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Globalizing Corporations, the Imperative in Theory & Practice

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Abstract: **The article traces the globalisation DNA's evolution in a corporations evolutary path in its historical context in contemporary times. Typical of corporations thought process it establishes conceptual groundings for furthering its strategic intent by finding the reasons that provide impetus to globalize.**

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Introduction

"Global interdependence is pervasive. It is not only political and military....[but] also environmental.... Perhaps the most important aspect of interdependence however is economic." (Terpstra, 1993, Preface)

Today more and more firms operate internationally and in some cases even globally. In almost all major economies of the world, the significance of domestic and/or foreign-based transnational corporations is increasing. Such corporations, directly or indirectly, account for a large part of world trade in goods and services.

Attempts to theories such international developments are widespread; therefore, there is no such thing as a "universal" theory. However, the emphasis of most theories tends to be on *how* businesses should internationalise rather than on *why* they should do so. Most contributions in literature focus on strategies and structures of international firms but do not explain the reasons of internationalisation.
The main aim of this article is therefore to give an outline of the reasons *why* companies choose to go international. Using only *relevant* theories and different examples from business, it shall be demonstrated that there is not only "one" motive for companies to choose international expansion but that there is a variety of causes depending on the respective internal and external environment of the different companies.

In the following, under II , there will be an overview of different reasons for companies to choose international expansion; these reasons will be substantiated by different statements and theories from literature and in each case illustrated by relevant examples. Under III. finally, there will be a conclusion. The expositions of II. will be analysed and a prospect into the future of globalisation will be made.

II.) Reasons for Internationalisation in Theory and Examples

Throughout literature, there are manifold suggestions for reasons why companies choose or should choose to internationalise their market activities.

Often the main reason for internationalisation is stated as the need of companies to be able to stay competitive in their respective environment. This theoretical approach is often referred to as the "network approach". The theory examines the process of internationalisation by applying a network perspective. Internationalisation is defined as developing networks of business relationships in other countries through extension, penetration and integration. Extension refers to investments in networks that are new to the firm, whereas penetration means developing positions and increasing resource commitments in networks which the firm already is involved with. Integration can be understood as the co-ordination of different national networks. Thus, if the relationships between firms are seen as a network, it can be argued that firms internationalise because other firms in their (inter) national network are doing so. Within the industrial system, firms engaged in the production, distribution and use of goods and services depend on each other due to specialisation. However, certain industries or types of markets are more likely to be internationalised, given the configuration of the world economy. Under the prospect of this approach, Johanson & Mattsson distinguish four types of international firms: The early starter, the late starter, the lonely international and the international among others. To which of these categories a firm is referred to depends on both the level of internationalisation of the network and the level of internationalisation of the firm

It is important for firms not to end up as a "late starter", because this would mean a severe disadvantage compared to competitors. In my opinion, a good example of this type of internationalisation is the international car industry. As e.g. the German car manufacturer Volkswagen chooses to enter more and more international markets, many smaller suppliers are also forced to internationalise their activities because they are connected to Volkswagen through an interdependent network of relationships. If these small or medium-sized suppliers do not want to risk a loosening of these network connections (and therefore competitive disadvantages), they are determined to follow Volkswagen′s international steps.

From authors point of view, a further important motive for choosing globalisation of activities is the fact that companies are increasingly faced with foreign competitors in their *domestic* market. In order to keep up with these competitors who often pursue a very aggressive policy to gain market share it is advisable for domestic firms to also focus on international markets. This will give them the opportunity to react more efficiently to unforeseen measures of the foreign competitor; i.e. better opportunities to exert retaliation.

A very good example for this is the case of Michelin versus Goodyear. The North American subsidiary of Michelin decided to expand its share in the North American home market of Goodyear by lowering the price of its tyres. Michelin presumed that Goodyear could not match this step because of the significance of the North American sales for its activities; this presumption was indeed correct. However, because of its global activities, Goodyear was able to counter Michelin′s move not directly but indirectly by dropping the price of its tyres in "Michelin′s profit sanctuary, Europe" This, because of the oligopolistic nature of the tyre industry, caused a "nontrivial negative impact on Michelin′s main cash source", causing the firm to take back the North American price drop and virtually rendering its marketing tactic a useless and costly measure.

This example clearly demonstrates how internationalisation can be helpful to repulse aggressive foreign competitors by indirect retaliation, especially in oligopolistic markets, which become more and more frequent.

Another reason, or better-expressed crucial incentive, for firms to think internationally is the general change of the economic climate in the world. This makes it much more easier for companies to internationalise their activities because they do not face the strong market entry barriers which used to prevent them from taking global steps. "As the world has become more economically interdependent and is has become obvious that much of the economic success of countries such as South Korea, Singapore and Taiwan are tied to foreign investments, countries are viewing foreign investment as a means of economic growth.". Only some years ago, during the cold war, really global activities were difficult to achieve for a firm because of the division of the world into two different ideological parts, not only politically but also economically. The end of the cold war, and following this, the opening of the eastern countries for capitalism, meant a significant shift for many companies. "An increasing number of countries are encouraging foreign investment with specific guidelines aimed towards economic goals. Multinational corporations may be expected to create local employment, transfer technology, generate export sales, stimulate growth and development of local industry....".

This shows that the circumstances for investments in foreign countries have significantly changed over the last few years. Because of this, today it is often much more profitable for companies too choose international expansion than it was some years ago. Especially countries in Eastern Europe and in Asia frequently offer attractive markets, because market development in these countries is often still in its infancy. International activities in these lands are of course connected with risk and require thorough planning, but the opportunity for making huge profits and gaining a respectable market share is far much better than in the often saturated domestic Western markets.
There are numerous examples of Western firms that have heavily invested in Eastern European countries. Volkswagen, for example, acquired the ailing Czech car manufacturer Skoda, streamlined production and quality management, and through this acquisition now possesses a large market share in the Eastern European automotive market (additionally to its already large share in Western Europe).

Often internationalisation is the only way for companies to sell their products, especially when this product requires large investments by the buyer. A recent example is the case of the German Transrapid, a technologically revolutionary magnetic levitation train (maglev) developed by a consortium of firms lead by Siemens. This maglev, originally planned to connect the German cities Hamburg and Berlin, was thwarted by the policy of the new government and by objections of environmentalists and therefore threatened to become a financial disaster. But the Siemens-lead syndicate managed to reach an agreement with China and the government decided to buy the train (and the maglev idea) to connect two the city of Shangai with its airport, with the option to invest into more trains if the project proves to be successful.

This will create revenues worth billion of pounds for Siemens and this success is both due to the opening of the Chinese markets to Western investments and the international marketing activities of the Siemens-lead consortium. The successful marketing of the Transrapid in China as well created new interest for the idea in the US and Australia, with the prospect of further huge revenues.

The example therefore also demonstrates that successful marketing at a new international market can lead to positive synergetic effects on other markets.

For some companies, a main motive for internationalisation is the factor of cost-effective production or, in its most sophisticated form, even international outsourcing. Internationalising their activities enables companies to manufacture (or buy) their products abroad for much less costs than in their domestic market. It is widely known that e.g. production in Asia is much less expensive than in Europe or America, mainly due to significantly lower wages. Producing (or buying) at lower costs indirectly gives companies a competitive advantage, because they are able to sell their products at lower prices than competitors and at the same can realise higher profits. A very good example for a firm that takes advantage of this type of globalisation is Nike. Nike does not manufacture its own goods but buys them from independent contractors in underdeveloped countries, where wages are low, and resells them in richer countries for a quite high price, hence obtaining a huge profit margin. Nike has contracts with over 700 factories worldwide that employ 550,000 workers in 70 countries.

This case shows, that international expansion does not necessarily mean *selling* products abroad (although Nike of course does that, too); also *buying* products on international markets can be quite worthwhile and therefore be a motive to introduce international activities.

Of course, one other major incentive for domestic companies to pursue international expansion (if not the main reason) is the chance of achieving huge economies of scale. Selling products internationally is likely to spawn new customers which are a multiple of the domestic consumers. As T. Levitt already noticed in his famous contribution 'The Globalization of Markets' in 1983: "Almost everyone everywhere wants all the things they've heard about, seen or experienced via the new technologies. The result is a new commercial reality- the emergence of global markets for standardized consumer products on a previously unimagined scale of magnitude. Corporations geared to this new reality benefit from enormous economies of scale in production, distribution, marketing, and management."

This statement is today, 18 years later, more applicable than ever before. The emergence of new technologies and new media (e.g. the Internet, which will be covered later on in this essay due to its significance) makes it more and more easy for companies to reach a huge base of consumers. Companies, which do not want to let competitors let them "snatch away" share in the global market, are advised to make use of these new opportunities. The fact that national or regional preferences tend to get more and more similar further facilitates the selling of the same products in different markets. "Starting from opposite sides, the high-tech and the high-touch ends of the commercial spectrum gradually consume the undistributed middle in their cosmopolitan orbit. No one is exempt and nothing can stop the process. Everywhere everything gets more and more like everything else as the world's preference structure is relentlessly homogenized.".
How favourable international presence can be for position and revenues of a company shows the example of French-based Thomson Multimedia (former name: Thomson Consumer Electronics). Mainly through acquisitions, the company managed to rise from the leading French manufacturer of consumer electronics to one of the four major international companies on this market. The share of international sales accounted for only 34.1% in 1974. In 1999, the share of international sales was over 90% and revenues soared to 6.7 billion Euros. The company has successfully managed to use international expansion to create favourable economies of scale and hence increased sales and revenues by a multiple.

As already touched, the development and spawning of new technologies and media, especially the Internet, has created new opportunities for companies to reach a large number of prospective customers all over the world and therefore increase sales. Additionally the costs of using the Internet as a sales platform are very low; the choice to go international via Internet therefore is connected with quite a low risk. Offering products and services via Internet automatically implicates an international dimension of the business. "A store placed on the Internet anywhere is in fact everywhere" Therefore, today it is possible for nearly every business, even the smallest craftsman firm, to expand its activities to a global dimension. For example, a small shop in Edinburgh that sells art reproductions chose to additionally offer its products on the Internet and suddenly had sales to customers all over the world (www.therollingstone.co.uk).

According to Cateora & Ghauri, the usage of the Internet has increased the international activities and revenues of established firms. They cite computer manufacturer Dell as an example. Dell is selling PCs directly over the Internet and is getting over $1 million of revenue daily by these means.

The Internet even has created a new type of businesses. These are characterized by the fact, that they act internationally right from the start without going through a domestic phase like traditional firms. This new type of business only uses the Internet as marketplace, but the firms are often severe competition for existing, bigger companies. An example for one these new firms is Amazon.com, the online-bookshop. The fact that Amazon served as a pioneer in this market offset its size disadvantage by quickly gaining market share. This forced Barnes & Nobles, the much bigger, traditional company also to direct its activities to the Web in order not to loose a considerable part of its global market share.

Another example for such a small, internationally operating Internet-firm is chipshot.com, a golf company. The Internetweek-Online calls this firm "one pioneer in the area of globalization" (). The company was started by a student in his dorm room, selling golf equipment aimed at American buyers, but soon the company had 12% of international customers, the majority of whose were from Japan. Today, chipshot.com has its own manufacturing facility and handles more than 500,000 visitors per month. The company racks several million dollars a year.

These examples show that the Internet is at the present time the most effective means to reach a large number of customers all over the world in a short time at relatively low costs. Companies which are big international players at the moment but fail to recognize the importance of the new technology are likely to get huge difficulties in defending their global market share against aggressive and flexible upstarts in the future.

III. CONCLUSION

At the conclusion, there is enumeration of the several reasons that drive companies to international expansion. Under II.

The author has identified the following points:
- The need to follow international steps of interrelated firms or competitors

- The need to fight off aggressive foreign competitors in the own domestic market

- More favourable conditions for investments in foreign countries regarding the environment, i.e. especially political, economic and legal factors

- Choosing international expansion because of saturated domestic markets

- Seeing international activities as the only chance to sell a certain product

- The opportunity to realise huge cost savings by producing abroad or outsourcing to foreign countries

- The chance to achieve economies of scale and gain market share

- The opportunity offered by new technologies, especially the Internet, to reach a large group of customers at relatively low costs in a relatively short time

These are the main factors that I think can be stated to explain international activities of companies. Naturally, this listing does not claim to be exhaustive and there may well be some other reasons (which could not all be covered because of the limited size of this articles), but the author believes that those listed are the major motives for most companies.

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