Chapter 10—International Strategy

CHAPTER SUMMARY

This chapter covers various aspects of international diversification and the significant opportunities that draw businesses into the international arena. Rationale for selecting appropriate strategies, associated organizational structures, and the mode of entry into an international market are presented, along with the potential outcomes of an international strategy. Different problems, complexities, and threats that can accompany the use of an international strategy are also examined.

CHAPTER OUTLINE

Incentives for Using an International Strategy
- Increased Market Size
- Return on Investment
- Economies of Scale, Scope, and Learning
- Obtain Resources and Achieve Other Location Advantages

International Corporate-Level Strategies
- International Scope: Worldwide Presence or Regionalization
- Multidomestic Strategy
- Global Strategy
- Transnational Strategy

International Business-Level Strategy

Choice of International Entry Mode
- Exporting
- Licensing
- Strategic Alliances
- Acquisitions
- New Wholly Owned Subsidiary
- Dynamics of Mode of Entry

Strategic Competitiveness Outcomes
- International Diversification and Returns
- International Diversification and Innovation
- Risks in an International Environment
- Complexity of Managing Multinational Firms

Summary

KNOWLEDGE OBJECTIVES

1. Explain the primary reasons firms pursue international diversification.
2. Explain the factors that influence decisions regarding the international scope of a firm’s activities.
3. Define the three international corporate-level strategies along with the structures associated with each strategy.
Chapter 10—International Strategy

1. Explain the relationship between international corporate-level strategy and the selection of business-level corporate strategies within business units, countries, or global regions.

2. Identify the factors that contribute to the advantage of firms in a dominant global industry and associated with a specific country or regional environment.

3. Name and describe the five modes for entering international markets.

4. Explain the effects of international diversification on firm returns and innovation.

5. Name and describe two major risks of international diversification.

6. Explain why the positive outcomes from international expansion are limited.

Lecture Notes

See slides 1-3.

Key Terms

- International Diversification - strategy through which a firm expands the sales of its goods or services across the borders of global regions and countries into different geographic locations or markets.

See Figure 10.1: Reasons for, Selection of, and Outcomes from, International Strategies (slide 4).

See Additional Notes Below.

1. Discuss an overview of the chapter material as it is framed in Figure 10.1.
   a. A firm that plans to operate globally must formulate a successful strategy and develop a global mind-set.
   b. As firms move into international markets, relationships with suppliers, customers, and partners must be developed and become a source of learning for global businesses.
   c. Deciding to compete internationally must result from incentives that promise increased strategic competitiveness.
   d. The benefits of an international strategy are tempered by political and economic risks and the problems of managing a complex international organization with operations in multiple countries.

Additional Discussion Notes for Opportunities and Outcomes of International Strategy - These notes include additional materials that use Siemens as an example of a firm that has moved into international markets in search of four basic benefits.

Opportunities and Outcomes of International Strategy: Siemens

Firms move into international markets. Siemens, for example, is selling its products in 190 countries and uses 31 websites in 38 languages. Entry into international markets is accomplished by exporting from domestic-based operations, licensing products or services, forming joint ventures, acquiring foreign-based firms, or by establishing new subsidiaries. International diversification can extend product life cycles, provide
incentives for innovation, and produce above-average returns. A large majority of U.S. firms’ international business is in European markets, where 60% of U.S. firms’ assets that are located outside the domestic market are invested. Two-thirds of all foreign R&D spending by U.S. affiliates also takes place in Europe. Firms derive four basic benefits from using international strategies: (1) increased market size; (2) greater returns on investments; (3) greater economies of scale, scope, or learning; and (4) a competitive advantage through location (access to low-cost labor, critical resources or customers, and the like).

**Incentives for Using an International Strategy** - This section defines international strategy, the reasons that firms internationalize, and the benefits that can be derived from successful implementation of an international strategy.

**Key Terms**

- **International Strategy** - strategy through which the firm sells its goods or services outside the domestic market.

**Questions**

1. What are the four basic benefits from using international strategies?
   a. Increased market size
   b. Greater returns on major capital investments or on investments in new products and processes
   c. Greater economies of scale, scope, or learning
   d. A competitive advantage through location (for example, access to low-cost labor or critical resources)

**Increased Market Size** - This section discusses growth opportunities and challenges found in new, large-scale, emerging markets in a variety of regions throughout the world. Factors that weigh in on the decision to use an international strategy are included here. (See slide 7 and Additional Notes Below.)

**Additional Discussion Notes for Incentives for Using an International Strategy** - These notes include additional materials that cover the potential for increased market size when using an international strategy.

**Increased Market Size**

As part of its expansion into India, Whirlpool conducted 14 months of research on local tastes and values. The company also provided incentives to Indian retailers to stock its products, and it used local contractors to collect payments and deliver appliances throughout India. Since implementing this strategy in 1996, Whirlpool’s sales in India have grown 80% by 2001. Whirlpool’s ability to market its appliances overseas is important because U.S. demand is forecast to stay flat.
through 2009, but international demand should grow 17%, to 293 million units. Similarly, the U.S. soft drink industry is relatively saturated. Coca-Cola’s case volume grew just about 1% per quarter in 2001 in North America, its largest market, but about 5% internationally.

**Return on Investment** - This section explains that the primary reason for making investments in international markets is to generate higher returns than firms would achieve on investments made in their domestic markets. The need for large markets to recoup R&D investments and to do so quickly, given rapid obsolescence, is also discussed. (See slide 8 and Additional Notes Below.)

**Additional Discussion Notes for Incentives for Using an International Strategy** - These notes include additional materials that cover the potentially increased investment returns when using an international strategy.

**Return on Investment**
With domestic growth in the low single digits, Tricon Global Restaurants (Kentucky Fried Chicken, Pizza Hut, and Taco Bell) has increased its growth by expanding globally. Tricon has around 5,000 KFC restaurants in the U.S. and now over 6,000 internationally. Overall the company operates more than 30,000 restaurants in over 100 countries worldwide—more than any other restaurant company. Tricon’s margin on its investments was up to over 15% in 2001, and the company’s stock value doubled in 2001 compared to August 2000. This success has come from the company’s strategy of adapting to local tastes and preferences in international markets.

**Economies of Scale, Scope, and Learning** - This section discusses the search for economies of scale (for the lowest cost level), economies of scope (for synergy) and learning opportunities (for new knowledge) as an incentive for adopting an international strategy. (See slide 9.)

**Obtain Resources and Achieve Other Location Advantages** - This section explains that location advantages influence the decision to become multinational when a firm hopes to secure needed resources (factors of production or low costs), address the needs of potential customers, or take advantage of cultural dynamics. (See slide 10.)

See slide 11.

2. Given sufficient reasons to expand internationally, how does a firm proceed?
   a. Decide whether the firm will follow an international corporate-level strategy that emphasizes a different approach to each international market, a standardized approach, or something in between.
   b. Determine how to use the firm’s distinctive
competencies to create advantages in international markets through a business-level strategy.

c. Choose a mode for entering new markets.

**International Corporate-Level Strategies** - This section defines international corporate-level strategy and the role it plays in selecting which products or services will be provided to various regions around the world, adding an international dimension to the diversification decisions that firms make. (See slide 12.)

**International Scope: Worldwide Presence or Regionalization** - This section introduces a discussion of whether a firm will choose to compete in all (or many) global markets or if it will focus on a particular region, choosing between potential economies of scale or satisfying the specialized needs of a targeted region.

See slide 13.

See slide 14.

See Figure 10.2: International Corporate-Level Strategies (slide 15).

### 3. What are the advantages of pursuing regionalization?

a. Firms are better able to understand the cultures, legal and social norms, and other factors that are important for effective competition in those markets.

b. Entering regional markets sequentially, beginning in markets with which a firm is more familiar with the largest and strongest product lines, can be an effective way of launching an international strategy.

### 4. Describe how the liability of foreignness affects the scope of a firm’s international operations.

a. Liabilities associated with being a foreign business in a highly different business environment can make competing on a worldwide scale risky and expensive.

b. Several factors make operating a business in a foreign country difficult.

   i. Employment contracts and labor forces differ.

   ii. Host governments make different demands and requirements to compete in their markets.

   iii. The inability to understand customers exists.

c. Given these conditions, regional adaptation may be favored over a broad, global market approach.

### 5. Deciding on the degree to which headquarters will guide the strategy of businesses outside the home country, what three basic approaches are available to firms?

a. Multidomestic - products adapted to each market

b. Global - one product for the whole world

c. Transnational - a combination of multidomestic and global

### 6. Which two dimensions are used to decide on the type of corporate-level strategy to use?
### Multidomestic Strategy

This section defines and describes the multidomestic corporate-level strategy used to compete in international markets with a worldwide geographic area organizational structure.

**Key Terms**
- **Multidomestic Strategy** - international strategy in which strategic and operating decisions are decentralized to the strategic business unit in each country to allow that unit to tailor products to the local market.
- **Worldwide Geographic Area Structure** - organizational structure that emphasizes national interests and facilitates the firms’ efforts to satisfy local or cultural differences (used to implement the multidomestic strategy).

**See slide 16.**

**See slide 17.**

**See Figure 10.3:** Worldwide Geographic Area Structure for Implementation of a Multidomestic Strategy (slide 18).

**See Additional Notes Below.**

### Features of a Multidomestic Strategy

- Focuses on variations of competition within each country.
- Products are customized to meet specific needs and preferences of local customers.
- Decentralizes the firm’s strategic and operating decisions to business units in each country.
- Steps are taken to isolate the firm from global competitive forces.
  - Establish protected market positions.
  - Compete in industry segments most affected by differences among local countries.
- Differences across markets results in more uncertainty.

### Worldwide Geographic Area Structure

- Few integrating mechanisms - little coordination needed between different countries.
- Low formality.
- Low possibility for global efficiencies.

### Additional Discussion Notes for International Corporate-Level Strategies

These notes include additional materials that cover and illustrate the multinational strategy.

#### Multidomestic Strategy

As mentioned earlier, Tricon has a strong incentive to compete internationally with its restaurant concepts (KFC, Taco Bell, and Pizza...
Tricon pursues a multidomestic strategy by trying to localize as much as possible. It does not open restaurants based solely on the U.S. model, but instead adapts to local tastes. In Japan, KFC sells tempura crispy strips. In northern England, KFC stresses gravy and potatoes, while in Thailand, it offers fresh rice with soy or sweet chili sauce. In Holland the company makes a potato-and-onion croquette. In France it sells pastries alongside chicken. And in China the chicken gets spicier the farther inland you travel.

**Global Strategy** - This section defines and describes the global corporate-level strategy used to compete in international markets with a worldwide product divisional organizational structure. An increase in borderless demand for globally branded products is cited as an increasing pressure for global integration of operations.

### Key Terms
- **Global Strategy** - international strategy through which the firm offers standardized products across country markets, with the competitive strategy being dictated by the home office.
- **Worldwide Product Divisional Structure** - organizational structure in which decision-making authority is centralized in the worldwide division headquarters to coordinate and integrate decisions and actions among divisional business units (used to implement the global strategy).

9. Describe the features of a global strategy.
   a. Emphasizes economies of scale.
   b. Facilitated by improved global accounting and financial reporting standards.
   c. Centralizes the firm’s strategic and operating decisions at the home office.
   d. Strategic business units operating in each country are interdependent.
   e. Home office attempts to achieve integration across business units, adding management complexity.
   f. Produces lower risk.
   g. Less responsive to local market opportunities.
   h. Less effective learning processes due to the pressure to conform and standardize.

10. Describe a worldwide product divisional structure used to implement a global strategy.
    a. Integrating mechanisms needed to share and coordinate resources and facilitate cooperation across borders.
    b. Centralized decision-making authority.
    c. Low response to local needs and preferences.
Additional Discussion Notes for International Corporate-Level Strategies - These notes include additional materials that cover and illustrate the global strategy.

Global Strategy
Cemex, a Mexico-based cement maker, is the world’s third largest cement manufacturer. Cemex acquired Southdown, a U.S. cement company, for $3 billion at the end of 2001 and consolidated operation with its other U.S. assets. Cemex has the leading market position in Spain, with around 72% of the production capacity in the Spanish cement industry. Besides its significant assets in North and South America and Europe, the firm is also making acquisitions in Asia. An integration mechanism for its businesses globally is Cemex’s use of the Internet. The firm takes advantage of its dominant presence by providing over 3,000 points of distribution through the Internet. Through its e-business subsidiary CxNetworks, Cemex launched the construction materials website Arkio.com. It expects to recoup the cost of implementation within a year and add an additional $45 million in revenue by the end of 2002. By using the Internet to improve logistics and manage an extensive supply network, Cemex reduces costs. With the savings derived from its Internet supply-chain management and by consolidating operations, such as the Southdown acquisition into its existing U.S. operations, Cemex expects to cut $100 million from operating costs in the United States alone. For this reason, Cemex is using a global strategy and structure to integrate many aspects of its worldwide operations.

Transnational Strategy - This section defines and describes the transnational corporate-level strategy used to compete in international markets with a worldwide combination organizational structure. The difficulty of realizing both global coordination and local flexibility is highlighted.

See slide 23.

Key Terms
- **Transnational Strategy** - international strategy through which the firm seeks to achieve both global efficiency and local responsiveness.
- **Flexible Coordination** - building a shared vision and individual commitment through an integrated network.
- **Worldwide Combination Structure** - organizational structure in which characteristics and mechanisms are drawn from both the worldwide geographic area structure and the worldwide product divisional structure (used to implement the transnational strategy).
### Chapter 10—International Strategy

| See slide 24. | 11. Describe the competing objectives of a worldwide combination structure used to implement a transnational strategy.  
|              | a. Assets and operations may be centralized/decentralized.  
| See slide 25. | b. Functions may be integrated/nonintegrated.  
|              | c. Relationships may be formal/informal.  
| See Additional Notes Below. | d. Coordination mechanisms may leverage efficiency/flexibility.  
|              | e. Mandates to subsidiaries may be global/specialized-contribution/localized-implementation.  
| 12. What developments foster the success of worldwide combination structures?  
|              | a. Strong educational component to support the culture.  
|              | b. Adaptation of core competencies in local economies to gain competitive benefits.  
|              | c. Effective corporate headquarters to foster leadership, shared vision, and strong corporate identity.  
|              | d. Centers of excellence to foster multiple and dispersed capabilities.  

### Additional Discussion Notes for International Corporate-Level Strategies

These notes include additional materials that cover and illustrate the transnational strategy.

**Transnational Strategy**

This is an international strategy through which a firm seeks to achieve both global efficiency and local responsiveness. For example, even though in 2001 domestic carmakers had 61% of the U.S. market and remained the largest auto sellers, this combined market share had fallen from the 74% they held in 1995. Furthermore, profitability is down compared to Japanese carmakers, whose factories are more efficient than those of U.S. firms. To overcome this problem, GM CEO and Chairman, G. Richard Wagoner Jr., implemented a transnational strategy. The managers from partners’ headquarters and product development centers now report directly to a GM executive. This way GM has more control over what happens in each of its foreign car companies, but allows each company to be responsive to regional or country needs. This strategy led to some successful products (the Suzuki-designed Opel Agila sold in Europe).

DaimlerChrysler employed a *transnational strategy* to design and manufacture the *Crossfire*, a 2003 new product with a Chrysler design, but 40% of its components are from Mercedes-Benz. This global integration has facilitated lower costs for the vehicle. Engineered components were already adapted from elsewhere and design enhancements produced an attractive car for the U.S. market.

Both GM and DaimlerChrysler are using the transnational strategy and combination structure to improve their competitiveness in the global automobile industry.
# International Business-Level Strategy

This section discusses selection of an international business-level strategy based on an international corporate-level strategy and the competitive dynamics within international markets. A four-dimensional model based on Porter’s competitive analysis is also presented to emphasize the environmental and structural attributes of a national economy that contribute to national advantage.

### Additional Discussion Notes for International Business-Level Strategy

These notes include additional materials that cover the factors associated with a specific country or regional environment that contribute to competitive advantage for firms in a dominant global industry.

### International Business-Level Strategy

Michael Porter’s model (Figure 9.2 in the text) describes the four factors contributing to the advantage of firms in a dominant global industry and associated with a specific country or regional environment.

1. **Factors of Production** refer to the inputs necessary in any industry: labor, land, natural resources, capital, and infrastructure (transportation, postal, and communication systems). For example, South Korea lacks natural resources but offers a strong work ethic, a large number of engineers, and systems of large firms to create an expertise in manufacturing. Germany developed a strong chemical industry, partially because Hoechst and BASF spent years creating a synthetic indigo dye to reduce their dependence on imports (unlike Britain, whose colonies provided natural indigo).

2. **Demand Conditions** is characterized by the nature and size of buyers’ needs in the home market for the industry’s goods or services. For example, Swiss firms lead the world in tunneling equipment because of their old need to tunnel through mountains for rail and highway passage in Switzerland. Japanese firms have created a niche market for compact, quiet air conditioners, which are important in Japan because homes are often small and located closely together.

3. **Related and Supporting Industries**. Italy has become the leader in the shoe industry because of related and supporting industries. A well-established leather-processing industry provides the leather needed to construct shoes and related products.

4. **Firm Strategy, Structure, and Rivalry**. Because of the excellent technical training system in Germany, there is a strong emphasis on

### Additional Notes

See Figure 10.5: Determinants of National Advantage (slide 26).

13. Describe the factors associated with a specific country or regional environment that contribute to competitive advantage for firms in a dominant global industry.

   a. Factors of production.
   b. Demand conditions.
   c. Related and supporting industries.
   d. Firm strategy, structure, and rivalry.
methodical product and process improvements. In Japan, unusual cooperative and competitive systems have facilitated the cross-functional management of complex assembly operations. In Italy, the national pride of the country’s designers has spawned strong industries in sports cars, fashion apparel, and furniture. In the United States, competition among computer manufacturers and software producers has favored the development of these industries.

**Summary**

These factors produce competitive advantages only when a firm develops and implements an appropriate strategy that takes advantage of distinct country factors. Thus, these distinct country factors are necessary to consider when analyzing the business-level strategies (i.e., cost leadership, differentiation, focused cost leadership, focused differentiation, and integrated cost leadership/differentiation) in an international context.

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**Choice of International Entry Mode** - This section introduces several means of entering international markets that firms consider once they have decided on an international strategy. It also explains that the timing and appropriate path of entry affect the firm’s performance in international markets.

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<tbody>
<tr>
<td>See slide 28.</td>
<td>a. Exporting - shipping products to other countries.</td>
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<tr>
<td>See slide 29.</td>
<td>i. Low expense to establish operations in host country.</td>
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<tr>
<td>See Additional Notes Below.</td>
<td>ii. Contractual agreements are common.</td>
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<td>See slide 30.</td>
<td>iii. High transportation costs.</td>
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<td>See Additional Notes Below.</td>
<td>iv. Some tariffs imposed.</td>
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<td>v. Low control over marketing and distribution.</td>
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<td>b. Licensing - foreign firms purchase rights to manufacture/sell products within host country.</td>
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<tr>
<td></td>
<td>i. Low cost to expand internationally.</td>
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<td>ii. Licensee absorbs risks.</td>
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<td>iii. Low control over manufacturing and marketing.</td>
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<td>iv. Lower potential returns (shared with licensee).</td>
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<td>v. Risk of licensee imitating technology and product for own use.</td>
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<td>vi. Ownership arrangements may be inflexible.</td>
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<td>c. Strategic Alliances - formed with host-country firm with knowledge and resources to contribute to competitiveness.</td>
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<tr>
<td></td>
<td>i. Shared risks and resources.</td>
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<td>ii. Development of core competencies facilitated.</td>
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<td>iii. Fewer resources and costs required for entry.</td>
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<td>iv. Possible incompatibility, conflict, or lack of trust with partner.</td>
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<td>v. Difficult to manage.</td>
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### Wave 1: Licensing Strategy

**Licensing Strategy**

Licensing Strategy is a contractual arrangement that allows a firm to use, manufacture, or sell another firm’s technology, products, or services. While licensing can reduce both risk and cost during international expansions, the strategy has particularly long history among firms that use patents to protect their innovation and technology. The Selden patent in the development of automobile technology and the Wright patents influence on the growth of aircraft technology are classic examples. The Selden patent claimed an automobile configuration, one using a lightweight gasoline-powered internal combustion engine as the power source. The Wright patent was on an airplane stabilization and steering system. In both of these cases, the holders of the pioneer patent engaged in extensive litigation against infringing companies and Wright refused to license their patent. The question is *How did these patents affect the evolution of the technologies?*

The Selden patent was extremely broad and covered a myriad of possible embodiments, but they were willing to license the patent to anyone who would pay royalties. To this end, the patent holders collected royalties and perhaps controlled competition in the industry: *But did they facilitate technological development in the industry?*

Lawsuits based on this patent surely did absorb considerable time and attention of people like Henry Ford, whose production methods revolutionized the industry. Moreover, smaller firms may have been put off by the threat of suit. At this early stage in the history of the technology, those that left the industry or chose not to enter may well have taken valuable improvements with them. Nonetheless, even before the Selden patent, the automobile industry developed a procedure for almost automatic cross licensing of patents. While formal agreements to cross license all new patents no longer exist, the practice of relatively automatic cross licensing has endured to the present.

### Wave 2: Licensing Strategy

Licensing Strategy is a contractual arrangement that allows a firm to use, manufacture, or sell another firm’s technology, products, or services. While licensing can reduce both risk and cost during international expansions, the strategy has particularly long history among firms that use patents to protect their innovation and technology. The Selden patent in the development of automobile technology and the Wright patents influence on the growth of aircraft technology are classic examples. The Selden patent claimed an automobile configuration, one using a lightweight gasoline-powered internal combustion engine as the power source. The Wright patent was on an airplane stabilization and steering system. In both of these cases, the holders of the pioneer patent engaged in extensive litigation against infringing companies and Wright refused to license their patent. The question is *How did these patents affect the evolution of the technologies?*

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The outcome of the Wright brothers’ strategy regarding their patent was quite different. First of all, the patent, an efficient stabilizing and steering system, was major, and it did enable a multiplicity of future flying machines. Second, Wright hoped to produce aircraft while inhibiting competition from companies who wanted to enter the aircraft design and manufacture business. As a consequence, early attempts by Glenn Curtiss, the most prominent competitor of the Wright brothers, to obtain access to the Wright patent came to naught and costly litigation followed. Subsequent evidence suggests that the Wright patent held back the pace of aircraft development in the US. It absorbed significant energies and diverted efforts and resources from R&D to lawsuits.

The situation was so serious that during World War I the Secretary of the Navy forced an agreement that eventually enabled automatic cross licensing. This arrangement, like the licensing of automobile patents, turned out to be a durable institution. By the end of World War I there were numerous patents on diverse aircraft features. An incumbent had to negotiate a large number of licenses to produce a single airplane. These examples show that licensing strategies are not only important for advancing technology, but also to the viability of industries.


Strategic Alliances

H.J. Heinz Co. sought growth in the Asia-Pacific market while reducing operating costs. To this end, the company formed an alliance with Japanese food company Kagome Co. The partners used Heinz’s existing retail network to enhance distribution of products, while Kagome, whose food division had been struggling, the alliance benefited from Heinz’s strong food products, such as Boston Market frozen dinners and Ore-Ida frozen potatoes. Both companies benefited from the alliance by cutting operating costs as well as expanding sales.

Attracted by the Chinese market, Pearson PLC—the British education and publishing company formed an alliance with CCTV, a unit of China State Television. The venture provides “conversational English in an entertaining setting” to more than one billion viewers each day. This venture opens up the Chinese television viewing market to Pearson and also to many international advertisers looking to promote their products in China. Naturally, international strategic alliances are especially difficult to manage and many alliances fail.

Acquisitions

Wal-Mart has used several strategies to globalize its operations. In China, the firm used a joint venture. In Latin American countries, Wal-Mart also used joint ventures. However, in Mexico it acquired its venture partner after entering the country. In Germany, Wal-Mart acquired a 21-store hypermarket chain and acquired 74 Interspar stores. There were many problems with these acquisitions. None of these stores were profitable when Wal-Mart acquired them, and the amount of money needed to update them had been underestimated. The firm also
encountered cultural problems. It is expected to take many years before they show a profit or break even in Germany.

Wal-Mart learned from the German experience. When it bought a British supermarket chain, it gave the managers the freedom to make necessary changes. To be successful in foreign markets, a firm must have people in charge who understand the local culture and customers’ needs. Note that only 20% of cross-border bids lead to a completed acquisition compared to 40% for domestic acquisitions.

**New Wholly Owned Subsidiary**
The establishment of a new wholly owned subsidiary is referred to as a *greenfield* venture. The South Korean market is very protected. The South Korean government imposes high tariffs on imported products. There are strong sentiments against foreigners among consumers. A state-run monopoly on tobacco, Korea Tobacco and Ginseng Corporation, control most of the market. As such, to market share the British American Tobacco (BAT) entered South Korea by building a *greenfield* cigarette factory. BAT-Korea hopes that its maneuver (i.e., “made in Korea, by Koreans and for Koreans”) will increase British American Tobacco’s market share from 3.7% to 10%.

**Dynamics of Mode of Entry** - This section discusses a variety of factors that influence a firm’s choice of appropriate entry mode, highlighting the stage of international strategy development as a strong consideration in this decision.

**Strategic Competitiveness Outcomes** - This section introduces the implementation stage of international strategy and the stakes of effective execution of the strategy.

**International Diversification and Returns** - This section discusses the reasons that multinational firms with efficient and competitive operations are likely to generate above-average returns for investors and produce better products for their customers than solely domestic firms. *Offshoring* is defined and illustrates a value-creating opportunity based on structural flexibility.

See slide 33.  

**Key Terms**
- *Offshoring* - offshore outsourcing.

See slide 34.

15. What are some of the potential advantages to be realized by multinational firms?
   a. Economies of scale and experience
   b. Location advantages
   c. Increased market size
   d. Stabilized returns
   e. Reduce overall firm risk
**International Diversification and Innovation** - This section reminds us of the importance of developing new technologies and discusses the positive impact that international diversification can have on a firm’s ability to innovate.

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<th>See slide 35.</th>
<th>16. How can international diversification influence a firm’s innovative abilities?</th>
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<tbody>
<tr>
<td></td>
<td>a. Exposure to new products and markets</td>
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<td>b. Opportunity to integrate new knowledge into operations</td>
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<td>c. Generation of resources to sustain innovation efforts</td>
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**Risks in an International Environment** - This section highlights the political and economic risks associated with international diversification and describes the difficulties of implementing and managing international expansion strategies.

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<th>See slides 36-38.</th>
<th>17. Describe the two major types of risks associated with international expansion strategies.</th>
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<tbody>
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<td></td>
<td>a. Political risks</td>
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<td>i. Government instability</td>
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<td>ii. Conflict/war</td>
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<td>iii. Government regulations</td>
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<td>iv. Conflicting and diverse legal authorities</td>
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<td>v. Potential nationalization of private assets</td>
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<td>vi. Government corruption</td>
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<td>vii. Changes in government policies</td>
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<td>b. Economic risks</td>
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<td>i. Differences and fluctuations in currency values</td>
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<td></td>
<td>ii. Investment losses due to political risks</td>
</tr>
</tbody>
</table>

**Additional Discussion Notes for Risks in an International Environment** - These notes include additional materials that cover and illustrate the political risks associated with expanding internationally.

**Political Risks**

In January 2002, Argentina was forced to devalue its peso by approximately 40% after defaulting on $141 billion public debt. The devaluation created significant chaos for Argentina. President Fernando de la Rúa had to resign and his predecessor, Adolfo Rodrígues Saá, had lasted only eight days in office. But the devaluation also hindered U.S. firms. For example, after the devaluation, the Fleetwood Boston Financial Corporation showed an estimated $140 million loss, and CitiGroup indicated that it would experience a significant loss as well. These losses took place because contracts between these firms and
Argentinean firms allowed repayment in pesos rather than in U.S. dollars. In contrast, AES Corporation, a U.S. corporation that builds power plants in Argentina, had stipulated in its contracts that it must be paid in U.S. dollars. As this example indicates, investments in foreign countries must follow strong due diligence and concerns about economic and regime stability.

**Complexity of Managing Multinational Firms** - This section closes the chapter with a discussion of the complexities created by operating in several different countries and the barriers to the transfer of a firm’s competitive advantage from one country to another.

See slide 39. 18. What are some factors that contribute to the complexity of managing multinational firms?
   
   a. Geographic dispersion  
   b. Costs of coordination  
   c. Logistical costs  
   d. Trade barriers  
   e. Cultural diversity  
   f. Host government

**Ethical Questions** - Recognizing the need for firms to effectively interact with stakeholders during the strategic management process, all strategic management topics have an ethical dimension. A list of ethical questions appears after the Summary section of each chapter in the textbook. The topic of ethics is best covered throughout the course to emphasize its prevalence and importance. We recommend posing at least one of these questions during your class time to stimulate discussion of ethical issues relevant to the chapter material that you are covering.