

International Strategy

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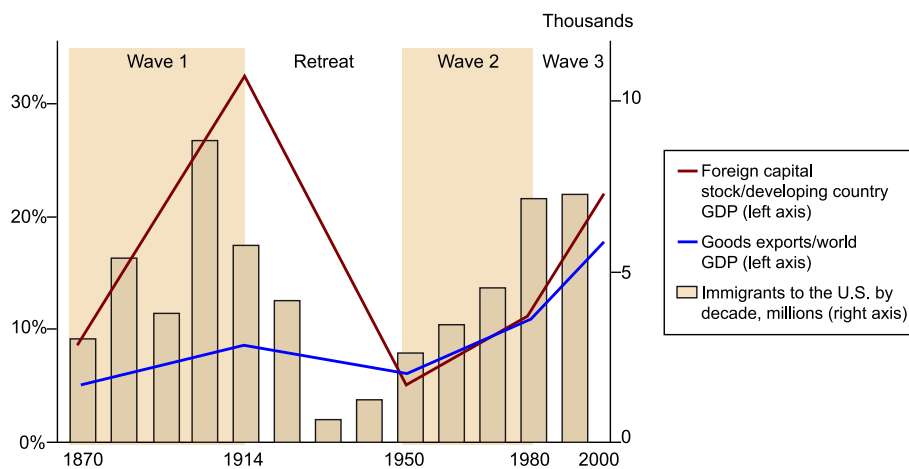
1. Globalization and internationalization

The international aspect of economics has risen to prominence in the last twenty years. In fact, it has been brought into sharper focus by events such as the recent global financial crisis, the social and political consequences of the relocation of businesses and jobs, and the sustainability of the welfare state in industrialized countries, and their respective impacts on the development potential of emerging or developing countries.

In this regard, we should define the term globalization as an advanced internationalization of economic activity level (and note how the best word to describe this process would, perhaps, be globalization; Tugores, 2005).

The degree of trade and financial integration of the entire global economy has significantly increased over the past few decades. From a broader historical perspective, the figure below shows the average degree of internationalization of economic activity in the last 150 years:

Figure 1



This recent globalization phenomenon has many points in common with the process that occurred in the late nineteenth century and early twentieth century up until the Second World War (also shown in the above figure). While there are obvious differences in terms of the media and transportation infrastructures of the time, both events involved an increase in commercial and financial openness.

Example

The foreign trade figures are very representative in this regard. In 1913, the proportion of GDP made up of imports and exports in Japan, UK, Australia, and Denmark was greater than that of 1990.

Further reading

J. Tugores (2005).
International Economics.
Madrid: McGraw-Hill.

The main difference between the two processes is the pace of technological progress in terms of information, communication, and transport. Furthermore, all of these factors have greatly contributed to the dissemination of ideas and knowledge. In fact, the degree of individual mobility is not only greater in absolute terms but also in relative terms.

It should be noted, however, that the collapse of globalization ninety years ago was associated with a period that included two world wars, the financial instability of the 1920s and the Great Depression of the 1930s (with the respective collapse of international trade and finance).

The trend towards the liberalization of international trade has been one of the most significant achievements in recent decades and has also caused a rise in tensions and uncertainty. While this trend has not been consistent and is not without its faults, it basically demonstrates that specialization and international trade increase both individual and commercial efficiency and profit. These gains are obviously not distributed evenly, which can cause trade limitations or restrictions. The danger of a collapse in international trade is evident. For instance, the crash of 1930s, in which trade figures dropped to less than a third of their former levels, led to the Second World War.

It is sometimes suggested that trade is the continuation of war by other means. This would also imply that war is the replacement of commerce by other means (Tugores, 2005).

Returning to the recent era of globalization, we can see that, in the financial field, internationalization has been remarkable. The liberalization of international capital trade has reached significant levels. With the help of foreign investments and multinational companies, we have seen progress in the globalization of world production. Innovation in the dissemination of communications, transports and technology has led to the segmentation of the production process. This has made it possible to separate parts of the production process in different countries according to the requirements of each stage. In short, the partition of the value chain promotes trade integration.

Example

Barbie dolls are typically sold around the world for \$10. The price is the result of Chinese labour worth 35 cents and materials worth 65 cents (plastic hair from Japan and Taiwan, and Chinese wool for fabric) assembled in the Philippines, Indonesia, Malaysia and China, and shipped from Hong Kong to the USA. There, the bulk of the value is created in the form of marketing, distribution and design. We also tend to see similar patterns in the automotive and electronics industries.

The increasing internationalization of the economy and the resulting interdependencies have changed the geographic distribution of economic activity. The emergence of new agents, the increasing importance of developing economies (mostly in Asia) and the interconnection of millions of people and multinationals (especially those in these developing economies)

have affected the patterns of specialization and income distribution. This is not only true in the case of direct investments abroad or the delocalization of production but also in terms of international trade.

Example

If a Spanish consumer purchases a product manufactured in China (intensive in terms of cheap, low-skilled labour), such as a shirt or a toy, this entails the indirect import of Chinese unskilled labour.

Similarly, if we import Indian motorcycles or software or Japanese cars (which require a workforce with higher qualifications), we are indirectly importing more highly-qualified labour (Tugores, 2005).

This highlights the importance of the international aspect. This has also generated social and political concerns with respect to the existence of a much more competitive environment. In general, the internationalization of the economy has not been accompanied with a sufficient emergence of new supranational institutions effective enough to correct imbalances or instabilities.

Despite the progress of economic internationalization in recent years (major increases in the level of trade, production and technological integration), the world economy cannot be treated as an integrated whole in which national borders have lost all relevance. The costs of distance, transport and marketing (among others) underline the geographic dimension of international activity. Ghemawat describes our current situation as that of a semi-globalized world, with the consequent business strategy implications (Anderson, Van Wincoop).

Over the last twenty years, there has been an increase in the number of companies that have expanded their scopes beyond their own countries' border. This strategic process, by which a company increasingly acquires new resources and new commitments in the form of international operations and stability with foreign markets, is referred to as the internationalization of a company.

The internationalization of a company includes commercial operations, exportations and all other types of activity in the value chain (such as externally buying or providing material resources, product design, etc.). Companies in the process of internationalization are able to reach new clients and production factors which do not exist in their national market.

Further reading

J. Anderson; E. Van Wincoop (2004, September). "Trade costs". *Journal of Economic Literature* (p. 91-751).

P. Ghemawat (2007). *Redefining global strategy*. Boston (MA): Harvard Business School Press.

Further reading

Luostarinen & Welch (1988). "Internationalization: evolution of a concept". *Journal of General Management* (#14, p. 36-64).

2. Internationalization and competitiveness

One of the consequences of globalization and the progressive internationalization of companies is the change in terms of competitiveness, causing a decreasing market share for companies focused on their domestic market, the arrival of new competitors and an increase in competition in a more dynamic environment.

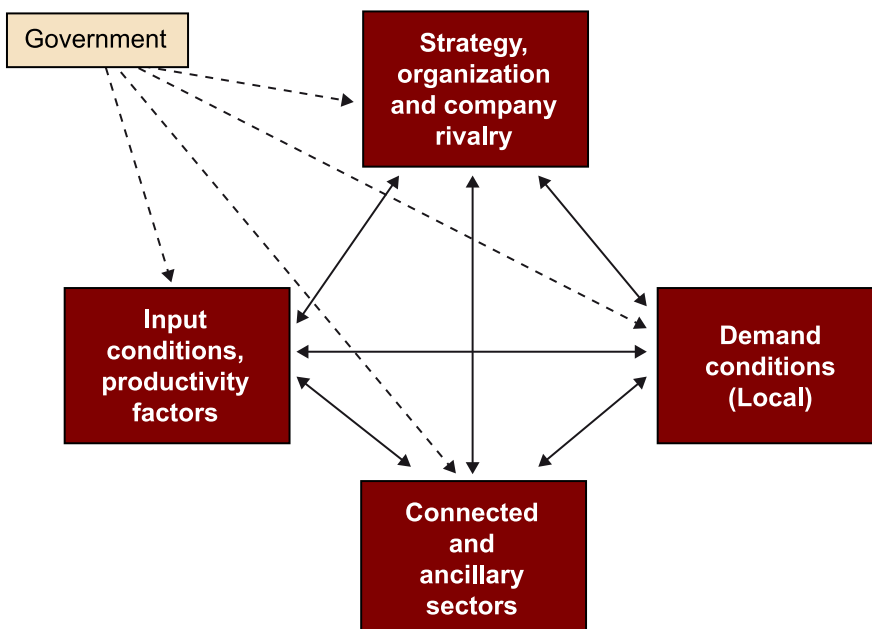
Competition and internationalization are directly linked to one another. A company can not have achieved successful internationalization if it is not competitive or, in other words, if it is not capable of offering better or different products or services at a comparable price. However, the process of internationalization can allow a company to gain competitiveness (Canals, 1994).

Further reading

J. Canals (1994). *The Internationalization of a Company: How to evaluate penetration in foreign markets*. Madrid: McGraw-Hill.

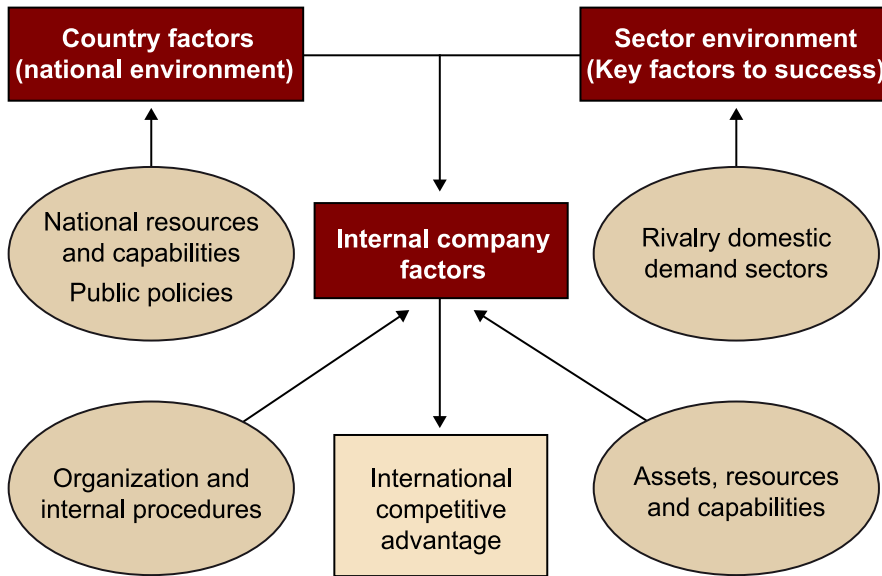
One approach that analyses international competitiveness is known as Porter's Competitiveness Diamond (1991, shown below). This approach gives a prominent role to the factors in the domestic environment, but does not explain other relevant factors affecting the company's international competitiveness.

Figure 2



Others propose approaches that add different elements to the competitive capacity of a company (Canals, 1994):

Figure 3



- a) The benefit of the company being localized (in a specific country).
- b) The key factors in the dynamics of competitiveness in the specific industry: structure and other similar characteristics, whether or not sectors are concentrated, rivals, barriers to entry, etc.

Example

In order to capitalize on a unique technology, insufficient markets motivate the company to look outside its country's borders to reach the mass market of customers needed to make a profit out of this new technology.

If competition in the local market is increasingly international, it is very likely that a company will increase its presence abroad to compensate for a potential loss of its domestic market share.

- c) Other advantages such as the having tangible or intangible resources different from competitors (E.g. product innovations or new customer service processes).

Differential Resources

Companies have typically based their international expansion on tangible resources such as industrial plants, machinery, financial or human resources. However, startup companies are usually poor in terms of these resources. In their international expansion, these startups have generally relied on intangible resources such as know-how, networks, new technologies and new business models which challenge existing models (A. Rialp, J. Rialp, G. A. Knight, 2005).

Competing internationally is a complex and dynamic process in which multiple different types of factors play a part. This can result in multiple strategies which combine these factors and, in turn, lead to a wide variety of international patterns of behaviour.

Further reading

A. Rialp; J. Rialp; G. A. Knight (2005). "The phenomenon of early internationalizing firms: what do we know after a decade (1993-2003) of scientific inquiry?". *International Business Review* (#14).

The decision to start the internationalization process is one of the most important decisions a company can make. The result can compromise the future of the organization on both the international and domestic field.

The process of internationalization brings about other issues that must be addressed such as how to compete, how to break into each country and what processes and management structure should be used.

The process of internationalization (and the definition of the companies' strategies) involves different decisions which set it apart from any other growth or business development strategy (Andersen, 1997). These decisions can be stated as what, where, and how and when, as shown below.

- **What:** The selection process, deciding what to provide outside of the domestic market (products or services, finished or semi-finished, raw materials, technologies, know-how, human resources, financial resources, etc.).
- **Where:** The geographic scope, where to expand internationally, the selection of countries and the strategic positioning in these markets.
- **How and When:** The optimal entry method to operate in international markets and subsequent development.

All of these questions have complex answers: a poor or poorly implemented decision may involve significant risks for the company in its domestic market. Internationalization enhances both the opportunities and the risks. A company can expand its scope of operations and reach new markets but will, at the same time, face a more complex environment. These complexities are also new to the company, further amplifying their impacts.

Further reading

O. Andersen (1997). "Internationalization and Market Entry Mode. A Review of Theories and Conceptual Frameworks". *Management International Review* (n° 37 pp.27-42).

3. Reasons for initiating the internationalization process

As seen earlier, internationalization is a major strategic decision with significant repercussions for the company. One of the most important considerations of this decision is usually its irreversibility. Investment recovery in case of failure can be difficult or even impossible (Rialp *et al.*, 2007).

As listed in the table below, such decisions are based on various stimuli or reasons:

Table 1

	Internal Factors	External Factors
Proactive Factors	<ul style="list-style-type: none"> • Designed for development or profit. • Specific competitive advantages. • Cost advantages (economies of scale, experience, etc.). • International experience. 	<ul style="list-style-type: none"> • Perception of external demand and business potential. • Public and/or private measures to foster business internationalization. • Success of domestic competitors in foreign markets.
Reactive Factors	<ul style="list-style-type: none"> • Availability of resources. • Overproduction. • Seasonality of sales. 	<ul style="list-style-type: none"> • Limited domestic market (size, saturation, etc.). • Decrease in domestic sales. • High competition on the domestic market. • Receiving unsolicited foreign orders. • Other companies' decisions (e.g. internationalization of principal customers).

Source: M. Czinkota (1982). *Export Development Strategies: US Promotion Policies*. New York: Praeger Publishers.

The decision to embark on the internationalization process can either be proactive, a necessary step for the company's development and/or growth, access to new benefits or advantages (e.g. development of new differentiated products, new technologies or economies of scale), or reactive (e.g. in response to excess production, domestic market saturation, declining domestic sales or the internationalization of customers or key business).

Further reading

J. Rialp *et al.* (2007). *Estratègies i factors clau d'èxit de les empreses catalanes a l'exterior*. Barcelona: COPCA.

4. The internationalization process

There are different approaches and analytical frameworks used to explain the internationalization of a company. The most widely used are the following:

- Approaches focused on explaining the process of direct foreign investments: theories of monopolistic advantages, theories of internalization and Ownership-Location-Internalization (OLI) models.
- Gradual approaches, such as the Uppsala model and other models for different stages of the international development, based on the gradual accumulation of experience by the company and its key members, which increases international presence while decreasing risks.

More extensive than the former type of strategy, gradual approaches were developed in the mid-1970s by researchers from the United States and Scandinavia. As far as the Scandinavians (Johanson and Wiedersheim-Paul, Johanson and Vahlne) are concerned, internationalization is seen as a gradual process where each stage allows the company to gain international experience, enabling further commitment to international markets.

For their counterparts from the United States (Bilkey and Tesar, Cavusgil, Reid, Czinkota), internationalization is linked to innovation and is postulated as the result of a series of directives pushing for innovation, developing a programme in which the company accumulates knowledge resulting from the adoption of these innovations.

Based on case study analysis, the Scandinavian approach, or Uppsala model, found that the development of international operations was an incremental process justified by the need for learning time, accumulation of knowledge of international markets and the following premises:

- The internationalization of the company is a process that aims to increase the long-term benefit and, in turn, keep the level of risk low.
- General knowledge can be transferred from one country to another, but the specific knowledge of a market can only be obtained through direct experience. This experience-based knowledge generates business opportunities and drives the internationalization process. Furthermore, it is assumed that this is the main way to reduce market uncertainty. Accordingly, for a given country, a company is expected to increase its resource commitment as it gains experience in this market (Johanson, 1990).

Further reading

Vahlne & Johanson (1990). "The mechanism of internationalization". *International Management Review* (vol.7, #4, p.11-24).

- The resulting incremental commitment of the above steps can be observed by the sequence of foreign markets that the company enters and the evolution of the modes of operation of the company in each of the markets.
- The incremental commitment mentioned above can be observed through the evolution of the modes of entry that the company adopts in each foreign market.

It can be concluded from this approach that companies typically start with the closest and/or most similar foreign countries (culturally, linguistically, etc.) and those with the lowest transaction costs (these two conditions may or may not coincide). Companies will then branch out to more distant countries.

It can also be inferred from this approach that companies increase their commitment to foreign markets as they pass through a set of stages. An inexperienced company, in a specific country, prefers to access a foreign market using low risk or low commitment methods (such as exporting through a distributor). As it gains experience, the company will be able to commit more resources to these foreign markets. This process typically involves creating commercial subsidiaries allowing greater control of operations in these countries and, in turn, accelerates the companies' learning process. Only then, with positive results, does the company establish production subsidiaries.

Although several empirical studies support this idea of gradualism and different internationalization stages, this model is primarily criticized for its deterministic approach:

- This model assumes a linear relationship between market knowledge and degree of commitment, and does not include the influence of other relative factors (such as the volume of exports of the company and the relative competition) as barriers to entry or the intensification of global competition.
- This model considers internationalization as a process unfolding through a series of predetermined and necessary steps when the mode of entry into a foreign market should be the result of a strategic decision, weighing up the characteristics of the specific market, the company's objectives and its resources.

The revisions of the Uppsala model adequately explain the behaviour of SMEs while pointing out that companies can leapfrog with the help of abundant resources. However, it should be noted that several empirical studies indicate that SMEs have a particularly low propensity towards skipping stages of internationalization.

Different studies have tested the Uppsala model and concluded that it especially applies to internationalization processes motivated by finding markets and is particularly well-suited to explaining export activities (Mendoza, 2008). In this respect, the decision to establish a manufacturing subsidiary does not have to be underpinned by market access motivations, but rather by other factors, such as access to raw materials or cost reduction.

New approaches to internationalization have recently been developed in regards to international market entry and international business development. These are partly based on one of the two main approaches discussed above. They encompass models based on cost analysis, resources and organizational capacities (applied to international management), attitude and perspective when faced with choice of market entry type, and the types of international networks of the company or its senior management.

These more recent approaches provide arguments in favour of the development of more innovative strategies to expand abroad, such as highlighting the role of transaction costs in the decision to adopt a certain form or another, emphasizing the importance of resources and the company's internal capabilities, skills or attitudes of key members, and establishing relationships and international networks.

These approaches confer a more flexible and less deterministic character to the internationalization process.

The combination of some of these approaches, for example, based on organizational capabilities and international networks, provides a better explanation for the existence of new phenomena such as companies who have been global from the outset, as discussed below (Rialp *et al.*, 2007).

4.1. Stages of internationalization

The majority of companies undertake a gradual internationalization process which can be categorized by stage (as discussed above), although very few ever reach the final stages of the process. These different stages are described below. Not all companies follow this specific trajectory. There are still distinct factors which can influence the process (Root, 1994).

1) Stage 1: Indirect/passive exportation:

- Coverage of unintended exportation orders.
- Incidental license agreements.
- Weak commitment to international markets.

2) Stage 2: Active/direct exportation and/or licensing:

Further reading

F. R. Root (1994). *Entry Strategies for International Markets*. San Francisco: Jossey-Bass.

- Efforts to penetrate foreign markets through exports via a broker/dealer and/or proxy/subsidiary business.
- May actively be seeking licensing agreements.
- Considering domestic and international businesses as separate.

3) Stage 3: Exportations, licensing and capital investment abroad

- Production in some countries is combined with exports and/or licenses in others.
- An international business division replaces the export department created in the previous step.
- The international strategy is not yet fully integrated with the domestic market strategy.

4) Stage 4: Multinationalization/Globalization/Transnationalization

- Designing entry strategies to foreign markets from a global perspective.
- Benchmarking of all possible input forms.
- A variety of national markets are served by a productive organization widely distributing specific products and/or providing geographic areas.

4.2. Process Steps

The internationalization process starts slowly, firstly through sporadic or passive exports, often without actively searching. This is usually followed by an acceleration of the process through more active exports. In this second stage, it is typical for a company to consider some form of a contractual agreement with foreign companies. Later on, in the third phase, the company will tend to consolidate all international activities through stable or regular exports to a wide range of countries and/or by making a relatively large degree of direct foreign investments. In the last stage, the multinational, global or transnational firm boosts its international presence to build or develop new competitive advantages.

Although a considerable number of companies embark on the process gradually in this way, this does not mean that there is only one way to internationalize. Fundamentally, this will depend on the resources and the capacities of the specific company, environmental conditions, and the company's strategic objectives.

4.3. Accelerated Internationalization

As stated in the previous section, for the most part, internationalization is a gradual process in which, at each stage, a company takes on greater risks and commits more resources. In this section, we will see that it is possible to skip some stages.

A typical case of this would be when internationalization is forced upon a company, such as needing to follow the customers' movements or relocate labour in order to remain competitive.

There is an increasing number of 'born-global' firms (small or medium companies displaying an early and accelerated internationalization process right from the company being founded). The factors that explain this trend include the following:

- New market conditions in many sectors of economic activity (including the growing relevance of niche markets on the global scale) can be a favourable factor for the internationalization of small and medium companies.
- Technological development in areas such as production, transport and, most importantly, communication.
- The increasing relevance of partnerships on a global scale.
- The greater entrepreneurship and skills that tend to characterize founders, entrepreneurs and executives who create and/or direct such organizations.

These born-global companies are often very enterprising: their directors view the entire world as a unique market. These companies tend to focus on a market niche with a global nature, applying cutting-edge technology to develop highly-specialized products adapted to all of the needs of these market niches (Rialp, 2007). These companies also tend to produce products with high or very high added value, targeting several countries (specifically in emerging segments of these markets). As such, using cutting-edge technology constitutes a fundamental component of the company's competitiveness. These companies' capacity to operate quickly in multiple countries greatly depends on their use of the different international networks that they are part of (individual or business) to obtain the necessary resources when needed.

From the analysis of these born-global companies, the following characteristics can be identified (A. Rialp, J. Rialp, G. A. Knight, 2005):

- A global strategic vision from the outset.
- Highly-skilled management team with previous international experience.
- Management commitment to the international project.
- Use of important personal and business networks.
- Market-related knowledge.
- Creating high-value product differentiation and technological innovation.
- Focus on a niche market with a proactive international strategy.
- Diversified in several countries from the start.
- Focus on specific market segments with a strong customer orientation.

- Flexibility to adapt quickly to changing conditions or external circumstances.

While it is obvious that the specific characteristics of the company's product or service will result in a faster or slower process of internationalization, some of the characteristics listed above are factors that can accelerate most internationalization processes.

5. Ethics and Social Responsibility in Business

Ultimately, the concept of Corporate Social Responsibility derives from the study of ethics. Business ethics, as defined by Crane and Matten (2010: 5), “is the study of business situations, activities and decisions where issues of right and wrong are addressed.”

“Business Ethics can be defined as the critical, structured examination of how people and institutions should behave in the world of commerce. In particular, it involves examining appropriate constraints on the pursuit of self-interest or (for firms) profits, when the actions of individuals or firms affect others”

Business Ethics (2008).

Business ethics may therefore be defined as actions and activities of organizations that are underpinned by questions of right and wrong, good and bad, acceptable and unacceptable. Crane and Matten are quick to add that this only means morally right and wrong and does not include judgements of commercial, strategic or financial appropriateness. Corporate Social Responsibility (CSR) is a concept that is known by various names, including corporate sustainability, corporate citizenship, corporate social investment, the triple bottom line, socially responsible investment, business sustainability and corporate governance” (Partnerships, 2006).

A popular definition of CSR comes from the World Business Council for Sustainable Development which states that it is “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families and the local community and society at large.” (World Business Council for Sustainable Development, 1999)

CSR IN INTERNATIONAL BUSINESS

CSR initiatives engaged in by multinational companies (MNCs) can be categorized as follows:

- CSR for global talent acquisition and retention.
- CSR for branding and reputation management.
- CSR as a regulatory requirement.
- CSR as a philanthropic engagement/initiative.

5.1. CSR for global talent acquisition and retention

According to the former Deloitte CEO Jim Copeland (2003), “The best professionals in the world want to work in organizations in which they can thrive, and they want to work for companies that exhibit good corporate

citizenship.” The basis for CSR as a strategy for acquiring and retaining global talent for MNCs is that, “both in theory and practice, it has been observed that, just as companies succeed in the market by fulfilling the needs of their respective customer base, they can manage their employees best by viewing them as internal customers, fulfilling their needs through a compelling menu of “job products” (Bhattacharya, Sankar, Korschun, 2007; see also William, 1990; Gummesson, 1987; Berry and Parasuraman, 1992; Varey, 1995; Ahmed and Rafiq, 2003).

“These job products include salary, health benefit packages and job responsibilities. Designed properly, these can contribute dramatically to job satisfaction, employee retention and productivity” (Bhattacharya *et al.*, 2007). By engaging in CSR initiatives that are both specific and relevant, the values of a company are revealed and, as such, its values can act as an “Employee Value Proposition” which is “the holistic sum of everything people experience and receive while they are a part of a company.” This can be effective in building and sustaining a talented employee base (Bhattacharya *et al.*, 2007). According to research by Bhattacharya *et al.*, the reasons that employees want to work in a company that engages in CSR include self enhancement, work-life integration, bridge to company, and reputational shield.

Multinational companies in the modern era thrive on the diversity of their workforce, bringing in and blending the best minds and individuals from different parts of the world to give the organization a competitive advantage. A company as huge as PepsiCo has a Director of Global Talent Acquisition on its board. Business Link (n.d.) states that, among other factors, organizations gain from CSR in the following ways:

- It results in a good reputation, making it easier to recruit employees.
- Employees may stay longer, reducing the costs and disruption of recruitment and retraining.
- Employees are better motivated and more productive.

5.2. CSR for branding

Consumers’ perceptions of a company as a whole and its role in society can significantly affect a brand’s strength and equity. Goals for companies that implement successful CSM programmes include “creating a differential advantage through an enhanced corporate image with consumers and “differentiating themselves from the competition by building an emotional, even spiritual, bond with consumers.” There are six ways in which corporate social responsibility can help an organization build brand equity:

- Building brand awareness.
- Enhancing brand image.
- Establishing brand credibility.
- Evoking brand feelings.

- Creating a sense of brand community.
- Eliciting brand engagement.

5.3. CSR as regulatory requirement

New laws, such as the carbon emission tax for airline operators currently in force in Europe, are an example of how CSR initiatives can be pre-empted by government. As reported by Discovery News (2012), countries can avoid the tax by developing plans to reduce harmful emissions. This trend means that companies would have to engage in research and development to generate more innovations and products that are both commercially tenable and the production, use and disposal of which is environmentally sustainable.

CSR regulation by the government may take the form of requiring companies to produce an Environmental Impact Assessment report before any development is carried out that would have a major impact on the environment and surrounding communities around, detailing measures that would be taken to mitigate its adverse effects. This is a means of anticipating the effects of negative externalities of business. This law would have a far-reaching effect on global airline companies who ply the European route, as they would have to contribute to “making the air cleaner in Europe”. Already, China, India and the United States have made bold protests as an affront to the new law and have threatened reciprocal action as well as a boycott of European routes. This would be a serious concern to international business as easy travel to various global destinations may be impeded as a result. The UK took the case of CSR so seriously that, during the successive Labour governments of Tony Blair and Gordon Brown, a Minister of Corporate Social Responsibility was appointed to oversee the government’s position on the issue of corporate sustainability and responsibility. “A resolution adopted by the European Parliament on 25th November 2010 increased the likelihood that the days of CSR as a purely voluntary initiative are numbered” state Foley and Pasipondya of the National Law Review. “Approved by a margin of 480 votes to 48, the resolution on corporate social responsibility in international trade agreements calls on the European Commission to include a CSR clause in all of the European Union’s trade agreements.” A clause like this means that companies would have to prepare for CSR balance sheets the public domain, “report on due diligence and seek free and informal consultations with local stakeholders” (Foley and Pasipondya, 2010).

In Nigeria, however, a bill to make companies dedicate 3.5% of their profits to CSR ventures is currently under consideration by the country’s legislature for deliberation and passage. Brought before the parliament by the country’s government, the bill seeks to make it mandatory for companies to engage in CSR initiatives. This would make Nigeria the first country to legislate on CSR. Taxes, however, do not fall under the remit of CSR as they are the responsibility of government. The law would apply to both local and multinational companies operating in the country. This law, however, would

have several controversial areas, as it requires 3.5% of profit before tax as a blanket requirement for all companies, whether large, medium or small. This could discourage SMEs, which are already stretched for profit and lack encouragement to continue in difficult economic times. The law, however, would ensure that companies engage in CSR, as a commission would be established to monitor and regulate it. Nevertheless, it is likely that many nations are watching Nigeria and waiting to find out if the CSR law works. "If this law does work, it is likely that many other countries might find similar laws proposed and implemented over time" (Chandranayagam, 2009).

5.4. CSR as a philanthropic engagement/initiative

With respect to philanthropy, top executives more often are caught up in the dilemma of having to choose between following critics who demand more corporate social responsibility investments and pressure from shareholders and investors who want the maximization of short term profits. Philanthropy is now being used as a means of "public relations or advertising, promoting a company's image through high-profile sponsorships" (Porter and Kramer, 2002). Addressing the business context of charitable donations also helps a company leverage its capabilities and relationships. "Adopting a context-focused approach requires a far more disciplined approach than is prevalent today. However, it can make a company's philanthropic activities far more effective" (Porter and Kramer, 2002).

In such cases, the context of CSR as a philanthropic engagement and charity initiative can better be understood. As many have argued, CSR is not corporate philanthropy in the sense of giving money away just for sentimental reasons, given that there is an overflow of financial capabilities. CSR is about giving back to the community voluntarily and in a mutually beneficial way, yet not totally within the remit of business activities. CSR is a tool for engagement in enlightened self-interest. Organizations make long-term investments, usually buying intangible investments in the long run by making tangible payments in the short term. "Companies are finding an increasing need to depend on value-adding activities such a corporate philanthropy in order to distinguish themselves from their competitors and cultivate goodwill amongst their stakeholders. The money they plough into philanthropic activities should not be viewed as a sunk cost. Instead companies should view it as an investment for the good of the overall firm" (Neryan 2009). If targeted well, a company can make its strategic CSR investments in areas where its potential customers can recognize its efforts. To show how vital this is for an organization and its long term survival, at a CSR conference in Chicago in 2009, the firm Edelman presented the results of a global study of consumer attitudes that revealed that nearly seven out of ten (68%) consumers would remain loyal to a brand during a recession if it supported a good cause (Grenier, 2009).

CSR for philanthropic engagement has been used by various global businesses. For example, the international telecommunications giant in Africa and the Middle East MTN orders its country operations to spend 1% of their profit after tax for philanthropic activities. In Nigeria, the MTN Foundation engages in philanthropic projects focusing on health, education and empowerment of minorities.

CONCLUSION: As CSR becomes more and more popular, it has increasingly become a “must do” rather than a “nice to do”. Companies across the globe from large brands, such as Coca Cola, MacDonal’d’s and IBM, down to smaller ones doing business across boundaries are reaping the returns of improved visibility, positioning and rebuilding brand image and customer perception, talent acquisition and retention, and helping communities help businesses.

Recommended reading

CSR as a corporate strategy is indeed expedient for businesses, and more so for MNCs, in the 21st century.

This essay was written by Kenneth Ogonna Ezeani in partial fulfilment of the requirements for the module ‘International Business Strategy’ for the MSc in Management with International Business at the University of Chester, UK, 2012. Brackets contain excerpts of S. Hoeffler and K. L. Keller (2002). Building Brand Equity Through Corporate Societal Marketing *Journal of Public Policy & Marketing* (Vol. 21 #1, p.78-79).

6. Strategic International Plan

Starting the internationalization process requires a lot of planning. The company must be equipped to face a new environment with competitive conditions that are very different from the ones it has faced on the domestic market.

The internationalization process must be properly planned regardless of size or industry.

Reflecting on the different elements that must be taken into account in key decisions (obstacles, opportunities, competitors, customers, industry developments, entry methods, etc.) does not guarantee success but can help reduce risk and allow the company to anticipate issues better.

6.1. External and internal analysis

One of the first necessary steps when designing the strategic internationalization plan is to evaluate all of the external variables which might come up in the business. This analysis must be conducted on two different levels:

a) Global or general environmental factors that might affect all of the firm's future developments. This specifically refers to factors such as increasingly fast and cheaper communication, transportation and production, or the intervention of emerging markets (notably those in Asia) that can hinder competition solely by pricing very competitively.

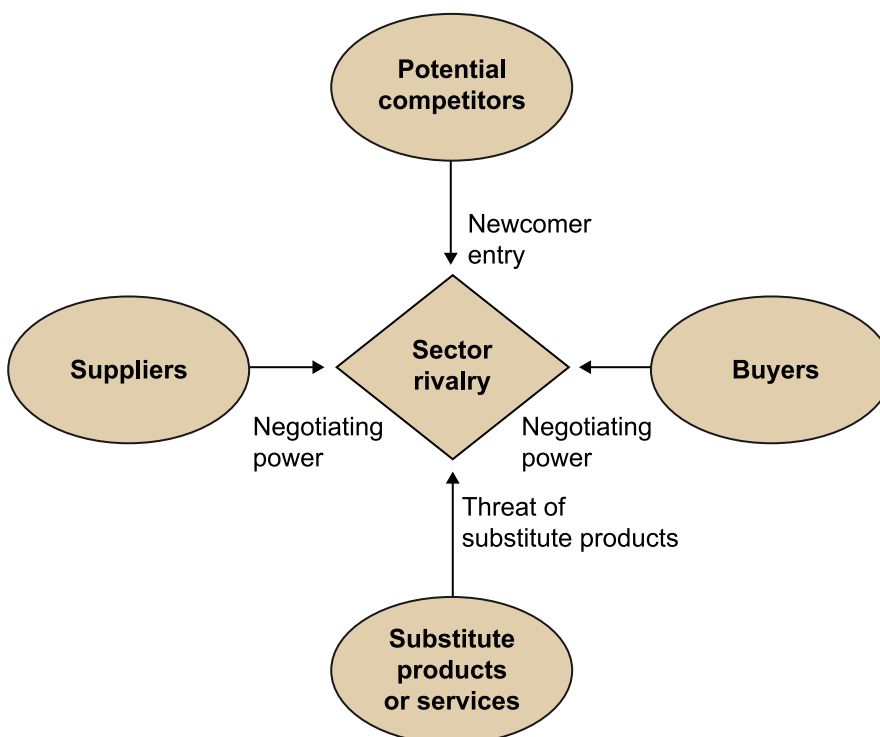
- **Economic Factors:** we will analyse variables such as inflation or interest rate (which will affect a company's comparison to other businesses) or the growth of the economy in the new country and in relation to international markets, etc.
- **Social Factors:** The variables analysed here depend on the type of industry in which the company operates. For example, companies must pay attention to population dynamics (population growth, life expectancy, lifestyle, etc.), political issues such as regulation or deregulation (E.g., the impact of China's entry to the WTO) and intra-regional agreements on tariffs, technical regulations and/or approvals.
- **Technological:** The use of the Internet (the first companies to use internet for their international marketing will increase their competitive

advantage), new logistical technologies (facilitating transportation or storage for example).

b) Business industry factors and the company's international situation: detailed analysis of local and international competitors, the company's own profile and behavioural pattern. As mentioned above, the characteristics and structure of the industry in question can greatly influence the company's internationalization.

A useful tool for characterizing the sector is the Porter Five Forces model which can be applied to the international environment or the selected foreign market according to the degree of globalization present in the sector:

Figure 4



For a better understanding of the globalization potential of an industry or sector, one can use George Yip's proposal that complements Porter's analysis framework. George Yip proposes an analysis methodology to understand how different factors can jump-start the globalization of an industry and influence the five elements mentioned above (notably the threat of new competitors and industry competitiveness).

Yip distinguishes four areas when determining the potential globalization of an industry or sector:

a) Globalized market factors that depend on the nature of customer behaviour:

- Preferences and more-or-less homogeneous needs across countries make it more dangerous for new entrants, as it reduces the cost of product

Further reading

G. Yip (2003). "Diagnosing Industry Globalization Potential". *Total Global Strategy*. New Jersey: Prentice Hall.

development for different countries and the difficulty to differentiate increases rivalry.

- The existence of global customers: Global international purchases, as seen in the automotive sector.
- Global distribution channels. These two aspects reduce the threat of new competitors: it is difficult to replace a provider serving a client in several countries. Although a new entrant can capture a customer global or regional channels can be exploited for rapid entry into international markets.
- Marketing transferability from one country to another (Coca-Cola is a global brand and packaging), which may increase and/or reduce barriers to entry as new competitors can implement advertising, packaging design, etc. at lower adaptation cost in other countries. This can lead to rivalry in the sector.

b) Factors that globalize costs:

- Economies of scale.
- Steep learning curves reduce the threat of new competitors.
- Efficiency gains of global purchasing and favourable logistics (transport costs) can facilitate the entry of new competitors and in turn increase competition.
- Differences in significant costs between countries.
- High costs of product development and rapidly changing technology.

c) Factors that globalize the industry regulation:

- Favourable trade policies (between countries or regions).
- Compatible technical standards.
- Common laws.
- Presence of governmental competitors.

d) Factors that globalize competition:

- High exports and imports in the sector.
- Increasing number of competitors from different countries.
- Increasing interdependence between countries and companies (production sharing, for example).

- Transferable competitive advantages (for example, those based on technology).

It cannot be assumed that there are certain global industries, while the rest are not. Each sector/product has a number of issues with varying globalization potential. An industry's globalization potential can also change over time.

Lessard revised this approach and incorporated the importance of the location of the company's headquarters, renaming the four groups of factors:

- Economies of scale and scope.
- Similarity of markets.
- Regulation.
- Comparative advantage.

To obtain a better understanding of our competitive advantage and complete our sectoral analysis, it is important to analyse the strategic behaviour of our main competitors, at both a local and international level, and their positioning relative to ours. This includes analysing how these other companies compete in terms of variables such as quality, innovation, design, R&D, technology, service, brand, distribution, prices, etc., whether or not they use a differentiation strategy, and their economies of scale, experience curve, plant design, locations, prices and suppliers of inputs, etc. Other aspects that must be analysed are whether the company implements a cost leadership strategy and what countries or geographical areas and market segments it caters for.

Another key step is to perform an internal analysis of the company, its characteristics and strategic resources, including its ability to develop the key skills of its human resources (with the right people, the company can find what is needed), technology (whether it has or can develop the necessary technology, or can license it or obtain it through partnerships or joint ventures), know-how, possible financial resources for investments in the medium and long-term, and so on. It is also important to determine the key result areas (innovation, human resources, distribution, etc.) in comparison to the critical success factors (brand, new product development, service, etc.), in both domestic and international markets. Finally, analysis of the company's value chain and operations will enable it to reflect on the international dimension of each of its parts and redefine strategies, outsourcing and interrelationships between these elements.

Further reading

D. R. Lessard (2003). "Frameworks for global strategic analysis". *Journal of Strategic Management Education* (vol. 1, #1, p. 81-92).

Figure 5. Value chain

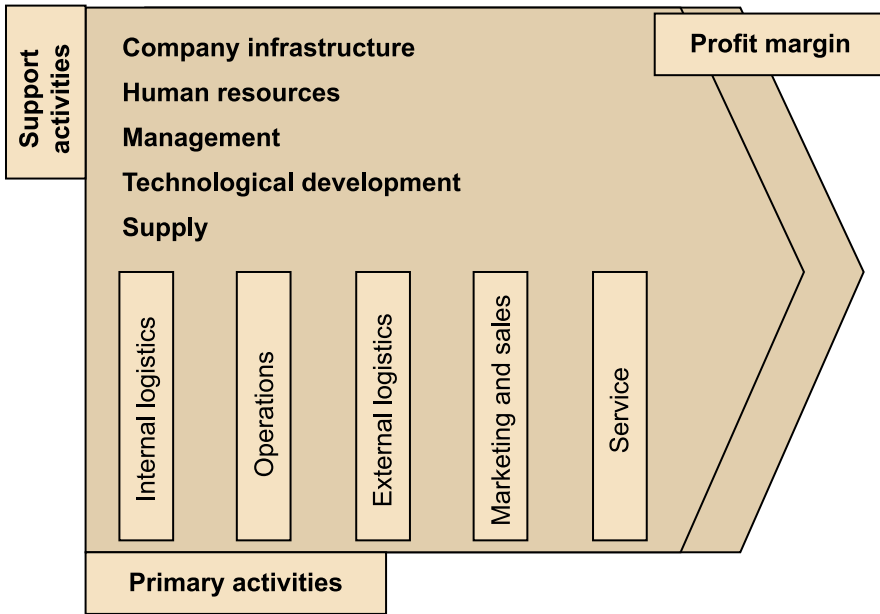
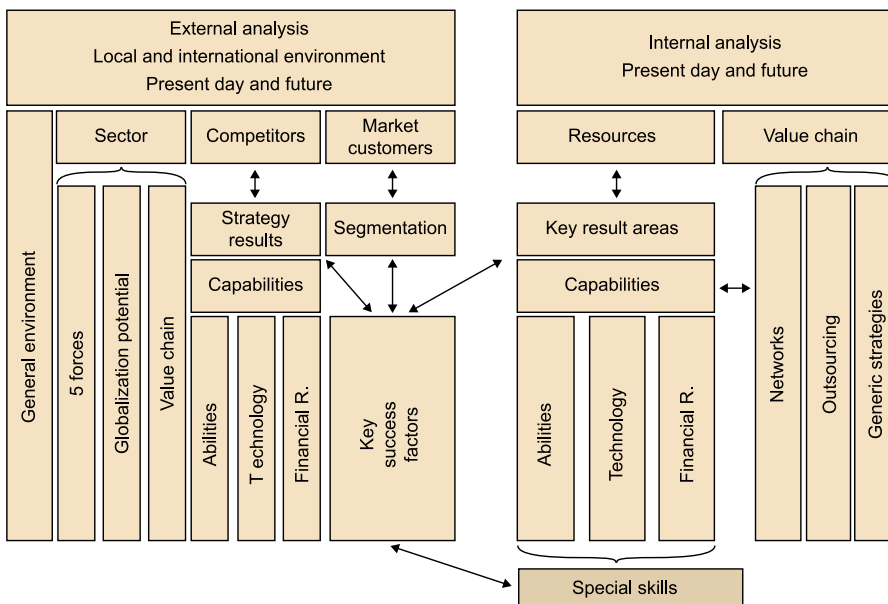


Figure 6. Present and future internal and external analysis



6.2. Key decisions of the strategic international plan

Once we have analysed the external and internal opportunities, there are several issues a company must address before expanding internationally.

The first of these is whether or not the company should internationalize or remain a local or national player. If the company decides to internationalize, it must identify what objectives to set, taking into consideration the advantages that these would bring the company, etc. The company must formally define its strategic objectives:

- Increasing competitive advantage.
- Finding new growth opportunities.

- Achieving economies of scale.
- Acquiring knowledge, new technologies, R&D and know-how.
- Importing commodities.
- Reducing production costs.
- Diversifying risk.
- Diversifying products or services.
- Diversifying the company's markets.
- Selling stock.
- Positioning the company in niches where the product or service may be the only one of its kind or the best.
- Following the lead of competitors operating on a global scale.

The definition of the necessary internationalization strategy includes three basic parts:

- Objectives.
- Resources.
- Decisions.

The international strategy should guide a company's international operations over a period of time long enough to foster sustainable growth.

Although starting the internationalization process involves several complex decisions, the first key factor is having a product of a high enough quality to sell it successfully in foreign markets.

The combination of product/service/activity and market should be the first issue to be decided in order to begin the internationalization process

At the same time, a company must decide how many countries it wants to operate in and, if it increases international sales, whether or not the company's presence should be accompanied by a wider or narrower range of products. Ultimately, a company must assess the scope of products/services/activities and countries in which it wants to operate. Once defined, the products/services/activities and the individual market plans should be combined to configure a global entry strategy (Root, 1994).

A second aspect that the project managers must consider is the choice of a method of entry or establishment abroad, which must take into account the associated factors that affect this choice and have an impact on its dynamics or evolution.

Further reading

F. R. Root (1994). *Entry Strategies for International Markets*. San Francisco: Jossey-Bass.

The last critical factor during this process is the coordination and organization of international activity to achieve the set goals more effectively. The decisions made in this respect relate both to the major functional areas (E.g. sales, finance, human resources, R&D, etc.) and the more specific activities (E.g. marketing, distribution, advertising, etc.).

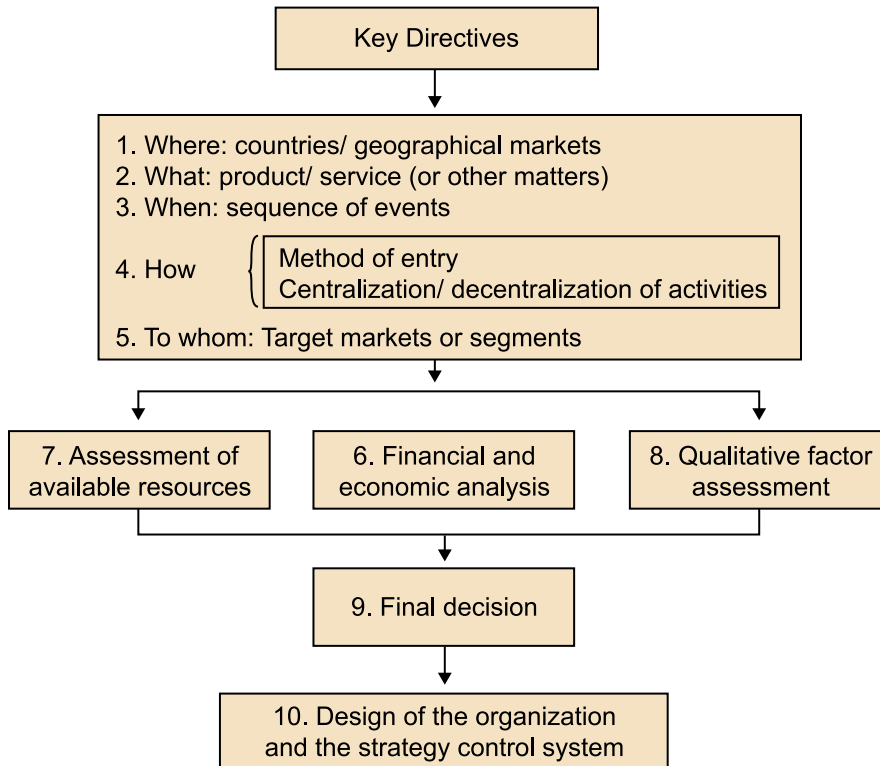
The company's responses to these questions should then be evaluated from multiple perspectives (Canals, 1994):

- Economic and financial evaluation: Identifying whether the operation makes sense from a purely economic and financial perspective.
- Internal resources evaluation: Assessing whether the company has the necessary resources (financial and non-financial) to ensure forecasts are met.
- Evaluation of the qualitative aspects of the decision.
- What opportunities may arise in the future if these decisions are taken?
- What real learning opportunities occur abroad?
- What are competitors doing?
- Are you willing to work with customers on joint projects in your country?

According to Root, without a proper entry strategy for the foreign market and due consideration of qualitative aspects (which can reinforce the company's competitive advantage to market a product and target a clearly defined audience), companies only focus on trying to increase their sales figure, without actually making a determined approach to the foreign market-customer or developing a genuine strategy for entry to international markets (Root, 1994).

In the following figure, the different elements of the decision process are presented systematically:

Figure 7



Source: J. Canals (1994). *La internacionalización de la empresa. Cómo evaluar la penetración en mercados exteriores*. Madrid: McGraw-Hill/Interamericana de España.

6.3. The purpose of internationalization

As mentioned above, the company's decision of which product, service or activity to market (i.e. the object of the internationalization) is one of the key decisions to be made when establishing an international strategic plan.

Of the aspects that should be considered in this analysis, the following are especially important:

Note

If the company's objective is simply production, the internationalization process could follow a similar structure to that of market selection. However the variables to consider would differ significantly. This would require a preliminary analysis to identify the differences in terms of production costs, the legal labour framework and the convenience of supply logistics and distribution, among others.

- Significant market acceptance of the product in its country of origin: a product that is not competitive on the domestic market is highly unlikely to be competitive internationally.
- High potential benefit expected.
- Availability of resources (raw materials, technology, skilled labour, etc.) to meet increased demand.

- Ability to market abroad in the same way as in the domestic market, in order to exploit synergies and the experience and know-how accumulated by the company in the domestic market.
- Degree of competition with respect to the product/service in the domestic market.
- Fulfilment of customer needs (current and potential customers).
- Degree of uniqueness of the product/service or predicted competition in the international market.
- Conditions of use, both domestically and internationally.
- Requirements of complementary services to the product.
- Degree of adaptation required by the product/service.
- Availability of a suitable marketing channel.
- Differentiation from competitors in the target markets (higher quality, more innovative design, use of technology components, etc.).

The responses to these issues are rarely defined before systematic and thorough research into each possible foreign market. However, the responses based on directors' knowledge and experience can help companies identify the best candidate with a high enough degree of precision and avoid the cost of a wider selection of countries.

Any potential product candidate must offer certain advantages in terms of gaining market share and a satisfactory return on the foreign market. Furthermore, analysis of the international lifecycle of the product (or generic product type) can be useful to identify and, consequently, choose a good candidate for foreign markets. In fact, at the same point, a product can be at different stages of its lifecycle in different countries.

The international lifecycle of a product can have important implications for companies entering new markets.

Once the product has been decided, the company must consider the need to adapt it to the foreign market to obtain the desired level of customer acceptance internationally. This may involve a physical adaptation or modifications in terms of branding, packaging, related services, advertising, etc. The adaptation of some products could be required due to non-financial requirements such as linguistic, cultural, legal, technical and health aspects

or climate-related issues. Companies in the same industry or with the same generic product may employ different product strategies in the same market/country.

The product policy that limits the adaptation of the product to international markets is called the standardization strategy. Its principal characteristics are:

- Considering a global market for the product, i.e. the same type of good is supplied to different domestic markets.
- Overcoming differences within each country with promotional efforts to try and adapt consumers and users to the product rather than the other way around.
- Reducing adaptation costs to avoid incurring higher costs for promotion, since it is ultimately intended to unify national demands for the product.

At the opposite end of the scale, we find the product adaptation strategy, the main features of which are as follows:

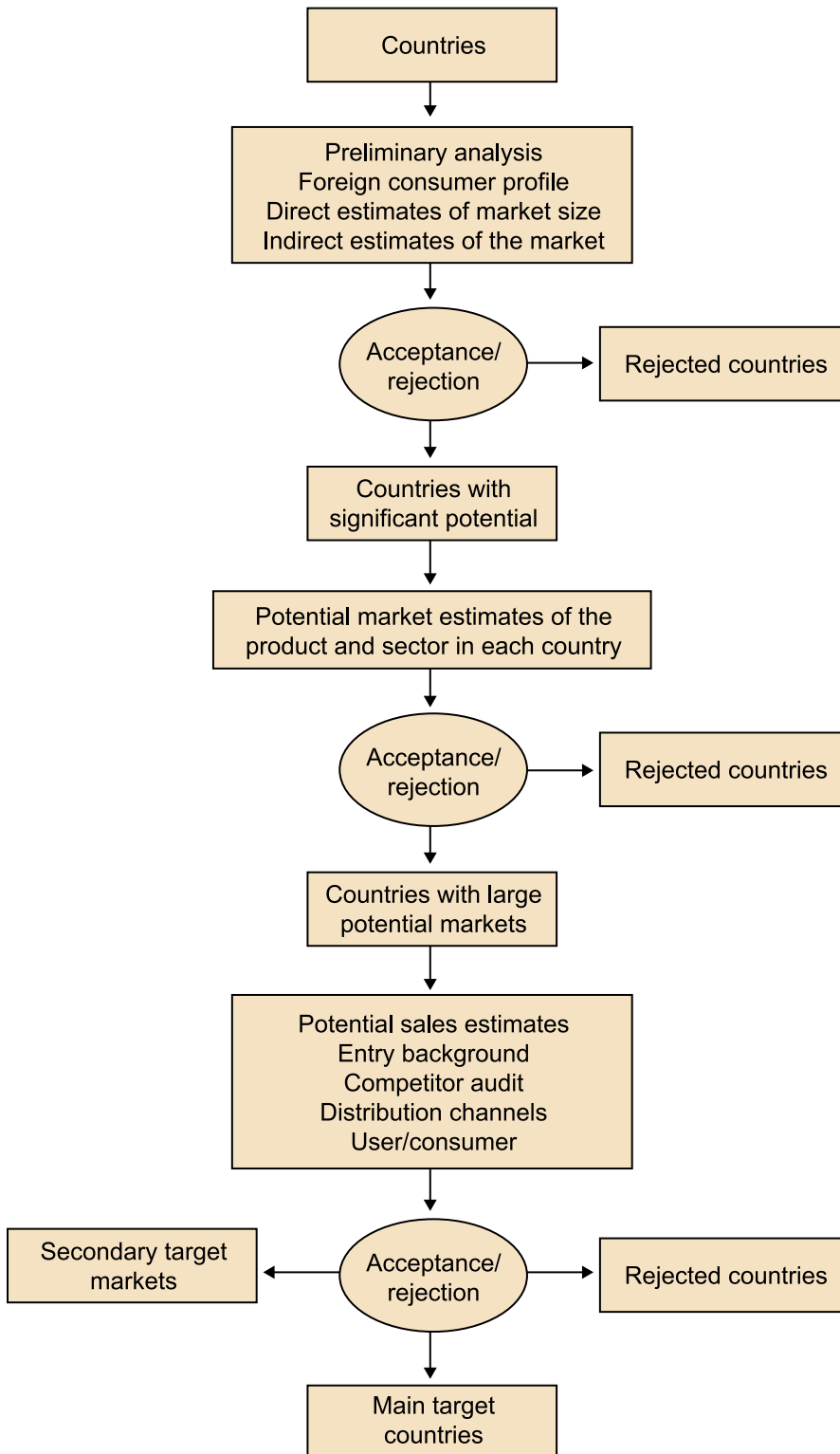
- Identifying multiple domestic markets and the characteristics that distinguish them from one another and from the domestic market.
- The decision to adapt the product to the specific preferences of each country.
- Usually incurs higher costs of adaptation, although lower promotional costs.

Few companies only use one of these strategies. Companies normally opt for a hybrid strategy, as implementing a single strategy would be too expensive. Therefore, they simultaneously standardize and adapt their product to the different conditions and needs of each particular market.

6.4. Market Selection

The following figure shows a possible selection process for a case in which the internationalization objective is the sale of products or services on international markets. One of the key variables that we should explore in this process is the company's potential sales:

Figure 8



Adapted from F. R. Root (1994). *Entry Strategies for International Markets*. San Francisco: Jossey-Bass.

As shown in the figure, three major filters can be distinguished in this chart in reference to preliminary analysis based on a relatively large number of potential markets. This is followed by a more rigorous estimate of the sector potential and the specific product's potential sales in a number of suitable countries.

The goal of the preliminary assessment is to identify potentially attractive markets, regardless of their number, to motivate and justify conducting more in-depth research in a number of them. This preliminary assessment will reduce the chances of making two very common mistakes:

- Ignoring countries that may offer good sales potential.
- Allocating too much time, effort and resources to researching countries with low potential, usually because of the relatively small size of their markets.

When initially assessing foreign markets for potential entry, companies often focus too much on the basic purpose of directing their exports. This relatively narrow view tends to be inefficient because it often rejects countries that require an alternative export method (because there are significant tariff barriers preventing complete entry, for example), despite being excellent potential markets. The preliminary assessment of potential foreign markets should enable the identification of target countries without being motivated by a particular form of entry or implementation.

To estimate the size of a market, a preliminary analysis requires a quick but accurate assessment of market potential, which, in turn, can indicate the best product. These potential market estimates must be sufficiently precise to identify countries that require or warrant further investigation.

In short, we should select the indicators that best match the profile of the consumer or user of the product/service chosen for export. At this point, managers should usually be basing their ideas on basic economic and social statistics as indicators of the market potential (GDP, per capita income, general data on foreign trade of the country in question and its past performance and future forecasts, etc.).

Once this preliminary evaluation is completed, the next step is a more refined estimation of the market potential of the product selected by the company, in fewer and fewer countries.

A country's market potential is defined as the most likely sales of a product by all producers or vendors competing over a given period of time (approximately three to five years).

While estimating market potential will entail some degree of subjectivity, we can use certain approximations based on historical data or more sophisticated analytical techniques to achieve more reliable estimates.

The last step in the selection of a foreign market involves estimating the sales potential of the company's product in these countries, which involves assessing a company's potential market share.

Not only do a company's potential sales depend on external factors and the market, but also on factors that are under the company's control, such as the level of sales and/or marketing efforts considered necessary (resources allocated to product pricing decisions, policy distribution or logistics and communication).

Other Methods.

There are less systematic criteria and decision types for selecting foreign markets:

- Filling orders coming from abroad, regardless of the country or geographic market they come from, testing the product on the market to decide whether or not to commit more resources.
- Initiating expansion in the closest country in geographical terms first, before gradually expanding coverage to countries further away once the company has obtained the knowledge and resources to do so. This form of selection is proposed and derived from the gradualist internationalization models mentioned above.

Some elements that must be taken into account when evaluating markets:

a) Studying aspects related to the current range of products or services on offer, allowing you to identify:

- Competitors, market share, etc.
- Structure and industry characteristics.
- General trends in the sector.
- Brands, prices, price setting methods (commissions, margins, etc.).
- Distribution Channels.
- Competitiveness factors (positioning, technology, commercial capacity, costs, etc.).

b) Studying aspects related to the actual current demand for products or services:

- Identification of customers/users.
- Characteristics of clients/users.
- Motivations and buying habits.
- Leading products.

- Purchase locations.

6.5. Strategic International Positioning

Once the country and the product have been chosen, another key decision must be made: establishing the company's strategic positioning relative to competitors in the selected markets.

This involves determining whether the company should serve their customers in a given market by offering their product with a high added value or by offering their product at a lower price than rival firms.

The following chart shows that a company essentially has three options or competitive strategies to choose from (Porter, 1985):

Table 2

		Sources of advantage	
		Cost advantage	Differentiation advantage
Scope	The whole market	Cost leadership	Differentiation
	Market segment or niche	Cost leadership focus	Differentiation focus

- **Cost leadership:** offer a market a more or less standardized product, but at a lower price (by use of low costs of production, finance, transportation, etc.).
- **Differentiation:** offer a product with high added value, and always higher than what is offer by any other rival. In this case, if the potential customer appreciates this higher value, the company can charge a higher margin on their product.
- **Targeting a niche or segmentation:** select one or more specific market segments and their needs, maintaining cost leadership or differentiation.

A fourth positioning strategy is to achieve differentiation and cost leadership by catering for the entire market (changing industry dynamics, for example, with the introduction of a new product or service or a new business model).

To achieve this, the strategic positioning of the company should be carried out in each country and, in turn, in each of the segments of the local market, taking into account the specific market trends and the resources and capabilities the company. Furthermore, positioning should not necessarily be identical for all foreign markets.

7. Methods of implementation

7.1. Options

As mentioned above, when a company decides to internationalize, it must consider several aspects almost simultaneously, deciding where it wishes to operate and what operation structure it wishes to establish. The scope of the company's activities in the selected international markets will depend on the choice of the most suitable method for each market in terms of access and implementation. Usually, this model selection is also one of the most important strategic decisions of any international company, as it conditions future operations abroad. In particular, a good decision in terms of the entry (or expansion) strategy for the international market can enable the company to exploit its competitive advantage in foreign markets. In contrast, the adaptation of an unsuitable model often greatly hinders the further development of its foreign operations and can be practically irreversible.

Below, we briefly describe the main forms of entry into international markets that the company may choose. Each is, in itself, a mechanism or organizational structure that enables the entry of products, brands, technology, know-how, financial resources, skills, individuals and any other company resources or competence for a previously selected foreign market. The key generic forms of entry include the following (Rialp *et al.*, 2007):

Table 3

Export	Contractual agreements (licensing, franchising, etc.)	Indirect (productive) investment abroad
Prioritizes reduction of risk on international operations	Low initial cost (attractive, especially at start of the process)	Rarely used in the early stages of the internationalization process
Low initial cost	Temporary solution limited in time to a lesser or greater extent	Requires extensive knowledge of the market, competition, production and investment climate in the destination country
At the beginning, this does not involve (incremental) investments in fixed assets	Available for manufacturers with technology, products or brands wanted by foreign enterprises	Involves a significant capital investment
Possible development process (change of indirect to direct exportation)	Marketing the product under the agreement controlled by the foreign company (licensee)	Exposes the investor to possible economic and socio-political risks

Export	Contractual agreements (licensing, franchising, etc.)	Indirect (productive) investment abroad
Enables experimental behaviour in obtaining knowledge about the market	May involve the export of intermediate products	The joint venture can facilitate a pre-entry formula using co-investment

F. R. Root (1994). *Entry Strategies for International Markets*. San Francisco: Jossey-Bass.

Each of these generic forms encompasses, at the same time, other more specific forms, such as: indirect and direct export; licenses, franchises, production agreements, international distribution; joint ventures, commercial and/or production affiliates/subsidiaries, that may be newly created or result from majority or minority acquisitions of local businesses.

The different forms of international penetration and implementation basically constitute a wide variety of formal institutional arrangements that a company can choose from, instead of organizing and carrying out its international operations within a previously established geographical scope. These mechanisms are generally based on the existence of some specific internal advantage for the company (technological, productive, commercial, managerial or organizational) or even on the susceptible localization of exploitation, at least temporarily.

Any of the different ways of operating abroad chosen by a company can change over time, in terms of redefining its level of international involvement. There follows an overview of the key features of the main generic forms and sub-forms that are usually adopted for international penetration:

a) Entry methods based on exports: this involves the physical transfer of products, intermediate or finished goods, from the manufacturer's country of origin to the foreign consumer market (export market) in exchange for their value in monetary terms, either through export intermediaries or consortia, located in the country of origin of the agents in charge of the overseas transfer (indirect export) or through outsourced commercial networks (independent commission agents or distributors) or own local networks (commercial offices, sales delegations, affiliate/ commercial subsidiaries), or ones established by the company in foreign export markets (direct export).

b) Entry methods based on contractual agreements (mainly international franchising or licensing): establishing a binding agreement or contract between an international company and other entities abroad, usually a local company, whereby a certain intellectual property right is transferred, in principle from the first entity to the second one, without using or exploiting, totally or partially in a market place (patent, technology, registered brand, production or distribution system, or even a more complete form of business) in exchange for some type of compensation, generally financial (non-fixed or sales-based royalties) previously stipulated between the parties. In the specific case of licensing a product or process, the right of exploitation usually has a

limited duration, unlike the typical case of the franchise that generally has a longer time span. In this chapter, other contractual mechanisms will be introduced, although with somewhat different characteristics to those covered above, such as production contracts, distribution contracts, management contracts and turnkey agreements

c) Entry methods involving foreign direct investment (FDI) (branches/subsidiaries or international joint ventures): this involves a more complex mechanism for entry and expansion into international markets, which can be classified into at least two different formulas or modalities:

d) Establishment of affiliates/subsidiaries of the company's own production and commercialization overseas. This implies ownership and control of the management of the investment conducted exclusively by a company. This may involve either the acquisition of or shareholding in another organization or foreign company that already exists, to a sufficient degree to exert total or majority control or the creation of a new production organization in a given country or overseas market. The company undertaking the international investment usually establishes these affiliates or subsidiaries in an attempt to exploit specific competitive advantages internally in terms of localization or when trade barriers or high transport costs make it unprofitable to use other export routes.

Each of these generic forms encompasses, at the same time, other more specific forms, such as: indirect and direct export; licenses, franchises, production agreements, international distribution; joint ventures, commercial and/or production affiliates/subsidiaries, that may be newly created or result from majority or minority acquisitions of local businesses.

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Creation of international joint ventures. A partnership agreement is established whereby two or more companies, usually from different countries, are associated for the purpose of sharing the joint ownership, management

and control of a new company, although not necessarily in the same proportion. The new company results from the set confluence of its assets and/or respective resources. As such, international joint ventures are a kind of co-investment by different partners from different countries, which often takes place in the market of one of the parties. Usually, the local partner contributes their in-depth knowledge of the local market and their government contacts, whilst the international partner contributes resources (economic, technical, technological or managerial).

Throughout internationalization process, international companies are repeatedly faced with such types of strategic decisions, based on the selection or modification of some of these forms or pathways of international market penetration and development.

7.2. Strategic international partnerships

In international strategic partnerships, it is important to highlight one way of internationalization that often arises when the company has acquired some international experience that can also serve to regain a lost market position, at both a domestic and international level.

Partnerships can be defined as agreements between companies to share resources, skills or activities for the purpose of mutual learning and for improving the competitive position of both companies. Partnerships usually benefit the parties involved because each company separately, with just its own resources, would not achieve its objectives or would take too long to do so.

Here are the characteristics of alliances between companies:

- Cooperation between or more undertakings.
- Long term.
- Linked business aspects but fail to merge.
- Expand possibilities, combine resources.
- Are rivals or are complementary; some competition between the parties.
- Comparable strengths and resources.
- Beyond market transactions.

The variables that influence the decision to undertake a partnership, instead of acquiring the capabilities with goal of a possible agreement through internal development or purchase of a company, can be grouped as follows:

- Cost of the options.
- Required speed of the market, clients or competitive conditions.
- Ability to integrate new capabilities as part of the strategic alliance.

Note

As mentioned, in cases of accelerated internationalization, a fast international setout enables entry of a greater number of markets.

Business alliances may pursue different objectives, including the following:

- Technical development.
- Production and logistics.
- Access to the market: Marketing and Sales.
- A combination of the above.
- Geographical scope: one country or more.
- Sharing the same activities or the same or complementary resources.

Partnerships can represent a way for the company to acquire certain advantages to consolidate its international position but, in turn, may involve certain risks and costs that must be taken into consideration in the decision-making:

a) Benefits:

- Economies of scale.
- Increased capacity and production technology, access to new markets.
- Risk reduction.
- New market opportunities.
- Avoidance of market restrictions.
- Moderate industry rivalry, changing conditions of competition.
- Learning.
- Reduction of entry costs.
- Accelerating market diversity.

b) Disadvantages:

- Coordination, division of decision-making power, time and effort.
- Uncertainty of the results.
- Erosion risk of competitive position.
- Risk, over time, of an adverse negotiating position, one-sided control.
- Imbalance of benefits.
- Imbalance in terms of engagement and motivation.
- Conflicts between parties.

Strategic alliances tend to have a high mortality rate and their longevity depends on unpredictable market trends, as well as on the aspects of the design of the alliance. Therefore, the following issues should be considered when establishing a strategic alliance.

7.3. Conditional factors

A company's choice of the optimal entry method for a given product in a particular country or target market is the result of different forces (both external and internal), that may even sometimes be contradictory. To manage

the inherent complexity of the decision process for foreign market entry, managers must use analytical models that facilitate systematic comparisons between different alternatives.

Of the criteria that are almost always taken into consideration in these models, the following should be highlighted:

- Potential benefits or cost associated with each entry method.
- Degree of control over external activities.
- Required resources versus available resources for international business.
- Degree of flexibility and speed of response to unforeseen contingencies.
- Degree of internationalization and learning accumulated by the organization.

Economic performance is not the only relevant assessment criteria. Internationalization decisions often have no return on investment in the short term. The desired degree of control over external transactions determines the need for resources, flexibility or risk taken by companies and their learning opportunities. In this regard, it should be noted that foreign market entry methods are usually not interchangeable, since they cannot be applied equally to all circumstances.

Example

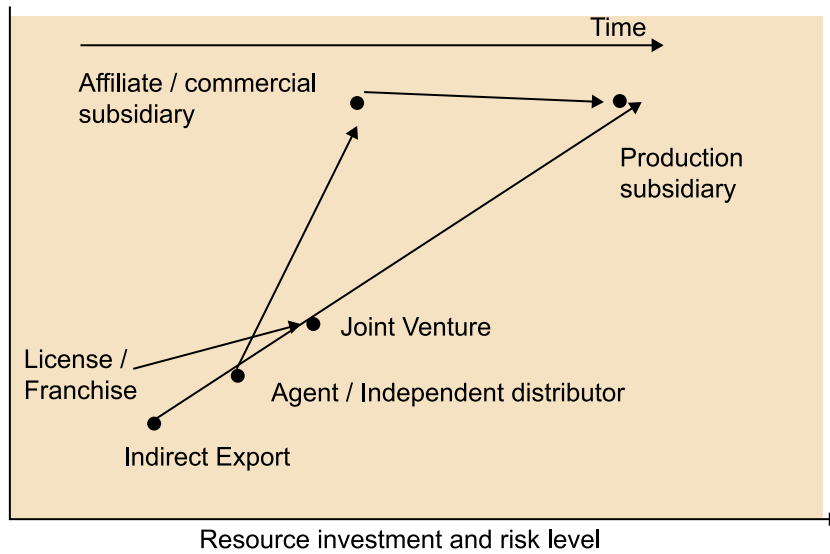
In the case of very high tariff barriers, it may be more practical for a company to set up its own subsidiary or to invest with a local partner.

The foreign market entry method is influenced by the sector in which the company operates, the stage of international expansion in which it is immersed, markets or foreign markets that want to enter or develop, and the decision criteria possible to compare the different alternatives available.

Once the business or international activity is started, companies usually modify their decisions gradually, particularly those that relate to the method of entry. Therefore, progressively over time, a company usually tends to choose mechanisms that allow increasing control over its international operations. To achieve greater control, the company must commit more of its resources in foreign markets and, therefore, also assume a higher level of risk. This evolution is shown in the diagram below:

Figure 9

Control / Potential Profit



The growing confidence of managers in the company's ability to compete abroad generates a progressive change in the relationship between risk and control, often in favour of the latter, so that the international development of the company can encourage foreigners entering new markets with formulas that are increasingly better suited to direct investment and that provide a maximum degree of control over the flow of foreign operations. As the figure shows, these strategic options of penetration and business development, in foreign markets are often characterized by the differing, though highly correlated, risk levels, resource commitments, potential benefits and degree of control. This reveals the existence of certain tensions or critical compromises (trade-offs) between, on the one hand, the level of control and, simultaneously, the operating risk borne by the company in its foreign operations, and, on the other hand, the potential benefits to be obtained depending on the amount of resources allocated at each point in time (Root, 1994).

As mentioned above, the move towards higher levels of internationalization involves a company obtaining a higher degree of international experience, the process of gradual and cumulative learning undertaken during international evolution (Rialp *et al*, 2007).

Each of these generic international development pathways or trajectories (export, contractual agreements, joint ventures or own investments and direct investments abroad), which may be combined over time, represent a continuum with different levels of governance, risk, flexibility and resource commitment to the company. Its movement along this continuum can be highly conditioned by the previous path followed and in, particular, by the level of knowledge accumulated in the international markets.

This process is strategic, evolving and dynamic in nature, since these mechanisms of entry and expansion abroad vary over time as the company increases and strengthens its presence in the international arena. Once the best suited access mechanism is chosen, the design of the entry strategy of a company in a foreign market will be completed with the development of international marketing plan that promotes market penetration in that country. The business plan is intrinsically linked to the method of entry used.

The mechanism of entry determines a company's degree of control over all of the relevant variables of its international marketing-mix programme in each country (product, price, distribution and advertising at international level).

Example

Some ways of operating, such as indirect exportation or licensing, give the company little control over the international marketing plan.

Other methods offer control that is still limited, such as exportation through agents and/or independent distributors and distribution agreements. These two options are different in the sense that, in the case of the agents, the company can identify the customers while, in the case of the distributors, the end user is unknown.

Other strategies allow almost absolute control of the business activities, such as setting up a commercial subsidiary or establishing the production abroad.

7.4. Entering markets through investment

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development.

Foreign direct investment, in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country. The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment. In recent years, given rapid growth and change in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country. As such, it may take many forms, such as a direct acquisition of a foreign firm, construction of a facility, or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property.

Note

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In the past decade, FDI has come to play a major role in the internationalization of business. Reacting to changes in technology, growing liberalization of the national regulatory framework governing investment in enterprises and changes in capital markets, profound changes have occurred in the size, scope and methods of FDI. New information technology systems and the decline in global communication costs have made management of foreign investments far easier than in the past. The sea change in trade and investment policies and the regulatory environment globally in the past decade, including trade policy and tariff liberalization, easing of restrictions on foreign investment and acquisition in many nations, and the deregulation and privatization of many industries, has probably been the most significant catalyst for FDI's expanded role. (...)

Proponents of foreign investment point out that the exchange of investment flows benefits both the home country (the country from which the investment originates) and the host country (the destination of the investment). Opponents of FDI note that multinational conglomerates are able to wield great power over smaller and weaker economies and can drive out much local competition. The truth lies somewhere in the middle.

For small and medium sized companies, FDI represents an opportunity to become more actively involved in international business activities. In the past 15 years, the classic definition of FDI as noted above has changed considerably. This notion of a change in the classic definition, however, must be kept in the proper context. Very clearly, over two thirds of direct foreign investment is still made in the form of fixtures, machinery, equipment and buildings. Moreover, larger multinational corporations and conglomerates still make the overwhelming percentage of FDI. But, with the advent of the Internet, the increasing role of technology, loosening of direct investment restrictions in many markets and decreasing communication costs means that newer, non-traditional forms of investment will play an important role in the future. Many governments, especially in industrialized and developed nations, pay very close attention to foreign direct investment because the investment flows into and out of their economies can and does have a significant impact. In the United States, the Bureau of Economic Analysis, a section of the U.S. Department of Commerce, is responsible for collecting economic data about the economy including information about foreign direct investment flows. Monitoring this data is very helpful in trying to determine the impact of such investments on the overall economy, but is especially helpful in evaluating industry segments. State and local governments watch closely because they want to track their foreign investment attraction programmes for successful outcomes.

How Has FDI Changed in the Past Decade?

As mentioned above, the overwhelming majority of foreign direct investment is made in the form of fixtures, machinery, equipment and buildings. This investment is achieved or accomplished mostly via mergers & acquisitions. In the case of traditional manufacturing, this has been the primary mechanism for investment and it has been heretofore very efficient. Within the past decade, however, there has been a dramatic increase in the number of technology startups and this, together with the rise in prominence of Internet usage, has fostered increasing changes in foreign investment patterns. Many of these high-tech startups are very small companies that have grown out of research and development projects often affiliated with major universities and with some government sponsorship. Unlike traditional manufacturers, many of these companies do not require huge manufacturing plants and immense warehouses to store inventory. Another factor to consider is the number of companies whose primary product is an intellectual property right such as a software programme or a software-based technology or process. Companies such as these can be housed almost anywhere and therefore making a capital investment in them does not require huge outlays for fixtures, machinery and plants.

In many cases, large companies still play a dominant role in investment activities in small, high tech oriented companies. However, unlike in the past, these larger companies are not necessarily acquiring smaller companies outright. There are several reasons for this, but the most important one is most likely the risk associated with such high tech ventures. In the case of mature industries, the products are well defined. The manufacturer usually wants to get closer to its foreign market or wants to circumvent some trade barrier by making a direct foreign investment. The major risk here is that you do not sell enough of the product that you manufactured. However, you have added additional capacity and in the case of multinational corporations this capacity can be used in a variety of ways.

High-tech ventures tend to have longer incubation periods. In other words, the product tends to require significant development time. In the case of software and other intellectual property type products, the product is constantly changing even before it hits the marketplace. This makes the investment decision more complicated. When you invest in fixtures and machinery, you know what the real and book value of your investment will be. When you invest in a high tech venture, there is always an element of uncertainty. Unfortunately, the recent spate of dot.com failures is quite illustrative of this point.

Therefore, the expanded role of technology and intellectual property has changed the foreign direct investment playing field. (...)

Portfolio investment

For most of the latter part of the 20th century when FDI became an issue, a company's portfolio investments were not considered a direct investment if the amount of stock and/or capital was not enough to garner a significant voting interest amongst shareholders or owners. However, two or three companies with "soft" investments in another company could find some mutual interests and use their shareholder power effectively for management control. This is another form of strategic alliance, sometimes called "shadow alliances". So, while most company portfolio investments do not strictly qualify as a direct foreign investment, there are instances within a certain context that they are in fact a real direct investment.

Why is FDI important for any consideration of going global?

The simple answer is that making a direct foreign investment allows companies to accomplish several tasks:

- Avoiding foreign government pressure for local production.
- Circumventing trade barriers, hidden and otherwise.
- Making the move from domestic export sales to a locally-based national sales office.
- Capability to increase total production capacity.
- Opportunities for co-production, joint ventures with local partners, joint marketing arrangements, licensing, etc.

A more complete response might address the issue of global business partnering in very general terms. While it is nice that many business writers like the expression "think globally, act locally", this well-worn cliché does not really mean very much to the average business executive in a small and medium sized company. The phrase does have significant connotations for multinational corporations but, for executives in SMEs, it is still just another buzzword. The simple explanation for this is the difference in perspective between executives of multinational corporations and small and medium sized companies. Multinational corporations are almost always concerned with worldwide manufacturing capacity and proximity to major markets. Small and medium sized companies tend to be more concerned with selling their products in overseas markets. The advent of the Internet has ushered in a new and very different mindset that tends to focus more on access issues. SMEs in particular are now focusing on access to markets, access to expertise and most of all access to technology.

What would be some of the basic requirements for companies considering a foreign investment?

Depending on the industry sector and type of business, a foreign direct investment may be an attractive and viable option. With rapid globalization of many industries and vertical integration rapidly taking place on a global level, at a minimum, a firm needs to keep abreast of global trends in their industry.

From a competitive standpoint, it is important to be aware of whether a company's competitors are expanding into a foreign market and how they are doing that. At the same time, it also becomes important to monitor how globalization is affecting domestic clients. Often, it becomes imperative to follow the expansion of key clients overseas if an active business relationship is to be maintained.

New market access is also another major reason to invest in a foreign country. At some stage, export of a product or service reaches a critical mass of amount and cost where foreign production or location begins to be more cost effective. Any decision on investing is thus a combination of a number of key factors including:

- Assessment of internal resources
- Competitiveness
- Market analysis
- Market expectations

From an internal resources standpoint, (...) is there a realistic assessment in place of what resource utilization the investment will entail? Has information on local industry and foreign investment regulations, incentives, profit retention, financing, distribution and other factors been completely analysed to determine the most viable vehicle for entering the market (greenfield, acquisition, merger, joint venture, etc.)? Has a plan been drawn up with reasonable expectations for expansion into the market through that local vehicle? If the foreign economy, industry or foreign investment climate is characterized by government regulation, have the relevant government agencies been contacted and concurred? Have political risk and foreign exchange risk been factored into the business plan?

8. Organization of international activity

How should the international operations of a company be organized? What criteria should be used to determine the location of operations, centralization to decentralization and subsequent coordination of these activities? Certainly, to tackle these and other issues, other criteria will have to be factored in, such as cost reduction and other aspects such as:

- Increased effectiveness of outdoor activities.
- The degree of adaptation to local needs.
- The international learning process followed by the organization.
- The coordination of previously decentralized activities.

8.1. Activity location and organization

In general, the organization of international activities and the different models of existing international companies depend on where and how the firm's different activities are located. In this respect, the management of international companies requires considerably more complex approaches than the management of purely domestic companies.

As discussed below, in principle, the commercial activities (sales, distribution, advertising, customer service) would have to be as close as possible to the end customer to offer a better service and, at the same time, observe the evolving needs. In this case, decentralization of commercial functions is particularly appropriate.

Should the procurement, production and logistics activities be decentralized? The answer depends on economies of scale or the experience that can be achieved, as well as other factors such as ensuring quality control, access to raw materials, protectionist pressure that encourages foreign investment of certain governments, and the need to coordinate production and R&D activities closely with the commercial side of operations.

Indeed, whatever location is picked by the company for its operations, there is a second key variable: the coordination required between the different activities. One of the mechanisms of coordination is the specialization of the each country's units with respect to certain functions, so that a high degree of decentralization, if desired, does not prevent certain economies of scale being achieved.

At the same time, the coordination of activities should allow the transfer of experiences from one country to another, so that the organization's learning process is not hindered by excessive decentralization. Thus, the potential

advantages of the centralization or decentralization of activities not only depend on their physical location, but also on the coordination between all of the activities carried out by the company in its home country and abroad.

The localization of the activities of an international company may be distributed across different countries that become markets for the final or intermediate products, or raw materials. This can greatly complicate the traditional value chain of the company since it involves geographic locations in which they carry out various activities of the company.

Companies should capitalize fully on the learning opportunities that arise from coordination between different locations. A clear understanding of these factors of location and coordination enables suitable models for organizing activities to be designed, which may lead, in turn, to two strategic approaches depending on the greater or lesser degree of decentralization of activities, and on the existing coordination:

1) **Multi-domestic focus.** The company competes in totally separate local markets, and adapts itself to the specific characteristics of each market, promoting greater decentralization of activities.

2) **Global focus.** The company competes in a single market, regardless of borders, offering a similar product or service in different markets. This depends on the parent company and subsidiaries in each country being tightly integrated with constant flows in terms of product, technology and information, etc.

The adoption of either strategy will depend on the degree of globalization of the sector or industry, as mentioned in previous sections.

In many cases, a combination of both approaches is observed, with the centralization of certain activities that are difficult to handle in a decentralized manner, such as production, R&D and procurement, while other activities that require some local adaptation are decentralized, such as distribution, sales promotion and after-sales service.

8.2. Organization of production and technology

Activities linked to production and operations have a number of characteristics that affect a company's organization, including:

- The number, size and location of production plants.
- The degree of vertical integration.
- The choice of operational technology.

- The design of the process operation support (quality control or new product development, for example).

As mentioned above, the criteria for centralizing or decentralizing the production operations are related to the degree of globalization of the sector or industry in terms of factors that globalize costs and regulation of the sector or competition, as well as following factors:

1) **Cost savings:** production, logistics and procurement activities may be disconnected from the trading countries with the aim of guaranteeing quality control and achieving certain economies of scale or experience.

2) **Customer service:** in principle, the best possible customer service is achieved by locating the production plant near the local market that it intends to serve. At the same time, this helps to strengthen company's commitment to the corresponding national market. The existence of qualified personnel in the country constitutes a key factor in deciding the possible decentralization of production and logistics operations.

3) **Transport costs:** in some sectors, such as the soft drinks, big companies are faced with the dilemma of constructing large production plants, with high transports costs in the distribution channel, or decentralizing the production, with the consequent loss of economies of scale in favour of greater proximity to the resale channel and, therefore, a reduction in transport costs. Companies have tackled this issue in remarkably different ways.

4) **Coordination of production operations, R&D and marketing:** This enables companies both to improve the product and customer service and to learn from market responses, and to maintain and develop the company's potential competitive advantages even further. The proximity and proper coordination of these three types of operations is often considered to be a key factor.

5) **Geographical spread risk:** a company that has well-designed coordination processes in geographical terms can offset the inherent risks of operating internationally more easily. Moreover, this coordination can counteract the cyclical movements of demand in a country through its production capacity in other countries. In any case, the centralization or decentralization of production is not in itself sufficient.

To achieve the greatest possible benefits of internationalization, a high degree of coordination is required. Thus, the possibilities of coordination appear, especially in the organization of production and logistics of purchasing materials, producing at this level until five basic coordination mechanisms:

- The possibility of specialization in a plant to manufacture a semi-finished product which costs less to transport from the other plants than the benefit derived from the increased efficiency in production.
- The coordination of production so that, at certain times, the production in the plant in one country can be designated to fulfil the demand of another country, and thus increase the responsiveness of the organization (Canals, 1994).
- The transmission of learning from one plant to the other to improve the product or develop more sophisticated varieties. Usually, the plant located in the country with more demanding consumers can potentially contribute more to the improvement of product than other plants.
- Taking the maximum possible advantage of price differences in raw material markets, acquiring them in the country or countries that offer the best prices. If possible, the company could become a bulk buyer from suppliers of raw materials or complementary resources, which not only enables a price reduction to be negotiated, but also ensures a better service from these suppliers (Canals, 1994).

8.3. Commercial operation organization

To what extent can commercial or marketing activities be managed more-or-less globally? As discussed above, the answer to this question relates both to the degree of globalization of the industry or sector, and the factors that influence market globalization:

Global markets in which there is convergence in consumer tastes and preferences in different industrialized, basically facilitated by the media, so that the messages and the ways of reaching consumers are similar. In such cases, significant cost savings can be achieved in terms of commercialization activities, such as distribution, advertising and the potential positioning of a global brand image and reputation.

Fragmentation of marketing activities, not only in terms of the method of entry into each market but also with respect to product design and advertising support. This due to differences between countries in terms of dealing with cultural issues, educational systems, national income per capita, physical distribution systems, the variety of transport means and the efficiency of an advertising campaign.

The commercial department makes sense in an international context, not so much due to its efficiency in a single country, but rather its ability to contribute to the success of the international strategy of the company as a

whole. Therefore, whatever degree of adapted centralization exists, this has to be consistent with the company's other activities and, in particular, with decisions on production activities and R&D.

Thus, the geographic concentration of some of the activities of the commercial area may be necessary when, for example, a company wants to create a certain brand or run joint training initiatives for the sales force. In contrast, it would decentralize other activities, such as publishing advertising material in the language of each country, designing specific advertising campaigns, choosing distribution channels and pricing. In any case, this decentralization should not be absolute, but may be influenced by several coordination processes in relation to other areas, such as production.

At the same time, the most important advantages of the coordination of business activities in different countries arise from the learning process in each geographic market, with lessons that may be transferred to other countries. The trajectory of international companies with extensive experience in consumer and corresponding centralization, more simple, such as creating a brand image or an after sales service. In contrast, other commercial tasks are more difficult to standardize, such as advertising, pricing policies and access to distribution channels.

8.4. Organizational design

The actions described above have strong implications on the organizational design of internationalized companies. The organizational structure defines the relationships between different departments or divisions of the company. This affects the results obtained in the development of different business strategies, including the international strategy itself. In fact, there is no single ideal model of organization, since every possible situation requires a different organizational structure and there are never two organizations with the same structure. Thus, there are variables that may influence the choice of the most appropriate organization structure to implement for activities abroad:

- The volume of international sales versus total sales.
- The extent of international experience.
- The size of the company.
- The different methods of entry into foreign markets.
- The variety of product lines.
- The variety of markets or geographic areas.

In a simplified form, the different mentioned variables can be focused to the last two, as all increased international activity and, therefore, the international commitment, achieved by the company, is generally accompanied by a greater variety of foreign marketed products and/or a greater number of markets in which it operates. However, companies tend to change their

organizational structure over time, in response to the opportunities presented by foreign markets and to improve the efficiency of the implementation of their international strategy and enhance their competitiveness.

In the following figure, the most appropriate types of organization are shown according to the degree of diversification of products or markets, although none of these methods are rarely adopted in the strict sense, being common for companies to use some variation or combination of these, according to their strategic:

Table 4

	Diversity of Geographic Markets	
Diversity of product lines	Low	High
High	Divisional product organization	Matrix organization
Low	Functional Organization	Divisional geographical organization

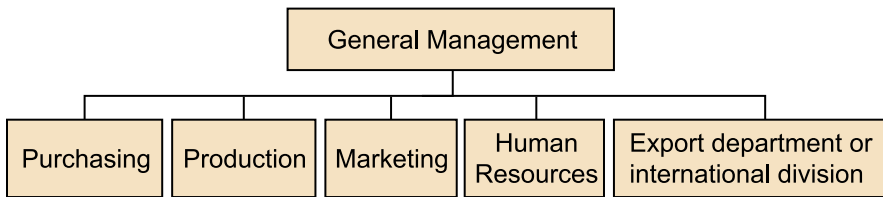
1) Functional organization

Of all organizational models, this is the most simple from an administrative point of view, since it emphasizes the core areas of the company and works well when products and customers are relatively few and similar in nature. The fundamental characteristics of this type of organizational structure are as follows:

All international activities are concentrated in one functional area (department of export or international division, depending on the case), so the responsibility of the international business is ideally located and is not diluted across the different operational areas of the company. The responsible department or the export responsible deals almost only with the commercial tasks; therefore often depending hierarchically on commercial director of the company. The existence of an international division constitutes a true specialist center in which all or most of the activities are being developed related to international.

This structure usually occurs in companies with a limited number of products, usually SMEs, or companies that are still in the early stages of internationalization and whose major sales volume still tends to come from the domestic market.

Figure 10



Source: J. Canals (1994). *The internationalization of a company. How to assess the penetration of foreign markets*. Madrid: McGraw-Hill/Interamericana de España.

2) Divisional organization by geographical area

When a company has a high level of international experience (for example, when the foreign market has a similar or higher strategic importance than the domestic market) and when it commercializes its products in a large number of countries or markets, it usually implements this type of structure, with the following basic characteristics:

- The global market is divided into geographical areas of a certain uniformity (Europe, Asia-Pacific, North America, Latin America, etc.) and divisions are configured to facilitate implementation of multi-domestic strategies and international marketing programmes best suited to each area. This is therefore of particular interest for companies that mainly manufacture consumer goods.
- The heads of the divisions are responsible for the results obtained by all of the product lines in their respective geographical area. The domestic market becomes part of one of the areas or constitutes an area by itself. There are usually certain centralized functions or a team in the headquarters coordinating global activities.

The development of economic integration zones (EU, Mercosur, NAFTA, etc.) has encouraged these organizations. Although there are differences between the markets forming an area of economic integration, they also have common features that allow the simplification of strategy development and, at the same time, the creation of specific divisions for these geographic areas. The most common drawback involved in implementing this structure is that it is difficult to adopt a truly global strategy. It is also possible that certain tasks or activities are being duplicated, since each geographic division has its own production, marketing, finance, R&D department. Thus, the less independent the areas, that represent the divisions of the organization, are, the more unnecessary duplication could happen. If distinct geographical areas are established, it may be necessary to produce, establish R&D activities or to develop an independent trade policy for.

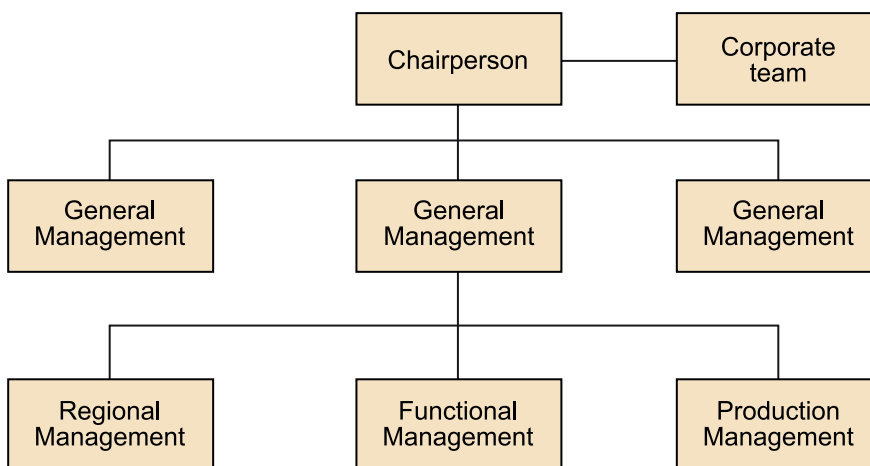
3) Divisional organization by product

When the company has a high level of international activity, its product lines are differentiated and it has a wide variety of products, technologies or end users. In such cases, the most commonly approach is for the organization to be structured into product divisions. The main features of this type of organization are:

The product managers are responsible for the results of a specific group or line of products for the whole market (both domestically and in foreign markets). While in the case of very large companies there may be subdivisions by geographical area, their managers report to the director of the product division and not the regional director or area. This is facilitated by the implementation of a real strategy for achieving a global reach for the different product lines. This also involves greater standardization of the international marketing mix for each product line, which can be more or less effective depending on the degree of similarity or differentiation of the markets.

This type of organization is particularly recommended in cases in which the task of coordinating the various activities is specifically significant, in order to avoid duplication of functions and to capitalize fully on synergies in different production lines. This usually happens in sectors such as chemicals, electronics and capital goods. As in the previous case, there are usually certain centralized functions or departments that coordinate global activities.

Figure 11



8.5. Evolution of international activity organization

Different parent organizations are structured based on two or more dimensions, with the main feature being that workers in a given area, report to at least two different hierarchically upper echelons. Product divisions are combined with geographic divisions, or with different traditional functions of the company (production, marketing, management, human resources, R&D, etc.). Most parent structures used by international companies are organized based on geographic criteria or product lines.

While the design of international strategy enriches from different scopes (ex. products and geographical areas), this structure results sometimes difficult due to the confusion with respect to areas of responsibilities and chain control between the company staff. Product-based division may therefore tend to promote policies for product standardization to obtain cost efficiency. In contrast, geographical divisions by may highlight the importance of the differences between markets more, meaning they will favour the adaptation policies towards the different markets. A very useful practice to avoid conflicts between different divisions of the parent and, ultimately, confusion about responsibilities and levels of command, is to give priority to one parent dimension, depending on the competitive advantages for the. Often, this structure must be supplemented with multinational teams work and plurifunctional, since only with several staff teams and complementary focus, will it be feasible to address the phenomenon of the complexity of international.

As already mentioned, as an organization is moving in international activities, his organizational structure also evolves in a parallel way to respond to the adopted changes and future challenges in the international strategy of the company.

Table 5

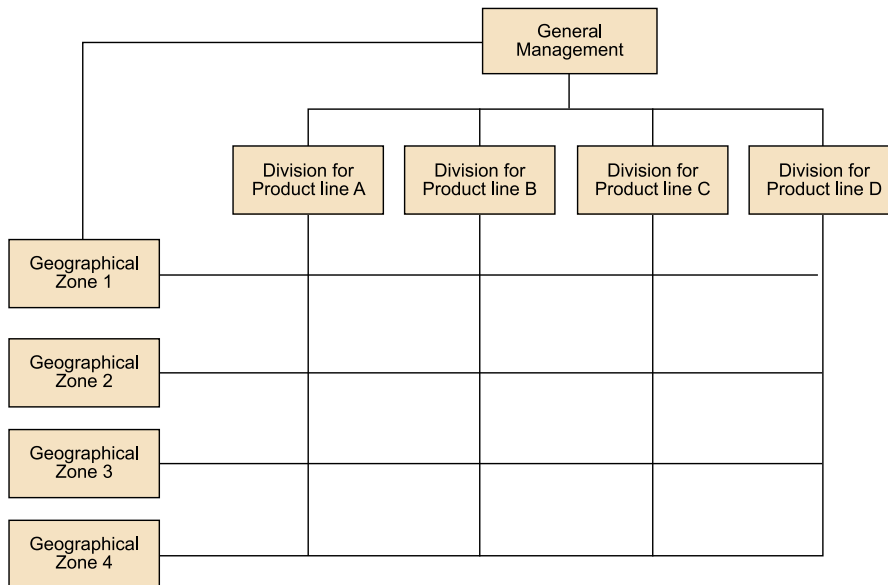
Phase	International strategy	Organizational reply
1	No international strategy	No formal export structure
2	Market entry or foreign markets with mainly direct exports	Export department or division
3	Entrance to various foreign markets with local production and investment in other ways that do not involve direct investment	International division
4	Markets worldwide, localizations in numerous countries, with a global or multi-domestic strategic focus	Comprehensive organizational structures based on the product, geographical area (multidivisional) or both components simultaneously (parent company)

Source: F. R. Root (1994). *Entry Strategies for International Markets*. San Francisco: Jossey-Bass.

With respect to this structural evolution, it should be noted that, when companies (many still SMEs) embark on their international experience, the tasks inherent to the marketing of products in foreign markets, usually depends on one responsible, often the management of the domestic market, without really falling formally under one department. Then, in a second step, it is usual to create an export department that performs all these functions and, perhaps further onwards, in a third phase, is to establish an international division, which can be structured, in turn, according to different criteria, normally subdivisions by geographical areas (ex. subdivisions by areas). Finally, when a company should be considered as a true multinational because it is decentralized, wholly or largely, and has established the production

and marketing in subsidiaries in many countries, then the importance of international business for the company leads to the creation of structures based on the product (divisional by product), or in the areas of operation (division by geographical area) or mixed (parent).

Figure 12



8.6. Coordination Mechanisms

A basic problem of any organization is to define the relationships between two or more units, divisions or departments effectively, which also arises in organizations that are internationalized to a greater or lesser degree.

In large international companies, the responsibility for making decisions (such as who is responsible for distribution, who sets the prices, who perform product development, who hires advertising agency, etc.) can be assigned both to the managers at the headquarters and to the managers of the different regional divisions, branches or subsidiaries, dividing these responsibilities between the markets in which the company operates. An international strategy that is too centralized (top-down) tends to ignore the knowledge or experience accumulated by managers of local subsidiaries in their countries or local markets. Meanwhile, an international strategy that is too decentralized (bottom-up) can undervalue functional skills as well as linked to products, typical for the parent. It can also hinder the integration of entry strategies to different countries or regions.

The degree of centralization or decentralization, for both decision-making and implementation, is a decision that becomes more relevant as a company increases its international implementation and development. As such, in the early stages of internationalization, international strategy tends to be more centralized. The decisions come directly from the CEO of the company, the director of export or the international division. In contrast, when the

company increases its size, partially due to the growth of their activities abroad, responsibilities are shared more. Then the dilemma arises, in all its magnitude, whether it is more suitable to centralize or to decentralize decision-making and implementation. Traditionally, affiliates or large or small subsidiaries of international companies have oscillated between the following two extreme types of models of centralization and decentralization with respect to the parent company:

1) There are multinationals like Philips and Nestlé, in which the subsidiaries usually have an almost unlimited level of autonomy in production and marketing decisions. The parent company only uses the corporate brand image and, perhaps, a global advertising strategy to serve as a reference for the quality of the group with a given technology (Root, 1994).

In these cases, the subsidiaries have virtually no autonomy over decisions such as production, purchasing or commercialization, centrally taking directly from the parent. This applies, for example, in the case of car companies. However, centralization and decentralization policies are never applied in an absolute manner, but rather each company leans to one option or another to a certain degree according to internal and external circumstances.

2) The need for greater efficiency in operations requires a certain level of centralization for major coordination. Therefore, a fully centralized organization will have great difficulty to adapt to local needs. There are basically three factors that determine whether it is more desirable for a specific decision of international scope to be taken by parent company directors or by the directors of the subsidiaries in each country or jointly:

- The degree of potential contribution of skills and local knowledge of the directors of the subsidiaries involved in the decision: the higher the potential contribution, the more they should be involved in the decision process, and vice versa.
- The volume of investment involved in the decision: when a very large investment is required, the decision should be taken in a highly centralized manner, from the corporate point of view.
- The degree of multinationality or multilateral nature of the decision: managers of the parent company must make those decisions with a marked multilateral dimension, while they should not be involved in primarily unilateral decisions, or should share such decisions with the local managers.

As a result, in the management of international companies, it is generally considered more desirable to centralize decision, such as the design of new products or the entry method abroad. In contrast, it seems to be better to share

the decisions related to the international marketing plan with managers of local subsidiaries, as they certainly have a more in-depth knowledge of the specific conditions of each country or local market.

In a highly competitive and changing environment like we current face, companies operating in several countries have had to create very responsive mechanisms that adapt to the dynamics of each form of market coordination. As such, the balance between (de)centralization and coordination is absolutely critical in international business, and in the management approach of the different subsidiaries in other countries. As the company is increasing its international activities, coordination is increasingly complex and, at the same time, more necessary. This coordination is carried out from a central viewpoint, either from the parent company or from the regional sub-sites responsible for different geographical areas in which the company operates.

Along with the usual formal coordination procedures, international companies and especially large multinationals have developed new models or less formalized coordination mechanisms, including the following key examples:

- Personal control of the subsidiary by a general manager from the country of the parent company or with an international career within the company that enables them to interact at the highest level with the parent company.
- Multidisciplinary committees formed by managers from different countries.
- Informal communication between executives and managers of the various subsidiaries and the parent through visits to other countries, annual conventions, conferences, etc.
- Creating a corporate culture that crosses and, at the same time, transcends national borders.
- Introduction of identification and worker integration systems with the company, like the rotation of directors of the various subsidiaries, professional career planning, variable remuneration systems for groups or teams, etc.
- Setting up of an ethical code within the organization.

Below, there is a comparison of some of these potential coordination mechanisms:

Table 6

Mechanism	Benefits	Disadvantages
Cooperative culture	Cheap and powerful tool	Difficult to create and develop
Selection and transfer of management between different units	Diffusion of experience in different markets; mutual knowledge	Motivation of management to change country
Remuneration by objectives	Incentives to promote the situation	Difficult design and implementation
Organization by production line	Appropriate when the dimension of the product is crucial	Does not offer a perspective on the variety of the market
Organization by geographical zone	Appropriate when the geographical market is crucial	Does not offer a perspective on individual products
Matrix organization	Integration of geographical markets, product lines and functions	Difficult to implement

Source: J. Canals (1994). *The internationalization of a company. How to assess the penetration of foreign markets*. Madrid: McGraw-Hill/Interamericana de España.

Each option has its advantages and disadvantages, though perhaps the approach that results in lower costs is to develop a corporate culture that brings together individuals and units within the organization around clear and shared objectives and coherent policies.

