Why organisations seek to internationalize operations

There are various reasons as to why organizations internationalize which include: International markets offer more opportunities and a growth potentiality; outside markets have homogenization of preferences for their products; it a way of risk diversification into different regions; lower entry barriers in outside markets; intensified industry competition and rivalry among local firms; and to widened the pool of dealers and buyers.

There are different modes of oversea market entry: Franchising, it is advantageous as the franchisee does not have to invent and franchisors offer training and promotions, although it is the franchisee is not fully in charge of the operation; Exporting, a firm benefits from economies of scale, but it is dependence on export intermediaries; Licensing, there is contractual source of income and limited exposure to financial risk, but limited benefits from host country; Other modes include, joint ventures, and foreign direct investments. Stages in internationalization include; firm can establish local packaging and assembly operations; it can establish a Joint Venture in host nation; and eventually establish a wholly-owned subsidiary.

Comparing FDI with other modes of internationalisation, FDI offers a better means because: Foreign Direct Investment has a lesser chance of information leakage and the MNE has full control over the firm. FDI are easier to integrate to the MNE’s system and coordinate its operations simultaneously with the MNE’s home operations because the FDI is fully incorporated into the MNE. FDI’s offers an easier way and faster means for the Multinational Enterprises to penetrate the host markets and expand internationally, through acquisitions. Also the MNE looks for the best firms to acquire and thus FDI ‘ s offer Greenfield opportunities.

Exporting exposes the MNE to trade barriers and financial transaction costs. While licensing limits the MNE’s benefits in the host country and it is also had to identify a strategic partner.

Question 3

An emergent strategy is the same as a realised strategy. It is a strategy when everyday routines, duties and procedures in a firm lead to decisions which eventually emerge the long-term plan of a firm. Whereas emergent strategy has an undefined final objective and a pattern of actions or behaviour achieved in reality, an intended strategy is a pattern of actions decided upon before action is taken. Strategy formation occurs as part of a process. The strategy process involves thinking, forming and altering, that is how a strategy is formulated and how it can be altered.

Question 4 (a)

IKEA has some elements of global and multinational strategies. Although IKEA sells same products globally, that is, about 90% of its reach is same worldwide; it has made some modifications to suit local preferences, such as store layout, location, etc (multinational strategy) especially in the United States. IKEA has a centralised corporate centre and the Swedish executives are in authority until a market matures. IKEA supplies are made to a nation-nation basis.

Question 4 (b)

Faulkner and Bowman strategy clock is a theory used in marketing to ascertain the position of an organisation. It has a star shape with eight strategies shown in 4 quadrants divided by axis of price and value-chain. The model offers a preferable means to analyze an organization's competitive position comparing it with competitor's resources and capabilities. Just like Porter's Generic Strategies, Faulkner and Bowman's model puts into consideration competitive advantage in terms of cost and differentiation. IKEA can be categorized in the hybrid strategy.

Question 4 (c) (i)

An organisation can choose to expand internationally either through franchising, licensing, exporting, foreign direct investment, and joint ventures. Merits of franchising are; the franchisee does not have to invent and the franchisor does the promotion campaigns. But franchising is expensive and the franchisee does not have full control of the outlet. Merits of joint ventures are; diversified risk and complementary resources. Its demerits are relationship management and lack of competitive advantage.

Question 4 (c) (ii)

IKEA used Foreign Direct Investment to expand internationally. IKEA wanted to expand internationally so as to: Diversify risk to overseas countries since it had an over-reliance on Scandinavian economies cycle and the Scandinavian economy is rather small; it wanted to seek more opportunities in overseas nations with growth potentiality; and IKEA wanted to homogenize preferences of customers in different geographical regions. IKEA's business model was transferable geographically due to its balance of strategy and marketing mix.

Question 5

A corporate parent can adopt various roles to create value, these are: it can create efficiency by scale and resource sharing; collaborate with the organisation to improve innovation and invention; the corporate parent can widen the SBU outlook; and it can also provide a strategic reasoning. However, the corporate parent can also destroy value by: Adding cost of extra layer; complicating bureaucracy; and also by backing SBUs from markets. The ‘ growth/share (BCG) matrix’ is used to identify the business market share relevance to the business growth. The corporate parent can identify a balanced portfolio and the value the corporate centre adds. The ‘ directional policy matrix’ helps the corporate parent to match the industry attractiveness with the business strength. The ‘ parenting matrix’ matches the corporate parent benefits and the corporate parent feel.

Question 6

The Resource-Based view assumes that an organisation must have the necessary resources and the threshold capabilities to implement value chain activities so as to take competitive advantage in the external environment of a particular industry. Differentiation is brought about by unique resources and capabilities. An organisation should increase its value than rivals through stocking more resources and distinguishing its capabilities. Porter says the RBV is undermined by a causality problem; a firm’s resources and capabilities should be categorised into 3 wide areas: tangible resources; intangible resources; and organisational capability. The VRIO framework recognises it is important to appraise resources and capabilities in relevance to competition. A firm needs to distinguish its value-chain activities and resources to have a competitive advantage.

Question 7 (a)

Using the PESTEL forces, it is difficult to generate profits in the airline industry due to: political interferences where government’s support national carriers and apply competition policies; social or cultural backlash; economic demands; technological diversity; and environmental and legal issues.

Using the 5-forces analysis, the reasons are: influential and manipulative suppliers; very powerful customers; moderate entry post-deregulation; high threat from substitutes; and high competition from new entrants.

Question 7 (b)

Ryanair has overcome these difficulties by recognising that high fixd cost asset utilisation can help it achieve its goals. It tries to maximises on economies of scale by apportioning its operating costs over the maximum number of customers and flights. This is through; limiting customer service; plying specific routes; flying from cheaper secondary airports; and fast turnarounds thus more flights.

Question 7 (c)

Ryanair airlines operates on a “ no frills” strategy in terms of the strategy clock, it charges low fares and does not offer in-flight customer services. It emulated this strategy from South West Airline’s business model. Easyjet airlines operate on a hybrid strategy in terms of strategy clock; it offers in-flight customer service, ensures that customers the flight in a unique way ensures that the customers are satisfied and it has expanded to major airports in most cities.