

**MNB3702 Discussion class**  
**Theme 1:**  
**Internationalisation**

Part 2 -  
Chapter 12 /  
Lesson 2



Define tomorrow.

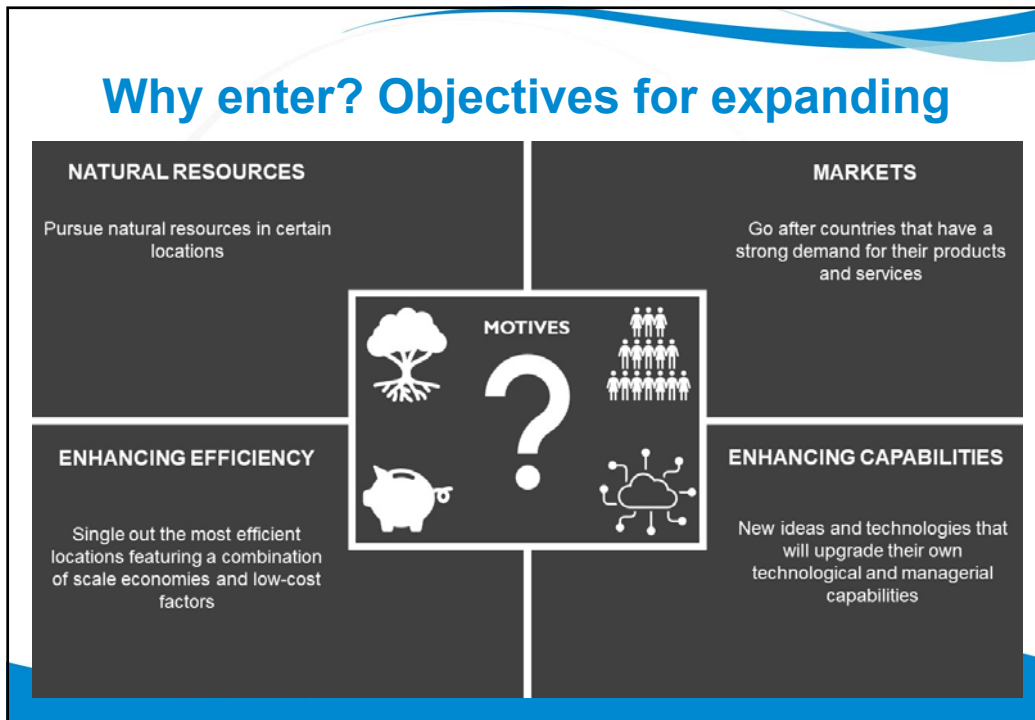
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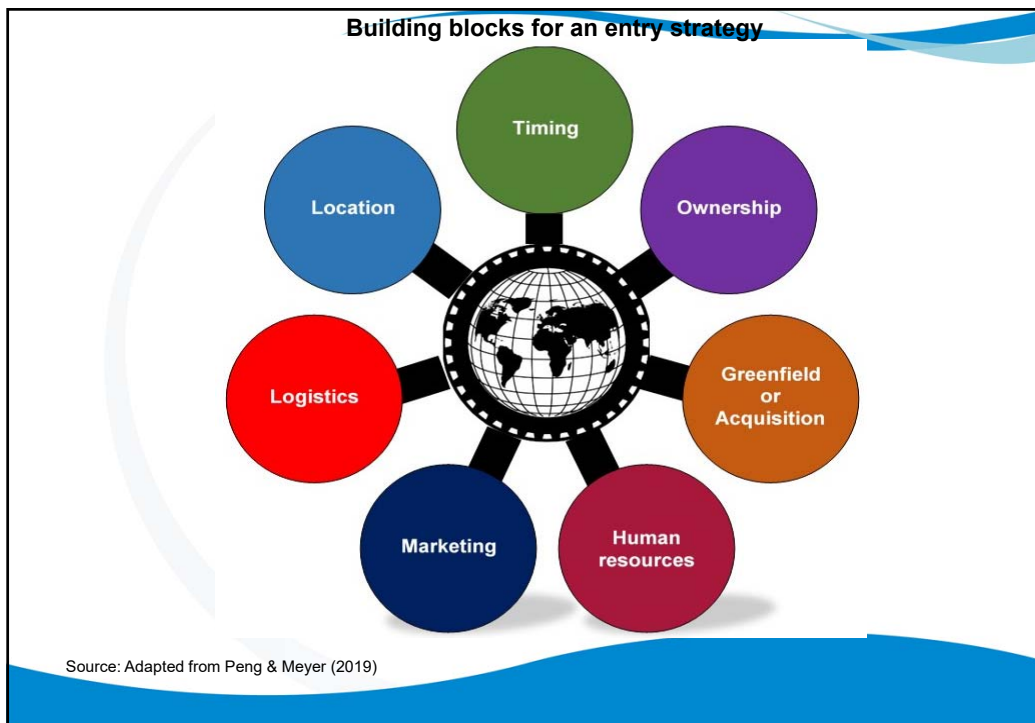
**Lesson 2 – International business management perspectives (Chapter 12)**

- ‘How do companies set up their operations when they first enter a new location or market?’ The building blocks of an entry strategy in the prescribed book stress the interdependence of entry mode decisions with location and timing decisions – as well as operational decisions such as marketing, logistics and HR.

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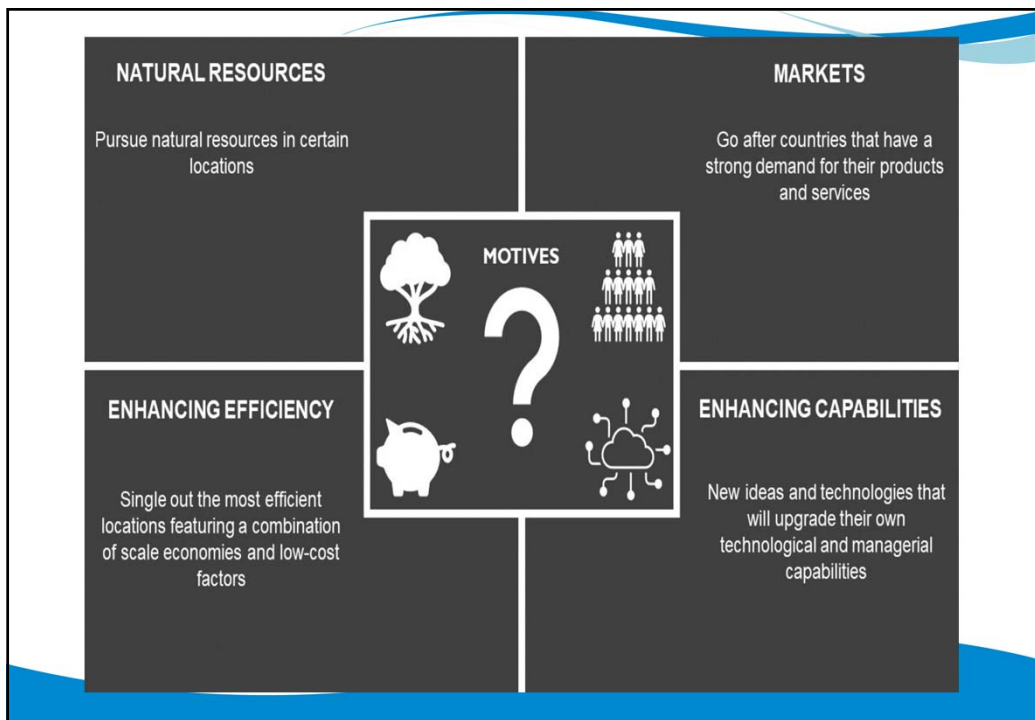
## Where to enter?



Source: Adapted from Peng & Meyer (2019)

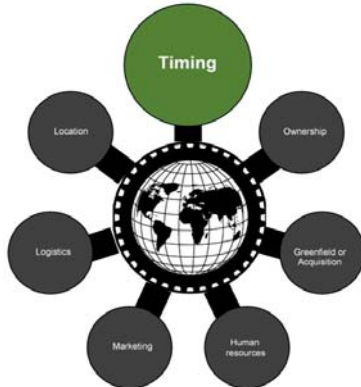
- Foreign locations must offer compelling advantages to doing business.
- Location choice is linked to the strategic objectives for FDI – resource, market, capability and efficiency
  - **Natural resource-seeking:** assess the **quality** and **costs** of the **local resources** that are key to their operations
  - **Market-seeking:** look for the **size** and **growth potential** of a market when making a location decision
  - **Efficiency-enhancing:** select locations where the **quality of resources is high**, but available at **low cost**.
  - **Capability-enhancing:** found in those MNE's searching for locations with **existing local capabilities and benefit from knowledge spillovers**.

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## When to enter?



Source: Adapted from Peng & Meyer (2019)

- Market-seeking MNEs have a choice to make – enter first (first mover) or watch and see how competitors manage (late mover).
  - **First mover:** advantage of **proprietary, technological leadership** (and the benefit of existing knowledge that late movers still have to accumulate)
  - **Late mover:** get to capitalise on the first-mover's **investments in the market, free riding** on the money they have spent on customer education about the product or service.
- *Review Table 12.2 for a summary*

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## Question

In Africa, the majority of consumers still buy from small stores and hawkers. Shoprite, which started expanding beyond South Africa in 1995, has paved the way for formal retail penetration in this highly fragmented sector. It now operates more than 320 stores in 14 countries and, last year, generated R19bn (US\$1,21 bn) in sales or 16,4% of the group's turnover (Verduyn, 2017).

Is Shoprite an early or a late mover? Motivate your answer and summarise the advantages that Shoprite benefit from as a result of their timing.

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## How to enter?




- Owning equity in host countries is what **MAKES** an organisation an MNE
- Levels of equity (ownership) vary:
  - Lower equity ownership includes **newly established JVs** and **partial acquisitions**
  - Higher equity modes include **greenfield wholly-owned subsidiaries** and **full acquisitions**

*Refer to Figure 12.2 (p336) for a summary of the four*  
*Refer to Table 12.5 (p352) for additional types of acquisitions*

Source: Adapted from Peng & Meyer (2019)

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Entry mode decision

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## How to organise your operations?



Source: Adapted from Peng & Meyer (2019)

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## Institutions and foreign entry strategies

- Table 12.4 presents a good summary of how institutions can work against the choice of entry mode and the choice of location

Types of constraints	Impact of entry mode (examples)	Impact on location (examples)
Certain operations or transactions are not permitted	<ul style="list-style-type: none"> <li>• Establish JVs where WOSs are not permitted</li> </ul>	<ul style="list-style-type: none"> <li>• Locate where planning permissions are easier to obtain</li> </ul>
Need for local knowledge	<ul style="list-style-type: none"> <li>• Establish JVs to access local knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Locate in agglomerations of foreign investors that help attaining local knowledge</li> </ul>
Higher transaction costs due to costly contract enforcement	<ul style="list-style-type: none"> <li>• Avoid complex arm's-length contracts with unfamiliar partners</li> </ul>	<ul style="list-style-type: none"> <li>• Locate in areas where local uncertainty is lower</li> </ul>
Higher transaction costs due to lack of financial intermediaries	<ul style="list-style-type: none"> <li>• Avoid full or partial acquisitions of local firms</li> </ul>	—
Higher tariffs or other trade barriers	—	<ul style="list-style-type: none"> <li>• Locate production in the target market</li> </ul>

Source: Peng & Meyer (2019: 349)

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## Debates and extensions

- When should foreign investors go in to a foreign market with a large up-front investment, and when they should go slow?
  - Large up-front investment is often required in highly competitive industries to prevent retaliation from existing competitors or to obtain first-mover advantages.
  - Small-scale entry may be needed when the organisation seeks to learn about the local industry and to limit risk while waiting for business opportunities to arise.
- Differentiates types of acquisition entry strategies have a wide variety of implications.
  - See Table 12.5 (Peng & Myer, 2019:352), which differentiates between conventional, brownfield, multiple, and staged acquisitions.

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## Summary Lesson 2

- There are a number of strategic objectives that MNEs may have in establishing their subsidiaries abroad, including market- and natural resource-seeking, and efficiency- and capability-enhancing motives (*why* to enter).
- An MNE will seek relevant location-specific advantages that match their strategic objective(s) (*where* to enter) and offset these against the advantages and disadvantages of being a first (or late) mover in that market (*when* to enter).
- The MNE must consider which modes of entry would be most suitable, taking into account the human resources, marketing and logistical operations implications of their chosen mode of entry (*how* to enter).
- These decisions will be impacted on by the formal and informal institutions of the potential host country, requiring managers to fit their strategies to its political economy (institution-based view).

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## Test yourself

Go review the case study on page 544 of the prescribed book – FAN MILK IN WEST AFRICA

ANSWER QUESTION 2:

How did Fan Milk as a Ghanaian business manage the challenges of expanding to other African countries?

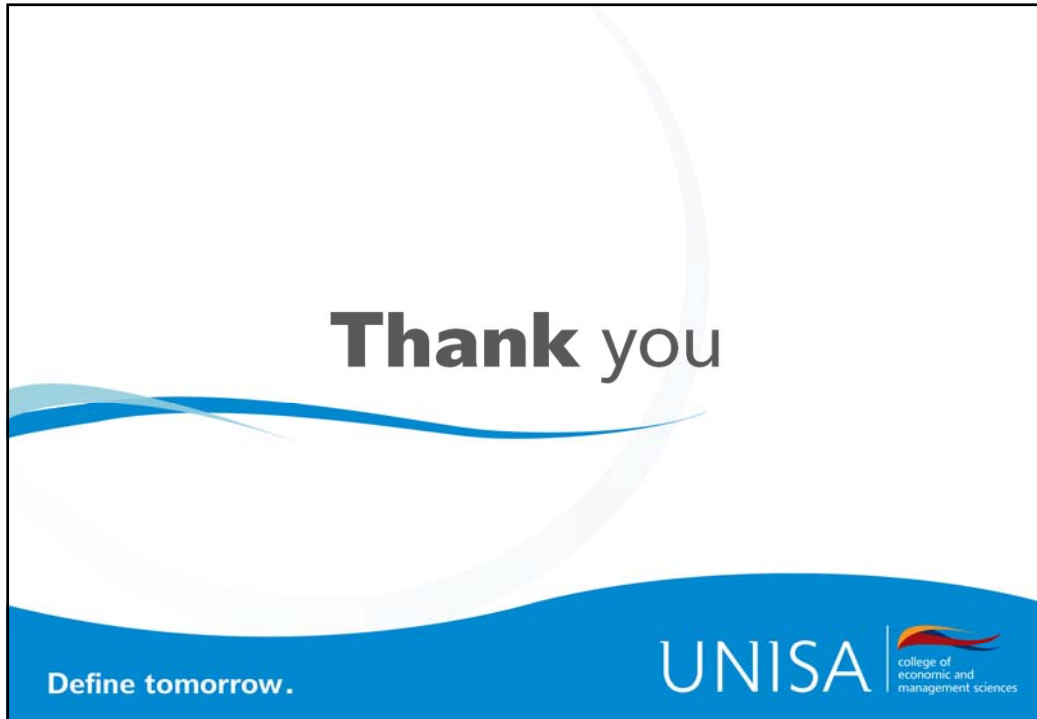
BREAK DOWN YOUR ANSWER AS FOLLOWS:

- Identify specific institutional challenges experienced by Fan Milk in its West African expansion **(2 marks)**
- Discuss how Fan Milk overcame these challenges **(4 marks)**
- Evaluate Fan Milk's challenges against common global expansion challenges discussed in theory (academia) **(4 marks)**

POST YOUR ANSWER ON THE DISCUSSION FORUM

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