

International Business Economics

5. The Strategy of International Business



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Strategy and the firm

Our primary concern thus far in this course has been with aspects of the larger environment in which international businesses compete... From now on we will look at how firms operate in an international context.

We begin this new block today and will learn different firm internationalization strategies.

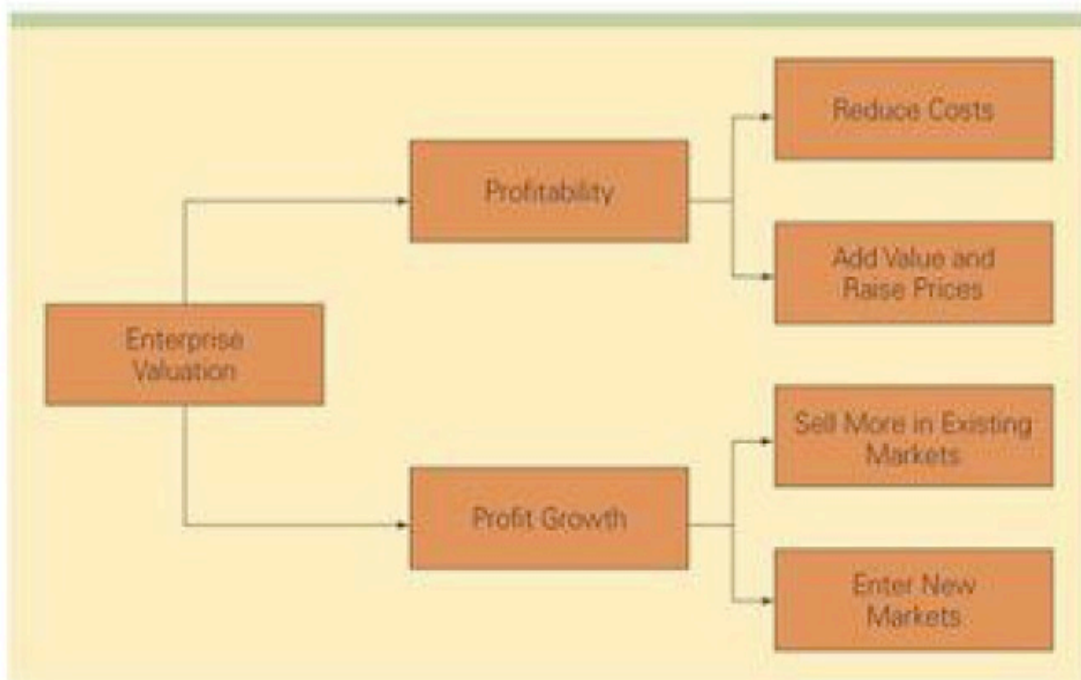
But before that.. let's begin (as usual) with an online quiz!

<https://es.surveymonkey.com/r/2PMQLT9>

Corporate strategy

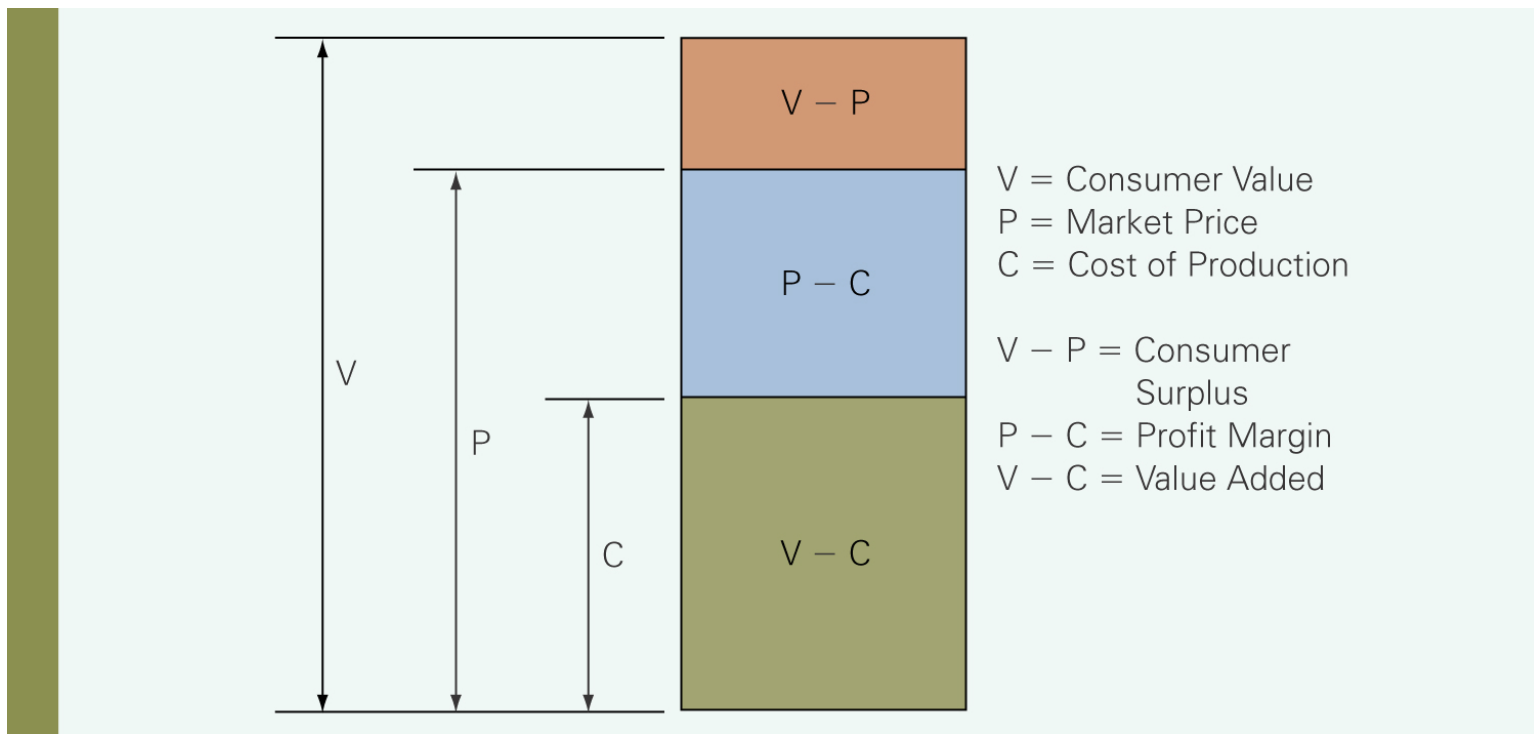
- Corporate Strategy: actions that managers take to achieve firm's goals
- Maximize profit (Π)
- Maximize Profitability ($\Pi/\text{Investment}$).
Usually expressed as ROIC (Return of invested capital).

Determinants of firm's value



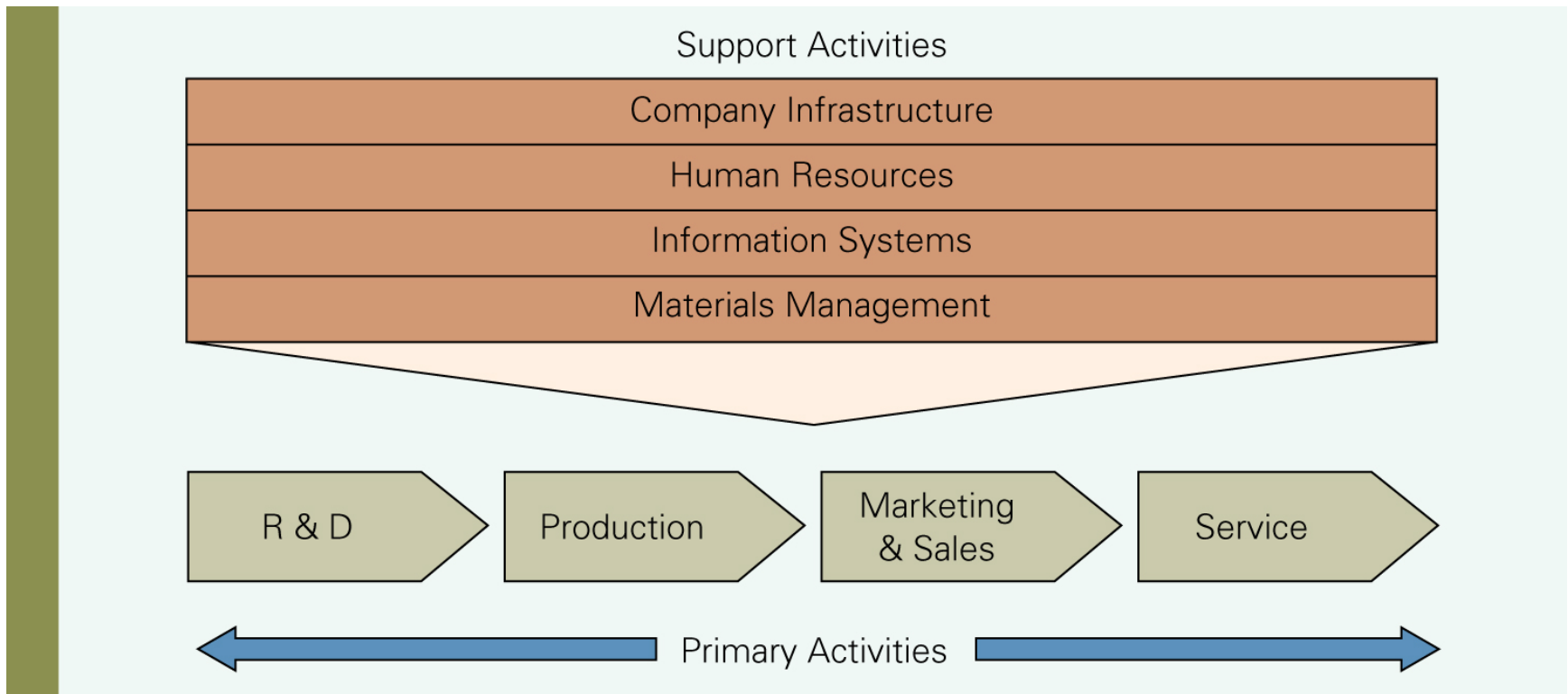
Source: Hill (2014)

Value creation



Source: Hill (2014)

Value creation chain



Source: Hill (2014)

Why do firms go global?

- Benefits from location economies
- Cost reductions from experience effects
- Leveraging firm's internal skills
- Learning from subsidiary skills

Location economies

- Transfer value creation activities to an optimal location (differences in factor costs or resource endowments)
- Might help to lower production costs and/or differentiate products.
- Nowadays, it is common to see that firms use different optimal locations at different stages of the production process.
- But not without potential caveats (transportation costs, trade barriers, country risk, etc)

Experience effects

Benefits arising from:

- Learning effects (learning by doing), which might lead to increased productivity and managers' effectiveness.
- Economies of scale, which refers to cost reductions by producing a larger volume of good/services.

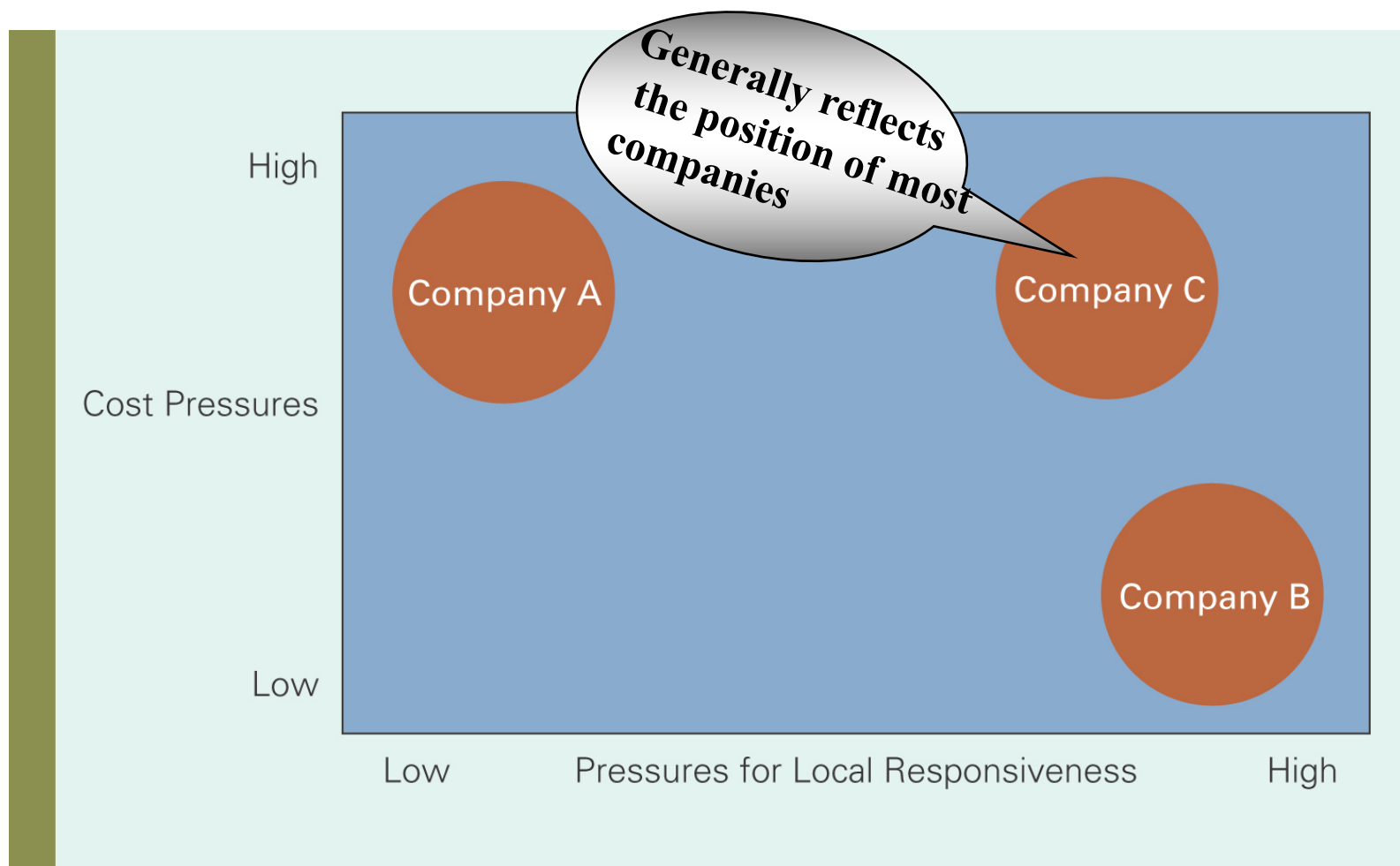
Leveraging firm's internal skills

- **Leverage:** to use something that you already have in order to achieve something new or better (Cambridge English Dictionary).
- Internal skills: Firm's competences that rivals cannot easily imitate
- A firm might increase its profitability by transferring these unique skills to foreign markets.

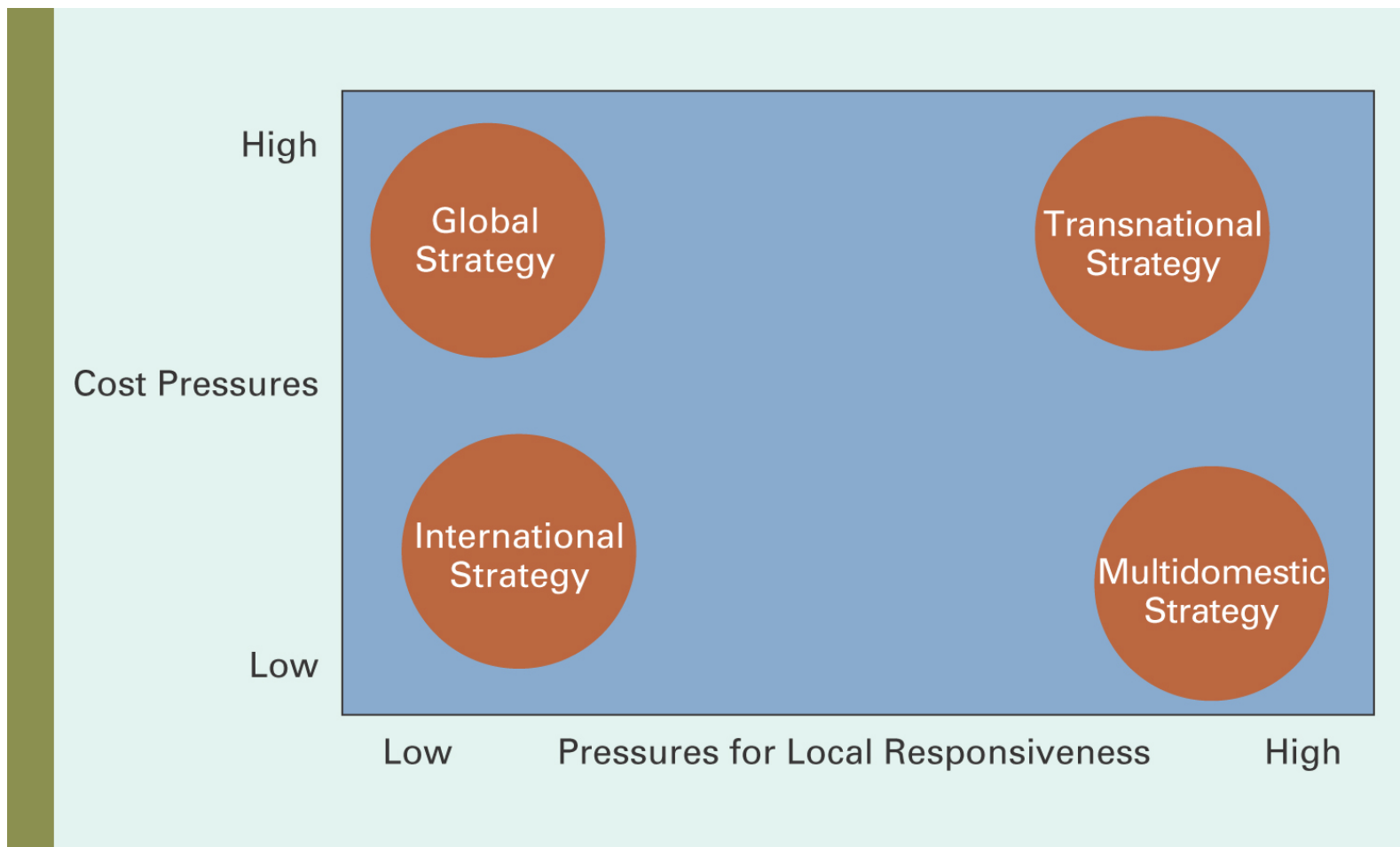
Learning from subsidiary skills

- Firms can learn from unique skills from subsidiary companies.
- Johnson and Vahnle (1977) suggest that foreign expansion is a process of knowledge accumulation.
- However, this learning process is not without its problems, since cultural differences may prevent(or difficult) MNE's learning ability,

The internationalization process: Pressures for cost reductions and local responsiveness



Four basic strategic choices



Source: Hill (2014)

Advantages and disadvantages of the four strategies

Strategy	Advantages	Disadvantages
Global	Exploit experience curve effects Exploit location economies	Lack of local responsiveness
International	Transfer core competencies to foreign markets	Lack of local responsiveness Inability to realize location economies Failure to exploit experience curve effects
Multidomestic	Customize product offerings and marketing in accordance with local responsiveness	Inability to realize location economies Failure to exploit experience curve effects Failure to transfer core competencies to foreign markets
Transnational	Exploit experience curve effects Exploit location economies Customize product offerings and marketing in accordance with local responsiveness Reap benefits of global learning	Difficult to implement due to organizational problems

Table 12.1

The Advantages and Disadvantages of the Four Strategies

Source: Hill (2014)

References

- Hill, Charles W. L. (2014): *International Business. Competing in the global marketplace, 10th edition*. Emerald Group Publishing Limited.