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**21811 Global Strategic
Management**

**Topic 6
Entering Foreign Markets in globalised
economies**

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Outline

- ing the liability of foreignness
- Understanding the propensity to internationalize
- A comprehensive model of foreign market entries
- Where to enter?
- When to enter?
- How to enter?
- Debates and extensions
- The savvy strategist

Why Go Abroad?

- Answers typically include:
 - To reach larger economies of scale by selling to more customers in other countries.
 - To reduce the risk of over dependence on one country by spreading sales in multiple countries.
 - To replicate the success at home in new settings.

Why Go Abroad?

ing the Liability of Foreignness

- The Liability of Foreignness
 - The *inherent* disadvantage foreign firms experience in host countries because of their non-native status.
 - Liability is manifested in two dimensions:
 - ❖ The numerous differences in formal and informal institutions in different countries (e.g., regulatory, language, and cultural differences). Failure to recognize these rules may cost foreign firms dearly.
 - ❖ Customers discriminate against foreign firms, sometimes formally and other times informally.

Why Go Abroad?

ing the Liability of Foreignness

- To offset the liability of foreignness, foreign firms must employ *overwhelming* resources and capabilities (in some aspects).
 - Superior knowledge about institutional intricacies in various countries (e.g., Volkswagen in China and CEE)
 - Superior technologies
 - ❖ Cloud System applications
 - Superior organizational, marketing, and financial capabilities

Why Go Abroad?

Understanding the Propensity to Internationalize

- Not every firm is ready for going abroad.
 - Prematurely venturing overseas may be detrimental to overall firm performance, especially for smaller firms whose margin for error is very small.
- Factors underlying the motivation to go abroad:
 - Size of the firm
 - Size of the domestic market

ing the Liability of Foreignness

- The Liability of Foreignness - the *inherent* disadvantage foreign firms experience in host countries because of their non-native status
- Differences in formal and informal institutions govern the rules of the game in different countries
- Foreign firms are often discriminated against
- Foreign firms deploy overwhelming resources and capabilities to offset the liability of foreignness

Understanding the Propensity to Internationalize

- The underlying factors
 - The size of the firm
 - The size of the domestic market
- The propensity
 - Enthusiastic internationalizer
 - Follower internationalizer
 - Slow internationalizer
 - Occasional internationalizer

Firm Size, Domestic Market Size, and Propensity to Internationalize

Size of the Firm		Size of the Domestic Market
Large Firm	Small Firm	
(Cell 1) Enthusiastic internationalizer	(Cell 2) Follower internationalizer	<i>Small Domestic Market</i>
(Cell 3) Slow internationalizer	(Cell 4) Occasional internationalizer	<i>Large Domestic Market</i>

***Industry-based considerations
on the degree of competitiveness***

- Rivalry among firms
- Entry barriers/scale economies
- Bargaining power of suppliers
- Bargaining power of buyers
- Substitute products/services

***Resource-based considerations
on firm-specific assets***

- Value
- Rarity
- Imitability
- Organization

***Foreign
entry decisions***
Where/When/How

***Institution-based considerations
on country risks***

- Regulatory risk
- Trade barriers
- Currency risks
- Cultural distances
- Institutional norms

**A Comprehensive Model of
Foreign Market Entries**

A Comprehensive Model of Foreign Market Entries (cont'd)

- Industry-based considerations
 - Rivalry
 - Entry barriers
 - Bargaining power of suppliers
 - Bargaining power of buyers
 - Substitute products
- Resource-based considerations
 - Value of firm-specific resources and capabilities
 - The rarity of firm-specific assets
 - Transaction costs
 - Methods of organizing firm-specific resources and capabilities

A Comprehensive Model of Foreign Market Entries (cont'd)

- Institution-Based Considerations
 - Regulatory risks: Obsolescing bargain
 - Trade barriers:
 - ❖ Tariff barriers
 - ❖ Nontariff barriers (safety inspections, local content requirements, entry modes restrictions)
 - Currency risks: Speculation and hedging
- Synthesis - Different considerations may pull the foreign entrant in different directions

A Comprehensive Model: A Synthesis

- How each of the three perspectives on strategy—industry-, resource-, and institution-based—sheds additional light on foreign entry decisions.
 - However, different considerations may pull foreign entrants in different directions.
- To make an optimal decision, given these conflicting forces, strategists often have to make a series of entry decisions along the dimensions (where, when, and how).

Where to Enter?

Location-Specific Advantages

- Location Specific Advantages
 - Geographical advantages
 - Agglomeration - clustering of economic activities
- Strategic Goals: Seeking natural resources, markets, efficiency and innovation
- Cultural/Institutional Distances and Foreign Entry Locations
 - Cultural distance - the difference between two cultures
 - Institutional distance - comparing the regulatory, normative, and cognitive institutions
 - Two schools of thought: stage models vs strategic goals

Where to Enter?

Location-Specific Advantages (cont'd)

STRATEGIC GOALS	LOCATION-SPECIFIC ADVANTAGES	ILLUSTRATIVE LOCATIONS MENTIONED IN THE TEXT
Natural Resource Seeking	Possessions of natural resources, and infrastructure	Oil in the Middle East, Russia, Venezuela
Market Seeking	Abundance of strong market demand and customers willing to pay	Seafood in Japan
Efficiency Seeking	Economies of scale and abundance of low-cost factors	Manufacturing in China
Innovation Seeking	Abundance of innovative individuals, firms, and universities	IT in Silicon Valley, Bangalore, Israel, services in New York and London and aerospace in Russia

Source: First two columns adapted from J. Dunning, 1993, Multinational Enterprises and the Global Economy (pp. 82–83), Reading, MA: Addison-Wesley.

When to Enter?

- First mover advantages
- Developing proprietary, technological leadership
- Preempting scarce assets
- Establishing entry barriers
- es the dominant firm
- Opportunity for relationships with key stakeholders
- Late mover advantages: benefit from first mover investments, experience, and inflexibility

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