

# Expanding abroad: Motivations, means, mentalities

## Part 3

## ***Transnational Management***

focuses on the management challenges associated with developing strategies and managing the operations of companies whose activities stretch across national boundaries.

The purpose is to provide a conceptual framework of the interplay between

- the multinational corporation,
- the countries in which it does business, and
- the competitive environment in which it operates.

# **What is a Multinational Enterprise (MNE)?**

- Substantial direct investment in foreign countries (not just an export business)
- Active management of these offshore assets (not simply holding them as a passive financial portfolio)
- Management integration of operations located in different countries

# **What's Different about Multinational Management?**

- Multiple operating environments
  - Diverse pattern of consumer preferences, channels, legal frameworks, etc.
- Political demands and risks
  - Need to mesh corporate strategy with host country policies

# What's Different (Continued)?

- Global competitive game
  - Multiple markets, new strategic options
- Currency fluctuation and exchange risk
  - Economic performance measured in multiple currencies
- Organizational complexity and diversity
  - Need to manage complex demands across barriers of distance, time, language and culture

# MNE Influence in the Global Economy

- Largest MNEs are as large as (and perhaps more influential than) mid-sized countries
  - Exxon Mobil value-added 2003: \$72 billion
  - Chile value-added 2003: \$72 billion
- Some industries completely dominated by MNEs
  - 85% of all automobiles, 70% of all computers manufactured and sold by MNEs

## **Motivations: Pushes and Pulls to Internationalize**

- Traditional motivations
  - Market Seeking: Fill capacity, develop scale
  - Resource Seeking: Secure supplies, exploit factor cost differences
- Emerging motivations
  - Competitive positioning (or “global chess”):  
Need global operations to pre-empt others,  
secure profit sanctuaries, exchange hostages,  
etc.
  - Global scanning: Access emerging trends,  
new technologies and best skills worldwide

# International Expansion Motivation

**Pre-1970**

## Market and Resource Seeking

- Secure raw materials
- Exploit factor cost differences
- Protect exports
- Provide growth

**70s/80s**

## Competitive Positioning

- Match competitors
- Capture global scale
- Preempt markets
- Play “Global Chess”

**90s/00s**

## Global Scanning/ Learning

- Global intelligence scan
- Access scarce knowledge
- Recruit skills, expertise

# **Evolving Theory of Foreign Direct Investment (FDI)**

- International Capital Theories: FDI driven by return equalization, portfolio diversification
- Location Theories: FDI driven by countries' comparative advantage
- Product Cycle Theory: FDI driven by firms' management of the global product life cycle
- Oligopolistic Behavior Theories: FDI driven by firms' search for, or defense of, competitive advantage
- Internalization Theory: FDI driven by organizations' internal transaction efficiency (hierarchy vs. markets)
- Eclectic Theories: FDI driven by many shifting forces

# Means of Internationalization: Pre-requisites

- Foreign countries must offer *location-specific advantages*
  - To motivate the company to invest there
- Company must have *strategic competencies* or *ownership-specific advantages*
  - To counteract its relative unfamiliarity with foreign markets
- Company must have *organizational capabilities*
  - To get better returns from leveraging strengths internally rather than through external market mechanisms such as contracts and licenses

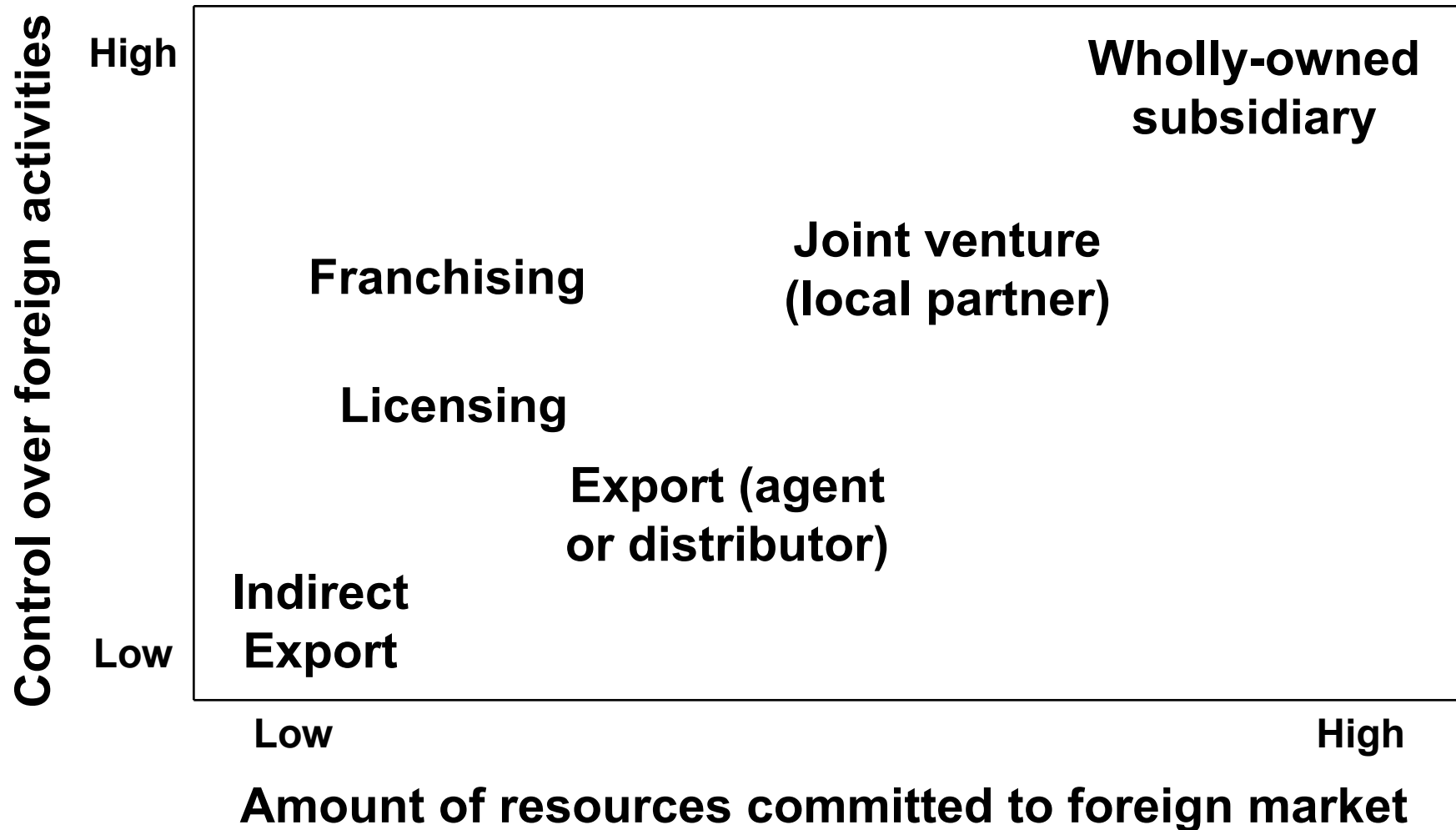
## **Means of Internationalization: Processes**

- Classic internationalization process:
  - Incremental process of increasing commitment and understanding of foreign market (Uppsala Model)
- Today many companies short-cut this process
  - In an Internet Age, many are even “Born Global”

# Entry Mode Alternatives

- Export
  - Indirect
  - Direct (e.g. agent)
  - Controlled (e.g. sales branch)
- Contractual
  - License
  - Franchise
  - Management/Service Contracts
  - Cooperation Agreements
- Investment
  - Greenfield
  - Acquisition
  - Joint Venture
  - Capital Participation

# Process of Internationalization



## **Evolving Mentality: International to Transnational**

- **Multinational Perspective:** Overseas markets a portfolio of local opportunities; managed as a decentralized federation
- **International Perspective:** Leverages its domestic capabilities worldwide; managed as a coordinated federation
- **Global Perspective:** Views world as a single unit of analysis; operations managed centrally
- **Transnational Perspective:** Simultaneously responds to local needs, global demands, and cross-border learning opportunities; managed as an integrated network

# Evolving Mentality

