The different forms of internationalisation theories

This research essay provides and proposes different internationalisation theories to a chosen company on how to internationalise to a new destination. The study would also reflect the implementation of the theories in real life situation for the proposed multi-national company. The theories of internationalisation that are to be discussed are as follows:

Michael Porter's Competitive Advantage of Nations Theory

John Dunning's Eclectic Paradigm Theory

Learning Theory

Chosen Company

The chosen company for the purpose of the research in is one of the successful UK retailing company, Marks and Spencer Group Plc (M&S). Marks and Spencer is a large Multi-National Company and has over 600 stores throughout United Kingdom and over 300 in 40 different countries around the world (marksandspencer. com 2010). This shows the dimension of the company that has 107 years of long history. It is a UK based company which was first registered as an Ltd company back in 1903 (marksandspencer, 2010). According to Marks & Spencer press release (25 May 2010) for year 2009/10, the company made Profit before tax £702. 7m (previous year £706. 2m) with 31 new stores opened and international sales up by 5. 7% (marksand spencer. com 2010). Although the overall profit was less in 2009/10 as compare to the previous year but the company was able to substantially make profits even in the difficult times of economic recession worldwide.

Figure – M&S store in Hong Kong

Source: (wikipedia. org 2004)

Despite of all the success that Marks and Spencer has achieved till this date, there is still a lot of room for expansion. There are a lot of viable opportunities available for the company to explore and internationalise in different new destinations around the world.

New Destination for M&S to Internationalise

The proposed destination for Marks and Spencer to internationalise its operations is Pakistan. While there are a few question marks about the economy and stability of the country in the current business scenario, at the same time it also provides various opportunities to the foreign businesses for investment. There is not as much fierce global competition in Pakistan as compare to the other neighbouring Asian countries e. g. China, India and to some extent also Bangladesh.

Figure – Pakistan Map

Source: (iptu. co. uk 2008)

According to (iptu. co. uk 2008), " The country's biggest manufacturing sector is textile industry. Pakistan relies heavily on its textile industry which accounts for 45% of its total manufacturing outputs and around 8% of country's GDP".

The growing sector needs innovative machinery as well as advanced level of workforce. This clearly creates good business prospects especially for a company like Marks & Spence, which is a specialist clothing retailer. The company can benefit from the resources of high quality textile products from Pakistan.

Michael Porter's Competitive Advantage of Nations Theory

Michael Porter proposed four attributes that influence the business environment of a nation's local firms for global environment competition. These attributes are linked together and hence are interdependent according to Hill (2009). The figure-3 shows the four attributes of Porter's competitive advantage and their linkage.

Figure : Porter's Four Attributes of Competitive Advantage

Source: Porter (1990, cited in Hill 2009)

Pakistan is one of the leading producers of textile in the world and has natural resources and necessary skilled labour for garments production. These are the basic factor endowments of Porter's theory. However the industry lacks state of the art machinery, expertise in textile designing, branding issues and formulation of modern marketing strategies as stated by Guitard et al. (2005) which indicates the advanced factors of Porter's theory. The industry mainly emphasises on production and supplies (e. g. export) and is one of the richest and profitable in the country. Hence various competitive suppliers are present in the local market. This also links to the related and supporting industries of porter's theory e. g. embroidery, cotton ginning and fibre production, yarn spinning, fabric weaving and knitting, garments, synthetic textile and hosiery.

Another important attribute of Porter's theory is product demand conditions in the country. There is a high textile and garments' demand in Pakistan, around 79% of the production stays at home and the remaining 21% is exported based on 2008/09 statistics report (aptma. org. pk 2010). Domestic rivalry is tough in the first stages of textile production as there is dense cluster of early production industry. Another important factor is Governmental policies and support for overseas businesses, according to a report published by world bank on " ease of doing business in 2011" Pakistan ranked (83rd) above Brazil (127th), Iran (129th) and India (134th) out of 183, suggesting it is easier to invest and do business in Pakistan than other emerging economies (doingbusiness. org 2010).

According to Porter's stages of development, Pakistan can be classified as Factor Driven Economy.

Considering the factors discussed based on Porter's competitive advantage theory, Marks and Spencer has the ideal opportunity due its expertise in designing, marketing and branding strategies to setup a business in Pakistan.

It is suggested that the company should first invest in setting up a joint production unit with one of the large local textile production company. This is due to the availability of low-cost and abundance of raw material and skilled labour (basic factor endowments of porter). Furthermore the company could maximise production output by investing in the latest machinery and technology (advanced factor endowments of porter). This investment could bring revenue as well as set company's foothold in the country. It is a positive start for the company for internationalisation. The company could then monitor the environment and other business opportunities as well as gain information about the local culture and other local and overseas competitors in the area.

In future, Marks and Spencer could obtain supplies from its own (proposed) production subsidiary in Pakistan as it has many of its outlets in India and China, the neighbouring countries of Pakistan. This would increase feasibility in supplying materials as the company could benefit from the low bargaining power of suppliers in Pakistan. It would then be sensible to start looking at opening a Marks and Spencer store in the country (porter's Firm Strategy, Structure & Rivalry). As discussed earlier there is a great demand of fashion designing clothes in Pakistan. The country has number of entrepreneur fashion designers some of which are Junaid Jamshed, Aijaz Aslam, Maria B., Elan, Teejay, Pakistan Institute of Fashion Design, Pink Studios and various other brands (fashioncentral. pk 2010). In contrast there are hardly any big international brands such as Marks and Spencer, in Pakistan. Therefore the brand name of M&S itself would be a big hit in the country (Porter's Demand Conditions).

John Dunning's Eclectic Paradigm Theory

John Dunning's Eclectic Paradigm explains internationalisation by combining different economic theories under one theory. It involves different forms of internationalisation methods. Dunning's describes three factors of economic advantages of a firm, which is also known as OLI-Model.

Ownership Advantages (By Production, i. e. Foreign Direct Investment)

Location Advantages (Foreign Direct Investment, Franchising etc.)

Internalisation Advantages (By Licensing Technology and also Joint Ventures)

The figure-4 explains different modes of market entry and how it is categorised in different competitive advantages of a firm as explained by Dunning (1988).

Figure – Form of Market Entry and Categories of Advantages

Source: Dunning (1988, cited in wikipedia. org)

According to this theory the Franchising and Partnerships (Joint Ventures) are important form of market entry. Marks and Spencer already internationalises its operations by expanding through Franchising and Partnerships (marksandspencer. com 2010).

The company also exports its products to 80 countries outside UK including Pakistan via online, telephone and in store (UK) orders (marksandspencer. com 2009).

Hill (2009) says, “ By location-specific advantages, Dunning means the advantages that arise from utilizing resource endowments or assets that are tied to a particular foreign location and that a firm finds valuable to combine with its own unique assets (such as the firm’s technological, marketing, or managerial capabilities).”

This is precisely the case with investing in Pakistan, the resource endowments for cotton and fibre are rich in Pakistan while Marks and Spencer specialises in its technological, marketing and managerial capabilities. In relation to that there are various quality suppliers available with low bargaining power hence it could reduce the production costs of M&S. It is therefore suggested that Marks and Spencer opens its outlet in Pakistan and obtain supplies locally. This is Internationalisation by wholly owned direct investment FDI strategy. The company would gain ownership, location and internalisation advantages. The company would also reduce distribution costs (as products are produced locally), production costs and transaction costs. The company brand is well known and popular globally; this in itself is a competitive advantage especially in the absence of major international garments retail competitor.

It is worth noting Pakistan's policy on Foreign Direct Investment. According to European Commission (cited in iptu. co. uk 2008), " Pakistan has one of the most attractive foreign investment regimes in South Asia. The industry sector where foreign equity investment up to 100% is permitted in most cases is the most open."

This refers to the one of the factors to observe when considering FDI based on location (Government Factors). Clearly Government policies indicate willingness in welcoming foreign investment in the country.

learning theory

Another form of internationalisation can be done by the stages model of internationalisation called the Uppsala Model proposed by Johanson and Vahlne (1977).

According to this model gaining market knowledge is critical as it determines the firm's commitment to internationalisation. It is also called the driving force of the internationalisation process. The absence of market knowledge is called psychic distance, which are those factors that prevent or disturb the flow of information between suppliers and customers as stated by Vahlne and Wiedersheim-Paul (1973). These include difference in language, religion, culture, education, business practices and industrial development, by Johanson and Vahlne (1977).

Marks and Spencer should internationalise by Establishment Chain pattern of internationalisation, observed by stages of Uppsala model.

Figure – Uppsala Model, Stages of Development Pattern

Source: Johanson and Vahlne (1977)

Given that the Company has established its website for export to different countries including Pakistan, suggests there is no regular export, hence it stands at the first stage of establishment chain of internationalisation with no market experience. The company could start exporting regularly via sales agent or distributers to gain some sort of market experience. The information gained is regarded as superficial at this stage, which is second stage of Establishment chain. However greater market knowledge can be gained from company’s subsidiaries in the neighbouring country, India. The culture, language, business practice, education and even religion is same in some areas of India as Muslim population in both countries are similar approximately 160 million in India and 174 million in Pakistan (Wikipedia. org 2010). Marks and Spencer should obtain market knowledge from India and then work with the local garment’s company in Pakistan as a joint venture, third stage of establishment chain. This is a good platform to start the internationalisation process because it would reduce psychic distance to some extent as a new market entrant in a new destination. This is due to company’s presence in the existing market in South East Asia.

Marks and Spencer would gain incremental experience with time and improve its market knowledge and hence reducing psychic distance and uncertainty. The more company gains experience and knowledge about Pakistan the more it would reduce uncertainty about business environment and hence increasing trust and reducing control over its subsidiary. The company could then move from the third stage to fourth stage of internationalisation by having a production unit in Pakistan according to Uppsala Model.

conclusion

Although there are various difficulties for overseas businesses to consider investment in Pakistan i. e. political instability, security concerns and inflation but at the same time, the country possess variety of good opportunities to attract foreign investment.

The presence of Marks and Spencer in Southeast Asia (India) emphasises it’s willingness to invest in that region. The company has the experience and taste of the regional culture which overlaps in those countries in Southeast Asia. Therefore investing in Pakistan would not be alien to the company. Furthermore the competitive advantage of resources and low-cost skilled labour along with lucrative equity retention policies for foreign investment are too big a factor to overlook.

By looking at the economical conditions of Pakistan in a relevant context, it is well suited for Marks and Spencer to invest and internationalise its operations in the country. The company's benefits would not be limited to profits only but it would also have the opportunity for a feasible production unit. This would cut production costs and also increase productivity for its local and overseas subsidiaries from its production unit based in Pakistan.