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 conditions, demand characteristics, 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.

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 212
diamond of national advantage 213
factor endowments (national advantage) 214
demand conditions (national advantage) 214
related and supporting industries (national advantage) 215
firm strategy structure and rivalry (national advantage) 215
multinational firms 217
arbitrage opportunities 217
reverse innovation 218
political risk 220
rule of law 220
economic risk 220
counterfeiting 220
currency risk 222
management risk 223
outsourcing 224
offshoring 224
international strategy 228
global strategy 228
multidomestic strategy 230
transnational strategy 232
regionalization 234
trading blocs 234
exporting 235
licensing 236
franchising 236
wholly owned subsidiary 238

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.

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