

International Business Strategy

Class 9

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I. Why firms go international ?

1. Access to new customers
2. Access to inputs and talents
3. Cost rationalization
4. Acquire capabilities
5. Etc ()

01 Why Firms Go International

Firms expand internationally for a combination of push factors (domestic saturation, cost pressures) and pull factors (new markets, resources, talent). Understanding the motivation shapes everything from entry strategy to organizational structure.

MARKET SEEKING Access to new customers Firms expand when domestic markets are saturated or when foreign markets offer higher growth. Consumer goods companies in emerging economies are a prime example.	RESOURCE SEEKING Access to inputs & talent Natural resources, low-cost labor, or specialized human capital drive location decisions (e.g., tech firms in India, oil firms in the Gulf).
EFFICIENCY SEEKING Cost rationalization Rationalizing production across countries to exploit comparative advantages and economies of scale (e.g., Apple's supply chain in East Asia).	STRATEGIC ASSET SEEKING Acquire capabilities Acquiring brands, technology, or distribution networks abroad (e.g., Chinese firms acquiring European luxury brands).

KEY CONCEPT — Dunning's OLI Paradigm

A firm will invest abroad when it has Ownership advantages (brand, technology), Location advantages in the host country (resources, market size), and Internalization advantages (it is better to own the asset than to license it). All three conditions must be present for FDI to be the chosen mode.

II. Core Theories of International Trade and FDI

02 Core Theories of International Trade & FDI↵

Classical trade theory explains why nations trade; modern FDI theory explains why firms choose to own operations abroad rather than trade or license.↵

[Ricardo (1817)] Comparative Advantage↵

Countries should specialize in goods where they have the lowest opportunity cost, even if another country is absolutely better at everything.↵

↵

[Heckscher-Ohlin] Factor Endowments↵ 1919, 1936

Countries export goods that intensively use their abundant factors (labor, capital, land). Explains trade patterns between developed and developing economies.↵

↵

[Porter (1990)] Diamond Model↵

National competitive advantage stems from four determinants: factor conditions, demand conditions, related industries, and firm strategy/rivalry.↵

3. Country-Level Example (Classic Trade)

Example: Korea vs Saudi Arabia

Country	Oil Production	Cars Production
Korea	Medium	High
Saudi Arabia	Very High	Low

Key Insight:

- Saudi Arabia
→ Gives up very little to produce oil → **Comparative advantage in oil**
- South Korea
→ Strong in manufacturing → **Comparative advantage in cars**

Trade Outcome:

- Saudi Arabia exports oil
- South Korea exports cars

➡ Both countries consume more than if they produced everything themselves

Heckscher–Ohlin (H–O) Factor Endowment Theory — Easy Explanation

The **Heckscher–Ohlin theory** explains *why countries trade* based on what they **have more of (abundant resources)**.

Developed by Eli Heckscher and Bertil Ohlin, the idea is:

Countries export goods that use their abundant (cheap) factors intensively, and import goods that use their scarce (expensive) factors.

1. Key Idea (Very Simple)

Every country has different amounts of:

- Labor (workers)
- Capital (machines, factories)
- Land (natural resources)

👉 **Use what you have a lot of → produce more → export it**

[Vernon (1966)] Product Life Cycle Theory↵

Products are first manufactured in the innovating country, then exported, then produced abroad as they standardize and competition intensifies.↵

↵

[Buckley & Casson (1976)] Internalization Theory↵

Firms go multinational to internalize cross-border market imperfections — particularly for knowledge-intensive assets hard to price at arm's length.↵

↵

[Uppsala Model (1977)] Gradual Internationalization↵

Firms internationalize incrementally — starting with psychically close markets and low-commitment modes — as they accumulate experiential knowledge.↵

III. Entry Mode Strategies

03 **Entry Mode Strategies**

The entry mode decision involves a fundamental trade-off: higher control modes (FDI) offer more strategic flexibility but carry greater risk and capital commitment. Lower-control modes (exporting, licensing) are faster and cheaper but sacrifice control.

Control Level	Mode	Description
Low Control	Exporting	Indirect or direct. Minimal commitment; limited market presence. Suited for testing new markets with little capital at risk.
Contractual	Licensing / Franchising	Transfer of IP or business format for a fee. Fast scale but risk of quality loss and knowledge leakage. Examples: McDonald's (franchise), Microsoft (licensing).
Medium Control	Joint Venture	Shared ownership with a local partner. Combines local knowledge with foreign capability. Common in markets with legal or political barriers (e.g., China's automotive sector).
High Control	Greenfield FDI	Building new facilities from scratch. Maximum control; high cost and time. Preferred when specific capabilities must be preserved (e.g., Tesla's Gigafactories).
High Control	Acquisition (M&A)	Buy an existing local firm. Fast market access and instant capabilities; integration risk is high. Example: Walmart's entry into the UK via ASDA acquisition.



DECISION FRAMEWORK

Factors pushing toward higher-control modes: proprietary technology, tacit knowledge, high host-country risk, importance of quality control. Factors favoring lower-control: small markets, high regulatory barriers, limited capital.

IV. The Integration-Responsiveness Framework

04 The Integration-Responsiveness Framework

The I-R framework (Prahalad & Doz, 1987) captures the central strategic tension: pressures toward global integration (cost efficiency, standardization) vs. pressures for local responsiveness (cultural fit, regulatory compliance).

Global Strategy High integration, low responsiveness. Standardized products worldwide. Exploit economies of scale. Best for commodity-like industries. Examples: <i>Intel chips, Boeing aircraft</i>	Transnational Strategy High integration AND high responsiveness. Simultaneous efficiency and local adaptation. Difficult to execute but the most powerful competitive position. Examples: <i>Unilever, ABB</i>
International Strategy Low on both dimensions. Transfer core competencies to foreign markets with limited local adaptation. Often a transitional stage. Examples: <i>Early-stage multinationals</i>	Multidomestic Strategy Low integration, high responsiveness. Decentralized subsidiaries tailor offerings to local markets. High cost; strong local fit. Examples: <i>Nestle product variants, HSBC banking</i>

Axes: Global Integration (vertical) vs. Local Responsiveness (horizontal). Top-right quadrant (Transnational) is the strategic ideal.

Integration–Responsiveness (I–R) Framework in International Strategy

The **Integration–Responsiveness (I–R) framework** explains how multinational firms balance two key pressures when operating globally:

1. **Global Integration (GI)** → Need to standardize and reduce costs
2. **Local Responsiveness (LR)** → Need to adapt to local markets

1. Core Idea (Very Intuitive)

Firms must decide:

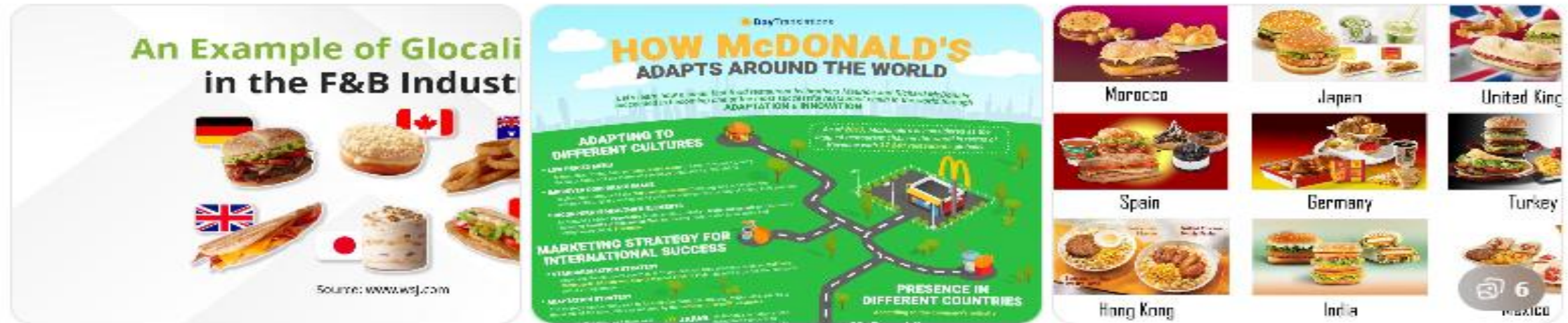
👉 "Should we be **the same everywhere** or **adapt to each country**?"

2. The 2×2 Framework

	Low Local Responsiveness	High Local Responsiveness
High Global Integration	Global Strategy	Transnational Strategy
Low Global Integration	International Strategy	Multi-domestic Strategy

① Global Strategy (High Integration, Low Responsiveness)

② Multi-domestic Strategy (Low Integration, High Responsiveness)



- Each country operates **independently**
- Products are **highly customized**

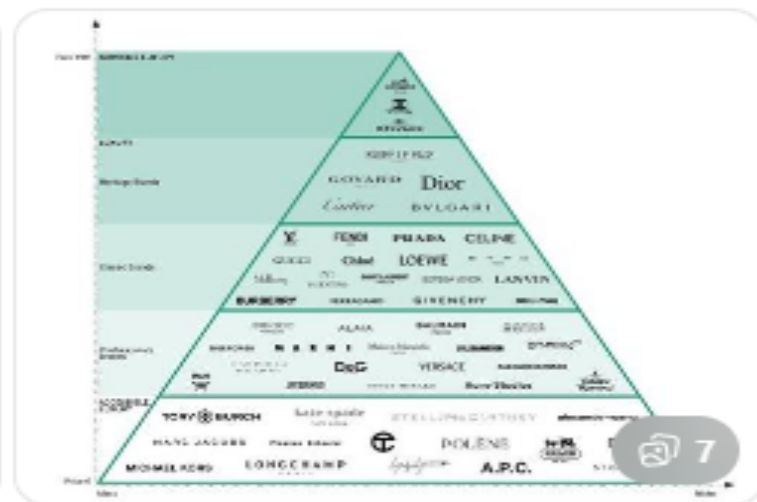
Example:

- McDonald's
 - Different menus:
 - India: no beef
 - Korea: bulgogi burger

👉 Works when:

- Cultural differences are strong
- Food, retail industries

③ International Strategy (Low Integration, Low Responsiveness)



- Core competencies developed at home
- Limited local adaptation

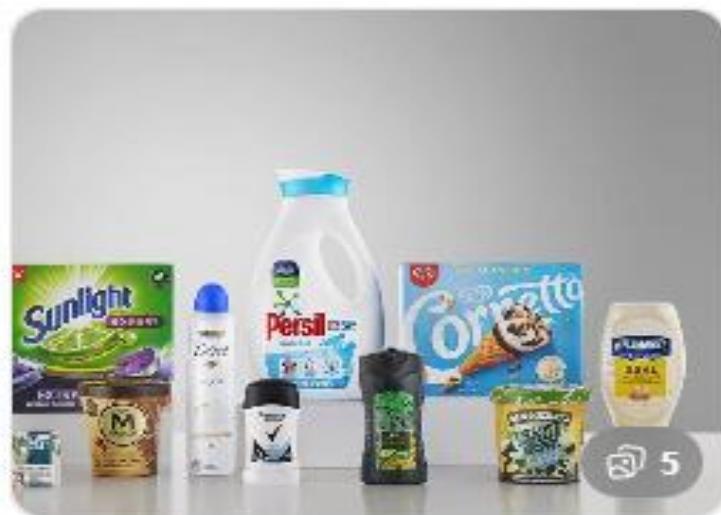
Example:

- Harvard University
→ Exports same education model globally
- Luxury brands like Rolex

👉 Works when:

- Brand or knowledge is unique
- Little pressure for cost or adaptation

④ Transnational Strategy (High Integration, High Responsiveness)



- Combine **efficiency + local adaptation**
- Most complex but most powerful

Example:

- Toyota
→ Global platform + local customization
- Samsung Electronics

👉 Works when:

- Both cost pressure AND local demand are high

V. Case Study: PPP (Public-Private Project)

1. What is PPP (Public–Private Partnership)?

A PPP typically involves:

- **Government:** defines project scope, grants concession, regulates
- **Private sector:** finances, constructs, operates, and maintains the project
- **Users:** often pay tolls or service fees

Key Features

- Long-term contract (20–40 years)
 - Risk-sharing (construction, demand, financial risks)
 - Performance-based payments
 - Private financing (reduces immediate public debt burden)
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2. Common PPP Models

- **BOT (Build–Operate–Transfer)** → most common
- **BOO (Build–Own–Operate)**
- **DBFO (Design–Build–Finance–Operate)**

Among these, BOT is especially relevant to the Turkey case.

3. Case Study: Turkey's Çanakkale 1915 Bridge



Project Overview

- Project: Çanakkale 1915 Bridge
- Location: Dardanelles Strait, Turkey
- Opened: 2022
- World's longest suspension bridge span (2,023 meters)

4. PPP Structure in this Project

Model Used: BOT (Build–Operate–Transfer)

Step-by-step structure:

1. Private consortium formed

- Turkish + South Korean companies

2. Financing

- Private sector raised funds (loans + equity)

3. Construction

- Private firms built the bridge

4. Operation (≈ 16 years)

- Collect tolls from users

5. Transfer

- Ownership returns to Turkish government after concession

5. Revenue Model (Important PPP Feature)

- Toll-based revenue system
- Government provided **minimum revenue guarantee**
 - If traffic is below expected → government compensates
 - If above → private firms gain extra profit

👉 This is a classic **risk-sharing mechanism**

6. Why Turkey Used PPP

Advantages

- No large upfront government spending
- Faster construction of mega infrastructure
- Access to global expertise
- Economic development (connectivity, logistics)

Strategic Impact

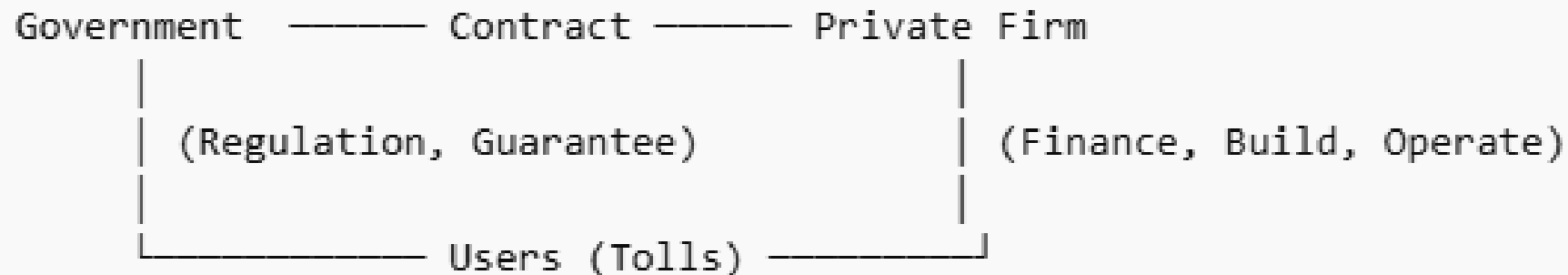
- Strengthens trade routes between Europe and Asia
- Reduces travel time across the Dardanelles
- Boosts regional economic integration

7. Risks and Criticism

PPP is not “free money.” The Turkey case shows typical concerns:

- **Demand risk**: traffic lower than forecast → public budget burden
 - **Currency risk**: guarantees often in foreign currency
 - **Long-term fiscal liability**
 - **Political criticism** over toll pricing
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8. Simple Conceptual Diagram



9. Key Takeaway (for Teaching / Exam Use)

PPP = “Leverage private capital & expertise for public infrastructure, with shared risk and long-term contracts.”

The Çanakkale 1915 Bridge is a textbook example of:

- BOT model
 - Revenue guarantee mechanism
 - Infrastructure-led economic strategy
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VI. Q&A