

Starting International Business

(Mike Peng & Klaus Meyer, International Business)

PROF. DR. NORIFUMI KAWAI, MPIA (Pittsburgh)

Special Topics in Internationalization

Università degli Studi di Bergamo

Dipartimento di Scienze Aziendali

Bergamo, ITALY



- 1. Introduction**
2. Opening Case: Kaspersky lab
3. Going International
4. Resources Supporting Internationalization
5. Institutions & Internationalization
6. Debates & Extensions
7. Implications for Practice



■ Learning Objectives

❖ After completing this lecture you should be able to:

- Explain the **different options** for firms to start engaging in IB;
- Discuss how firms develop **resources for IB**;
- Understand how **institutions** affect **exporting behavior**;
- Discuss **2 major debates** on early stage **internationalization**;
- Provide **managerial relevance**.



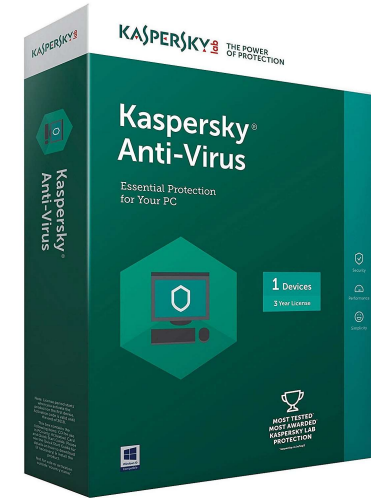
1. Introduction
- ▶ 2. **Opening Case: Kaspersky lab**
3. Going International
4. Resources Supporting Internationalization
5. Institutions & Internationalization
6. Debates & Extensions
7. Implications for Practice

Opening Case: Kaspersky lab



■ General Information (As of 2022)

- ❖ Rank: **TOP 3** cybersecurity solution.
- ❖ Global revenue growth: **6.52%**.
- ❖ Global revenue: US\$**752.28** million.
- ❖ Total number of patents: **1,240**.
- ❖ Employment: Over **4,000** highly qualified specialists.
- ❖ Size of clients: Over **400** million users & over **240,000** corporate clients worldwide.
- ❖ Countries & territories: **200**.



Source: <https://www.kaspersky.com/>

Opening Case: Kaspersky lab



■ **Specific Information** (As of 2022)

- ❖ **Customer portfolio:** Corporate client base ranges **SME** all the way up to **large governmental & commercial organizations**.
 - Siemens, BASF, MTS, hospitals & universities all over the world, etc.
- ❖ **Product portfolio:** **106** for corporate products & **99** for consumer products in 2012.
- ❖ Kaspersky's solutions **blocked 666,809,967** attacks launched from online resources & **33,412,568** unique malicious objects.
- ❖ Kaspersky Lab has more than **80** global partner & technology OEM agreements with companies.
 - Microsoft, IBM, Cisco, Juniper Networks, Alcatel Lucent, Blue Coat, Check Point, D-Link, GFI, Gwava, Netgear, Lenovo, Facebook, etc.

Source: <https://www.kaspersky.com/>

Opening Case: Kaspersky lab



■ Key Points

1) Getting the Right People on Board !

- When recruiting a new local manager, Natalya often agreed to open the company office close to his or her home (e.g., Ingolstadt NOT Berlin, or in Oxfordshire NOT London).
- Then the chosen manager has built the office & hired local people.

2) Get the Resources for Development !

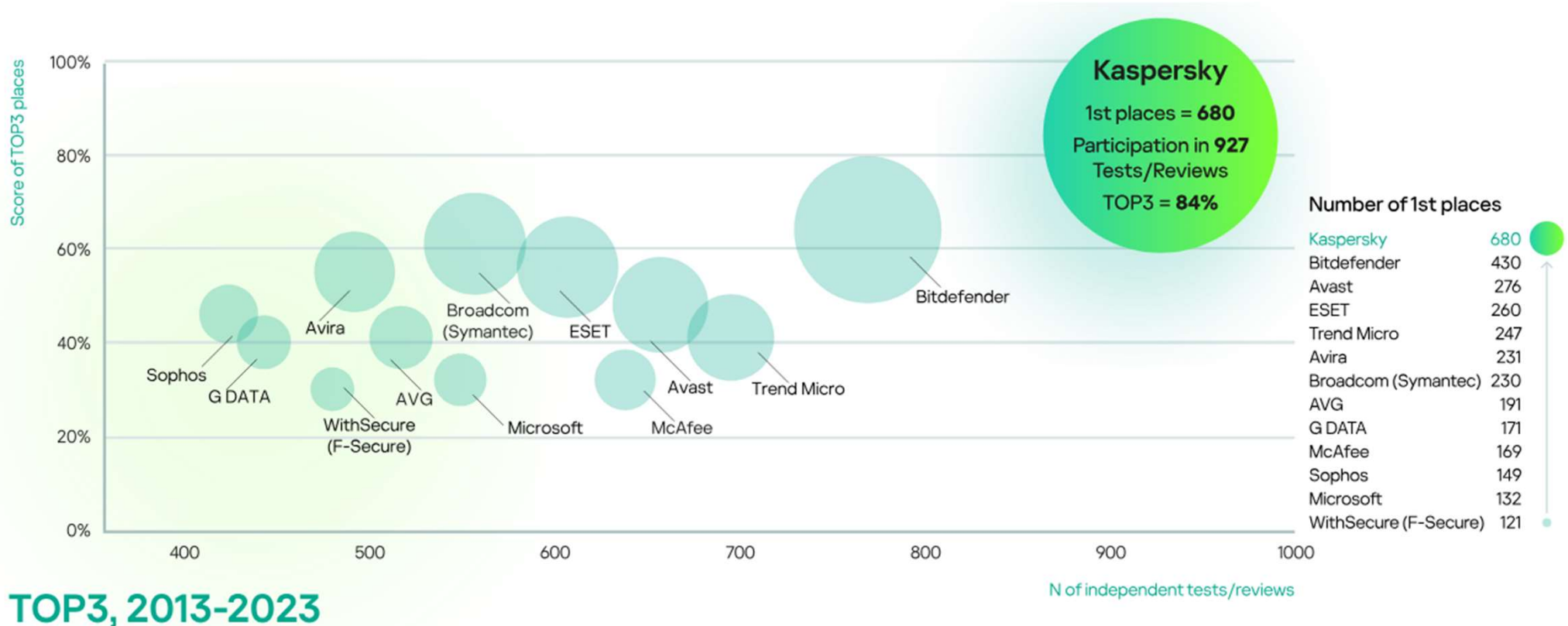
- During the internet boom of the late 1990s, **no investor** was interested in providing Kaspersky Lab with the financial resources needed for the international marketing campaign. → **No money** for big marketing campaigns → Focus on **technological capabilities**.
- The company participated in **all possible anti-virus software tests, contests, & ranking with excellent top results**.
- The **“world-of-mouth”** first among **“geeks”** & later the mass market!
- The company was the first to **start issuing daily & then hourly anti-virus updates**, offering the fastest reaction against new viruses.

Source: <https://www.kaspersky.com/>

Opening Case: Kaspersky lab (Source: www.kaspersky.com/about)



A Number of Independent Tests & Reviews



Source: <https://www.kaspersky.com/>

Opening Case: Kaspersky lab



■ Key Points

- ❖ What are the **STEPS** that Kaspersky Lab had to go through to build an international brand?
- ❖ How can a small entrepreneurial business like this realistically reach **DISTANT** markets?
- ❖ How do they **ORGANIZE** their operations & their supply chain?
- ❖ What are the **CHALLENGES** that SMEs face when launching into international markets?
- ❖ How can SMEs **PROGRESS** from their first steps to higher levels of Internationalization?
- ❖ Why are some firms, known as “**BORN GLOBAL**”, able to jump ahead & internationalize early?



1. Introduction
2. Opening Case: Kaspersky lab
- ▶ 3. **Going International**
4. Resources Supporting Internationalization
5. Institutions & Internationalization
6. Debates & Extensions
7. Implications for Practice

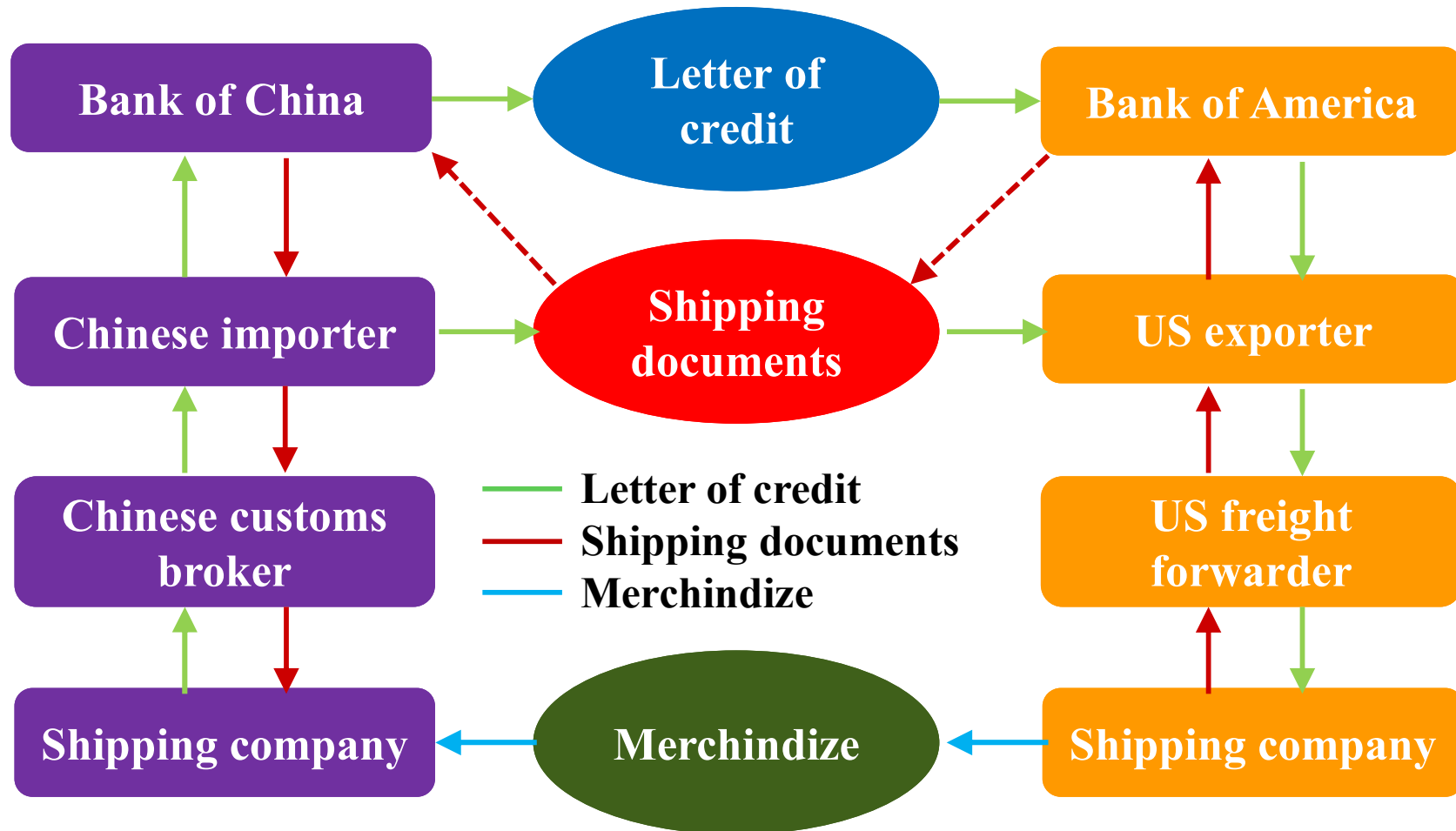


■ Non-Equity Internationalization Strategies (Examples)

Type	Sellers (Exporting)	Buyers (Importing)
1 Goods	<ul style="list-style-type: none"> > Direct exports > Indirect exports via domestic intermediary or with foreign distributor or sales agent 	<ul style="list-style-type: none"> > Direct import > Indirect import > Subcontracting of manufacturing
2 Services	<ul style="list-style-type: none"> > Delivering services to customers abroad > Attracting foreign customers to your location 	<ul style="list-style-type: none"> > Hiring consultants based abroad > Subcontracting of services
3 A Mix of Goods, Services & Rights	<ul style="list-style-type: none"> > Licensor > Franchisor > Build turn-key projects > Management contract 	<ul style="list-style-type: none"> > Licensee > Franchisee > Subcontracting > R&D contracts























■ An Export/Import Transaction



Going International



■ Managing International Services

Top 10 Exporters of Services				Top 10 Importer of Services			
		Value (€ billion)	World Share (%)			Value (€ billion)	World Share (%)
1		356	14.0%	1		249	10.5%
2		193	7.6%	2		195	8.2%
3		160	6.3%	3		136	5.7%
4		104	4.1%	4		113	4.8%
5		98	3.9%	5		104	4.4%
6		98	3.8%	6		94	3.9%
7		94	3.7%	7		90	3.8%
8		84	3.3%	8		74	3.1%
9		72	2.8%	9		70	3.0%
10		70	2.7%	10		63	2.7%
World total		2546	100%	World total		2369	100%

Source: Peng & Meyer (2011: 133).



■ Managing International Services

GLOBALIZATION

- > Advances in communication & transportation technologies

CROSS-BORDER SERVICES

- > (1) **Airlines** transport people; (2) **courier companies** (*e.g.*, UPS, DHL) deliver parcels & letters; (3) **maritime shipping companies** coordinate fleets of cargo & containerships.
- > **Musicians, professors, doctors.**
- > A software application, call centers.

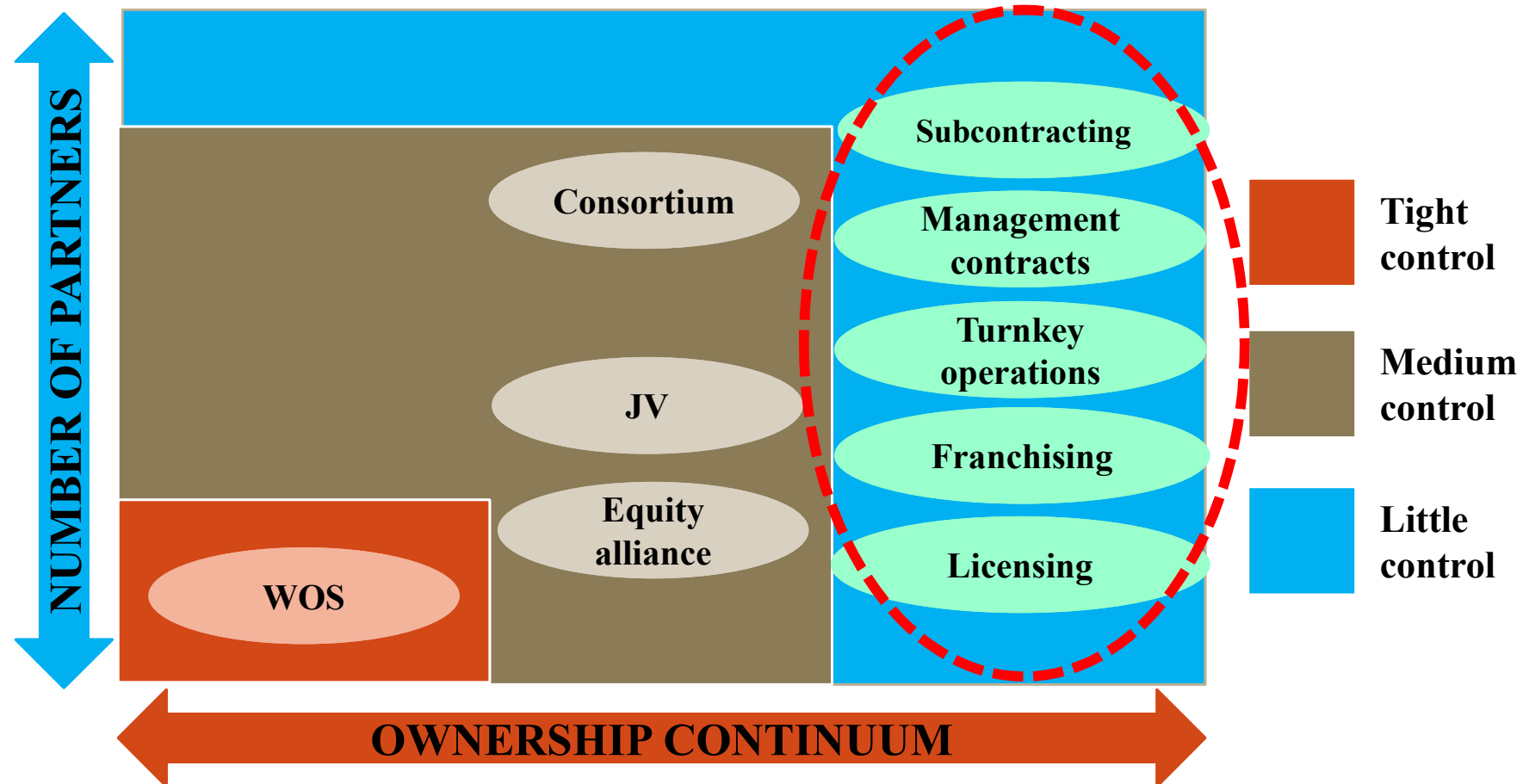
SERVICING FOREIGN VISITORS

- > The internationalization of (1) **tourism**, (2) **education** & (3) **health care businesses**.
- > Larger tourism businesses target international customers, B&B
- > Language schools & universities.
- > *e.g.*, Dental care services for German customers in Hungary.

Going International



■ Managing International Contracts



Source: Daniels, Radebaugh & Sullivan (2010: 579).



■ Licensing

❖ Major Motives for Licensing

- The desire for faster start-up;
- Lower costs; &
- Access to additional resources.

Cross-licensing for complementary computer technology



❖ Payment Considerations

- The amount & type of payment for licensing arrangements vary.
- Potential sales (↑) → the value to the licensee (↑)
- Potential sales depends on:
 - (1) The **geographic scope** of the sales territory;
 - (2) The **length of time** the asset will have market value; &
 - (3) The **market experience** of using the asset elsewhere.

Going International



■ Franchising (Part 1)





■ Franchising (Part 2)

❖ Franchise Organization

- A franchisor penetrates a foreign market by giving a franchisee **the rights to open outlets on its own** or develop sub-franchisees in the country (*e.g.*, McDonalds) or region (*e.g.*, Coca-Cola).
- People are usually willing to invest only in known franchises. **WHY?**
- ✓ Because the name is **a guarantee of quality** that can attract customers.

❖ Operational Modifications

- Finding suppliers can add difficulties & expense for food franchisors.
(*e.g.*, McDonald: A plant to make hamburgers)

- Franchisors' success is dependent on:

- (1) Product & service **standardization**;
- (2) Effective **cost control**; &
- (3) High identification through **promotion**.

Standardization vs. Adaptation



■ Management Contracts

- ❖ Foreign management contracts are used primarily when the foreign company can manage better than the owners.
- ❖ Contracts usually cover **3-5 years**, & **fixed fees**.
- ❖ The British Airport Authority (BAA) has contracts to manage **airports** in Indianapolis (US), Naples (ITA), & Melbourne (AUS).

■ Turnkey Operations

- ❖ ... are most commonly performed by **industrial-equipment, construction, & consulting companies**.
- ❖ ... are often performed **for a governmental agency**.

【Example 1】 Bechtel (U.S.) built a semiconductor plant for Motorola in China & a pipeline for BP in Algeria.

【Example 2】 China State Engineering & Shanghai Construction Group have worked on a subway in Iran, railway line in Nigeria etc.



■ Subcontracting

❖ ... is a contract that involves **outsourcing** of an intermediate stage of **a value chain** with the purpose of saving costs.

- Labor intensive processes (*e.g.*, Sewing in garments manufacture).
- Offshoring back office services (*e.g.*, data processing).

❖ Disadvantage?

- The **limited control** over what is going on inside the subcontractors' plant.
- Subcontractors in developing countries are **not maintaining international labor standards** => Monitoring procedures & special training are required !

❖ R&D contracts

- Tapping into the best locations for certain innovation (*e.g.*, **IT work in India, aerospace research in Russia**).
- **RISKS:** Enforcement failure, some R&D contracts may nurture competitors.

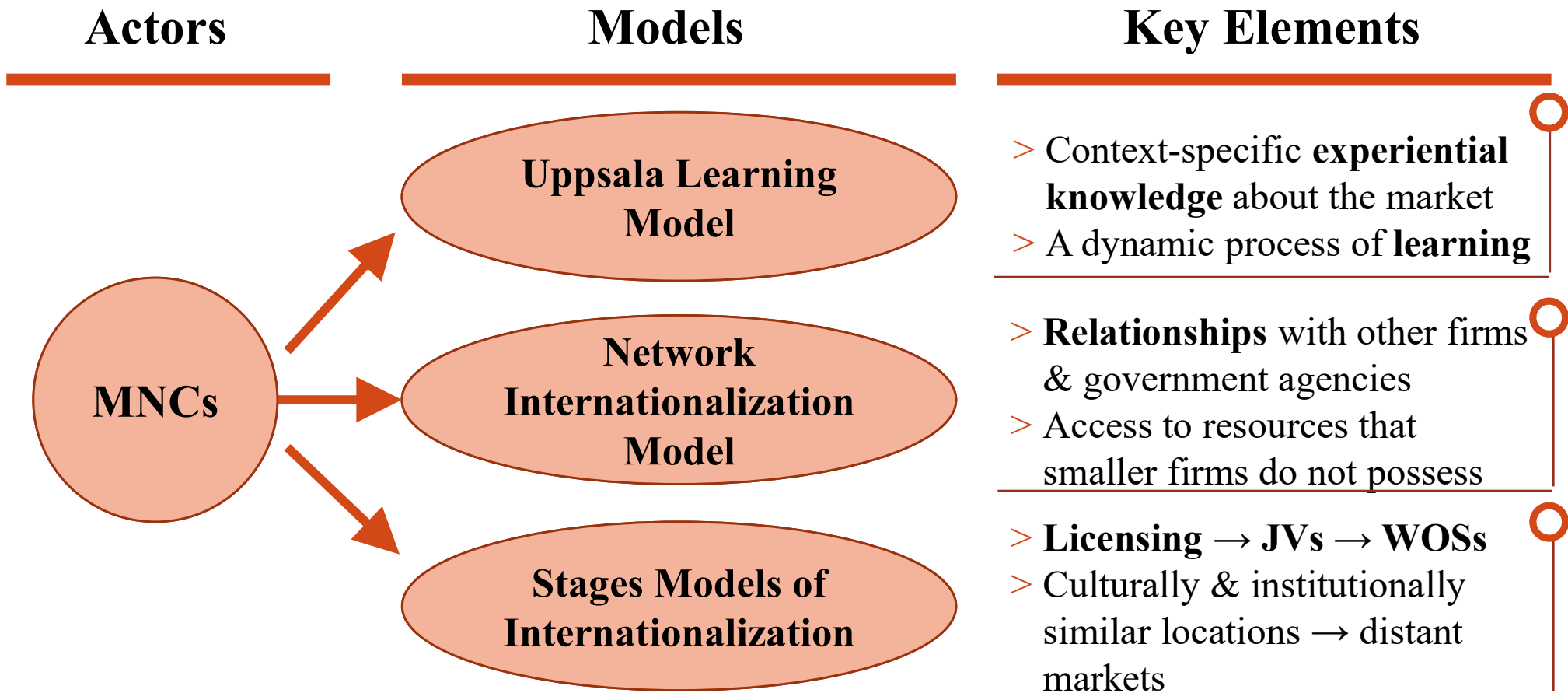


1. Introduction
2. Opening Case: Kaspersky lab
3. Going International
- ▶ 4. **Resources Supporting Internationalization**
5. Institutions & Internationalization
6. Debates & Extensions
7. Implications for Practice

Resources Supporting Internationalization



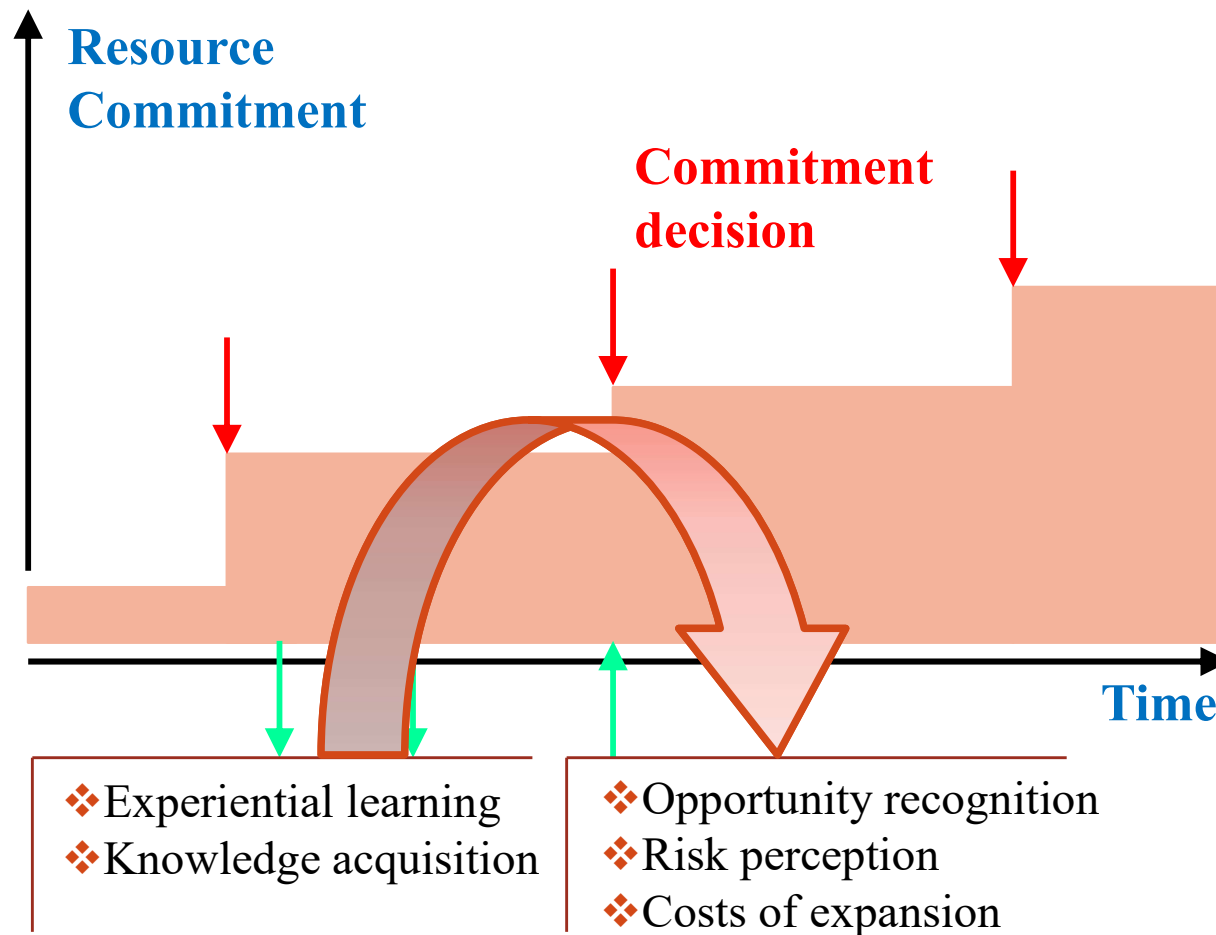
■ Internationalization Process Models



Source: Own illustration based on Peng & Meyer (2011: 343).



■ Internationalization Processes Models



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**.



■ The “Born Global” Theory

❖ Rise of “Born Globals” (or international new ventures)

- The internationalization process models provides a good explanation of the patterns of internationalization in the **1950s** to the **1980s**.
- **However**, some firms appear to **jump over stages** of the traditional model.
- **Born globals**: Start-up companies that **from inception** seek to derive significant competitive advantages from the **use of resources** & the **sale of outputs in multiple countries**.

❖ Examples?



- > One of Europe’s largest **biotech** firms; founded in 1993 by two scientists, **one American & one Dutch** with finance from **a Danish investor**.
- > Its main customers are globally operating pharmaceutical companies.



- > Now a global leader in **computer peripherals**.
- > Established by **entrepreneurs** from the US & Switzerland.
- > Quickly spread to Ireland & Taiwan through FDI.



■ The “Born Global” Theory

Uber



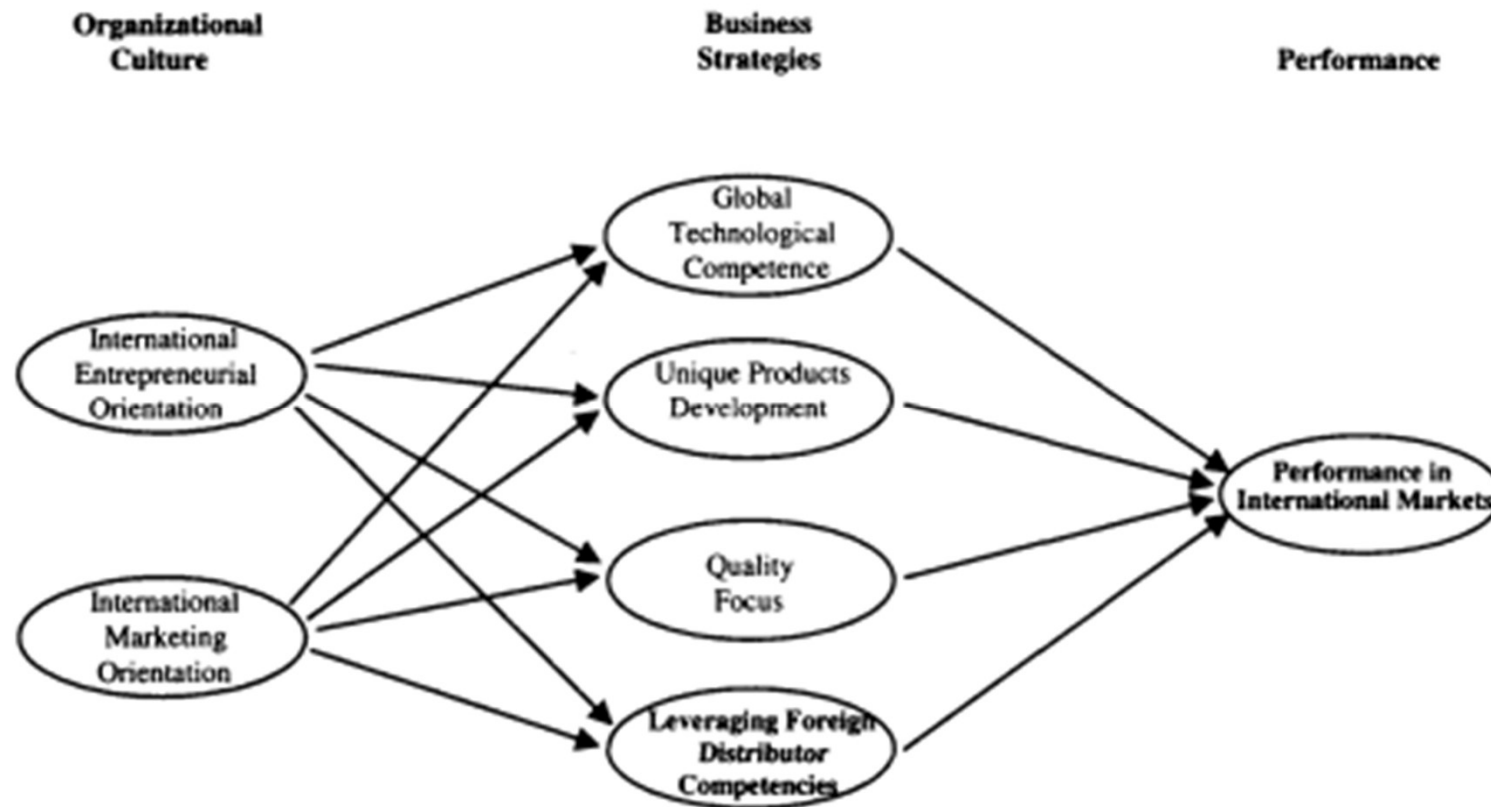
❖ Additional Points

- 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).



■ The “Born Global” Theory

❖ Innovation, Organizational Capabilities, & the BG Firm



Source: Knight & Cavusgil (2004). *Journal of International Business Studies*.



■ Accelerating Resource Acquisition (“Born Global”)

1 Building Entrepreneurial Teams

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

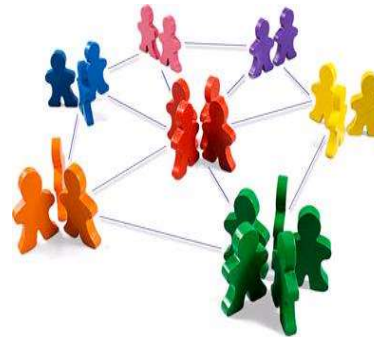


- > **Late entrants** can learn by **learning from earlier entrants** successes & failures.
- > **Mimetic behavior** as a means to reduce uncertainty.



Working with Foreign Investors 2

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



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



3 Observing & Imitating Others

Acquiring Resources Abroad 4



■ Top Tips for Businesses Going Global

<https://www.youtube.com/watch?v=vLYdIb57RL4>

<http://www.youtube.com/watch?v=dtBc2E4qvPo>



1. Introduction
2. Opening Case: Kaspersky lab
3. Going International
4. Resources Supporting Internationalization
- ▶ 5. **Institutions & Internationalization**
6. Debates & Extensions
7. Implications for Practice



■ The Institutional Environment of the Home Country

Type of Institutions	Description	The ability to engage in international business
1 The Institutional environment of the home country	<ul style="list-style-type: none">> Specific institutions to help SME exporters overcome uncertainty.> Export credit insurance scheme (HERMES).> Denmark's “Go global” initiative.	
2 Cultural distance Institutional distance	<ul style="list-style-type: none">> The costs of doing business increase with cultural & institutional distance.> First, invest where the cost of entry & the perceived risks are lowest, which is in culturally similar countries.	The ability to engage in international business

KEY POINTS:

- > **Institutional environments** have been shown empirically to have a **major impact** on **firms’ exports** & the **profitability** of such export.



■ Cultural & Institutional Distance

Type of Institutions	Description	The ability to engage in international business
1 The Institutional environment of the home country	<ul style="list-style-type: none">> Specific institutions to help SME exporters overcome the uncertainty associated with international business.> Export credit insurance scheme (HERMES).	
2 Cultural distance Institutional distance	<ul style="list-style-type: none">> The costs of doing business increase with cultural & institutional distance.> First, invest where the cost of entry & the perceived risks are lowest, which is in culturally similar countries.	

KEY POINTS:

- > Based on **learning experiences** in culturally similar countries, firms may normally venture in culturally distant countries in later stages.
- > e.g., **Belgian & Russian firms** should first enter **France & the Ukraine**, respectively.



1. Introduction
2. Opening Case: Kaspersky lab
3. Going International
4. Resources Supporting Internationalization
5. Institutions & Internationalization
- ▶ 6. **Debates & Extensions**
7. Implications for Practice



■ Designing & Combining Entry Modes

- ❖ Combine **different types** of transaction in one business relationship !!!
 - *e.g.*, Licensing technologies & exporting components to the same customer
- ❖ Serve **different segments** of a market with different operation modes !!!
 - *e.g.*, Exporting to a small market, while licensing to a mature market where a strong local partner has emerged.

■ Cyberspace versus Conventional Entry

- ❖ The **internet** provides many avenues to support IB.
 - The internet as **an advertising board & a catalogue**.
 - **Communications** with suppliers (*e.g.*, Zoom, Google Meet, MS Teams etc.).
 - The entire value chain is created online, based on **digital products** such as software, or online services (*e.g.*, Google's search engine & Facebook).



1. Introduction
2. Opening Case: Kaspersky lab
3. Going International
4. Resources Supporting Internationalization
5. Institutions & Internationalization
6. Debates & Extensions
- ▶ 7. **Implications for Practice**



■ What Should Managers Care About?



- > **Analyze both your own resources & the host context !**
 - Competitive advantage is often gained by finding **INNOVATIVE WAYS** to combine resources to compete in a foreign market.



- > **Continuous learning !**
 - Plan ahead how you will be building your **EXPERIENCE** when you design your firm's international operation.
 - Create interactions with the local environment & customers.



- > **Design operations for flexibility !**
 - An initial entry mode may **NOT** last **FOREVER**, thus contracts need to be designed to allow for change.



- > **Think global from the beginning !**
 - Inherent advantages of being young when venturing abroad, if the **ENTREPRENEURIAL TEAMS** assembles the relevant skills.

Assignments for 07.04.2025 (Monday)



■ Schuh, A. (2011). *“ESET: From Living Room to Global Player in Antivirus Software”* (pp. 550-554).

❖ JACOPO BELOTTI

❖ CARLA GRIEBL

■ Chang, S. J. (2008). *“Wannabe Global”*. In *Sony vs Samsung: The Inside Story of the Electronics Giants’ Battle for Global Supremacy*. John Wiley & Sons.

❖ NICOLA GHERARDI

❖ GREGORIO MORELLI

Please formulate an interesting question that stimulates class discussions & prepare your own contextualized explanations to it.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Merci beaucoup!

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