Factors Affecting Choice of International Entry Mode[123]

| Factor Category | Examples |
|---|---|
| **Firm factors** | International experience<br>Core competencies<br>Core capabilities<br>National culture of home country<br>Corporate culture<br>Firm strategy, goals, and motivation |
| **Industry factors** | Industry globalization<br>Industry growth rate<br>Technical intensity of industry |
| **Location factors** | Extent of scale and location economies<br>Country risk<br>Cultural distance<br>Knowledge of local market<br>Potential of local market<br>Competition in local market |
| **Venture-specific factors** | Value of firm—assets risked in foreign location<br>Extent to which know-how involved in venture is informal (tacit)<br>Costs of making or enforcing contracts with local partners<br>Size of planned foreign venture<br>Intent to conduct research and development with local partners |

Potential Benefits and Costs to Host Countries of MNC Operations There[42]

| Benefits | Costs |
| --- | --- |
| **Capital Market Effects** | |
| • Broader access to outside capital<br>• Economic growth<br>• Foreign-exchange earnings<br>• Import substitution effects allow governments to save foreign exchange for priority projects | • Risk sharing<br>• Increased competition for local scarce capital<br>• Increased interest rates as supply of local capital decreases<br>• Capital service effects of balance of payments |
| **Technology and Production Effects** | |
| • Access to new technology and R&D developments<br>• Employee training in new technology<br>• Infrastructure development and support<br>• Export diversification<br>• Introduction of new management techniques | • Technology is not always appropriate<br>• Plants are often for assembly only and can be dismantled<br>• Government infrastructure investment is higher than expected benefits<br>• Increased pollution |
| **Employment Effects** | |
| • Direct creation of new jobs<br>• Introduction of more humane employment standards<br>• Opportunities for indigenous management development<br>• Income multiplier effects on local community business | • Limited skill development and creation<br>• Competition for scarce skills<br>• Low percentage of managerial jobs for local people<br>• Employment instability because of ability to move production operations freely to other countries |

*Source*: Adapted from R. H. Mason and R. S. Spich, *Management: An International Perspective*, (202) (Homewood, IL: Irwin, 1987).

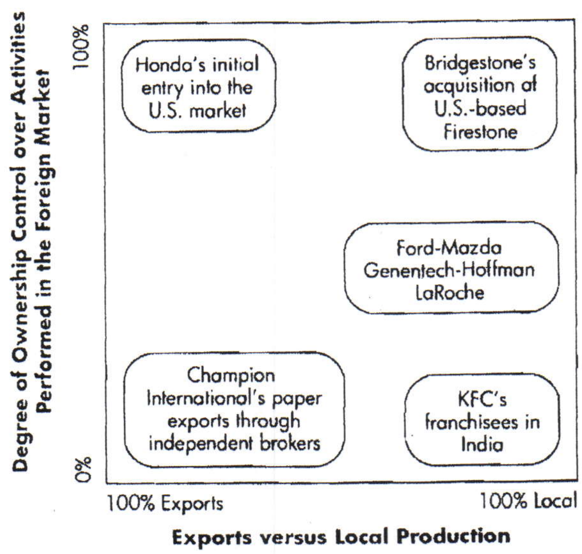
Value Creation and Value Capture in Alliance Portfolios

| Value Creation Strategies | Value Capture Strategies | Portfolio Management Practices |
|---|---|---|
| • **Complementarity**<br>• Seek Partners that offer complementary resources<br>• **Enrichment Strategy**<br>• Leverage network resources to extend your market opportunities<br>• **Combination Strategy**<br>• Integrate network resources with your internal resources to create synergies<br>• **Absorption Strategy**<br>• Learn and assimilate network resources in order to develop new skills and capabilities | • **Coopetition**<br>• Watch out for opportunistic partners that value your business more than your partnership<br>• **Bargaining Strategy**<br>• Seek partners that have greater stake in your joint alliances and fewer partnering alternatives<br>• **Bilateral Competition Strategy**<br>• Avoid partners that compete in your industry if they enjoy superior bargaining power<br>• **Multilateral Competition Strategy**<br>• Ally with multiple partners in particular industries to neutralize each partner's bargaining power | • **Interdependencies**<br>• Consider how each alliance affects other alliances in the portfolio<br>• **Separation**<br>• Set organizational and technological buffers between competing partners<br>• **Segmentation**<br>• Benchmark partners and assign them to market opportunities<br>• **Coordination**<br>• Align organizational units and create a coherent interface with each partner |

*Source*: reprinted from: Dovev Lavie, "Capturing Value from Alliance Portfolios," *Organizational Dynamic* 38, no. 1 (2009): 26–36, copyright Elsevier, used with permission of Elsevier, www.elsevier.com

Alternative Modes of Entry

**Alternative Modes of Entry**

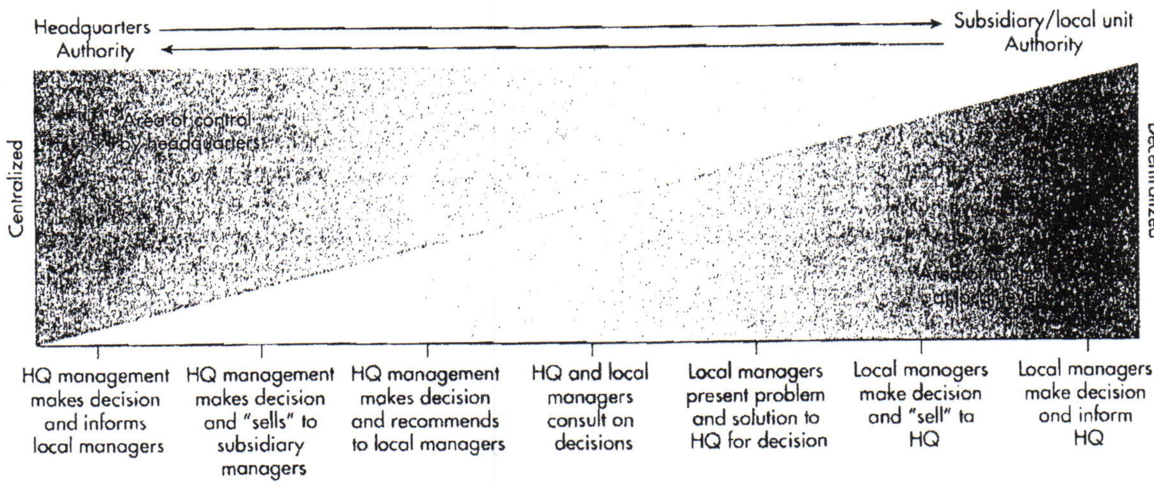



*Source*: Anil K. Gupta and Vijay Govindarajan, "Managing Global Expansion: A Conceptual Framework," *Business Horizons*, March/April 2000: 45–54.

Global Strategy–Structure Relationships[39]

| | Multidomestic Strategy | International Strategy | Globalization Strategy | Transnational Strategy |
|---|---|---|---|---|
| | Low ←——→ Need for Coordination ←——→ High | | | |
| | Low ←——→ Bureaucratic Costs ←——→ High | | | |
| Centralization of authority | Decentralized to national unit | Core competencies centralized; others decentralization to national units | Centralized at optimal global location | Simultaneously Centralized and Decentralized |
| Horizontal differentiation | Global area structure | International division structure | Global product group structure | Global matrix Structure "Matrix in the Mind" |
| Need for complex integrating mechanisms | Low | Medium | High | Very High |
| Organizational culture | Not important | Quite important | Important | Very important |

**Locus of Decision Making in an International Organization[41]**



# GLOBAL COMPETITON

1. TO DEFEND AGAINST GLOBAL COMPEITORS, FIRMS DO NOT HAVE TO COMPETE IN ALL OR EVEN MOST FOREIGN MARKETS, BUT THEY SHOULD COMPETE IN CRITICAL MARKETS

A. THAT ARE THE PROFIT SANTUARIES OF KEY COMPETITORS

B. THAT HAVE BIG SALAES VOLUMES

C. THAT CONTAIN PRESTIGIOUS CUSTOMERS WHOSE BUSINESS IT IS STRATEGICALLY IMPORTANT TO HAVE.

D. THAT OFFER EXCEPTIONALLY GOOD MARGINS DUE TO WEAK COMPETITIVE PRESSURES

2. STRATEGIC INTENT, PROFIT SANTUARIES, AND CROSS SUBSIDIZATION. NOTE: COMPETITORS IN INTERNATIONAL MARKETS DO NOT HAVE THE SAME STRATEGIC INTENT.

A. FIRMS WHOSE STRATEGIC INTENT IS GL;OBAL DOMINANCE AMONG THE GLOBAL MARKET LEADERS, SUCH FIRMS PURSUE SOME FORM OF GLOBAL STRATEGY.

B. FIRMS WHOSE PRIMARY STRATEGIC OBJECTIVE IS DEFENDING DOMESTIC DOMINANCE IN THEIR HOME MARKET EVEN THOUGH THEY DERIVE SOME OF THEIR SALES INTERNATIONALLY (USUALLY UNDER 20%) AND HAVE OPERATIONS IN SEVERAL OR MANY FOREIGN COUNTRIES.

C. FIRMS WHO ASPIRE TO GROWING SHARE OF WORLDWIDE SALES AND WHOSE STRATEGIC ORIENTATION IS HOST-COUNTRY RESPONSIVENESS, SUCH FIRMS HAVE A MULTICOUNTRY STRATEGY AND MAY ALREADY DERIVE A LARGE PORTION OF THEIR REVENUES FROM FOREIGN OPERATIONS.

D. DOMESTIC-ONLY FIRMS WHOSE STRATEGIC INTENT DOES NOT EXTEND BEYOND BUILDING A STRONG COMPETITIVE POSITION IN THEIR HOME COUNTRY MARKET; SUCH FIRMS BASE THEIR COMPETITIVE STRATEGIES ON DOMESTIC MARKET CONDITIONS AND WATCH EVENTS IN THE INTERNATIONAL MARKET ONLY FOR THEIR IMPACT ON DOMESTIC OPERATIONS.

3. STRATEGIES FOR COMPETING IN INTERNATIONAL MARKETS

A. EXPORT

B. LICENSE FOREIGN FIRMS TO USE THE COMPANY'S TECHNOLOGY OR PRODUCE AND DISTRIBUTE THE COMPANY'S PRODUCTS.

C. JOINT VENTURE/STRATEGIC ALLIANCE

D. WHOLLY OWNED SUBSIDIARY

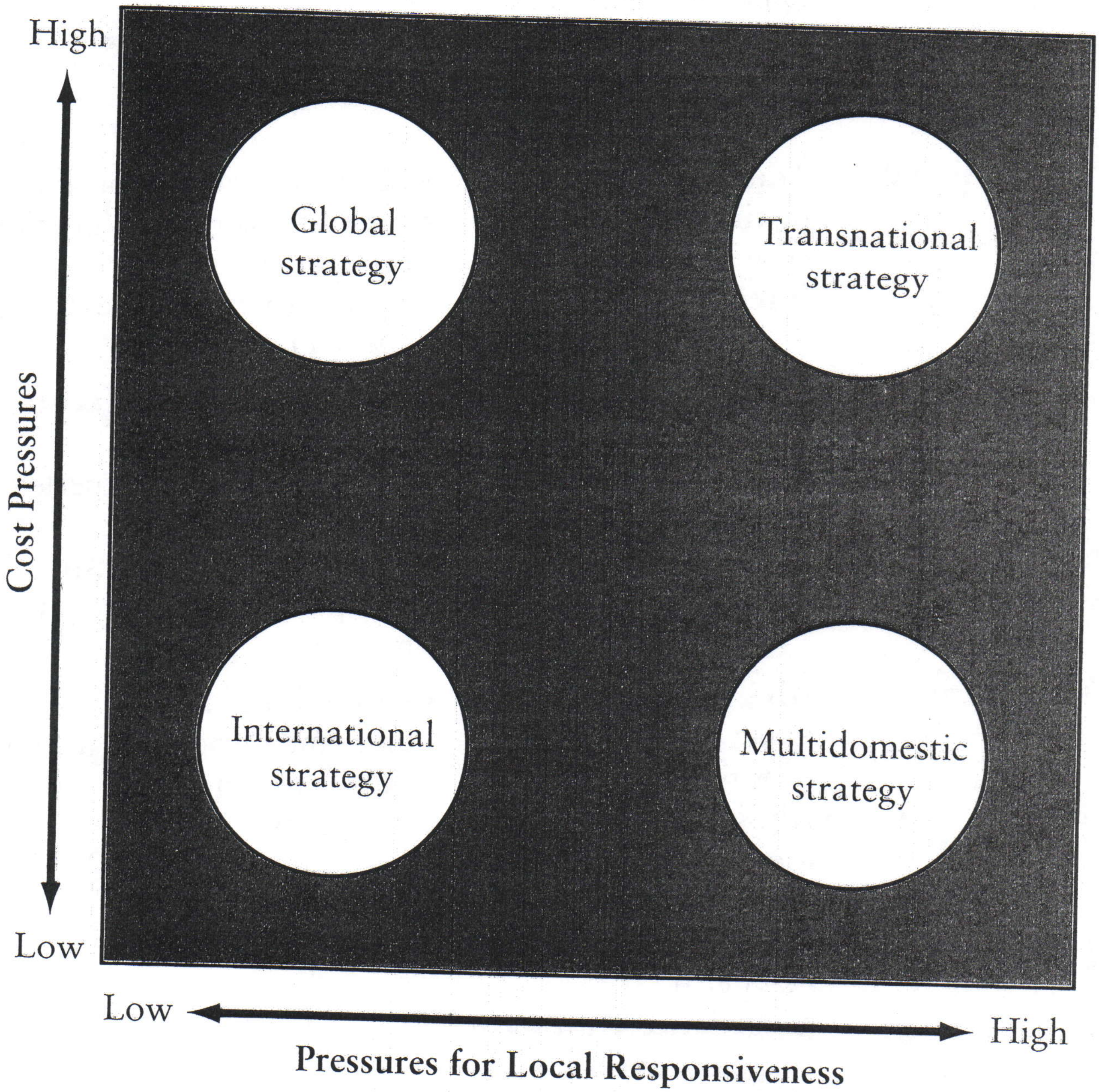
4. COMPETITIVE STRATEGY

A. FOLLOW A MULTICOUNTRY STRATEGY

B. FOLLOW A GLOBAL LOW-COST STRATEGY

| Entry Mode | Advantages | Disadvantages |
|---|---|---|
| Exporting | Ability to realize location and experience-curve economies | High transport costs<br>Trade barriers<br>Problems with local marketing agents |
| Licensing | Low development costs and risks | Lack of control over technology<br>Inability to realize location and experience curve economies<br>Inability to engage in global strategic coordination |
| Franchising | Low development costs and risks | Lack of control over quality<br>Inability to engage in global strategic coordination |
| Joint Ventures | Access to local partner's knowledge<br>Sharing development costs and risks<br>Political acceptability | Lack of control over technology<br>Inability to engage in global strategic coordination<br>Inability to realize location and experience economies |
| Wholly owned subsidiaries | Protection of technology<br>Ability to engage in global strategic coordination<br>Ability to realize location and experience economies | High costs and risks |

| Strategy | Advantages | Disadvantages |
|---|---|---|
| Global | • Ability to exploit experience-curve effects<br>• Ability to exploit location economies | • Lack of local responsiveness |
| International | • Transfer of distinctive competencies to foreign markets | • Lack of local responsiveness<br>• Inability to realize location economies<br>• Failure to exploit experience-curve effects |
| Multidomestic | • Ability to customize product offerings and marketing in accordance with local responsiveness | • Inability to realize location economies<br>• Failure to exploit experience-curve effects<br>• Failure to transfer distinctive competencies to foreign markets |
| Transnational | • Ability to exploit experience-curve effects<br>• Ability to exploit location economies<br>• Ability to customize product offerings and marketing in accordance with local responsiveness<br>• Reaping benefits of global learning | • Difficulties in implementation because of organizational problems |


High
Cost Pressures
Low
Global strategy
Transnational strategy
International strategy
Multidomestic strategy
Low
High
Pressures for Local Responsiveness

# Table 6–1 DIFFERENCES BETWEEN MULTICOUNTRY AND GLOBAL STRATEGIES

| | Multicountry Strategy | Global Strategy |
|---|---|---|
| Strategic arena | Selected target countries and trading areas | Most countries which constitute critical markets for the product (at least North America, the European Community, and the Pacific Rim [Australia, Japan, South Korea, and Southeast Asia]) |
| Business strategy | Custom strategies to fit the circumstances of each host country situation; little or no strategy coordination across countries | Same basic strategy worldwide; minor country-by-country variations where essential |
| Product-line strategy | Adapted to local needs | Mostly standardized products sold worldwide |
| Production strategy | Plants scattered across many host countries | Plants located on the basis of maximum competitive advantage (in low-cost countries, close to major markets, geographically scattered to minimize shipping costs, or use of a few world-scale plants to maximize economies of scale—as most appropriate) |
| Source of supply for raw materials and components | Suppliers in host country preferred (local facilities meeting local buyer needs; some local sourcing may be required by host government) | Attractive suppliers from anywhere in the world |
| Marketing and distribution | Adapted to practices and culture of each host country | Much more worldwide coordination; minor adaption to host country situations if required |
| Company organization | Form subsidiary companies to handle operations in each host country; each subsidiary operates more or less autonomously to fit host country conditions | All major strategic decisions are closely coordinated at global headquarters; a global organizational structure is used to unify the operations in each country |