A reason why international diversification increases

Finance, Investment

International diversification can be understood as the expansion of a firm Into different countries and geographical regions. This expansion offers firms various advantages like the exploitation of opportunities aboard, economies of scale, sharing of core competencies, and learning. Learning is a key factor of the efficient development of new capabilities. Learning itself is fostered by diverse experiences. This shows the connection to International diversification, hence operating in diverse environments (countries/geographical regions) Increases the Intensity and frequency f events and Ideas to which a firm is exposed.

Anyway, it Is questionable whether learning through diverse experiences leads ultimately to capabilities that increase profit of a international diversified firm. To assess this question I am going to emphasize a few arguments that support and contradict this statement. On the one hand, managers and workers who have experiences In diverse environments are more productive than employees who don't have such experiences. This is mainly because these employees have a broader range of experiences and an spot and solve problems more easily than employees with a narrow view.

Furthermore, an organization that operates in several countries has a wide range of subsidiaries from that it can learn. These subsidiaries provide access to a wide range of new ideas and new practices that give rise to innovation and lead to increased technological capabilities. In addition, firms which remain In their domestic country as well as In their mall Industry face similar threats and opportunities and develop ordinary methods to handle them. Thus, they have relatively narrow experiences and heir methods and capabilities also tend to be narrower because they face a limited set of challenges.

These limitations won't affect the firm in the short term butI believethat it decreases the performance of the firm in the long run. On the other hand, firms that seek to enter a foreign market tend to start with cultural close countries at first. As these firms become experienced, they begin to expand in cultural distant markets. Thus, many firms don't face such great learning opportunities because they prefer cultural close countries which are similar to their mom country.

Furthermore, firms don't have to be internationally diversified to encounter learning opportunities. It is also possible to learn from foreign suppliers or foreign customers. Therefore, one crucial aspect Is how learning processes are Implemented and lived In organizations. This depends, among other things, on how the firm and its subsidiaries are organized. A firm that leads its subsidiaries/ geographical regions/product divisions as a strategic holding exploits less learning opportunities because it manages its subsidiaries just by financial indicators.

In entrant, if a firm manages its subsidiaries as an operative holding it intervenes in the day-to-day business to seize synergies and learning opportunities. Hence, cross- border learning has to overcome organizational constrains. That international diversified firms face more possibilities to learn and develop new capabilities that increase profitability but this doesn't imply that they always outperform non international diversified firms. International diversified firms have to create settings that facilitate and nurture cross-border learning to exploit the diverse opportunities they face in foreign countries.