

*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



**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

- ❖ **Customer portfolio:** Corporate client base ranges **SME** all the way up to **large governmental & commercial organizations**.
  - Siemens, BASF, RAO UES of Russia, MTS, a number of 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 !

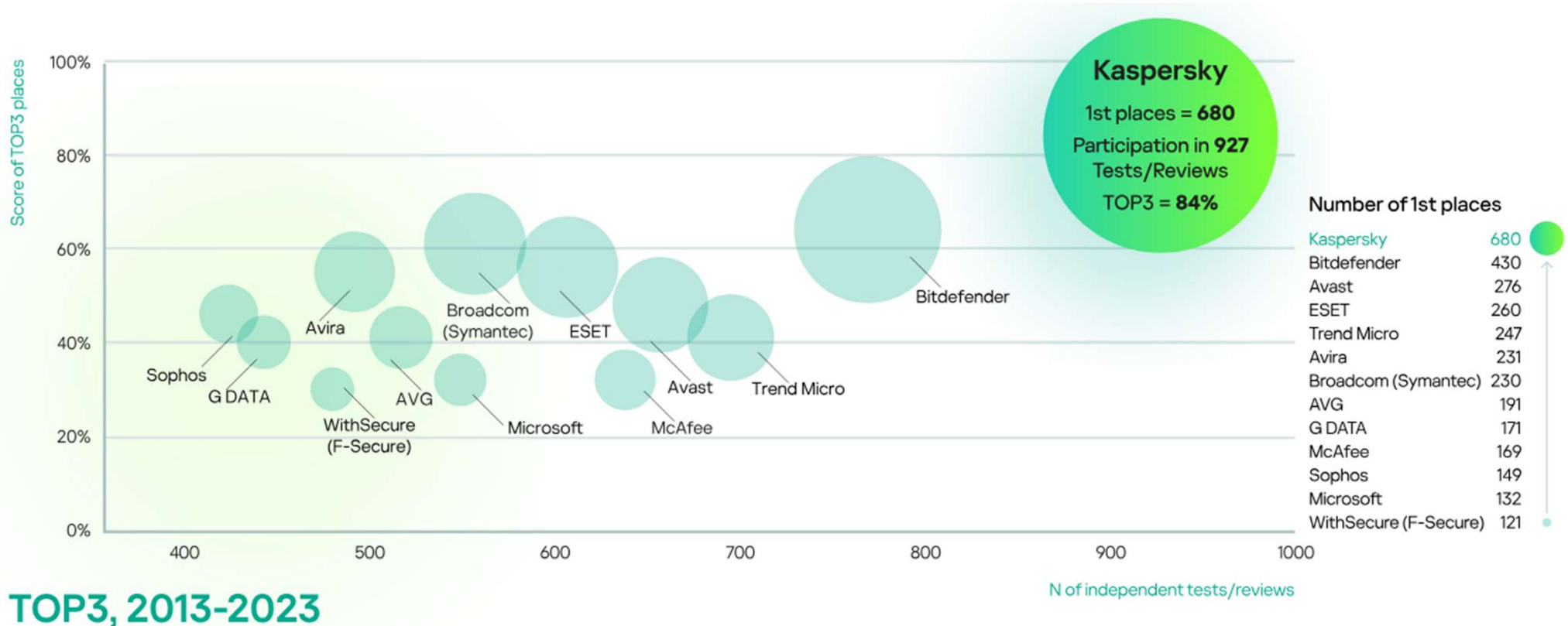
- During the internet boom of the late 1990s, **no investor** was interested in providing Kaspersky Lab with the financial resources needed for the international marketing campaign. => **No money** for big marketing campaigns => Focus on **technological capabilities**.
- The company participated in **all 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](http://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



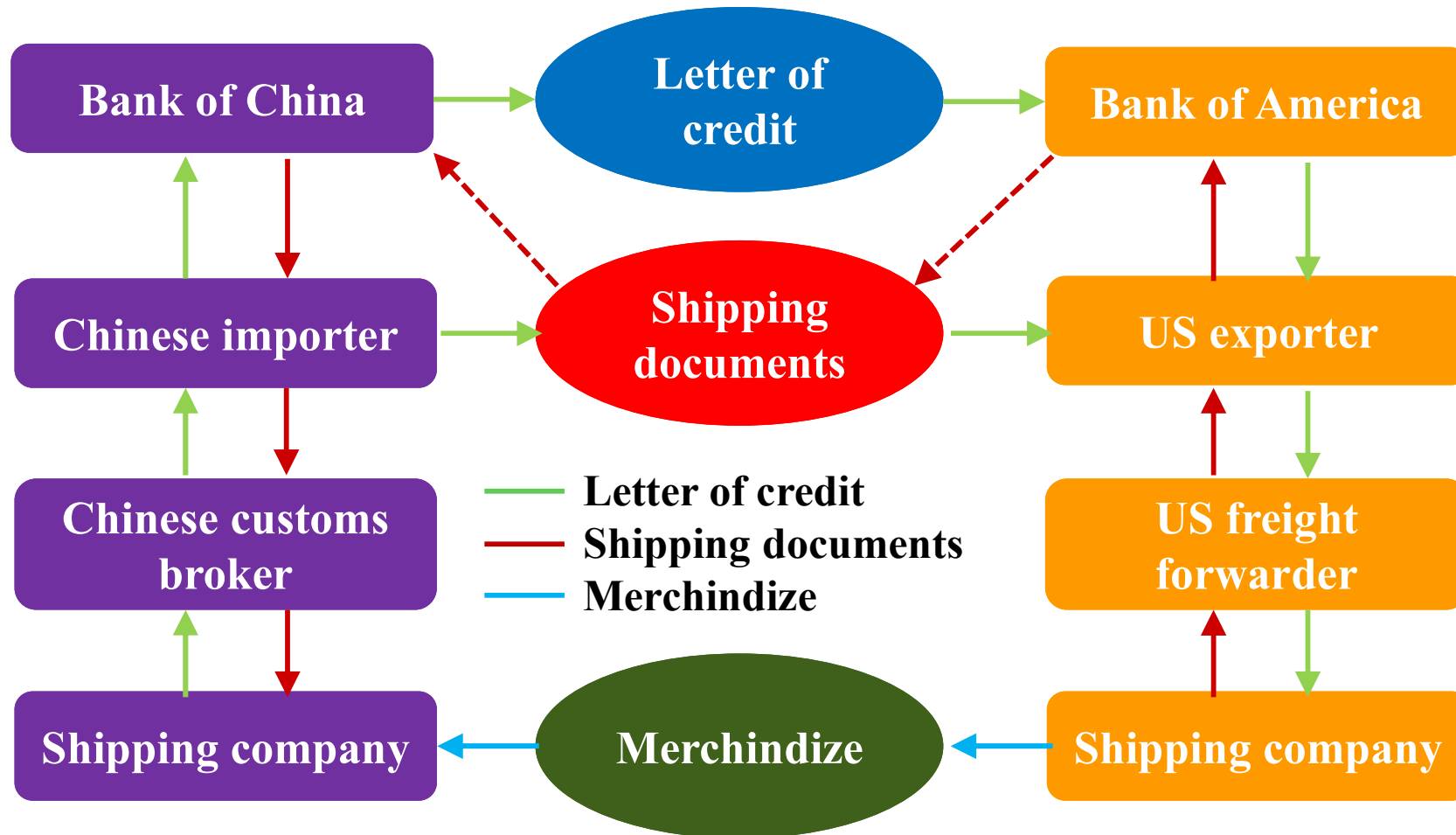
## ■ Non-Equity Internationalization Strategies (Examples)

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

# Going International



## ■ 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			World total		
	2546	100%		2369	100%

Source: Peng & Meyer (2011: 133).



## ■ Managing International Services

### GLOBALIZATION

- > Advances in communication & transportation technologies

#### CROSS-BORDER SERVICES

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

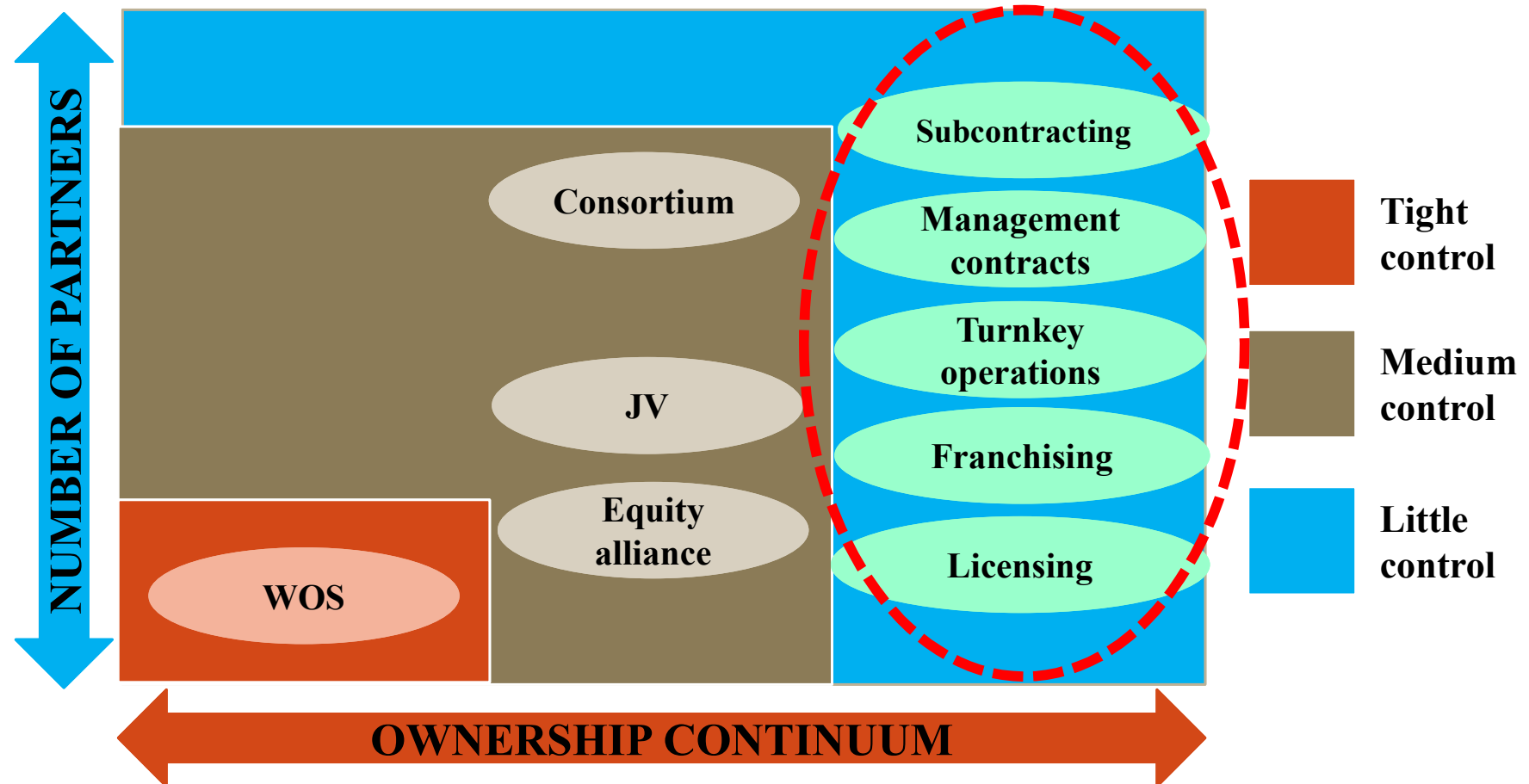
#### SERVICING FOREIGN VISITORS

- > 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 hamburger buns in the UK)
- 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.

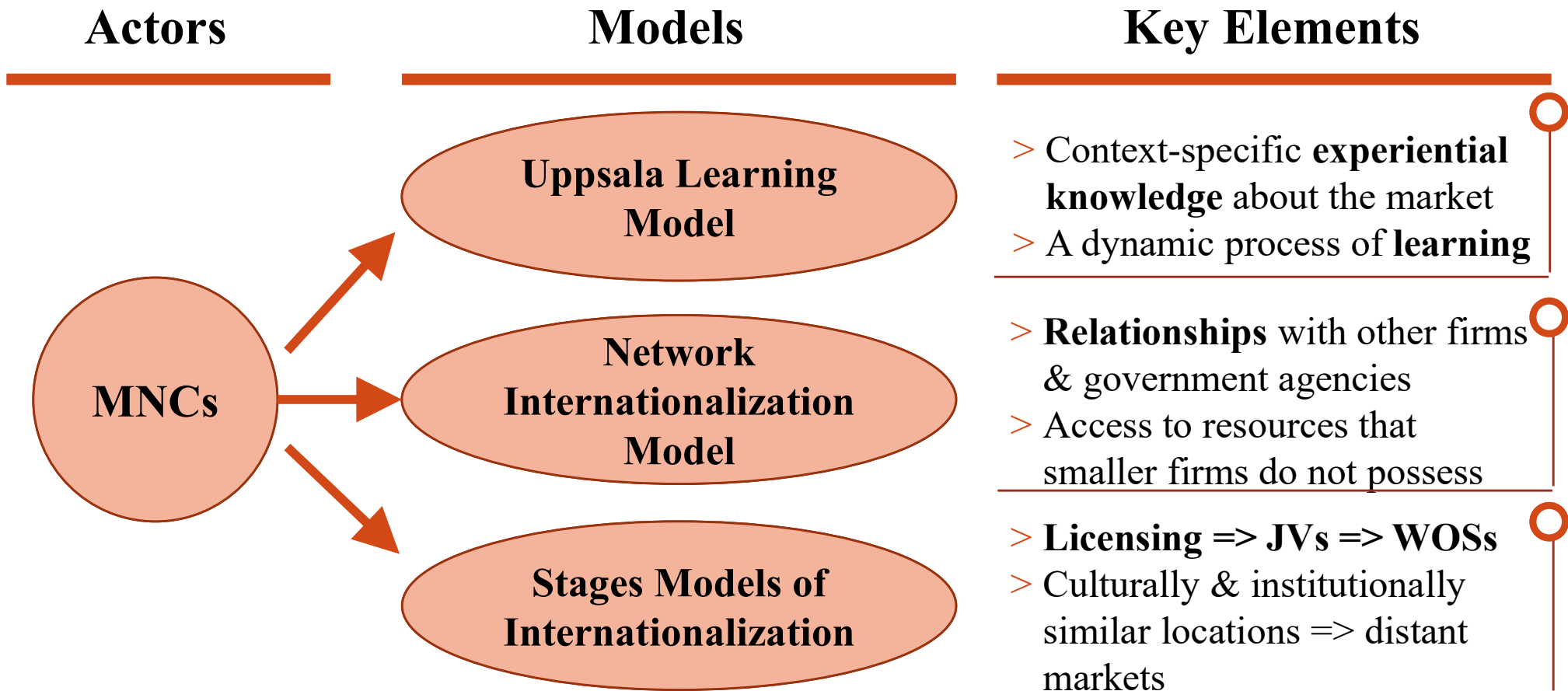


1. Introduction
2. Opening Case: Kaspersky lab
3. Going International
-  4. **Resources Supporting Internationalization**
5. Institutions & Internationalization
6. Debates & Extensions
7. Implications for Practice

# Resources Supporting Internationalization



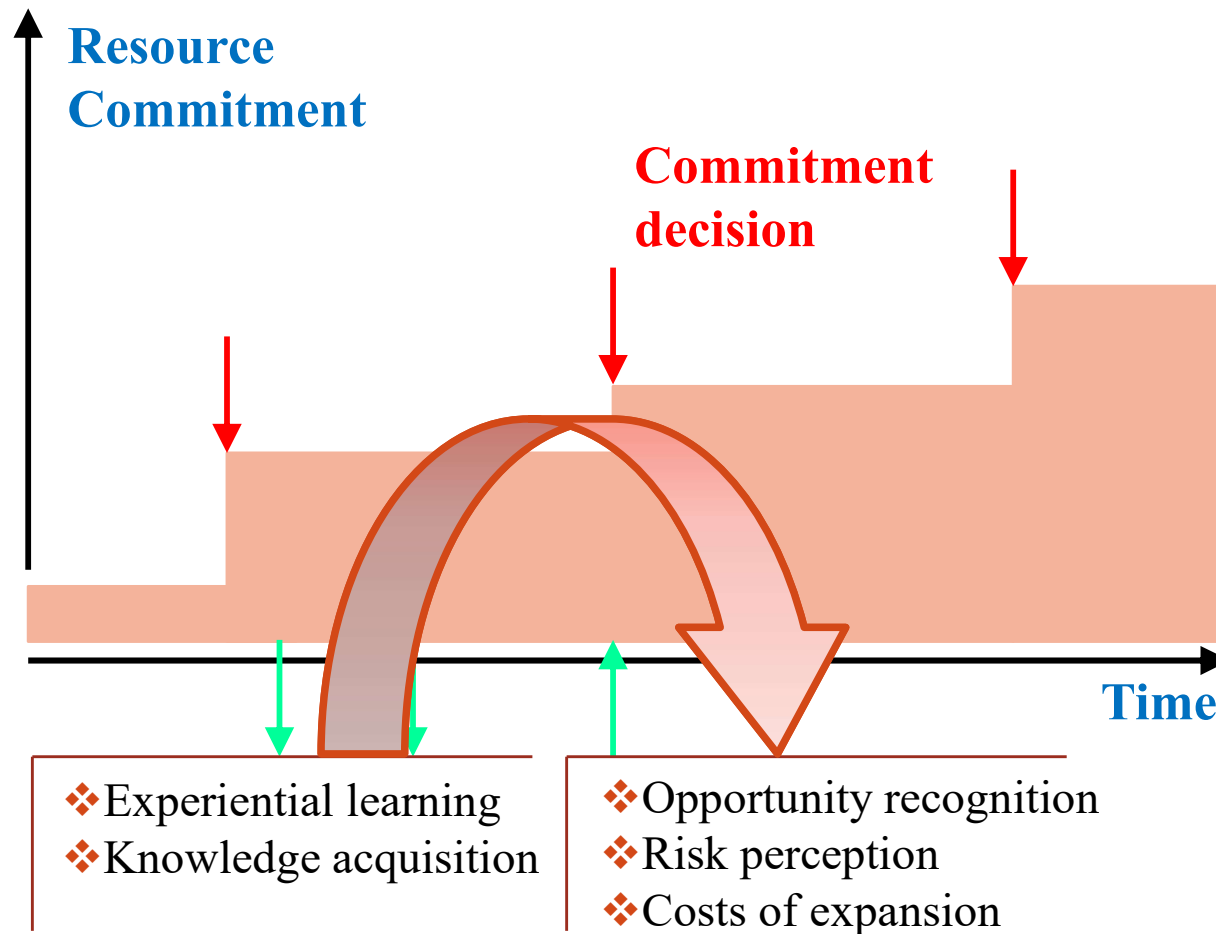
## Internationalization Process Models



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

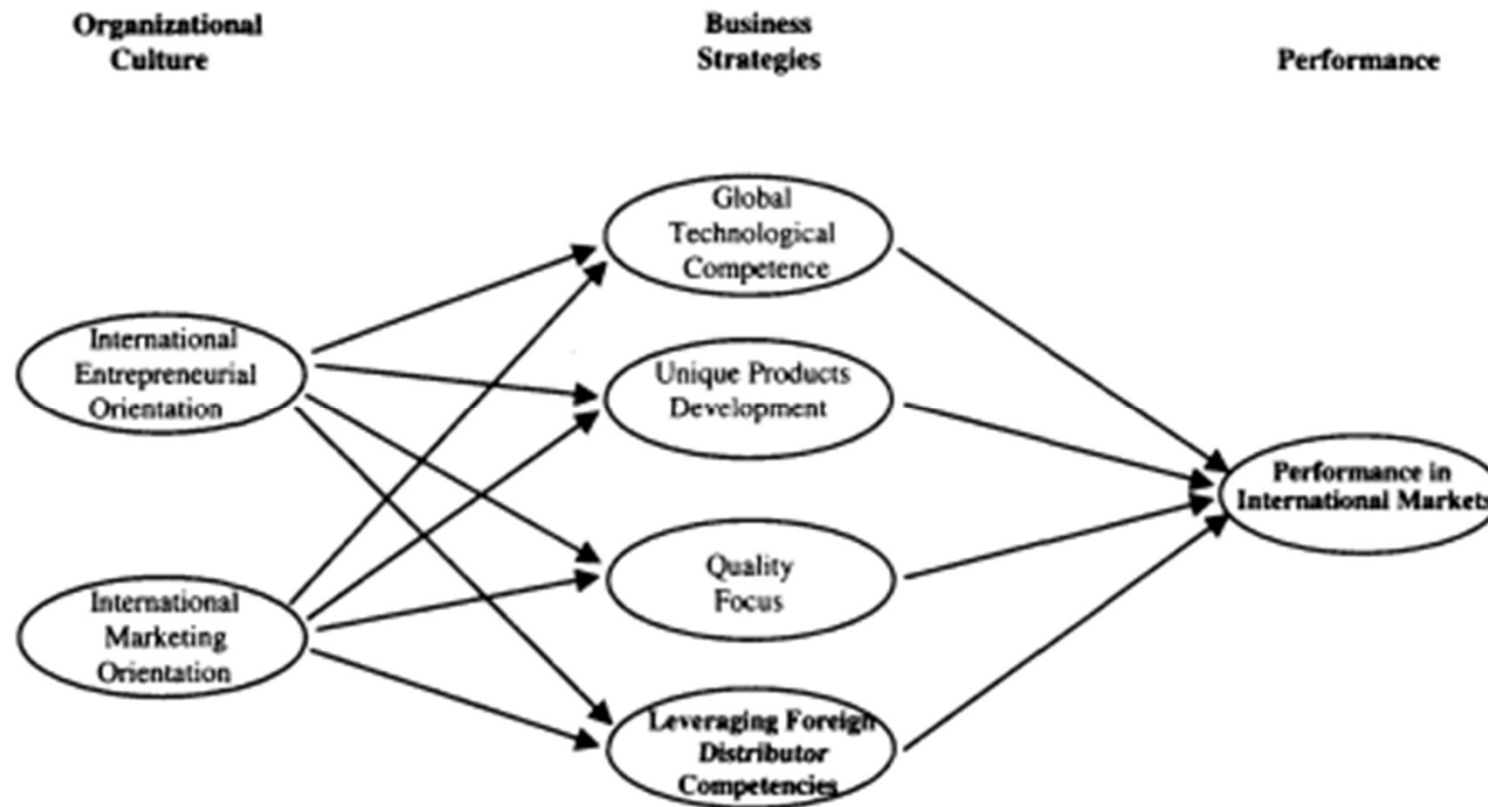
- There are **a number of firms that are global from almost the instant** they are created, in many cases relying on **the international aspect** for their very existence (Autio et al., 2000).
- They rely on **new technology** (e.g., Internet) to give them with a wide geographic reach in **a short period 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).

# Resources Supporting Internationalization



## ■ The “Born Global” Theory

### ❖ Innovation, Organizational Capabilities, & the BG Firm



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

# Resources Supporting Internationalization



## ■ Accelerating Resource Acquisition (“Born Global”)

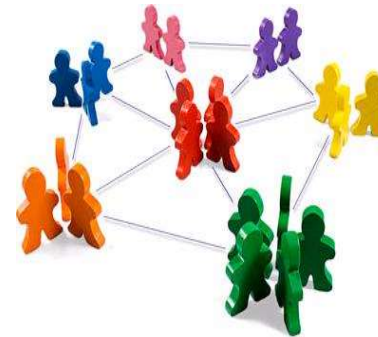
### 1 Building Entrepreneurial Teams

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



### 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

# Resources Supporting Internationalization

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

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

### 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, Skype, Google Meet 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**



# 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** team assembles the relevant skills.

# 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](mailto:norifumi.kawai@unibg.it)**