>	<u>Europe</u>
1 Integration type	Market-dominant	Functional/institutional
2 Rules	Flexible, consensus	Binding agreements
3 Movers	Multinational enterprises (MNEs)	National politicians, EU bureaucrats
4 Government role	Facilitator	Leaders
5 Members	Extensive (DCs, NIEs, LDCs)	Advanced economies
6 Trade	World market, intra-trade (↑)	Intra-regional (↑)
7 Investment	Production networks growing	Dense links
8 Monetary integration	Still weak	Tight (Euro)

Source: Pascha (2004, 2007) & Urata (2004).

Theories to Internationalization



■ Toyota's ASEAN Production Networks



The ASEAN Industrial Cooperation Scheme (AICO)

- ❖ Increased intra-ASEAN trade & investments from (non) ASEAN countries
- ❖ Enjoy preferential tariff rates of 0-5% + non-tariff incentives
- ❖ Increased industrial complementation
- ❖ Promote joint manufacturing industrial activities between ASEAN-based companies

Management
&
coordination



Petrol engines,
clutches, doors



■ FDI & International Production

- ❖ ... is the term used to describe the phenomenon of firms **investing in foreign countries**.
- ❖ *Why* do firms engage in **FDI**?
 - e.g., Toyota built a new production facility in Thailand.
- ❖ *Why* do firms go through the expense & trouble of building **overseas production capacity** rather than utilizing **other arms-length forms** of international interaction (**exporting & licensing**)?
- ❖ *What* drives firms to **go overseas** & has led them to streamline the organizational form of production?

Theories to Internationalization



❖ Key Points

- **Firm-specific assets** are the central determinant of FDI.
- **Indigenous firms** are strategically advantageous for **accessing superior information** on institutional changes, language, regulatory structures & politics of their home country.
- **Foreign firms** may have a high possibility of facing a host government's intervention & its discriminatory treatment differently from indigenous firms who have rich localized networks of production, sales & distribution.
- **'Liability of foreignness'** (Zaheer & Mosakowski, 1997).
- Foreign firms aiming at entering foreign markets have to possess **monopolistic power** to outperform indigenous firms when going multinational (Hymer, 1960).



■ The Uppsala Theory

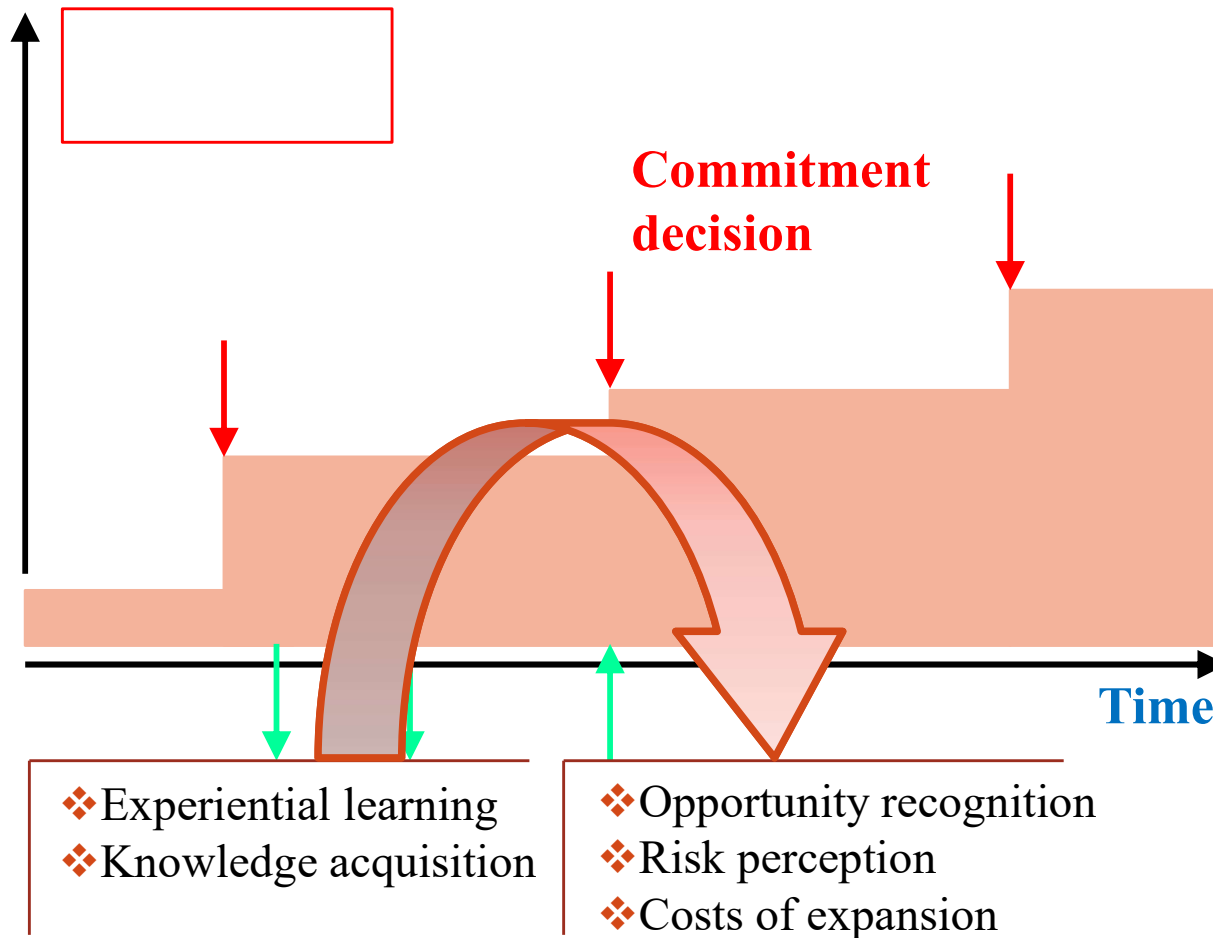
❖ Key Points

- A learning model of internationalization
- **Johanson & Vahlne** found that when organizations initially ventured across borders, they gravitated toward those with **similar cultural characteristics especially languages** - “” (1977).
- *e.g.*, **British MNCs** would venture first into the **US** or **a former British colony**, a **French MNC** may move into **Belgium**, & a **Spanish MNC** into **South America**.
- **Similarities** in **languages**, **legal systems**, & **cultural identity**.
- **The Uppsala Theory** suggests that organizations set up operations on a gradually increasing basis starting off with exports, agents, a sales subsidiary, & ultimately a production facility ... (*i.e.*, The level of **resource commitment** changes depending on **entry modes**.)

Theories to Internationalization



■ The Uppsala Theory

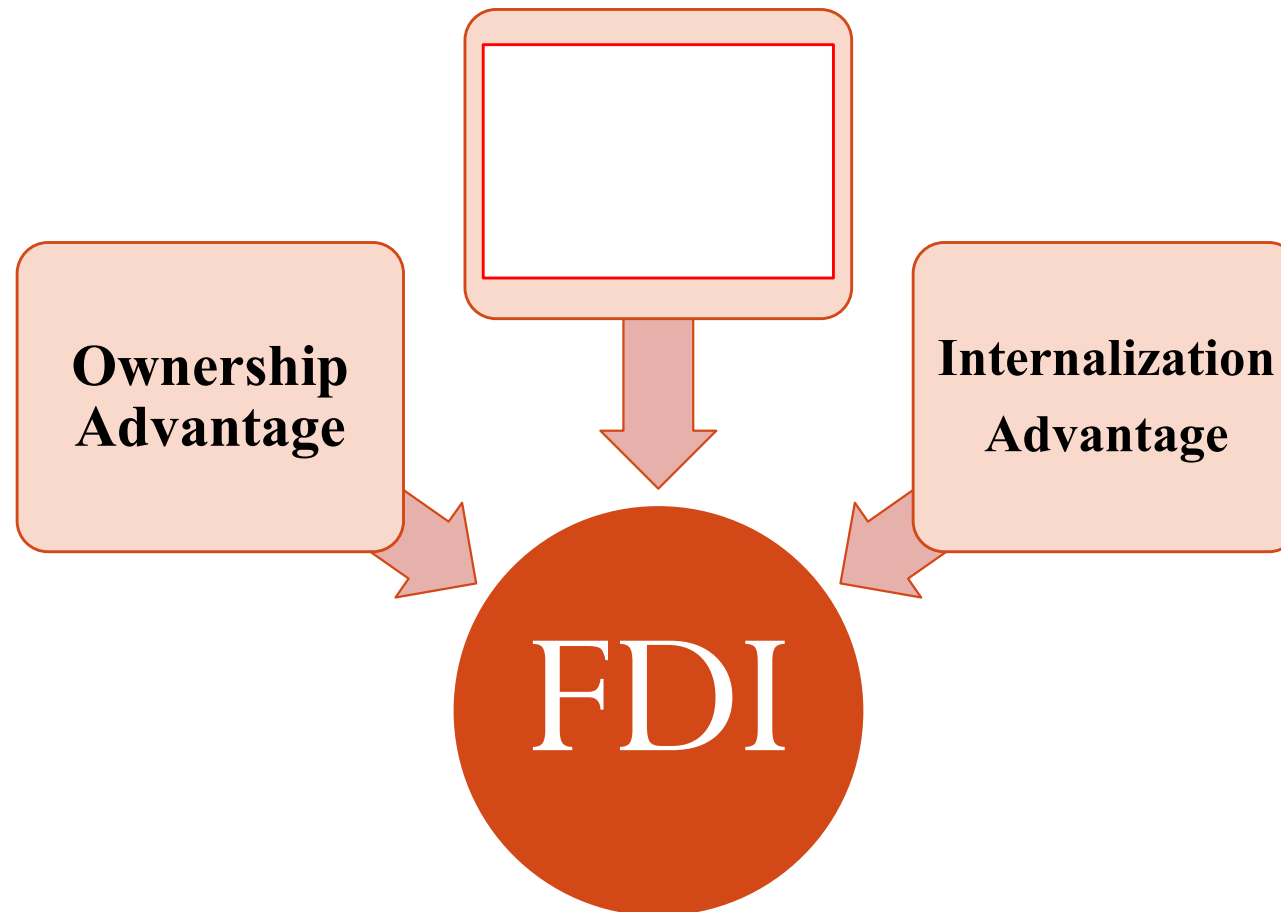


Uppsala Model

- > Jan Johansen & Jan-Erik Vahlne (University of Uppsala in Sweden)
- > Internationalization is a **dynamic** process of learning.
- > Learning builds **context-specific experiential knowledge** & reduces the **liability of foreignness**.
- > Sweden's **IKEA** took 20 years (1943-1963) before entering a neighbouring country, Norway.



■ OLI Configuration in Hierarchical Capitalism



Source: Dunning (1977, 1988, 1993); Dunning & Lundan (2008)

Theories to Internationalization



■ Theory



❖ Key Points

- There are **a number of firms that are global from almost the instant** they are created, in many cases relying on **the international aspect** for their very existence (Autio et al., 2000).
- They rely on **new technology** (*e.g.*, Internet) to give them with a wide geographic reach in **a short period of time** (Freeman, 2001).
- **Their product offering** may be relatively **standardized** & hence may **NOT** require **a significant adaptation to be sold across a variety of markets** facilitating **a homogeneity in approach** (Callaway, 2006).
- They may need to **gain a global scope at an early stage of development** in order to gain **a first-mover advantage** (McDougall & Oviatt, 2000).

Theories to Internationalization



■ Accelerating Resource Acquisition (“Born Globals”)

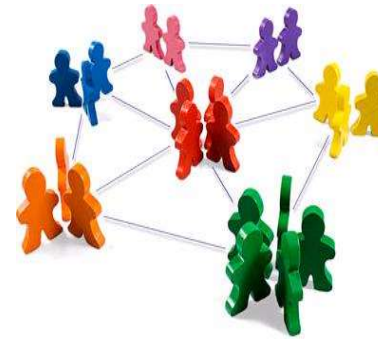
1 Building Entrepreneurial Teams

- > **Personal experience** worked in an international role for a major company.
- > **Studying abroad** provides experience, tacit knowledge & networks.



Working with Foreign Investors 2

- > Most foreign investors are looking for local suppliers & distributors.
- > **Subway:** One Northern Irish bakery for chilled part-bake bread



- > Late entrants can learn by **learning from earlier entrants** successes & failures.
- > **Mimetic behavior** as a means to reduce uncertainty.



3 Observing & Imitating Others

- > International growth by **taking over local firms** to access to the knowledge embedded in teams & organizational structures & to enhance **legitimacy & networks.**



Acquiring Resources Abroad 4

Theories to Internationalization



■ The Network Theory

❖ Key Points

- A firm's foreign expansion is driven by its **relationships**.
- (1) formal & informal relationships, (2) alliances with other firms at

Year	Target	Target's Country of Origin	Amount Paid (US\$)
2001	Telefonica de Argentina	Argentina	1.6 billion
2004	Telefonica Movil de Chile	Chile	1.3 billion
2004	BellSouth Columbia	Columbia	1.05 billion
2004	Telcel Celuar	Venezuela	1.2 billion
2005	BellSouth Latin America	Argentina	1.5 billion

approach to internationalization as they slowly bridge cultural & market differences between their home & foreign markets.

- **“The piggyback approach”**: Organizations leverage their existing client relationship as they follow the clients into a new geography (**see the next slides**).

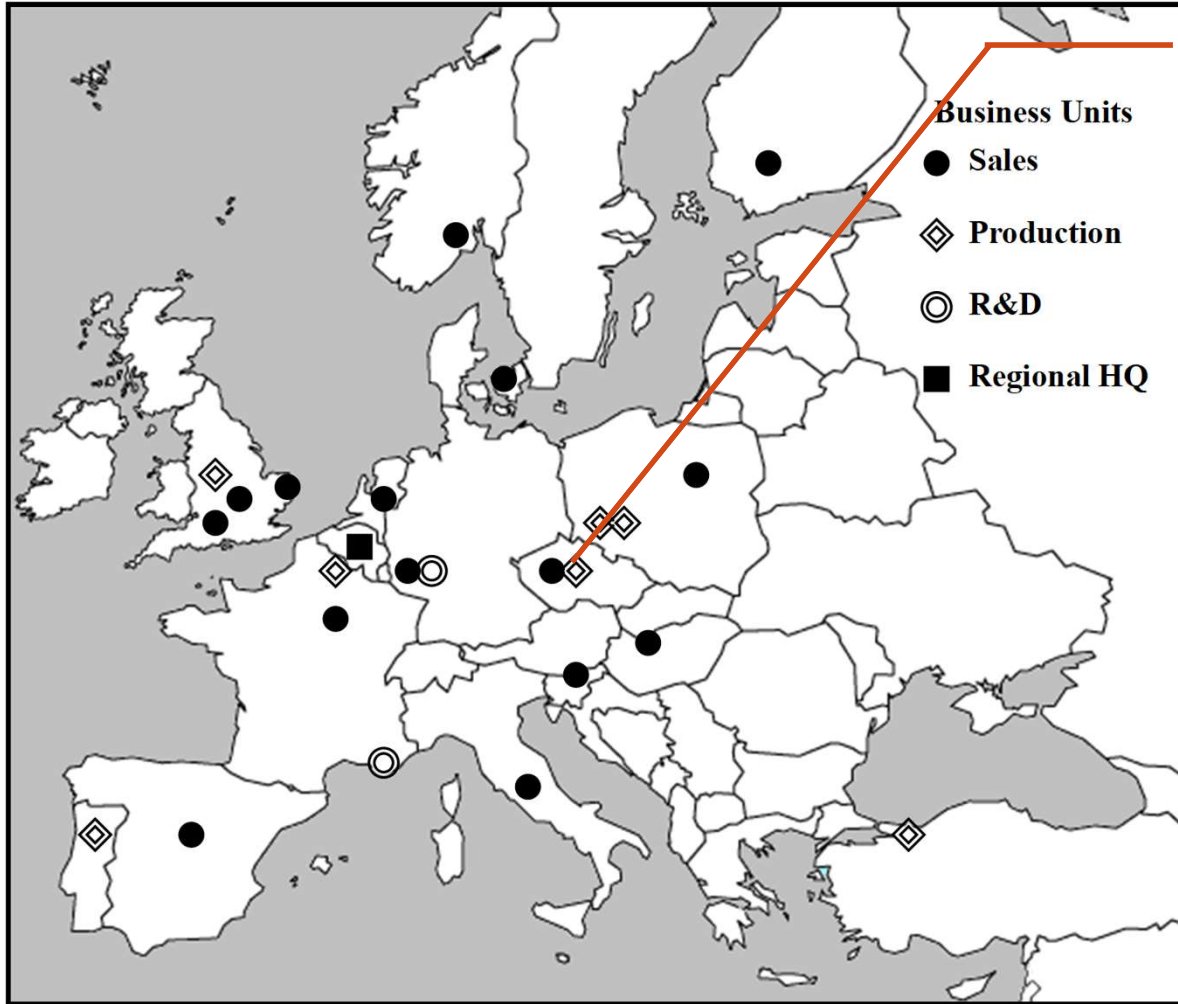
Theories to Internationalization



■ Case of Toyota in Europe



TOYOTA PEUGEOT CITROËN AUTOMOBILE
Automobilka s budoucností



Toyota Peugeot Citroën Automobile (TPCA)

Location Decision Strategy

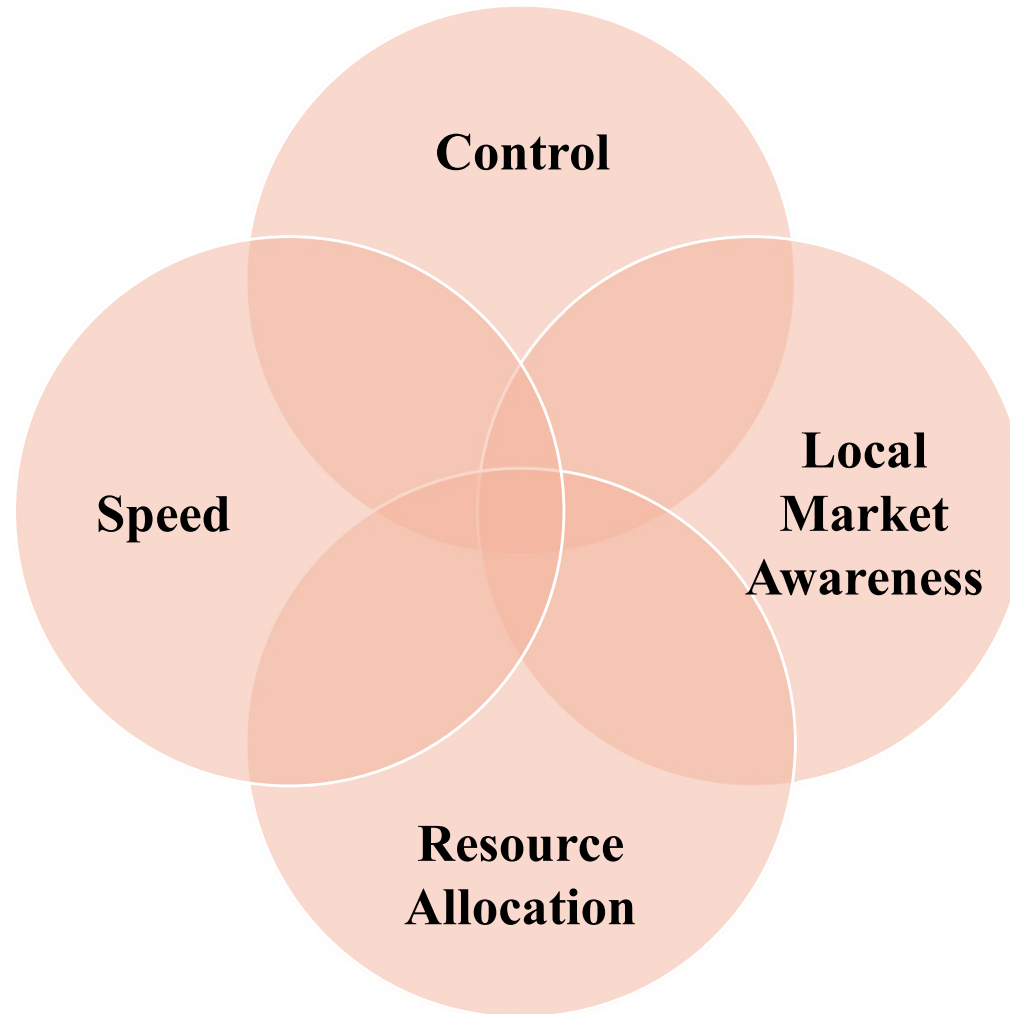
- (1) Strategic location in the **centrality** of Europe;
- (2) Short **distance** to key markets;
- (3) A **history** of car production;
- (4) Road **infrastructure**;
- (5) Remarkable **engineering tradition**;
- (6) Government policies supporting investments (e.g., **incentives**).

Entry Mode Strategy

- > Sharing a **mix of ownership advantages** both firms possess.
- ❖ **PSA**: Purchasing & logistics.
- ❖ **Toyota**: Production management methods & processes.



■ '4' Issues in Entry Mode Choices



Method of Foreign Direct Investment



■ '4' Issues in Entry Mode Choices

❖ Control over the Assets

- > Both **greenfield investment & acquisitions** allow for the organization to retain **full, legal, operational, & financial control** over the venture.
- > **Greenfields** offer the opportunity for **transfer of a unique competency** into a new market.

❖ Control & Ownership Different?

- > It is common in **JVs** for one party to have **operational control** whilst **not having full ownership** or even majority ownership of the entity.
- > **JVs bear heightened risks** as an entry mode choice in terms of control.
 - **Legal control** does **not necessarily** guarantee **actual control** (e.g., **Danone in China**).

Method of Foreign Direct Investment



■ '4' Issues in Entry Mode Choices

❖ Acquisitions as the Most Effective Mode of Entry

- > **Buying** either partially or fully into an existing operation certainly is **the fastest entry mode**.
- > Many firms are willing to **acquire an existing business** rather than grow one organically **knowing there was a significant cost premium & risk** during acquisition implementation in order to gain time.

❖ Time is Not a Critical Issue?

- > Some firms wish to **get to know the new market as a first priority & after doing so make a decision on how best to enter the market on a large scale.**
 - **The long-term perspective matters (e.g., Teva in Japan).**

Method of Foreign Direct Investment



■ '4' Issues in Entry Mode Choices

❖ Why Local Knowledge Matters?

- > In **emerging economies** (*e.g.*, China & Russia), having a local partner is crucial in understanding **the subtleties & complexities of the local market**.
- > **JV formation** enables foreign firms to **overcome the cost inherent in a long “culture distance”**.

❖ Being Local !

- > The ability to be **global & feel local** (**‘Glocal’ = Think ‘Globally’ & Act ‘Locally’**) is key to success in overseas markets.
- > **Survival** is determined by **gaining legitimacy or social acceptance from local stakeholders** regardless of the mode of entry.



Method of Foreign Direct Investment



■ '4' Issues in Entry Mode Choices

❖ Misconception

- > It is **NOT necessarily correct** that WOS & JVs are the only modes of entry involving a **significant upfront cost** without the benefits of cashflow. An acquisition requires **significant management time in finding the right target** as well as **the up-front & ongoing implementation time & costs**.

❖ Management Time & the Transaction's Size in Acquisitions

- > *"I am not a fan of small deals & it is not just difficulty, it's the chances of success. When you buy a small deal, a lot has to "go right" for it to grow into something important. I mean whether the deal is a \$100 million company or a \$5 million company, the due diligence is typically not too different; we go through the same process ..."*

Resource
Allocation



■ Additional Issues to Consider in Entry Mode Selection

❖ Market Openness to FDI

- **Restricted foreign ownership** in “national security”-related areas.



- **Non-equity investment** is appropriate in corrupt markets.

❖ Existing Competition in the Market

- When the market is in its infancy & still growing, there is **not a lot of choice** regarding M&As targets, making M&As **less attractive**.

❖ Risky Markets

- In markets with high levels of **political instability**, **JVs** are optimal.



& Other Intangible Assets

- When firms possess **innovation-based assets**, they are **unlikely to risk local partnering** where they do not have full ownership.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

【Contact Address】

ADDRESS: 208 in Via dei Caniana 2, 24127 Bergamo, ITALY

E-mail: norifumi.kawai@unibg.it