Why companies decide to go global

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Globalization has accelerated in recent years, a development that has significant implications for the regulation and governance of international business, trade and investment. (Fatima 2007). International business implies no fundamental shift in the underlying principles of trading or business functions but simply more cross-border transactions. In simpler terms it includes all commercial transactions – private and governmental – between two or more countries. Private companies undertake such transaction for profit; governments may or may not do the same in their transactions. (Fatima 2007)

The world has seen a tremendous increase in the global transactions and foreign trade in recent years. The main objectives which are influencing the companies to engage in international business are expansion of sales, acquiring resources, minimizing competitive risk and diversification of sources of sales and supplies (Debra, J. and Colin, T 2003).

Even when a firm internalizes its exclusive resources, it may be able to serve a foreign market without foreign investment for example by exporting. Therefore for the production to take place in the foreign country there should be some location specific advantage. (Cherunilam 2007)

The first key success factor is that companies should clarify their strategic intention before going global. They should know clearly why they should go global. Strategic intention incl udes the following aspects. (Yeung 2005)

– Companies must justify when they choose to go global. Is it to create value for shareholders or to whitewash performance for personal gains? Is it for expansion of the market or acquisition of key resources like energy,

technology, talents, and brand- When the strategic intention is clear, the next critical factor is whether a company meets the prerequisites for going global. (Yeung 2005). Is it low cost, or economy of scale resulting from industrial integration, or technical strengths, the next thing to consider is what we can do and cannot do when going global. (Yeung 2005)

E. g. Galanz (Chinese company) – Galanz is a company that has clear strategic thinking and positioning Compared with other world-class companies, Galanz finds that it falls far behind them in resources, brand, talents, technology and others. (Yeung 2005). Therefore, it cannot engage in highly-profitable industries. The simple reason is that Galanz cannot compete with international giants in these industries. Out of this consideration, it takes advantage of its low cost advantage and concentrates in mature industries with low margin. (Yeung 2005)

– Example from Location specific Advantage theory. Companies in emerging economy like India or china, the choice can be to leverage their manufacturing strength to provide customers from Europe and North America with OEM, B2B, export or Outsourcing services. Indeed, we need to extend our manufacturing advantages into the worldwide markets. (Yeung 2005)

According to the product Life Cycle theory, a new product is first Manufactured and then marketed in a developed country and then exported to other developed markets. As competition increases in these market, manufacturing facilities are established there to cater to these markets and also to export to the developing countries. (Cherunilam 2007)As the product

becomes standardized and competition further intensifies, manufacturing facilities are established in developing countries to lower production costs and due to other reasons. (Cherunilam 2007)

(Scott 2007)

The product life cycle model is true of true of several products like TELEVISION. (Cherunilam 2007)

– The third choice is that a company should try developing countries when it decides to globalize its brand, services and products together with manufacturing For example, Huawei Technologies and ZTE have made their own brands known in Pakistan, Indonesia, Russia and South America during the process of globalization. (Yeung 2005)

– The fourth choice is to use its existing brand to expand to developed countries in Europe and North America, which is what TCL, Haier and Lenovo have done. (Yeung 2005)

– A company will face even greater difficulty if it wants to globalize not only its products, but also its services and brand. It needs to build its own marketing channel, manage its own inventories, and provide maintenance services, and create a brand image that can be accepted by the consumers. (Yeung 2005). E. g. Automaker maker Renault had a tie up with India auto maker Mahindra and Mahindra to manufacture midsize sedan, “ LOGAN”, in which Renault leveraged on the distribution channel of Mahindra. (Yeung 2005)

– Increasing competition is also a driving force for globalization, competition force firms to explore new ways to increase their efficiency either by extending their international reach to new markets or by shifting certain production facilities to reduce costs. Reduced production costs are one of the objectives behind the increased FDI flow to developing countries.(Prahlad 2005) (Cherunilam 2007)

– Formation of regional integration schemes like European Union, North American free tade agreement (NAFTA) has promoted the concept of borderless world again fueling international business. (Prahlad 2005) (Cherunilam 2007)

– Experience transfer – The Unilever provides several significant examples of experience transfers across markets. The micro encapsulation of Iodine in salts to preserve the iodine in the harsh conditions of transportation, storage, and cooking in India, developed by Hindustan Lever Ltd (HLL), has found market opportunities in Africa, especially in Ivory Coast, Kenya and Tanzania. (Cherunilam 2007)

– The first is organic growth – a company relies on itself to build overseas production or sales bases one by one. Organic growth strategy enables a company to globalize step by step according to its own timetable. Its advantage lies in that it provides the management team with a cushion period to learn to enhance its operation capability in globalization. (Yeung 2005)

– The second is strategic alliance, if a company has limited resources and capabilities, it needs concentration. It should concentrate on a certain part in

the value chain and form strategic alliance to do sales, production, R&D and market together. (Yeung 2005)

– The third is merger and acquisition, which, in my opinion, has the greatest risks. Lenovo and TCL have chosen this way to speed up their globalization. One advantage is that a company can acquire some critical resources like technology, channels, and talents. The obvious weakness of this approach rests with great risks. (Yeung 2005)When a company is considering M&A, very often, it only pays attention to the superficial things such as channels, market share and technology, but fails to detect real problems in the merged and acquired Companies. (Yeung 2005) E. g. Indian steel major Tata steel acquired European steel major Corus , deal that was funded majorly from debt.

– Another mode by which companies can go global is through Joint ventures, it involves sharing of management and ownership between a local firm and foreign firm. A benefit of joint venture is that a foreign can enter a foreign market with limited resources entering various overseas markets. (Cherunilam 2007)

Choosing a local partner for joint venture can have significant impact on the competitiveness of firm going global because local partner serve as a cultural bridge between the foreign partner and operating market. (Cherunilam 2007)

Eg Japanese automaker Nissan has form joint venture with French automaker Renault to unveil Micra car at manufacturing facility in India.

– Contract manufacturing – Under this mode, a company doing international marketing contracts with firms in foreign countries to manufacture or assemble the products while retaining the responsibility of marketing the product. Contract manufacturing is less risky way of doing international business. But company who is trying to go global has less control on the manufacturing process of products. (Cherunilam 2007)

– Management contracting – In this mode a firm provides the management know how to the enterprise being managed without having any equity stake in the enterprise being managed , in management contracting the supplier brings together a package of skills that will provide an integrated service to the client without bearing the risk of ownership. (Cherunilam 2007)

McDonalds is working on this business model to expand global, it gives franchises to local players and provide them with the management skills to run without having ownership in that franchise.

– Turnkey contracts – Its common in the supply , erection and commissioning of plants as in the case of oil refineries , steel plants and infrastructure projects. It’s an agreement by the seller with a facility fully equipped and ready to be operated by the buyers personal who will be trained by the seller. (Cherunilam 2007)

Conclusion:

I think companies should not go global blindly in the upsurge of globalization; otherwise, they may weaken their existing strength because of the high risks involved. They should first build up solid base inside their home country. (Accenture 2005). For example, if you are a regional company, you should

first become a leading company in home country before venturing to become an international company. Companies gain ground gradually when going global to reduce risks. They can first focus on a certain region or a product so that there will be lower risks and their staff can have an opportunity to learn. (Accenture 2005).