

- **International Strategy:** Be aware of your organization's international strategy. What percentage of the total firm activity is international? What skills are needed to enhance your company's international efforts? How can you get more involved in your organization's international strategy? For your career, what conditions in your home country might cause you to seek a career abroad?
- **Outsourcing and Offshoring:** More and more organizations have resorted to outsourcing and offshoring in recent years. To what extent has your firm engaged in either? What activities in your organization can/should be outsourced or offshored? Be aware that you are competing in the global marketplace for employment and professional advancement. What is the likelihood that your own job may be outsourced or off-shored? In what ways can you enhance your talents, skills, and competencies to reduce the odds that your job may be offshored or outsourced?
- **International Career Opportunities:** Taking on overseas assignments in other countries can often provide a career boost. There are a number of ways in which you can improve your odds of being selected for an overseas assignment. Studying abroad for a semester or doing an overseas internship are two obvious strategies. Learning a foreign language can also greatly help. Anticipate how such opportunities will advance your short- and long-term career aspirations.
- **Management Risks:** Explore ways in which you can develop cultural sensitivity. Interacting with people from other cultures, foreign travel, reading about foreign countries, watching foreign movies, and similar activities can increase your cultural sensitivity. Identify ways in which your perceptions and behaviors have changed as a result of increased cultural sensitivity.

summary

We live in a highly interconnected global community where many of the best opportunities for growth and profitability lie beyond the boundaries of a company's home country. Along with the opportunities, of course, there are many risks associated with diversification into global markets.

The first section of the chapter addressed the factors that determine a nation's competitiveness in a particular industry. The framework was developed by Professor Michael Porter of Harvard University and was based on a four-year study that explored the competitive success of 10 leading trading nations. The four factors, collectively termed the “diamond of national advantage,” were factor endowments, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry.

The discussion of Porter's “diamond” helped, in essence, to set the broader context for exploring competitive advantage at the firm level. In the second section, we discussed the primary motivations and the potential risks associated with international expansion. The primary motivations included increasing the size of the potential market for the firm's products and services, achieving economies of scale, extending the life cycle of the firm's products, and optimizing the location for every activity in the value chain. On the other hand, the key risks included political and economic risks, currency risks, and management risks. Management risks are the challenges associated with responding to the inevitable differences that exist across countries such as customs, culture, language, customer preferences, and distribution systems. We also addressed some of the managerial challenges and opportunities associated with offshoring and outsourcing.

Next, we addressed how firms can go about attaining competitive advantage in global markets. We began by discussing the two opposing forces—cost reduction and adaptation to local markets—that managers must contend with when entering global markets. The relative importance of these two factors plays a major part in determining which of the four basic types of strategies to select: international, global, multidomestic, or

transnational. The chapter covered the benefits and risks associated with each type of strategy.

Page 244

The final section discussed the four types of entry strategies that managers may undertake when entering international markets. The key trade-off in each of these strategies is the level of investment or risk versus the level of control. In order of their progressively greater investment/risk and control, the strategies range from exporting to licensing and franchising, to strategic alliances and joint ventures, to wholly owned subsidiaries. The relative benefits and risks associated with each of these strategies were addressed.

SUMMARY REVIEW QUESTIONS

1. What are some of the advantages and disadvantages associated with a firm's expansion into international markets?
2. What are the four factors described in Porter's diamond of national advantage? How do the four factors explain why some industries in a given country are more successful than others?
3. Explain the two opposing forces—cost reduction and adaptation to local markets—that firms must deal with when they go global.
4. There are four basic strategies—international, global, multidomestic, and transnational. What are the advantages and disadvantages associated with each?
5. What is the basis of Alan Rugman's argument that most multinationals are still more regional than global? What factors inhibit firms from becoming truly global?
6. Describe the basic entry strategies that firms have available when they enter international markets. What are the relative advantages and disadvantages of each?

key terms

globalization 214

diamond of national advantage 215

factor endowments (national advantage) 215

demand conditions (national advantage) 216

related and supporting industries (national advantage) 216

firm strategy, structure, and rivalry (national advantage) 216

multinational firms 218

arbitrage opportunities 219

reverse innovation 220

political risk 222

rule of law 222

economic risk 223

counterfeiting 223

currency risk 223

management risk 224

outsourcing 225

offshoring 225

international strategy 231

global strategy 231

multidomestic strategy 233

transnational strategy 235

regionalization 237

trading blocs 238

exporting 239

licensing 239

franchising 239

wholly owned subsidiary 241

experiential exercise

The United States is considered a world leader in the motion picture industry. Using Porter's diamond framework for national competitiveness, explain the success of this industry. (Fill in the chart on page 245.)

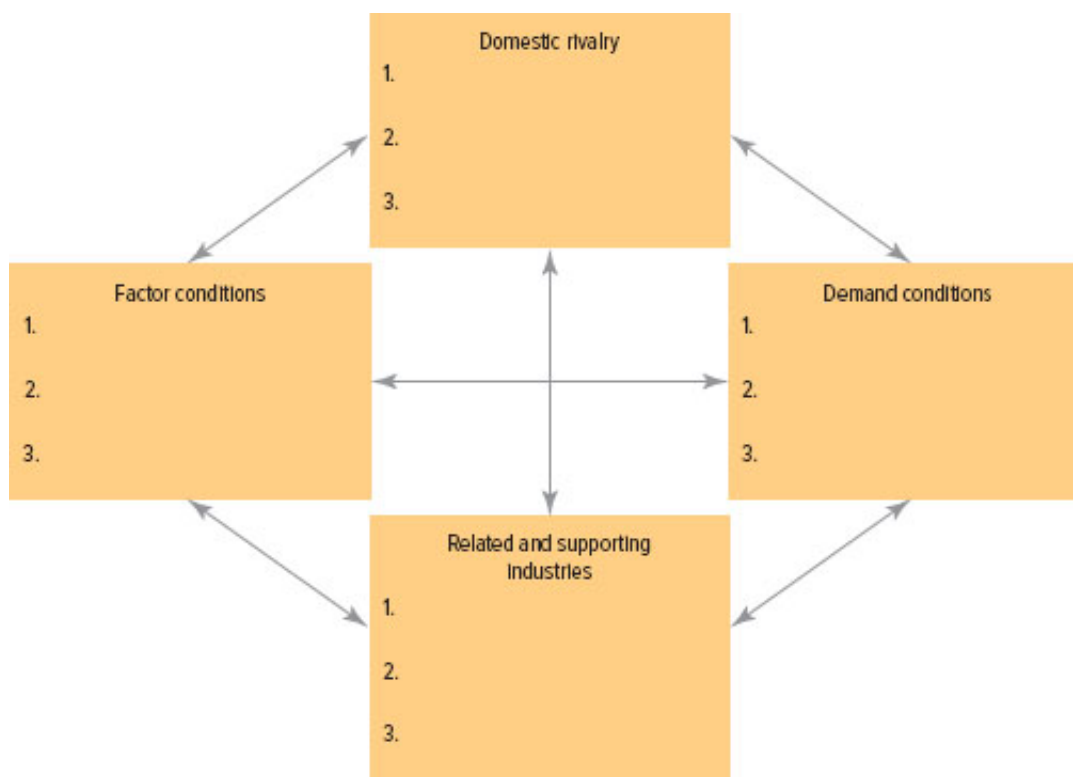
application questions & exercises

1. Data on the “competitiveness of nations” can be found at www.imd.org/research/publications/wcy/index.cfm. This website provides a ranking on 329 criteria for 59 countries. How might Porter's diamond of national advantage help to explain the rankings for some of these countries for certain industries that interest you?
2. The Internet has lowered the entry barriers for smaller firms that wish to diversify into international markets. Why is this so? Provide an example.

3. Many firms fail when they enter into strategic alliances with firms that link up with companies based in other countries. What are some reasons for this failure? Provide an example.
4. Many large U.S.-based management consulting companies such as McKinsey and Company and the BCG Group have been very successful in the international marketplace. How can Porter's diamond explain their success?

ethics questions

1. Over the past few decades, many American firms have relocated most or all of their operations from the United States to countries such as Mexico and China that pay lower wages. What are some of the ethical issues that such actions may raise?
2. Business practices and customs vary throughout the world. What are some of the ethical issues concerning payments that must be made in a foreign country to obtain business opportunities?



Page 245
references

1. 1. Williamson, P. & Raman, A. 2011. How China reset its global acquisition agenda. *Harvard Business Review*, April: 109–114; and SAIC under pressure to help save SsangYong. 2009. nytimes.com, January 12: np.
2. 2. For a discussion on globalization by one of international business's most respected authors, read

Ohmae, K. 2005. *The next global stage: Challenges and opportunities in our borderless world*. Philadelphia: Wharton School.

3. 3. Our discussion of globalization draws upon Engardio, P. & Belton, C. 2000. Global capitalism: Can it be made to work better? *BusinessWeek*, November 6: 72–98.
4. 4. Sellers, P. 2005. Blowing in the wind. *Fortune*, July 25: 63.
5. 5. Rivera, J. 2014. Gartner says sales of smartphones grew 20 percent in third quarter of 2014. gartner.com, December 15: np.
6. 6. A game of catch-up. 2011. *The Economist*, September 24: 3–6.
7. 7. Some insights into how winners are evolving in emerging markets are addressed in Ghemawat, P. & Hout, T. 2008. Tomorrow's global giants: Not the usual suspects. *Harvard Business Review*, 66(11): 80–88.
8. 8. For another interesting discussion on a country perspective, refer to Makino, S. 1999. MITI Minister Kaora Yosano on reviving Japan's competitive advantages. *Academy of Management Executive*, 13(4): 8–28.
9. 9. The following discussion draws heavily upon Porter, M. E. 1990. The competitive advantage of nations. *Harvard Business Review*, March–April: 73–93.
10. 10. Landes, D. S. 1998. *The wealth and poverty of nations*. New York: W. W. Norton.
11. 11. A study that investigates the relationship between international diversification and firm performance is Lu, J. W. & Beamish, P. W. 2004. International diversification and firm performance: The s-curve hypothesis. *Academy of Management Journal*, 47(4): 598–609.
12. 12. Part of our discussion of the motivations and risks of international expansion draws upon Gregg, F. M. 1999. International strategy. In Helms, M. M. (Ed.), *Encyclopedia of management*: 434–438. Detroit: Gale Group.
13. 13. Anthony, S. 2012. Singapore sessions. *Harvard Business Review*, 90(4): np.
14. 14. Eyring, M. J., Johnson, M. W., & Nair, H. 2011. New business models in emerging markets. *Harvard Business Review*, 89 (1/2): 88–98.

15. 15. Cieply, M. & Barnes, B. 2010. After rants, skepticism over Gibson bankability grows in non-U.S. markets. *International Herald Tribune*, July 23: 1.
16. 16. Glazer, E. 2012. P&G unit bids goodbye to Cincinnati, hello to Asia. [wsj.com](http://www.wsj.com), May 10: np.
17. 17. This discussion draws upon Gupta, A. K. & Govindarajan, V. 2001. Converting global presence into global competitive advantage. *Academy of Management Executive*, 15(2): 45–56.
18. 18. Stross, R. E. 1997. Mr. Gates builds his brain trust. *Fortune*, December 8: 84–98.
19. 19. For a good summary of the benefits and risks of international expansion, refer to Bartlett, C. A. & Ghoshal, S. 1987. Managing across borders: New strategic responses. *Sloan Management Review*, 28(5): 45–53; and Brown, R. H. 1994. *Competing to win in a global economy*. Washington, DC: U.S. Department of Commerce.
20. 20. Capron, L. & Bertrand, O. 2014. Going abroad in search of higher productivity at home. *Harvard Business Review*, 92(6): 26.
21. 21. For an interesting insight into rivalry in global markets, refer to MacMillan, I. C., van Putten, A. B., & McGrath, R. G. 2003. Global gamesmanship. *Harvard Business Review*, 81(5): 62–73.
22. 22. It is important for firms to spread their foreign operations and outsourcing relationships with a broad, well-balanced mix of regions and countries to reduce risk and increase potential reward. For example, refer to Vestring, T., Rouse, T., & Reinert, U. 2005. Hedge your offshoring bets. *MIT Sloan Management Review*, 46(3): 27–29.
23. 23. An interesting discussion of risks faced by Lukoil, Russia's largest oil firm, is in Gimbel, B. 2009. Russia's king of crude. *Fortune*, February 2: 88–92.
24. 24. For a discussion of some of the challenges associated with government corruption regarding entry strategies in foreign markets, read Rodriguez, P., Uhlenbruck, K., & Eden, L. 2005. Government corruption and entry strategies of multinationals. *Academy of Management Review*, 30(2): 383–396.
25. 25. For a discussion of the political risks in China for United States companies, refer to Garten, J. E. 1998. Opening the doors for business in China. *Harvard Business Review*, 76(3): 167–175.
26. 26. Insights on how forensic economics can be used to investigate crimes and wrongdoing are in Fisman, R. 2009. The rise of forensic economics. *Harvard Business Review*, 87(2): 26.

27. 27. Iosebashvili, I. 2012. Renault-Nissan buy into Russia's aged auto giant. [wsj.com](http://www.wsj.com), May 3: np.
28. 28. Ferguson, N. 2013. Is the business of America still business? *Harvard Business Review*, 91(6): 40.
29. 29. For an interesting perspective on the relationship between diversification and the development of a nation's institutional environment, read Chakrabarti, A., Singh, K., & Mahmood, I. 2007. Diversification and performance: Evidence from East Asian firms. *Strategic Management Journal*, 28(2): 101–120.
30. 30. A study looking into corruption and foreign direct investment is Brouthers, L. E., Gao, Y., & McNicol, J. P. 2008. *Strategic Management Journal*, 29(6): 673–680.
31. 31. Gikkas, N. S. 1996. International licensing of intellectual property: The promise and the peril. *Journal of Technology Law & Policy*, 1(1): 1–26.
32. 32. Hargreaves, S. 2012. Counterfeit goods becoming more dangerous. [cnnmoney.com](http://www.cnnmoney.com), September 27: np.
33. 33. Sandler, N. 2008. Israel: Attack of the super-shekel. *BusinessWeek*, February 25: 38.
34. 34. For an excellent theoretical discussion of how cultural factors can affect knowledge transfer across national boundaries, refer to Bhagat, R. S., Kedia, B. L., Harveston, P. D., & Triandis, H. C. 2002. Cultural variations in the cross-border transfer of organizational knowledge: An integrative framework. *Academy of Management Review*, 27(2): 204–221.
35. 35. An interesting discussion on how local companies compete effectively with large multinationals is in Bhattacharya, A. K. & Michael, D. C. 2008. *Harvard Business Review*, 66(3): 84–95.
36. 36. To gain insights on the role of national and regional cultures on knowledge management models and frameworks, read Pauleen, D. J. & Murphy, P. 2005. In praise of cultural bias. *MIT Sloan Management Review*, 46(2): 21–22.
37. 37. Berkowitz, E. N. 2000. *Marketing* (6th ed.). New York: McGraw-Hill.
38. 38. Harvey, M. & Buckley, M. R. 2002. Assessing the “conventional wisdoms” of management for the 21st century organization. *Organization Dynamics*, 30(4): 368–378.
39. 39. World Trade Organization. *Annual Report 1998*. Geneva: World Trade Organization.

40. 40. Lei, D. 2005. Outsourcing. In Hitt, M. A. & Ireland, R. D. (Eds.), *The Blackwell encyclopedia of management*, Entrepreneurship: 196–199. Malden, MA: Blackwell.
41. 41. Future trends in offshoring are addressed in Manning, S., Massini, S., & Lewin, A. Y. 2008. A dynamic perspective on next-generation offshoring: The global sourcing of science and engineering talent. *Academy of Management Perspectives*, 22(3): 35–54.
42. 42. An interesting perspective on the controversial issue regarding the offshoring of airplane maintenance is in Smith, G. & Bachman, J. 2008. Flying in for a tune-up overseas. *BusinessWeek*, April 21: 26–27.
43. 43. The discussion draws from Colvin, J. 2004. Think your job can't be sent to India? Just watch. *Fortune*, December 13: 80; Schwartz, N. D. 2004. Down and out in white collar America. *Fortune*, June 23: 321–325; and Hagel, J. 2004. Outsourcing is not just about cost cutting. *The Wall Street Journal*, March 18: A3.
44. 44. Porter, M. & Rivkin, J. 2012 Choosing the United States. *Harvard Business Review*, 90(3): 80–93; Bussey, J. 2012. U.S. manufacturing, defying naysayers. [wsj.com](http://www.wsj.com) *Harvard Business Review*, 90(3): 80–93; Bussey, J. 2012. U.S. manufacturing, defying naysayers. [wsj.com](http://www.wsj.com), April 19: np; and Jean, S. & Alcott, K. 2013. Manufacturing jobs have slid steadily as work has moved offshore. *Dallas Morning News*, January 14: 1D.
45. 45. Wong, C. 2014. As China's economy slows, so too does growth in workers' wages. blogs.wsj.com, December 17: np.
46. 46. Levitt, T. 1983. The globalization of markets. *Harvard Business Review*, 61(3): 92–102.
47. 47. Our discussion of these assumptions draws upon Douglas, S. P. & Wind, Y. 1987. The myth of globalization. *Columbia Journal of World Business*, Winter: 19–29.
48. 48. Ghoshal, S. 1987. Global strategy: An organizing framework. *Strategic Management Journal*, 8: 425–440.
49. 49. For insights on global branding, refer to Aaker, D. A. & Joachimsthaler, E. 1999. The lure of global branding. *Harvard Business Review*, 77(6): 137–146.
50. 50. Dawar, N. & Frost, T. 1999. Competing with Giants: Survival Strategies for Local Companies in Emerging Markets. *Harvard Business Review*, 77(3): 119–129.

51. 51. Hout, T., Porter, M. E., & Rudden, E. 1982. How global companies win out. *Harvard Business Review*, 60(5): 98–107.
52. 52. Fryer, B. 2001. Tom Siebel of Siebel Systems: High tech the old-fashioned way. *Harvard Business Review*, 79(3): 118–130.
53. 53. The risks that are discussed for the global, multidomestic, and transnational strategies draw upon Gupta & Govindarajan, op. cit.
54. 54. A discussion on how McDonald's adapts its products to overseas markets is in Gumbel, P. 2008. Big Mac's local flavor. *Fortune*, May 5: 115–121.
55. 55. Einhorn, B. & Winter, C. 2012. Want some milk with your green tea Oreos? *Bloomberg Businessweek*, May 7: 25–26; Khosla, S. & Sawhney, M. 2012. Blank checks: Unleashing the potential of people and business. Strategy-Business.com *Bloomberg Businessweek*, May 7: 25–26; Khosla, S. & Sawhney, M. 2012. Blank checks: Unleashing the potential of people and business. Strategy-Business.com, Autumn: np; and In China, brands more than symbolic. 2012. *Dallas Morning News*, November 27: 3D.
56. 56. Prahalad, C. K. & Doz, Y. L. 1987. *The multinational mission: Balancing local demands and global vision*. New York: Free Press.
57. 57. For an insightful discussion on knowledge flows in multinational corporations, refer to Yang, Q., Mudambi, R., & Meyer, K. E. 2008. Conventional and reverse knowledge flows in multinational corporations. *Journal of Management*, 34(5): 882–902.
58. 58. Kidd, J. B. & Teramoto, Y. 1995. The learning organization: The case of Japanese RHQs in Europe. *Management International Review*, 35 (Special Issue): 39–56.
59. 59. Gupta, A. K. & Govindarajan, V. 2000. Knowledge flows within multinational corporations. *Strategic Management Journal*, 21(4): 473–496.
60. 60. Wetlaufer, S. 2001. The business case against revolution: An interview with Nestle's Peter Brabeck. *Harvard Business Review*, 79(2): 112–121.
61. 61. Nobel, R. & Birkinshaw, J. 1998. Innovation in multinational corporations: Control and communication patterns in international R&D operations. *Strategic Management Journal*, 19(5): 461–478.

62. 62. Chan, C. M., Makino, S., & Isobe, T. 2010. Does subnational region matter? Foreign affiliate performance in the United States and China. *Strategic Management Journal*, 31(11): 1226–1243.
63. 63. This section draws upon Ghemawat, P. 2005. Regional strategies for global leadership. *Harvard Business Review*, 84(12): 98–108; Ghemawat, P. 2006. Apocalypse now? *Harvard Business Review*, 84(12): 32; Ghemawat, P. 2001. Distance still matters: The hard reality of global expansion. *Harvard Business Review*, 79(8): 137–147; Peng, M. W. 2006. *Global strategy*: 387. Mason, OH: Thomson South-Western; and Rugman, A. M. & Verbeke, A. 2004. A perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies*, 35: 3–18.
64. 64. For a rigorous analysis of performance implications of entry strategies, refer to Zahra, S. A., Ireland, R. D., & Hitt, M. A. 2000. International expansion by new venture firms: International diversity, modes of entry, technological learning, and performance. *Academy of Management Journal*, 43(6): 925–950.
65. 65. Li, J. T. 1995. Foreign entry and survival: The effects of strategic choices on performance in international markets. *Strategic Management Journal*, 16: 333–351.
66. 66. For a discussion of how home-country environments can affect diversification strategies, refer to Wan, W. P. & Hoskisson, R. E. 2003. Home country environments, corporate diversification strategies, and firm performance. *Academy of Management Journal*, 46(1): 27–45.
67. 67. Arnold, D. 2000. Seven rules of international distribution. *Harvard Business Review*, 78(6): 131–137.
68. 68. Sharma, A. 1998. Mode of entry and ex-post performance. *Strategic Management Journal*, 19(9): 879–900.
69. 69. This section draws upon Arnold, op. cit., pp. 131–137; and Berkowitz, op. cit.
70. 70. Salomon, R. & Jin, B. 2010. Do leading or lagging firms learn more from exporting? *Strategic Management Journal*, 31(6): 1088–1113.
71. 71. Kline, D. 2003. Strategic licensing. *MIT Sloan Management Review*, 44(3): 89–93.
72. 72. Martin, J. 1999. Franchising in the Middle East. *Management Review*, June: 38–42.
73. 73. Arnold, op. cit.; and Berkowitz, op. cit.
74. 74. An in-depth case study of alliance dynamics is found in Faems, D., Janssens, M., Madhok, A., & Van

- Looy, B. 2008. Toward an integrative perspective on alliance governance: Connecting contract design, trust dynamics, and contract application. *Academy of Management Journal*, 51(6): 1053–1078.
75. 75. Knowledge transfer in international joint ventures is addressed in Inkpen, A. 2008. Knowledge transfer and international joint ventures. *Strategic Management Journal*, 29(4): 447–453.
76. 76. Wen, S. H. & Chuang, C.-M. 2010. To teach or to compete? A strategic dilemma of knowledge owners in international alliances. *Asia Pacific Journal of Management*, 27(4): 697–726.
77. 77. Manufacturer–supplier relationships can be very effective in global industries such as automobile manufacturing. Refer to Kotabe, M., Martin, X., & Domoto, H. 2003. Gaining from vertical partnerships: Knowledge transfer, relationship duration, and supplier performance improvement in the U.S. and Japanese automotive industries. *Strategic Management Journal*, 24(4): 293–316.
78. 78. For a good discussion, refer to Merchant, H. & Schendel, D. 2000. How do international joint ventures create shareholder value? *Strategic Management Journal*, 21(7): 723–738.
79. 79. This discussion draws upon Walters, B. A., Peters, S., & Dess, G. G. 1994. Strategic alliances and joint ventures: Making them work. *Business Horizons*, 37(4): 5–11.
80. 80. Some insights on partnering in the global area are discussed in MacCormack, A. & Forbath, T. 2008. *Harvard Business Review*, 66(1): 24, 26.
81. 81. For a rigorous discussion of the importance of information access in international joint ventures, refer to Reuer, J. J. & Koza, M. P. 2000. Asymmetric information and joint venture performance: Theory and evidence for domestic and international joint ventures. *Strategic Management Journal*, 21(1): 81–88.
82. 82. Dyer, J. H., Kale, P., & Singh, H. 2001. How to make strategic alliances work. *MIT Sloan Management Review*, 42(4): 37–43.
83. 83. For a discussion of some of the challenges in managing subsidiaries, refer to O'Donnell, S. W. 2000. Managing foreign subsidiaries: Agents of headquarters, or an independent network? *Strategic Management Journal*, 21(5): 525–548.
84. 84. Ricks, D. 2006. *Blunders in international business* (4th ed.). Malden, MA: Blackwell.