



Aalto University
School of Business

International Business and Strategy

*Session 5: Foreign direct investment and international
business strategy*

Agenda for today

- Readings and preparations: Quiz 4 based on Chapters 8 and 12
- What motivates firms to internationalize?
- How to create value through international operations?
- The global integration and local responsiveness framework
- What is international business strategy and which strategy to adopt?
- Discussion of IKEA
- FDI

What is changing?



- Changing technologies: digitalization, changing economies of scale
- New competitors challenging global leaders in many industries
- New rules: a multi-polar world in terms of standards, IP regimes, access and influence
- Rising resentment of globalization and of global companies
- Growing uncertainty about where companies should do what
- Increasing diversity among competitors in terms of their international strategy

**NO
DOORS
OR WINDOWS**



LEGO

Ages
4+

Tiny border wall
1000 miles worth of pieces

LEGO
10703



Two ways to internationalize

Traditional way

- Grow gradually from domestic base
- Whatever valuable you have – take it abroad, first international, then global

Contemporary way

- Look for opportunities in the very global market
- Global from day one
- Gaps, inefficiencies, asymmetries, cost differences
- Information, big data, technology
- Network effects; learn, copy, scale up



What is meant by global anyway?



Worldwide
(present
everywhere)



Universal
(the same
everywhere)



Integrated
(connected
everywhere)

What motivates firms to internationalize?



- Seeking growth: constrained at home, looks more promising abroad
 - Matching competitors: key competitors are expanding abroad
 - Following customers
 - Seeking resources: labour, knowledge, expertise
 - Learning and seeking capabilities
 - Responding to the CEO's ambition, vision
 - Escaping regulations
 - Following fashion
- > both proactive and reactive motives

Motivation to internationalize isn't the same as strategy!

How do firms internationalize so that they also create value?

A good strategy enables executives with strong motivations to internationalize to create rather than destroy value



NOT



Defining strategy and competitive Advantage

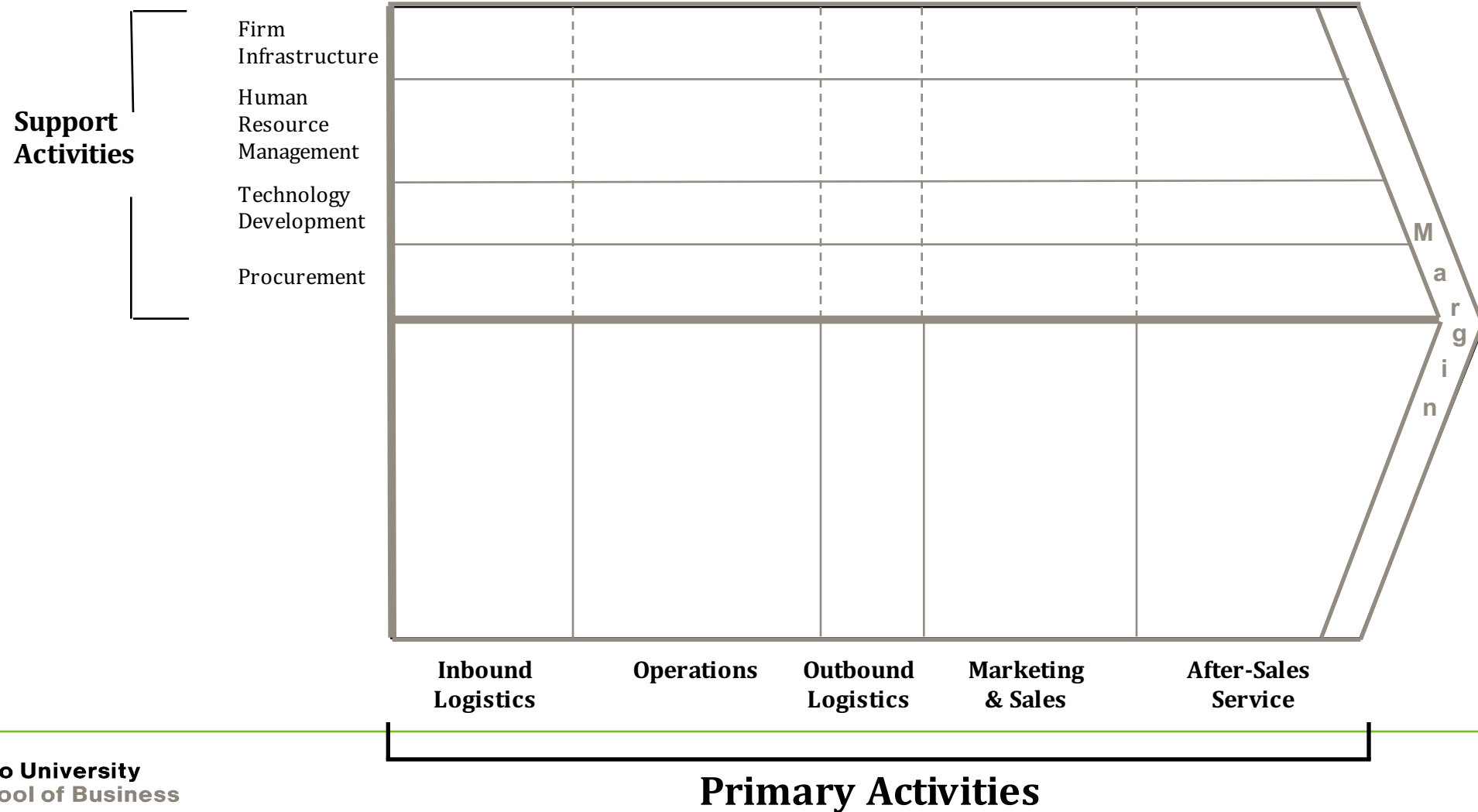
Strategy

- Strategy is about **creating** and **capturing** value
- It's the **pattern of decisions and actions** taken by a firm's managers to achieve its goals and objectives (Mintzberg)
- Strategy is about the **choices** managers make (Porter)

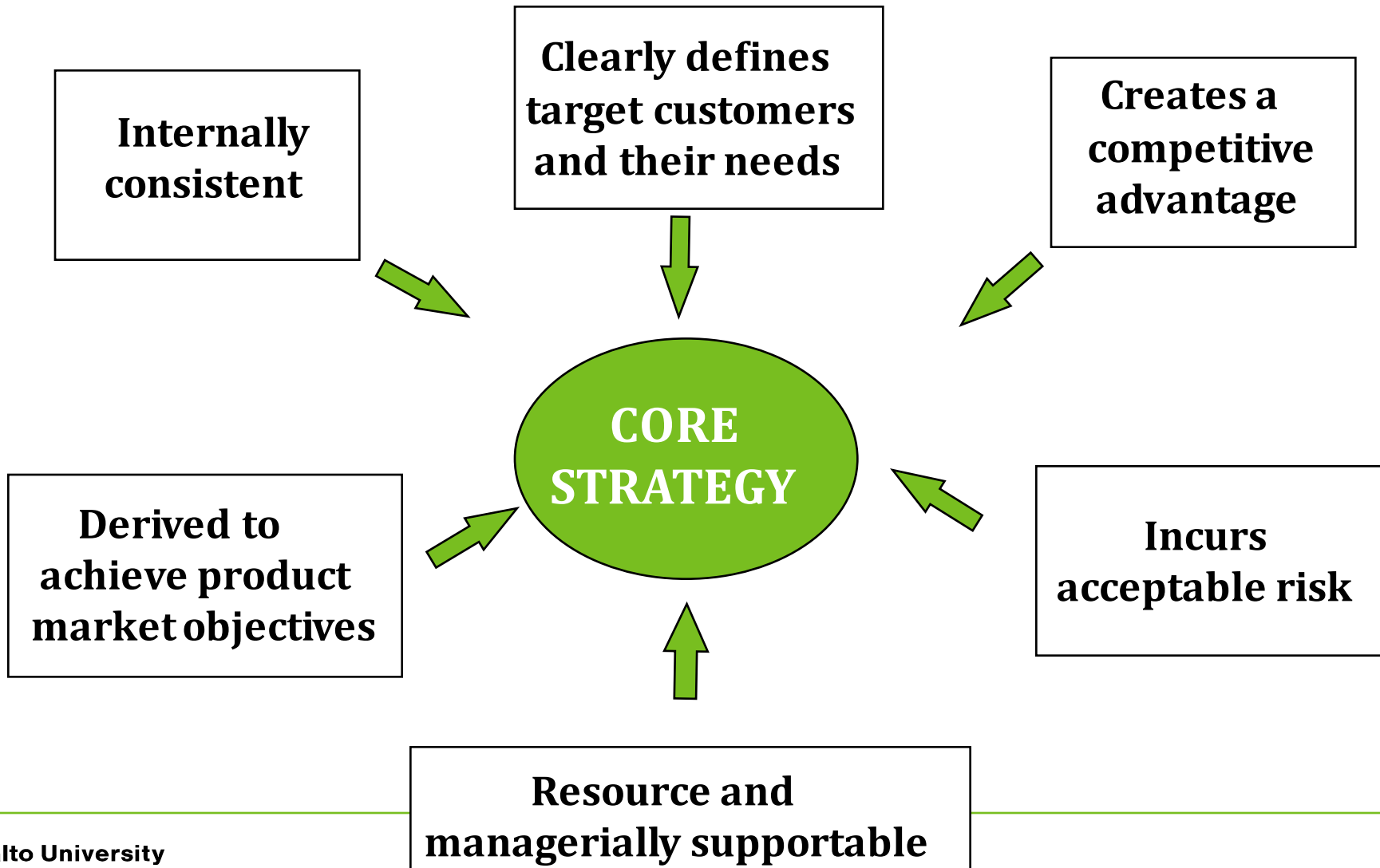
Competitive advantage

- A firm has competitive advantage when it has higher profitability, or the potential to have higher profitability than rival firms

Replicating the entire value chain across countries?



Testing core strategy



Internationalizing isn't free



- Requires investments, including management time and attention
- “Liability of foreignness”: Lack of insider’s understanding of how customers and business context and conditions differ; being seen as “foreign” by locals
- “Liability of home location” (e.g. British beef in Europe during “mad cow” epidemic; McDonald’s as target of anti-Americanism)



Liability of foreignness

- The disadvantageous position experienced by foreign firms: the “stigma of being foreign” (Hymer 1960, pp. 39-40)
- Foreign firms perceived as dissimilar and even ‘alien’ by local audiences in the host country in relation to their domestic competitors (Brannen, 2004; Edman, 2016)
- The concept captures what it means to be ‘foreign’ in terms of additional costs, lower level of performance, worse access to tacit knowledge and financing, lower rates of survival (Denk et al., 2012; Zaheer, 2005)





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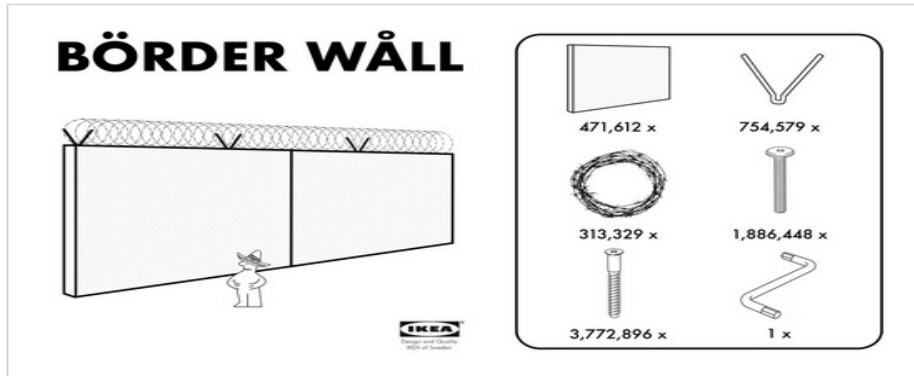
Discussion of IKEA

Class discussion: Discuss IKEA's strategy in international markets

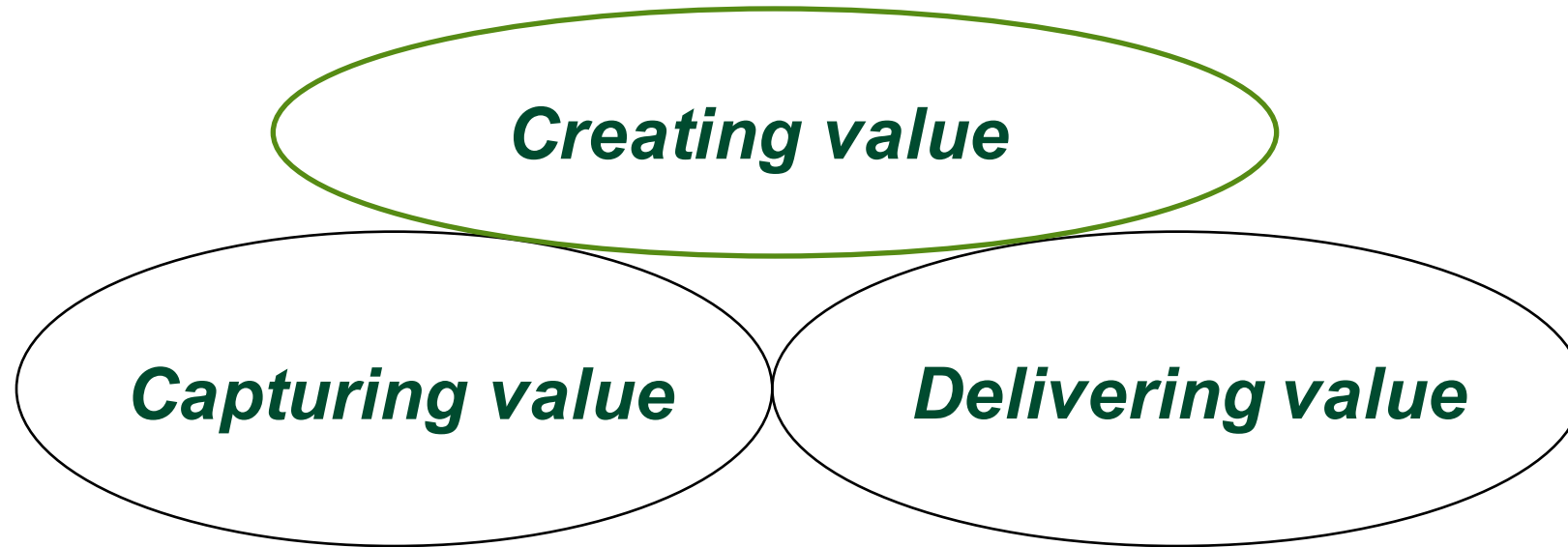


- 1) What is IKEA's firm-specific advantage that allows it to compete in unfamiliar environments with local firms? What advantage does it have over competitors?
- 2) Can this advantage be leveraged from the home base or does it require local presence?
- 3) Does internationalization lead to the development and enhancement of IKEA's resources and capabilities?
- 4) How much should IKEA's products and activities be adapted to the local environment?
- 5) How much should its activities be coordinated and shared across locations?
- 6) How much should activities be coordinated and shared with other members of the ecosystem?

Replication as a strategy



Three core elements of strategy



In international business, crucial strategic questions are the following:

- How much do we as a firm localize what we do versus standardize what we do?
- How much do we as a firm integrate what we do across borders versus compartmentalize locally?

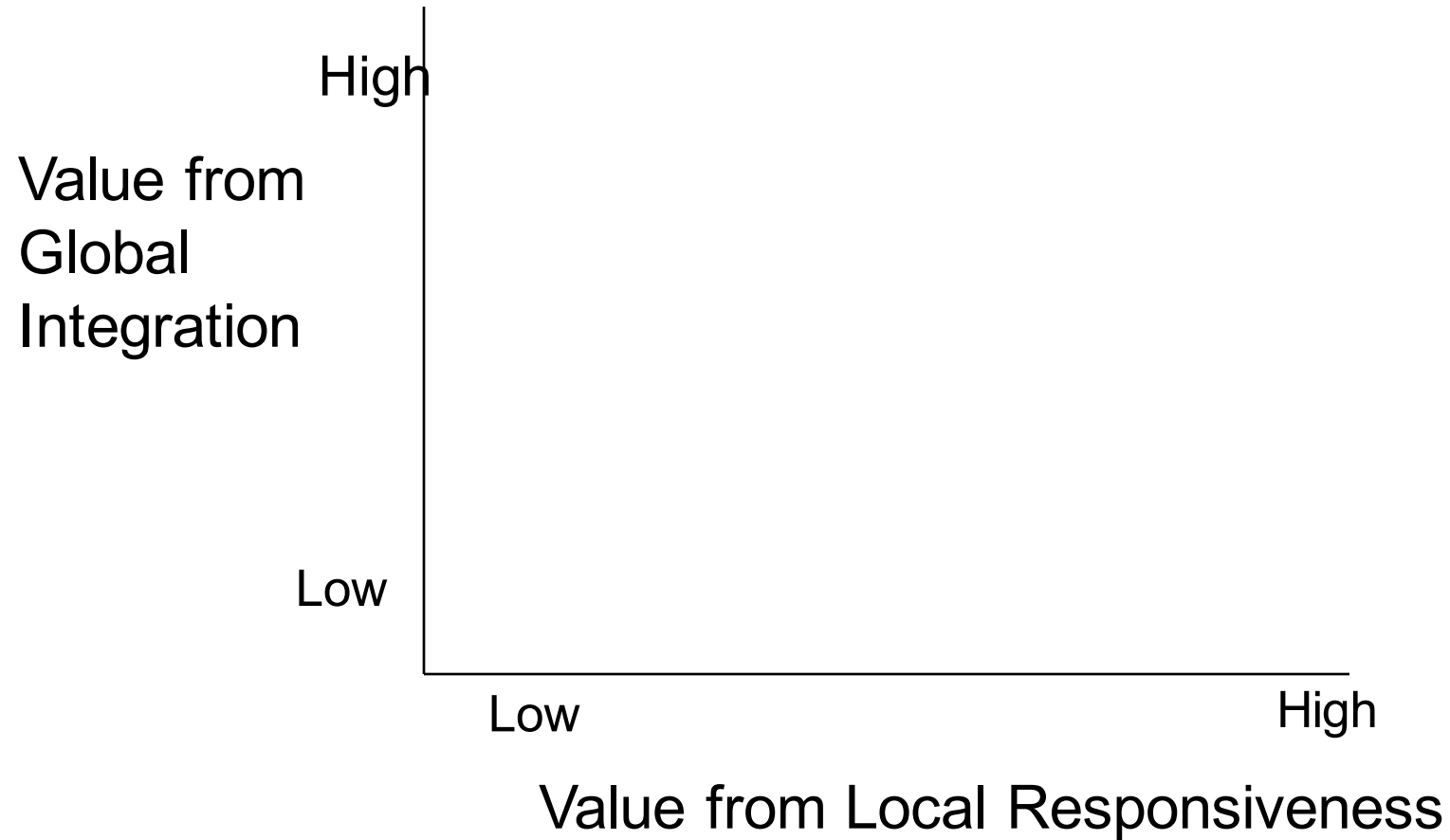
Global integration and local responsiveness

Two different aspects of IB:

- **Local responsiveness:** a continuum from *LOW* (do everything the same everywhere) to *HIGH* (adapt to local environment)
- **Global integration:** a continuum from *HIGH* (high number and density of cross-border interconnections and networks among subunits) to *LOW* (very few cross-border networks and interdependencies across subunits in different countries)



The Global Integration and Local Responsiveness Framework: How firms Create Value in Foreign Markets



IKEA's positioning



Value from
Global
Integration

High



Low

Low

High

Value from Local Responsiveness





IKEA's internationalization

Three stages of internationalization:

- Phase 1: Explorative internationalization: 1963-late 1970s: crucial learning experience through failure in Japan
- Phase 2: Rigid replication: “projection” of home country model (1980-mid-1990s – 1995 failure of U.S. entry effort (size of beds and kitchen cabinets); testament of a furniture dealer by Ingvar Kamprad
- Phase 3: Flexible replication: standardized core around which limited variation is tolerated and encouraged, and cross-unit learning facilitated, the “IKEA Idea Concept vs Concept in Practice” (questioning proven solutions)

Source: A. Jonsson & N. Foss (2011), International learning through flexible replication, *Journal of International Business Studies*, 42, pp. 1079–1102.

IKEA Idea Concept

“[It] outlines how we shall offer products for the many people, our business idea, how to work with low prices, etc. There are certain eternal truths that will never change. This is the starting point for all that we do... The Idea Concept is something that we will never adjust. For instance we shall always offer the lowest price, we shall serve the many people, etc.”

Source: Jonsson and Foss (2011, p. 1089)

Where and how does IKEA integrate across borders?

Cross-border integration in back end activities:

- An HRM conscious company
- Close cooperation between design and production: concentration of design in Sweden, but increasing “scouting” by designers in various markets – bringing ideas back to headquarters
- Close cooperation with suppliers:
 - https://www.youtube.com/watch?v=_98V5UNf944



Where and how does IKEA integrate across borders?

Between the front and back ends:

- Annual November meeting of all IKEA country managers in Almhult, Sweden, to see the new product lines
- The Catalogue
- Emphasis on shared values

http://www.ikea.com/ms/en_US/this-is-ikea/company-information/index.html

- Close communication across the top management team



Importance of informal networks



“Situations arise in which IKEA finds it useful to share ideas and experiences, via lateral knowledge flows, from one market with other markets with similar challenges. For example, IKEA in Russia, China, and Poland developed a joint project for the exchange of ideas on meeting the specific challenges presented by consumers with low purchasing power. IKEA in Japan consulted IKEA in Germany on distribution related questions prior to market entry. In the context of lateral knowledge flows, reciprocity between units is stressed, and seen as a way to ensure a cumulative development of experiential knowledge.”

Source: Jonsson & Foss (2011, p. 1093)

A middle-ground position: Flexible replication

“IKEA thus succeeds in combining the advantages of replication with the advantages afforded by being able to adapt and transfer the resulting new knowledge across the MNC – a practice that we refer to as flexible replication.”

Source: Jonsson and Foss (2011, p. 1080)

Regional strategy?

An intermediate stage between localization and global strategies

- To benefit from intra-regional similarities

A regional strategy involves grouping countries with similar characteristics into regions, and then following a consistent strategy within each region

- Taking advantage of scale economies within each region due to intra-regional similarities, while customizing its overall strategy for different regions
- Examples: P&G → Vizir heavy duty liquid laundry detergent, a Pan-European brand

For the next session

For Session 6: Feedback session on the progress of the case study

- 5 groups working on Ruskovilla and 5 on Freska
- Prepare well for the 15 min discussion
- What progress have you made with the case report to date?
- What kind of data have you found?
- What sources of literature are you relying on?
- What has been most challenging so far?
- What is the structure of your case report?
- What questions do you have for us?

Case study groups: Feedback session *(also found on MyCourses)*

Group	Case	Feedback session: time	Names
1	Freska	13:00 – 13:15	Teemu Juutinen Taika Nummi Fanny Klucin Anthony Aka-Anghui
2	Ruskovilla Switzerland	14:40 – 14:55	Liisa Salo Annie Zhou Lotta Eräkangas
3	Freska	13:20 – 13:35	Charlotte Delbet Lauri Mattila Annika Hartzell Edward Juvonen

Case study groups: Feedback session *(also found on MyCourses)*

Group	Case	Feedback session: time	Names
4	Ruskovilla Switzerland	15:00 – 15:15	Johannes Korhonen Heidi-Henrietta Saarikko Lauri Lindfords Matias Kauhanen
5	Ruskovilla Switzerland	15:20 – 15:35	Jonas Heurtaud Meri Ikäheimo Verner Mäntymaa
6	Ruskovilla Switzerland	15:40 – 15:55	Annika Vasa Juulia Turkkila Randy Lai Susanna Haapalainen

Case study groups: Feedback session *(also found on MyCourses)*

Group	Case	Feedback session: time	Names
7	Freska	13:40 – 13:55	Lauri Puranen Sara Ettanen Markus Uusimäki Ella Pohjolainen
8	Ruskovilla Switzerland	16:00 – 16:15	Joel Rinne Sinikka Nussbaumer Shaun Teo
9	Freska	14:00 – 14:15	Oliver Malpass Ronja Kouvo Marja Karvinen
10	Freska	14:20 – 14:35	Jutta Virtanen Aleksi Luukkonen Raghav Sharma Ville Hynninen