Theme 1: Internationalisation

Part 1 - Chapter 11 / Lesson 1

Define tomorrow.

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Theme 1 – Internationalisation

- A global company has branches and offices in many countries. They have *investments* in those countries.
- An international strategy, where you compete in each country on a “stand-alone basis”, is ONE of FOUR main strategies.

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Theme 1 – Internationalisation

GLOBAL Centrally controlled operations No need for home office integration, since home office makes all decisions Views the world as its market Low market responsiveness, since it is centrally controlled (*Global standards/standardisation strategy*)	**TRANSNATIONAL** Foreign offices have control over production, markets Integration with home office High local responsiveness (*Transnational strategy*)
INTERNATIONAL Centrally controlled No need for home office integration, as home office makes all decisions Uses existing production to sell products overseas Low market responsiveness (*Home replication/export strategy*)	**MULTINATIONAL** Foreign offices are viewed as subsidiaries Home office still has much control High local responsiveness (*Multi-domestic/localisation strategy*)

Source: Adapted from Edwards (2014); Peng & Meyer (2019: 418)

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Lesson 1 – Going International (Chapter 11)

- International business is about firms engaging in cross-border economic activities and/or the activity of doing business through transactions that are "devised and carried out across national borders to satisfy the objectives of individuals, companies, and organisations". (Peng & Meyer, 2019).

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Going International

- SMEs are companies with **less than 250 employees**.
- They have **fewer resources** than large businesses, and are **unable to buy up local businesses** to gain a foothold in a foreign market.
- Foreign entry requires **entrepreneurs**, who are leaders in identifying opportunities and taking decisions to exploit them.

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Table 11.1 Non-equity internationalization modes

	Seller (Exporting)	Buyer (Importing)
Good	• Direct exports • Indirect exports via domestic intermediary • Indirect export with foreign distributor or agent	• Direct import • Indirect import • Subcontracting of manufacturing
Service	• Delivering services to customers abroad • Attracting foreign customers to your location	• Hiring consultants based abroad • Business process outsourcing
Combination of goods, services and rights	• Licensor • Franchisor • Turn-key projects • Build-operate-transfer contracts • Management contracts	• Licensee • Franchisee • Subcontracting • R&D contracts

Source: Peng & Meyer (2019: 308)

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Table 11.2 The trader's vocabulary

Term	Meaning	Explanation
Trade documents		
AWL	Airway bill	Document issued by an airline to certify receipt of merchandise. Contrary to B/L, it does not entail a legal title to the products.
B/L	Bill of lading	Document issued by a courier or shipping company certifying that the merchandise has been delivered, and paid for. Only the person holding the B/L has the right to claim the products.
LOC	Letter of credit	A document certifying that the importer's bank will pay a specific sum of money to the exporter upon delivery of the merchandise.
Contract terms		
CIF	Cost, insurance & freight	The seller pays all costs of transport, including insurance and freight.
DDP	Delivered duty paid	The seller will deliver the goods to a specified place, and pay the necessary customs duties.
EXW	Ex works	Buyer has to pick up good from the seller's specified factory or warehouse.
FOB	Free on board	The seller delivers the goods on board a boat or train, put does not pay for the transport.

Source: Peng & Meyer (2019: 30p)

https://youtu.be/GgnlapeuSZc

https://www.youtube.com/watch?v=vou2JjBSCps

https://youtu.be/KA_cgeRCnIQ

https://youtu.be/acrD9ME4VCo

https://youtu.be/NcJVhzUHSBE

https://youtu.be/IQqf9ZNkjuc

https://youtu.be/ae9oVibkBZ4

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Intermediaries

- SMEs with limited resources may have to rely on intermediaries to reach foreign markets and to build a client base (indirect export)
- Export intermediaries perform a middleman function – handling cross-cultural communication, international payments and other activities
- They are more common for standardised products and commodities (e.g. textiles, woods and meats), where competition focuses on price.

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Intermediaries continued

- Local sales agents receive commission on sales and you still maintain some control
- Distributors buy your products and then sell them on the local markets, taking on the risk and using their own channels
- Distributors take on more control and can repackage your product, leading to missed opportunities to build your brand with consumers.

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International contracts

- Licensing (rights to use patents or trademarks for a royalty fee)
- Franchising (rights to use entire business concept – think restaurants)
- Turnkey (clients pay contractors to design and construct new facilities and train personnel)
- Design-and-build projects (architecture and construction)
- Build-operate-transfer projects (common in government projects where tenders are awarded as it includes running the completed project)

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International contracts continued

- Subcontracting (raw materials exported from a country are subcontracted for processing into finished goods – think jewellery)
- R&D contract (similar to subcontracting, but innovation and knowledge are outsourced instead of labour)
- Management contract (almost like franchising, but the assets are owned by the local company and these assets are used by the foreign company to establish their brand)

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Resources and internationalisation

- Uppsala model (also called internationalisation process) – focuses on the learning process
- Network internationalisation model – extends Uppsala by including the ability of the organisation to use its own network and relationships to grow internationally – Remember Erik Emborg?
- Stages model of internationalization – depicts internationalisation as a slow, stage-by-stage process that an SME must go through

- HOW DOES A BORN GLOBAL FIT?

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Accelerating Resources Acquisition

Table 11.3 Building resources for international business

Traditional processes	Accelerated processes
• Experiential learning and knowledge acquisition • Network building and exploitation	• Recruiting an entrepreneurial team with international experience • Learning by importing and partnering with inward foreign investors • Learning from others operating in the same foreign country • Acquiring resources in the foreign country, possibly entire firms

Source: Peng & Meyer (2019: 320)

Born globals are defined as businesses that, from inception, seek to derive significant competitive advantages from the use of resources and the sale of outputs in multiple countries.

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Institutions and internationalisation

- An SME must deal with its institutional environment in its own country (Are foreign companies able to enter and compete at home, pushing SMEs to explore other countries to sustain their operations? Does government have agreements in place with other countries that facilitate international trade?)

AND

- The institutional environment in the host country (Is it similar to the regulatory, normative and cognitive institutions of the home country? Or is there significant institutional difference which means a big learning curve for the SME? Are the cultures similar?)
- The bigger the difference, the higher the costs of transacting

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Debates and extensions

- Designing and combining entry modes
  - New forms of contracts are designed to share resources, responsibilities, risk and returns in ways that best suit the partners in the deal.
  - Foreign entry is often presented first and foremost.
- Foreign entry in the digital age
  - Exporters can use the internet to complement their traditional offerings.
  - From a resource-based perspective, the internet lowers the resource needs of entering international markets.
  - From an institution-based view, the key question is, whose rules of the game should e-commerce follow?

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Summary Lesson 1

Operations abroad should be designed to link with local contexts, facilitate learning and allow for flexibility.

Start-up businesses aiming for global markets may benefit from creating global structures from the outset and avoid creating a domestic organisation that later needs to be reorganised. Reorganisation is usually a very costly process that may be resisted by some people in the organisation. Refer back to Figure 1 and consider how you would structure a business from the onset.

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Short Scenario

Today, SMEs are very active in the global marketplace, a reality that has been greatly enabled by digitalisation. The success of these businesses in global markets contributes greatly to the economy of any country. Take, for example, the case of Soko – a medium-sized fashion company from Kenya. Soko's "virtual factory" of 2,300 artisanal workshops, distributed around Nairobi, Kenya, produced brass, horn and bone jewellery for a discerning global market. The firm combined a mobile platform, with state-of-the-art machine learning algorithms, to match the most qualified artisans with the right production jobs and perform remote quality checks on completed products. The company had grown quickly, increasing the annual income of its artisans by up to five times and helping dozens of people move out of slums.

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Question

Discuss the **non-equity mode of internationalisation** followed by Soko.

- Soko is a goods-based exporter – **Identification of mode**
- Directly exports jewellery to international clients – **Evidence**
- Direct exports include the sale of products made by SMEs in their home country to customers in other countries – **Summary of mode**
- It is a more attractive strategy for inexperienced firms as it allows them to access their foreign customers directly – **Summary of mode**

ALTERNATIVELY

- Argument: they also perform a domestic intermediary function – **Identification of mode**
- Facilitating the sales of their contractors' goods to international clients – **Summary of mode**
- Soko allows their local jewellers to reach overseas customers by exporting their jewellery as an export/trading company – **Evidence**
- Soko is based in the same country as their jewellers and links their micro-businesses to buyers overseas – **Evidence**

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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 1:
How has a Danish entrepreneur been able to build a successful business in Africa?

BREAK DOWN YOUR ANSWER AS FOLLOWS:

•Discuss the opportunity in the African markets for Erik Emborg **(2 marks)**
•Explain how Erik Emborg engaged in international trade **(2 marks)**
•Evaluate the impact of resources on the success of Erik Emborg's venture **(6 marks)**

POST YOUR ANSWER ON THE DISCUSSION FORUM

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Thank you

Define tomorrow.

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