

# The Internationalization Process

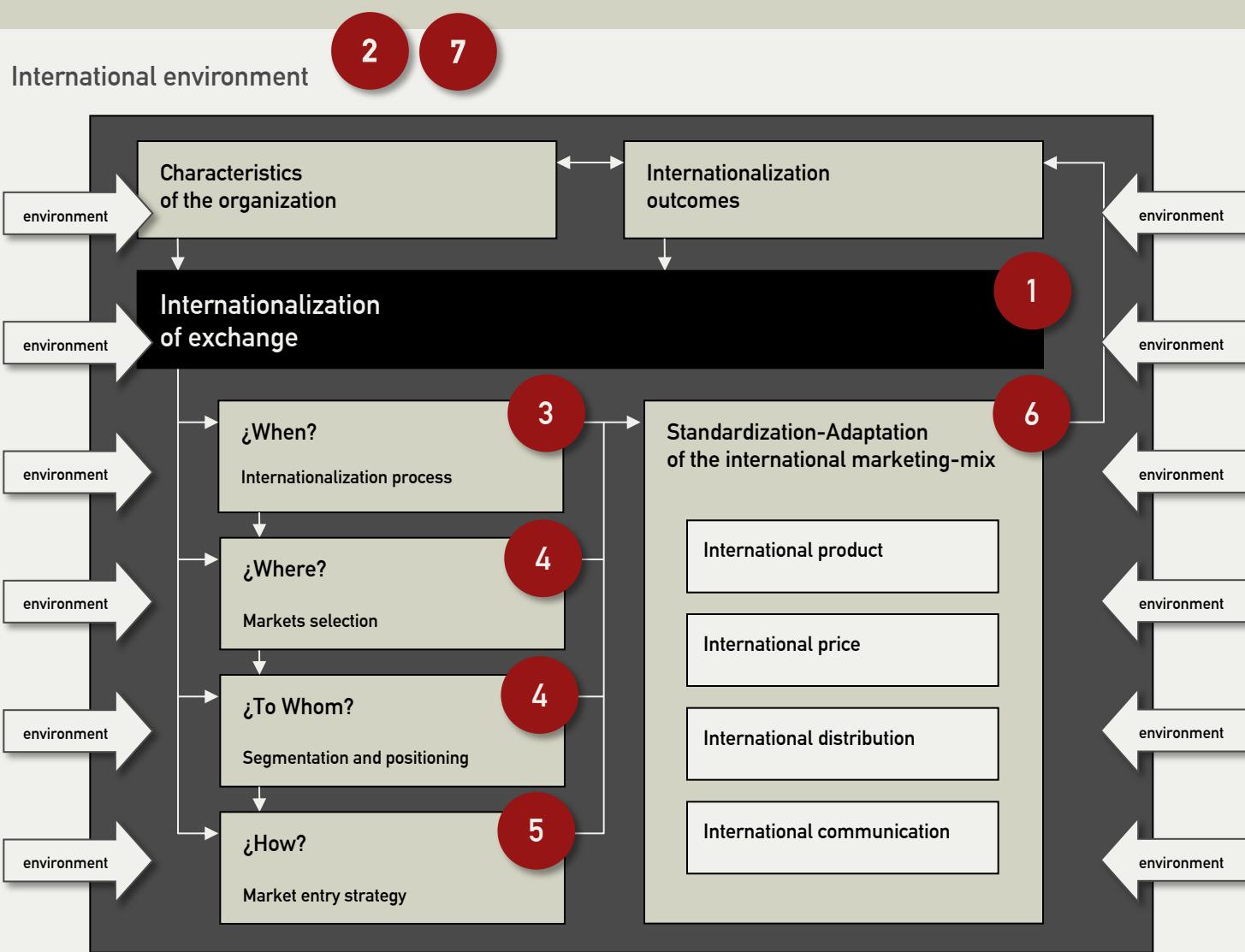
**Unit 3**

November 2024

# The role of international marketing in the company

Decisions to be made in international marketing

04



## Structure

1

### **Macroeconomic Perspective**

Comparative Advantage Theory  
International Product Life Cycle Model

2

### **Microeconomic Perspective**

Transaction Costs Theory  
Eclectic Paradigm – OLI Model

3

### **Behavioral Perspective**

Uppsala Model

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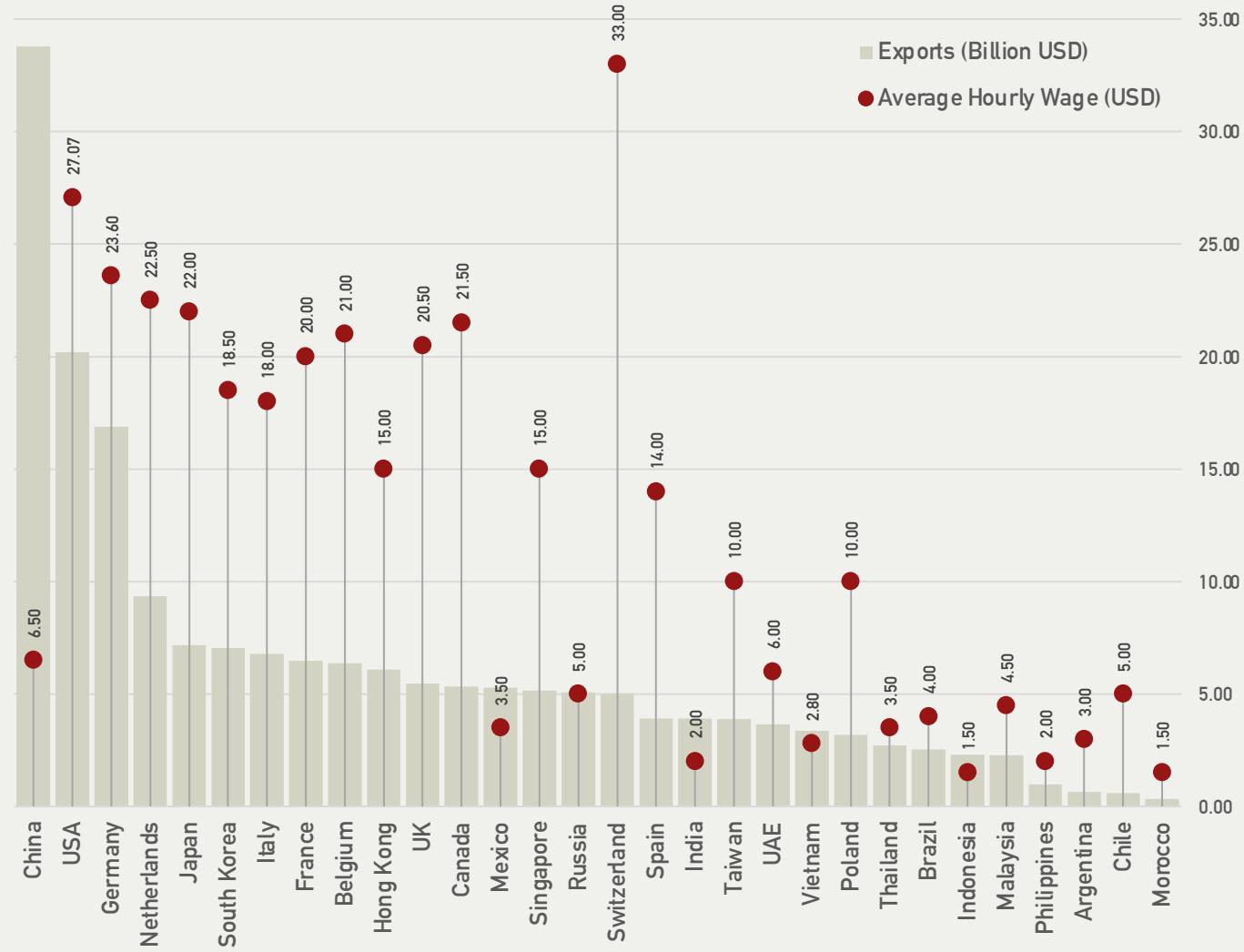
### **Social Perspective**

Network Theory  
International Relationship Marketing

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## Macroeconomic Perspective

### Comparative Advantage Theory

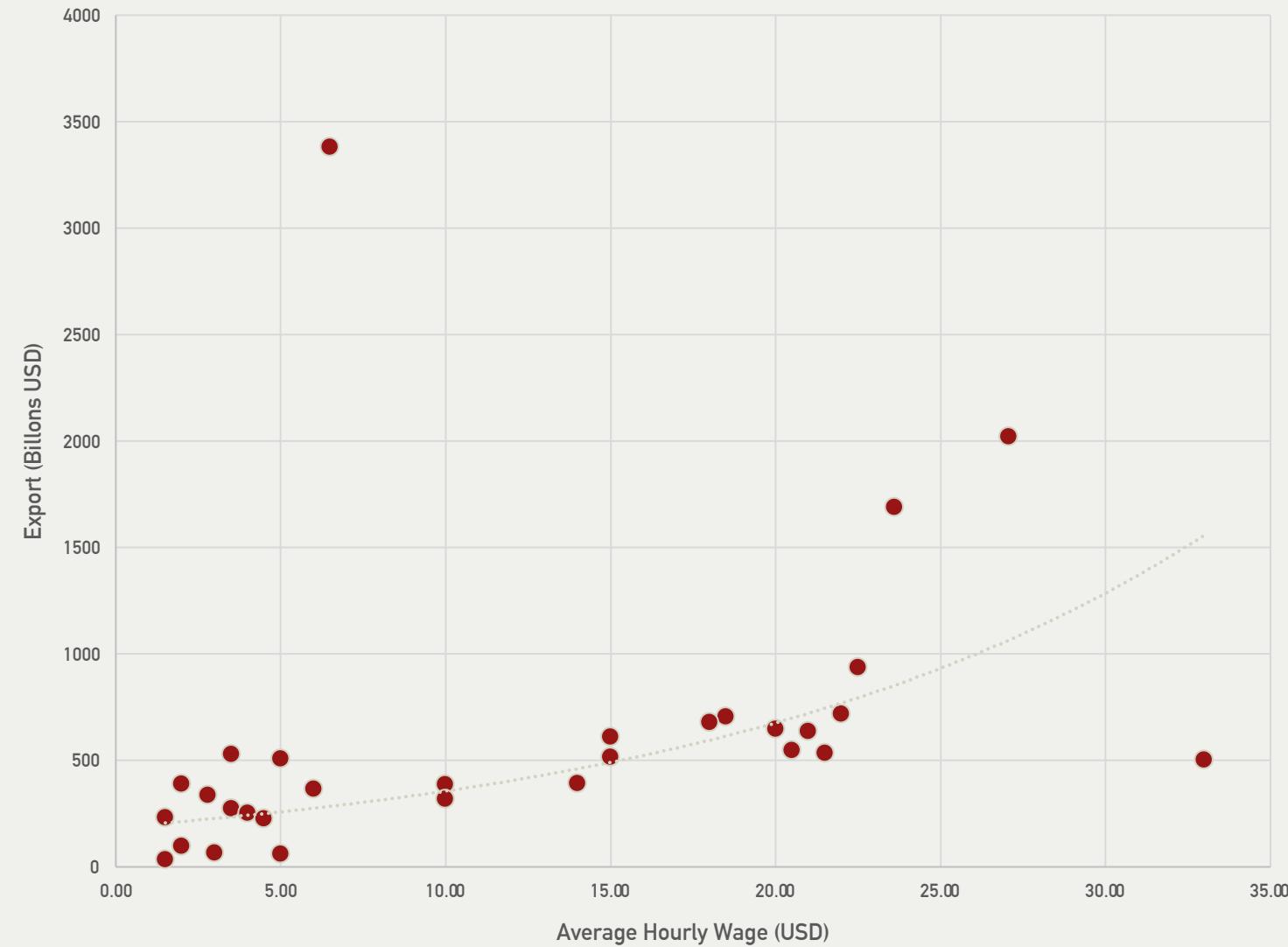


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## Macroeconomic Perspective

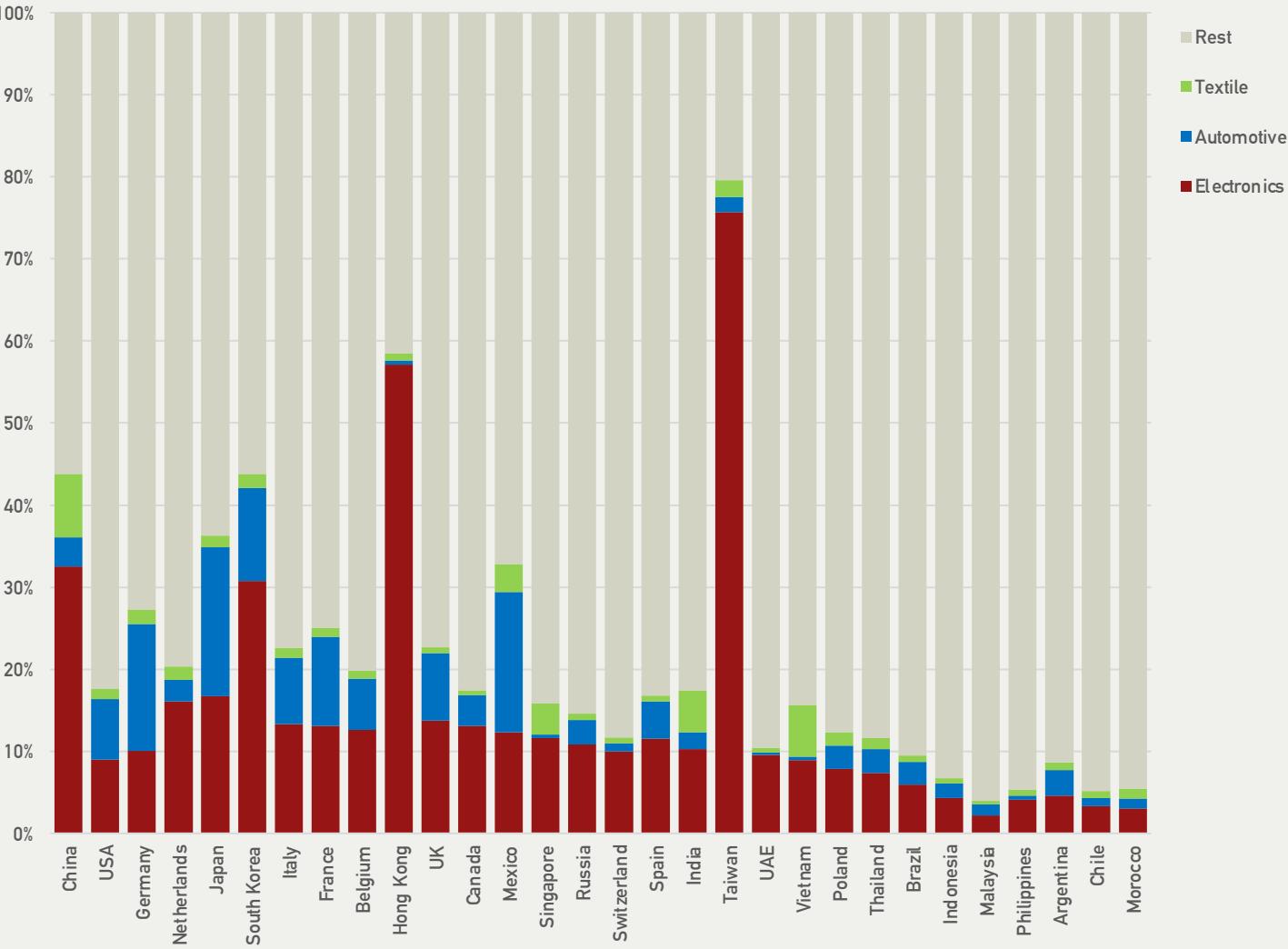
### Comparative Advantage Theory

07



## Macroeconomic Perspective

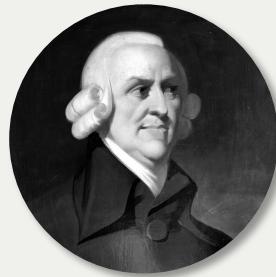
Comparative Advantage Theory



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### Macroeconomic Perspective

#### Comparative Advantage Theory



18<sup>th</sup> Century  
Adam Smith

First alluded to the concept of **absolute advantage** as the basis for international trade.

"If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it off them with some part of the produce of our own industry employed in a way in which we have some advantage."



19<sup>th</sup> Century  
David Ricardo

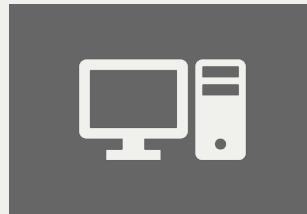
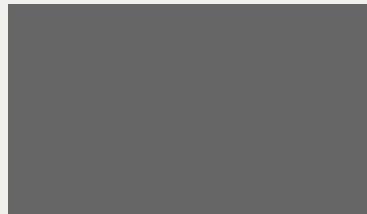
Extended the ideas of A. Smith by introducing the concept of **comparative advantage** to explain why countries benefit from specialization and trade even in cases where one country is more efficient in the production of any product.

Countries should specialize in producing goods for which they have a comparative advantage, which arises from differences in their factor endowments or technological progress.

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## Macroeconomic Perspective

Comparative Advantage Theory



Country A

75

50

15

productivity

Country B

48

30

12

Maximum production capacity

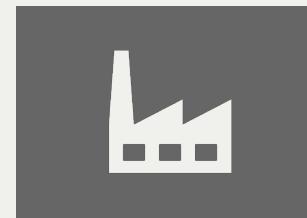
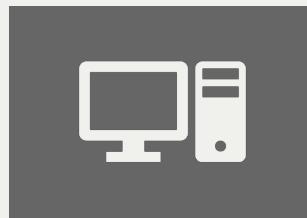
Maximum production capacity

Number of factories

010

## Macroeconomic Perspective

### Comparative Advantage Theory



Country A

0.20

0.30

15

Country B

0.25

0.40

12

Productivity  
Absolute  
advantage

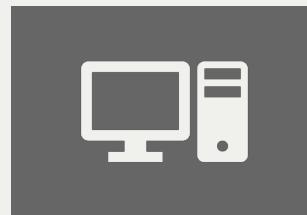
Productivity  
Absolute  
advantage

Number  
of factories

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## Macroeconomic Perspective

Comparative Advantage Theory



Country A

75

50

15

opportunity cost

Country B

48

30

12

Maximum production capacity

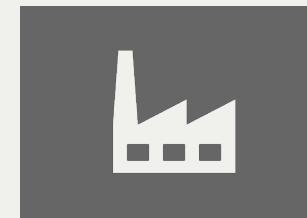
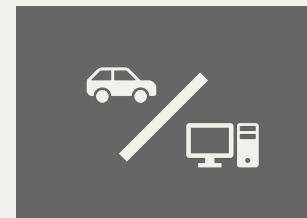
Maximum production capacity

Number of factories

12

## Macroeconomic Perspective

### Comparative Advantage Theory



Country A

1.50

0.67

15

Country B

1.60

0.63

12

Opportunity  
Cost  
Comparative  
advantage

Opportunity  
Cost  
Comparative  
advantage

Number  
of factories

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## Macroeconomic Perspective

### Comparative Advantage Theory

## Theoretical Foundation

It focuses on relative efficiency in production and emphasizes on opportunity costs.

## Core Principles

- **Absolute advantage:**  
Being more efficient at producing something in absolute terms
- **Comparative advantage:**  
Ability to produce goods at a lower opportunity cost
- **Opportunity Cost:**  
Real cost of producing something is what must be given up to produce it
- Countries should specialize in producing goods where they have the lowest opportunity cost (a comparative advantage)
- Trade benefits both parties even if one has absolute advantage in everything
- Trade allows both parties to consume beyond their production possibilities frontier

From the company's point of view, this theory justifies internationalization by capitalizing on relative advantages across different markets.

Companies expand to acquire raw materials, reduce production costs, or establish themselves in markets that cannot be efficiently served from the home country.

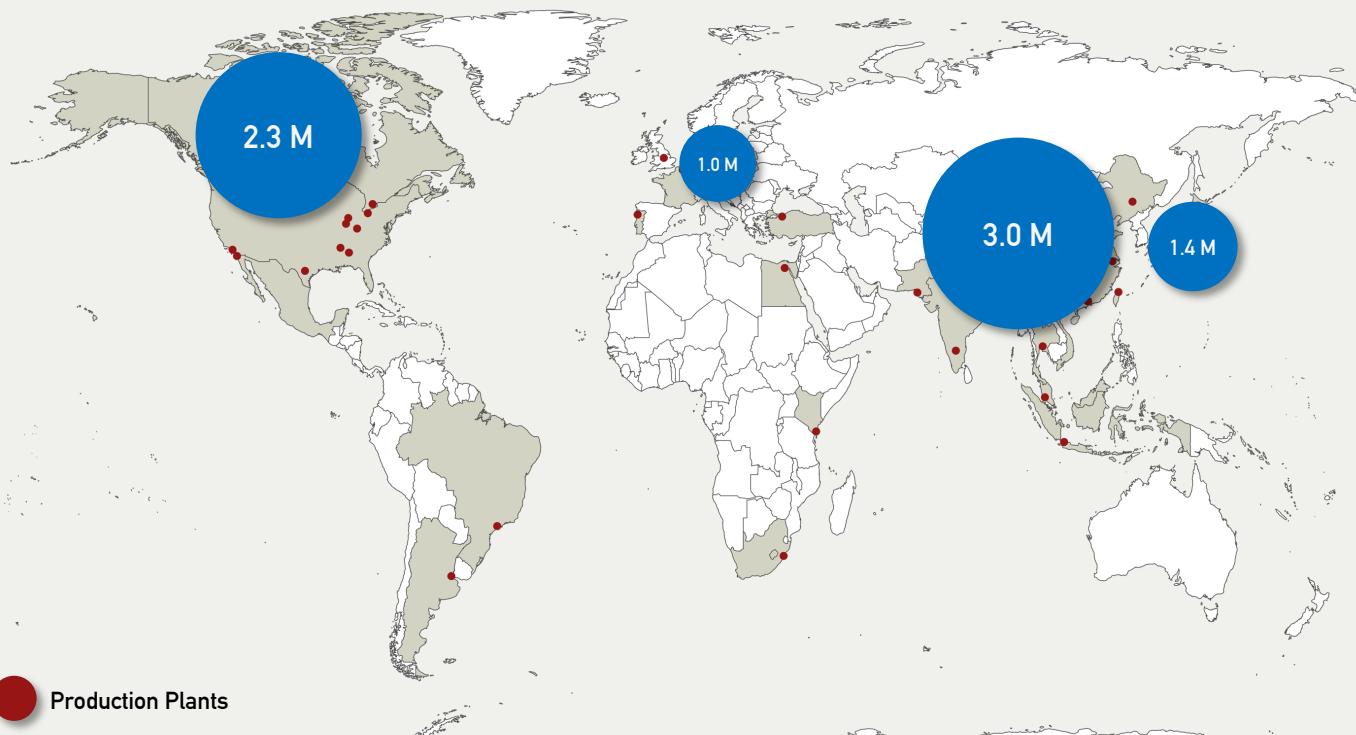
### Macroeconomic Perspective

#### Comparative Advantage Theory. Basic Assumptions

Original Assumptions	Reality
Perfect mobility of factors within countries	Differences in infrastructures, regulations, ...
Perfect competition	Increasingly unrealistic (monopolies, oligopolies, ...)
Constant returns to scale	Many sectors show increasing return to scale
Homogeneous products	Differentiation is a critical feature nowadays
Immobility of factors between countries	Mobility of factors through FDI
No transportation costs	Decreasing, but still affecting competitiveness
Perfect information about market opportunities	Information is not perfectly accessible/complete
Export/import as the only form of product transfer	Product transfer through FDI or joint ventures
No consideration of technology and management	Both are critical sources of competitive advantage

## Macroeconomic Perspective

Comparative Advantage Theory. Case Study



- Production Plants (red dot)
- Sales (units) (blue circle)

## Macroeconomic Perspective

Comparative Advantage Theory. Case Study



Market-specific  
customization

R&D  
High-Tech components

Multi-tiered  
Production Network

Labor-intensive assembly

Labor Costs:

70% lower than Japan

Strategic Location:

Hub for Southeast Asian market

Government Incentives:

Tax benefits and infrastructure support

Thailand became Toyota's third-largest manufacturing base globally

Production Plants

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## Macroeconomic Perspective

Comparative Advantage Theory. Case Study

### Multi-tiered Production Network

Complex supply chain structure where production processes are spread across multiple layers (or tiers) of suppliers and manufacturers

Different levels of suppliers and manufacturers	Specialization and Efficiency	Geographic Dispersion	Increased Complexity
Suppliers and manufacturers are organized into tiers based on their proximity to the final product	Each tier in the network often specializes in certain aspects of production, which helps in cost efficiency and scalability.	A multi-tiered network often spans multiple regions or countries. Different components may be produced in various locations based on cost, skill availability, or other strategic reasons.	With more tiers, managing the supply chain becomes more complex, requiring careful coordination to ensure timely delivery and quality across the network.

Tier 4  
Raw materials  
(e.g., plastic, metal, ...)

Tier 3  
Individual parts  
(e.g., fuel injectors, brakes, ...)

Tier 2  
Assembled systems  
(e.g., complete engines, ...)

Tier 1  
Assembled products  
(e.g., end-product)

## Macroeconomic Perspective

Comparative Advantage Theory. Case Study

### Multi-tiered Production Network

Complex supply chain structure where production processes are spread across multiple layers (or tiers) of suppliers and manufacturers

#### Benefits

- > Cost efficiency
- > Flexibility
- > Ability to scale production globally

#### Challenges

- > Higher risk of disruptions  
(a delay in one tier can cascade through the entire network)
- > Difficulty in maintaining quality control across all levels

Tier 4  
Raw materials  
(e.g., plastic, metal, ...)

Tier 3  
Individual parts  
(e.g., fabric, electronics, ...)

Tier 2  
Assembled systems  
(e.g., fabric, electronics, ...)

Tier 1  
Assembled products  
(e.g., end-product)

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## Macroeconomic Perspective Comparative Advantage Theory. Case Study



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## Macroeconomic Perspective

Comparative Advantage Theory. Case Study

### Design & Development: California, USA

- > Leverages high-skilled labor advantage and innovation ecosystem
- > Design expertise
- > Proximity to venture capital and tech talent
- > Strong intellectual property protection

### Manufacturing: China & Southeast Asia

- > Large, cost efficient and skilled labor force
- > Advanced manufacturing infrastructure
- > Established supplier networks
- > Scale capabilities
- > Supply chain proximity  
Proximity to manufacturers  
Efficient logistics networks  
Access to rare materials

### Results: 2023 Production data

- > 90% of assembly in Asia
- > 200+ global suppliers
- > \$6B annual supply chain savings
- > Rapid scalability of production

R&D and Design

California, USA

Components

Southeast Asia

Assembly

China, India, Brazil

Distribution

Globally

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## Macroeconomic Perspective

### Comparative Advantage Theory

#### Reasons for internationalization

... beyond classical comparative advantage

#### Access to new markets and risk diversification

Companies seek to enter foreign markets to reduce risks and find new growth opportunities.

#### Access to specific resources

Many companies establish themselves in countries that offer specific resources, specialized labor, or advanced technological capabilities, reflecting a specific competitive advantage, not a general comparative advantage.

#### Strategic competition and economies of scale

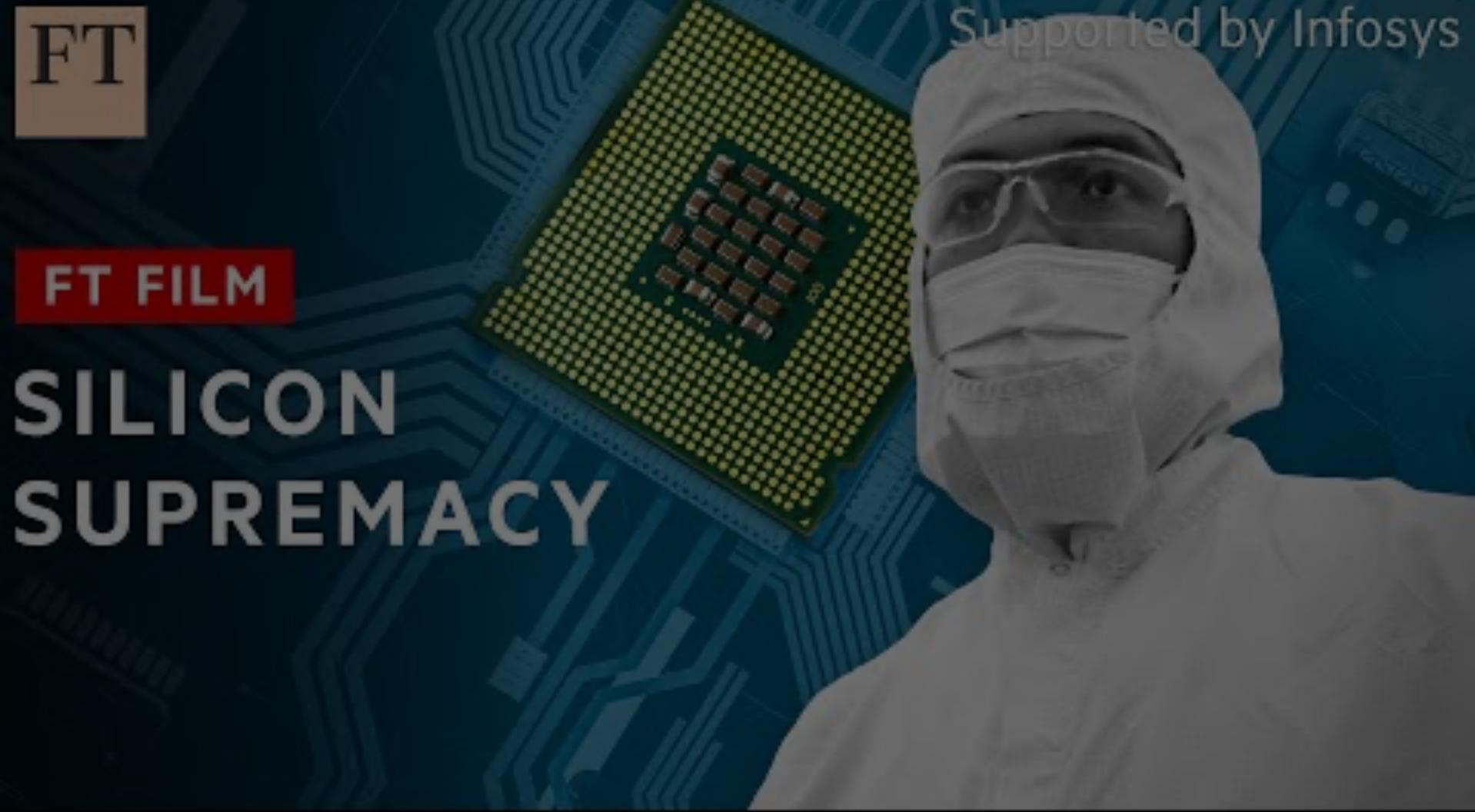
Global presence allows companies to benefit from economies of scale, consolidate their market position, and strengthen their innovation capacity.

#### Leveraging clusters and global networks

Companies aim to locate near innovation hubs or industrial clusters, where positive externalities and knowledge sharing provide competitive advantages.

## Macroeconomic Perspective

Comparative Advantage Theory. Semiconductor Industry Case Study



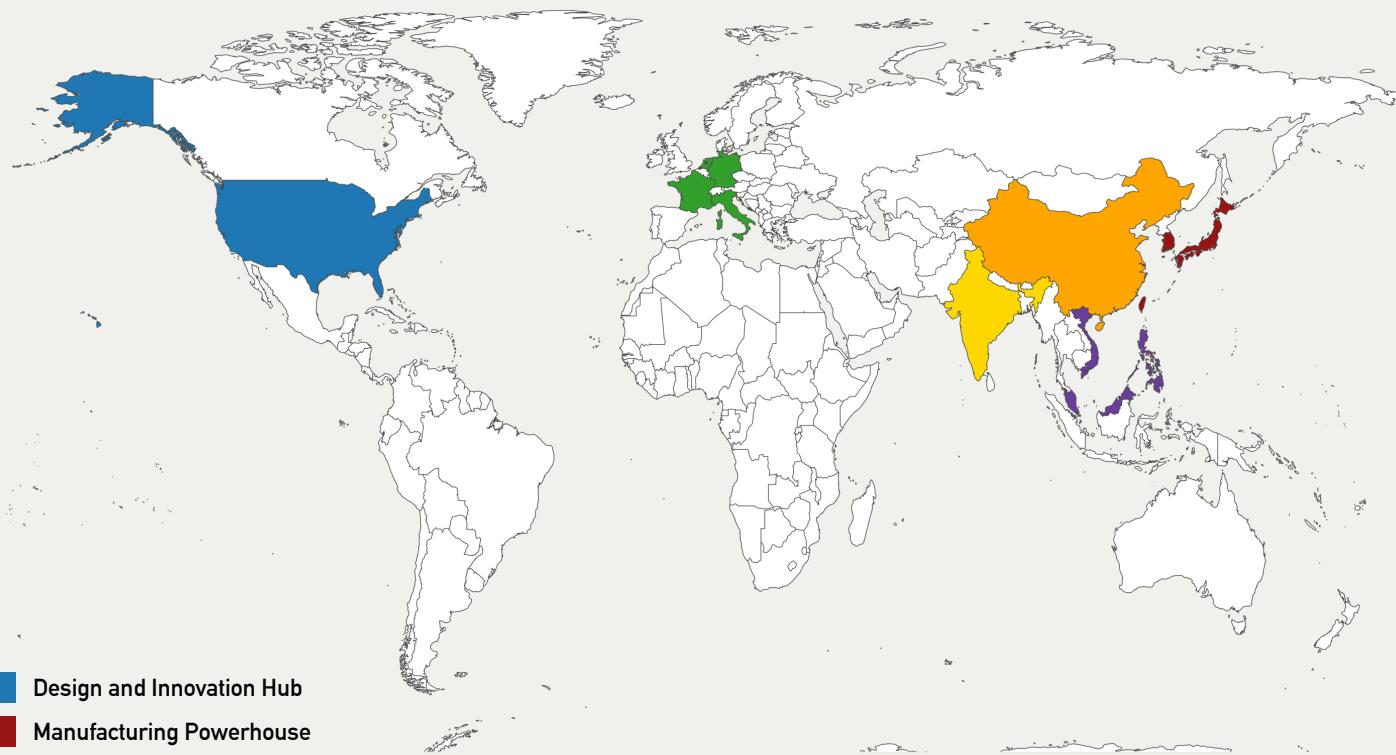
## Macroeconomic Perspective

### Comparative Advantage Theory. Semiconductor Industry Case Study

1. How does the current semiconductor supply chain challenge the classical concept of comparative advantage?
2. How has the race for semiconductor supremacy influenced global trade policies?
3. What impact do government incentives and subsidies in the semiconductor industry have on international marketing strategies?
4. To what extent do geopolitical tensions between the U.S. and China affect the marketing strategies of semiconductor firms on an international level?
5. What implications do advancements in semiconductor technology have for the competitive landscape of companies relying on these components globally?
6. In what ways do changes in the semiconductor manufacturing landscape influence product life cycle strategies for global tech firms?
7. How do the concepts of supply chain risk management and strategic alliances, as described in the video, relate to the concept of comparative advantage in today's semiconductor industry?
8. How can international businesses adapt their marketing mix to remain competitive given the uncertainties in the semiconductor supply chain?

## Macroeconomic Perspective

Comparative Advantage Theory. Semiconductor Industry Case Study



- Design and Innovation Hub
- Manufacturing Powerhouse
- Specialized Excellence
- Assembly and Testing Hub
- Emerging Giant
- Emerging Player

## Macroeconomic Perspective

### Comparative Advantage Theory: Semiconductor Industry Case Study

#### ■ Design and Innovation Hub United States

##### Fabless Companies

Intel, NVIDIA, Qualcomm, and AMD are world leaders in semiconductor design.

##### Equipment Suppliers

Applied Materials and Lam Research are global leaders in semiconductor manufacturing equipment.

##### Research and Development

Strong emphasis on cutting-edge research, including quantum computing and AI accelerators.

##### Policy Initiatives

The CHIPS and Science Act aims to incentivize domestic semiconductor manufacturing and reduce dependency on foreign supply chains.

#### ■ Manufacturing Powerhouse East Asia

##### Taiwan

Taiwan Semiconductor Manufacturing Company (TSMC)

World's largest contract chip manufacturer for tech giants like Apple, NVIDIA, and Qualcomm. It specializes in cutting-edge process technologies which are indispensable for high-performance computing and mobile devices.

##### South Korea

Samsung Electronics: A global leader in memory chips (DRAM and NAND flash) and a significant player in logic chip manufacturing.

SK Hynix: Another major South Korean company specializing in memory semiconductors.

##### Japan

Tokyo Electron, Nikon, and Canon are crucial suppliers of semiconductor fabrication tools. Japan dominates in supplying semiconductor materials (e.g., silicon wafers, photoresists) and manufacturing equipment.



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SAMSUNG



Canon

TEL

Nikon

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# Macroeconomic Perspective

## Comparative Advantage Theory: Semiconductor Industry Case Study

### ■ Specialized Excellence Europe

**Netherlands**  
**ASML Holdings**  
(Advanced Semiconductor Materials Lithography)  
The sole producer of advanced Extreme Ultraviolet (EUV) lithography machines essential for high-end chip fabrication.

**Germany**  
**Infineon Technologies**  
Specializes in power semiconductors and automotive applications.

**France and Italy**  
**STMicroelectronics**  
Franco-Italian company specializing in various semiconductor products.

**Other EU Nations**  
**EU Initiatives**  
The European Union is investing in the semiconductor sector to achieve greater technological sovereignty.

### ■ Assembly and Testing Hub Southeast Asia

**Malaysia, Vietnam, and the Philippines**  
**OSAT (Outsourced Semiconductor Assembly and Test)**  
These countries specialize in assembly, packaging, and testing services.

**Cost Advantages**  
Competitive labor costs and favorable trade policies attract multinational corporations.

**Supply Chain Integration**  
Critical for the backend process of semiconductor manufacturing.

# Macroeconomic Perspective

## Comparative Advantage Theory: Semiconductor Industry Case Study

### ■ Emerging Giant China

**SMIC (Semiconductor Manufacturing International Corporation)**  
China's largest contract chip manufacturer.

**Government Support**  
Massive state investments aim to develop indigenous semiconductor capabilities.

**Challenges**  
Facing export restrictions from the U.S. and its allies, particularly concerning advanced manufacturing equipment and technologies.

**Strategic Goals**  
China aims to achieve self-sufficiency in semiconductors to support its tech industry and national security interests.



### ■ Emerging Player India

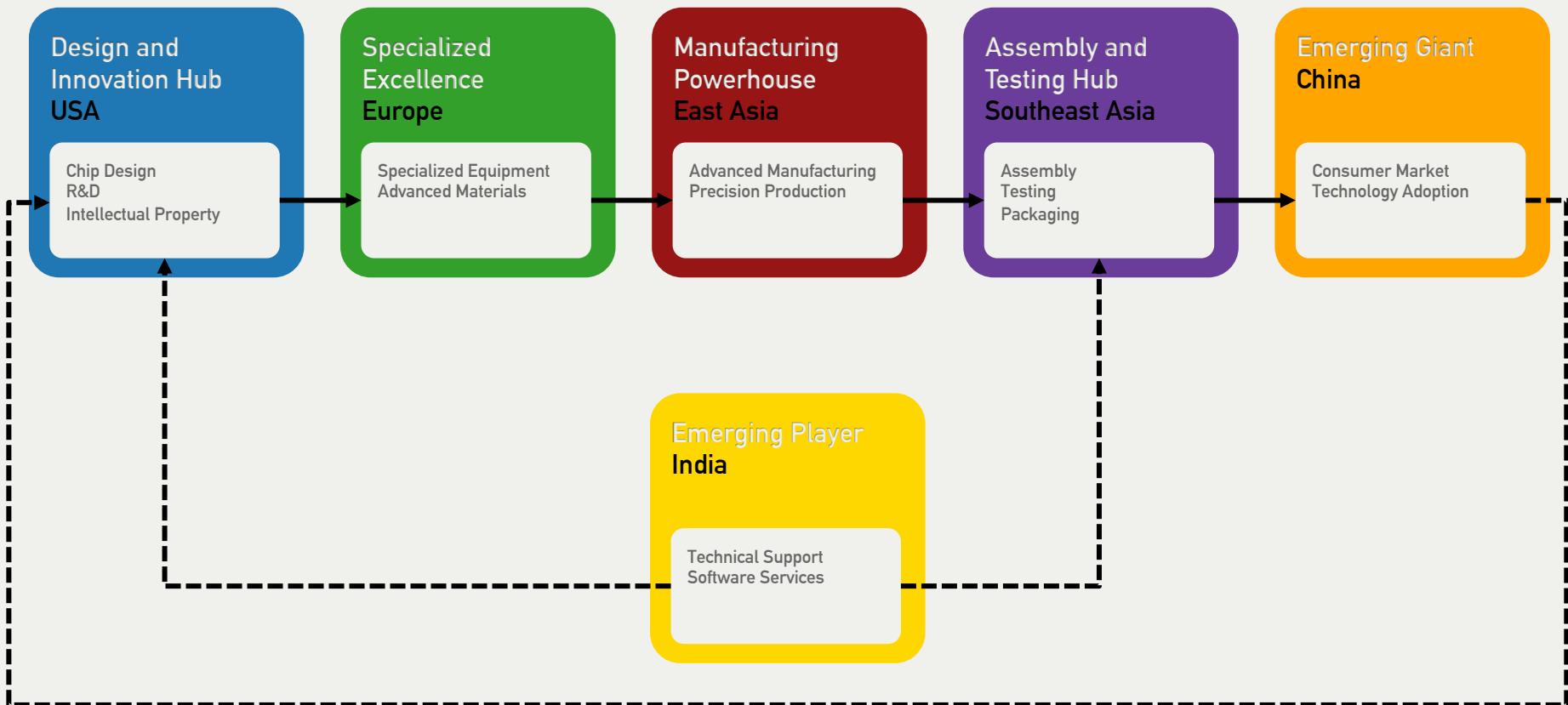
**Design Centers**  
Hosting R&D centers for companies like Intel, Texas Instruments, and Qualcomm.

**Government Initiatives**  
The "Make in India" program encourages investment in semiconductor fabrication and design.

**Potential Growth**  
With a large pool of engineering talent, India aims to expand its role in the global semiconductor landscape.

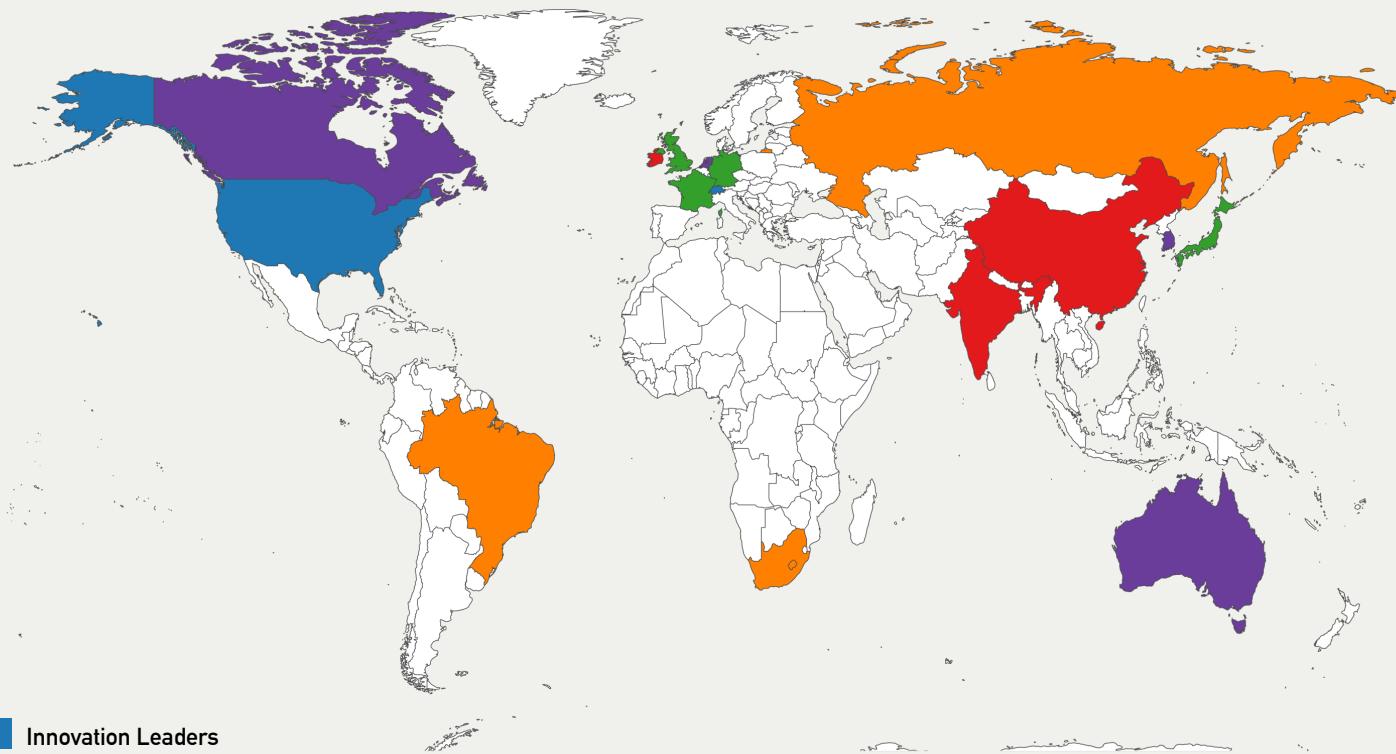
## Macroeconomic Perspective

Comparative Advantage Theory. Semiconductor Industry Case Study



## Macroeconomic Perspective

Comparative Advantage Theory. Pharmaceutical Industry Case Study



- Innovation Leaders
- Manufacturing Hubs
- Established Excellence
- Biotech and Research Hubs
- Emerging Markets

## Macroeconomic Perspective

### Comparative Advantage Theory. Pharmaceutical Industry Case Study

#### ■ Innovation Leaders

##### United States

###### Big Pharma Headquarters

Global giants like **Pfizer**, **Johnson & Johnson**, **Merck & Co.**, **Bristol Myers Squibb**, and **AbbVie**.

###### Research and Development

Leads in drug discovery and innovative therapies, including biologics and gene therapies.

###### Biotech Clusters

Notable regions include Boston, San Francisco Bay Area, and San Diego.

##### Switzerland

###### Global Giants

Hosts leading pharmaceutical companies like **Novartis** and **Roche**.

###### Innovation and R&D

High investment in research, focusing on oncology, immunology, and personalized medicine.

###### Biotech Ecosystem

Strong collaboration between academia and industry.

#### ■ Established Excellence

##### Germany

###### Pharmaceutical Leaders

**Bayer** and **Boehringer Ingelheim**.

###### Chemical and Pharma Synergy

Combines strengths in chemical engineering and pharmaceuticals.

###### Research Institutions

Renowned universities and research centers.

##### United Kingdom

###### Biotech and Pharma Clusters

London and Cambridge host companies like **GlaxoSmithKline** and **AstraZeneca**.

###### Academic Collaboration

Strong ties between universities and industry.

##### France

###### Major Players

**Sanofi** is a global leader focusing on vaccines, oncology, and rare diseases.

##### Japan

###### Established Industry

**Takeda Pharmaceutical** and **Astellas Pharma** lead in R&D (regenerative medicine and treatments for age-related diseases).

## Macroeconomic Perspective

### Comparative Advantage Theory. Pharmaceutical Industry Case Study

#### ■ Biotech and Research Hubs

##### South Korea

###### Biopharmaceutical Growth

Companies like **Samsung Biologics** focus on biologics and biosimilars.

##### Canada

###### Growing Biotech Sector

Strengths in biotech, particularly in oncology and neurology.

Hubs in Toronto, Montreal, and Vancouver.

##### Netherlands

###### Specialized Research

Focus on biotechnology and clinical research. Hosts companies like **Janssen** (a subsidiary of Johnson & Johnson) and prominent research institutions.

##### Australia and Singapore

###### Clinical Research

Attractive for clinical trials due to quality healthcare systems.

###### Biotech Innovation

Support for startups in oncology and rare diseases research.

#### ■ Manufacturing Hubs

##### Ireland

###### Manufacturing Hub

Attracts multinational companies due to favorable tax policies and skilled labor.

###### Exports

Significant exporter with major facilities from Pfizer and Johnson & Johnson.

##### China

###### Expanding Market

Rapid growth with increasing domestic consumption and R&D investment.

###### Generics and Innovation

Moving from generic production to innovative drug development.

##### India

###### Generic Drug Production

Known as the "Pharmacy of the World," leading in generics and vaccines.

###### Key Companies

**Sun Pharmaceutical, Dr. Reddy's Laboratories, Cipla, and Lupin.**

###### API Manufacturing

Significant producer of active pharmaceutical ingredients for global supply.

# Macroeconomic Perspective

## Comparative Advantage Theory. Pharmaceutical Industry Case Study

### ■ Emerging Markets

#### Brazil

##### Growing Market

Largest pharmaceutical market in Latin America.

##### Domestic Companies

EMS and Hypera Pharma focus on generics and over-the-counter medications.

#### Russia

##### Import Substitution

Policies aim to reduce dependency on imports.

##### Local Manufacturing

Encourages domestic production of essential medicines.

#### South Africa

##### Leading African Market

With companies like Aspen Pharmacare, focused on affordable generics to tackle local health challenges.

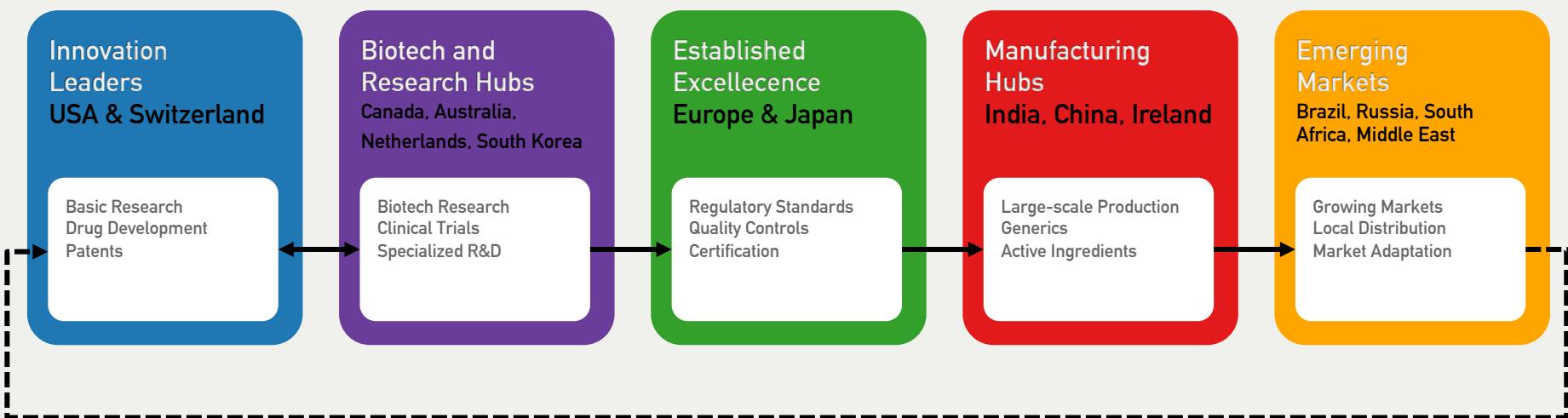
#### Turkey and the Middle East

##### Strategic Location

Serve as distribution hubs between Europe and Asia

## Macroeconomic Perspective

Comparative Advantage Theory. Pharmaceutical Industry Case Study



## Macroeconomic Perspective

Comparative Advantage Theory. Strategic Implications for Firms

How Comparative Advantage Theory guides  
the strategic decisions of companies seeking  
global expansion

## Macroeconomic Perspective

### Comparative Advantage Theory. Strategic Implications for Firms

#### Identification of Opportunities in International Markets

By identifying where the company has relative cost or efficiency advantages, it can prioritize markets that allow it to operate at a lower opportunity cost compared to competitors.

#### Evaluation of Comparative Advt.

- > Cost Analysis
- > Quality Analysis
- > Supply Chain Optimization
- > Technology Integration

Comparative Advantage Theory encourages companies to capitalize on regions or opportunities where they can produce goods or services at a lower opportunity cost.

#### Location Decision

By focusing on countries where the company has a distinct cost or productivity advantage, a company can minimize trade-offs and improve operational effectiveness.

#### Design of Production Strategy

If a location offers low-cost labor or access to raw materials, the production strategy can emphasize cost leadership. If it provides access to high-quality inputs or skilled labor, the strategy can focus on differentiation.

#### Risk Management

Comparative advantage can support risk management by encouraging diversification across locations with different risk profiles, in which the company can develop comparative advantages.

#### Strategy Implementation

By implementing a strategy aligned with comparative advantages, companies can optimize their investments (allocation of resources and pace of investment) to enhance efficiency and competitiveness.

#### Continuous Evaluation and Adjustment

Comparative advantage is not static; it evolves with changes in the global economy, technology, and market conditions. Regularly evaluating comparative advantages allows companies to adjust their strategies.

## Macroeconomic Perspective

Comparative Advantage Theory. Strategic Implications for Firms

### Production Decisions

#### Balance Between Cost and Quality

Assessing how to optimize the relationship between production costs and product quality to maintain international competitiveness.

#### Market Access Considerations

Deciding where to establish production operations to maximize access to key markets.

#### Supply Chain Optimization

Designing an efficient supply chain to leverage the comparative advantages of different regions.

#### Risk Management

Identifying and mitigating risks associated with internationalization, such as currency fluctuations, political instability, and natural disasters.

### Strategies

- > Offshoring: Relocating parts of production to countries with lower labor or operational costs.
- > Automation: Investing in advance manufacturing technology to reduce costs without compromising quality.

- > Proximity to Customers: Setting up facilities closer to target markets to reduce delivery times and logistical costs.
- > Local Adaptation: Adjusting products to meet local preferences and regulations.

- > Supplier Diversification: Reducing dependence on a single supplier or region.
- > Vertical Integration: Controlling multiple stages of the supply chain to improve efficiency (increased control and cost reduction).

- > Geographic Diversification: Distributing operations across multiple countries to reduce region-specific risks/disruptions.
- > Insurance and Contracts: Protecting against financial and operational risks.

## Macroeconomic Perspective

Comparative Advantage Theory. Strategic Implications for Firms

### Competitive Position

### Strategies

#### Global Market Access

Expanding market reach by utilizing comparative advantages to enter new markets.

- > **Strategic Alliances:** Forming joint ventures or local partnerships to gain market insight and facilitate entry and access to distribution networks.
- > **Product Adaptation:** Tailoring products to meet local preferences and regulations.

#### Cost Leadership

Using comparative advantage to reduce costs and offer competitive pricing in the global market.

- > **Economies of Scale:** Increasing production to reduce unit costs.
- > **Operational Efficiency:** Optimizing processes to minimize expenses.

#### Quality Maintenance

Ensuring that cost reductions do not compromise product or service quality.

- > **Rigorous Quality Control:** Implementing consistent quality standards across all international operations.
- > **Training and Development:** Investing in employee training to maintain high competency levels.

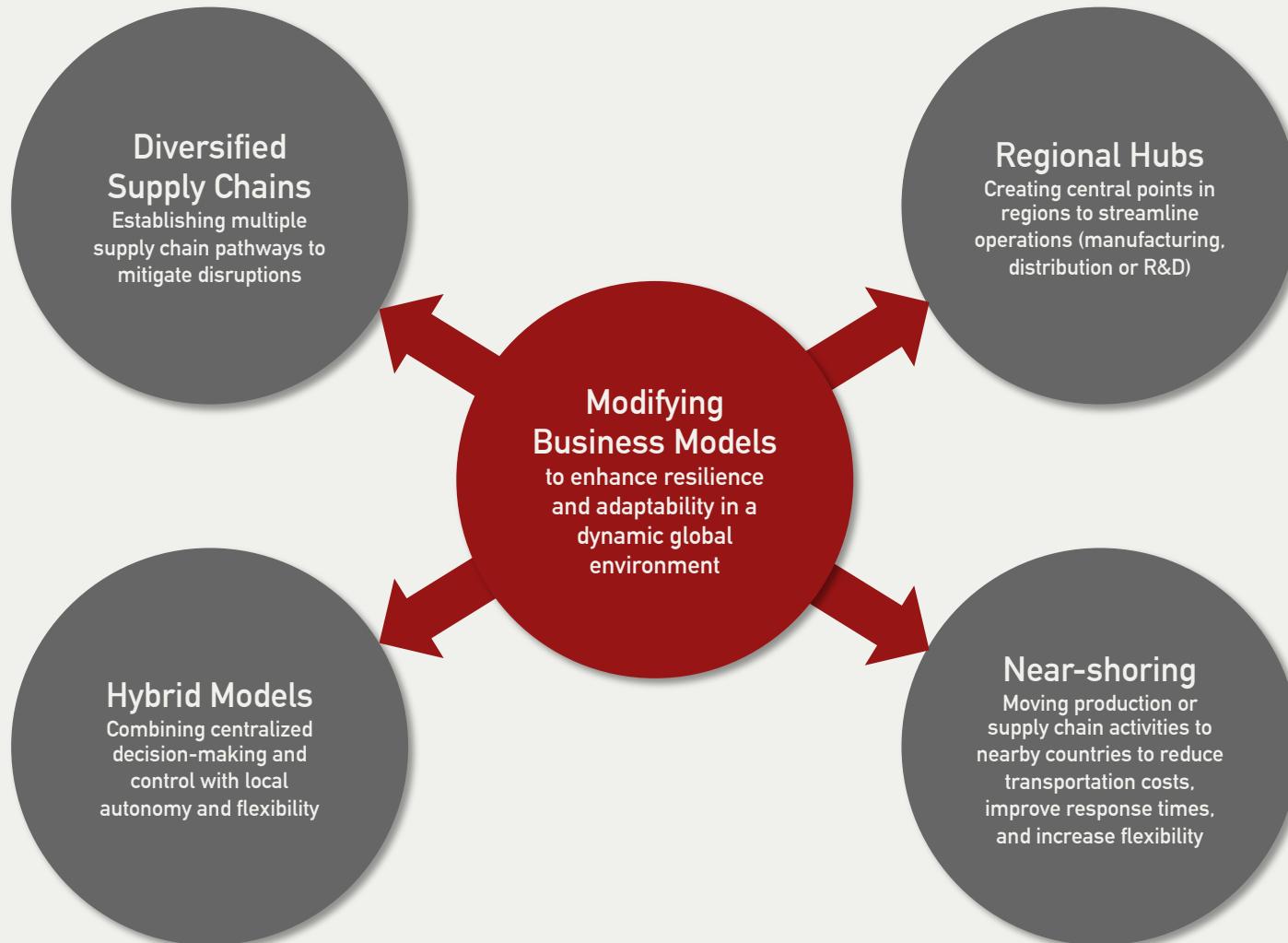
#### Innovation Capabilities

Fostering innovation by leveraging comparative advantages to develop differentiated products and services.

- > **Global R&D:** Establishing research and development centers in different regions to tap into local talent.
- > **International Collaboration:** Participating in global innovation networks to accelerate the development of new technologies.

### Macroeconomic Perspective

Comparative Advantage Theory. Business Models Adaptations



## Macroeconomic Perspective

Comparative Advantage Theory. Conclusion

### Conclusion

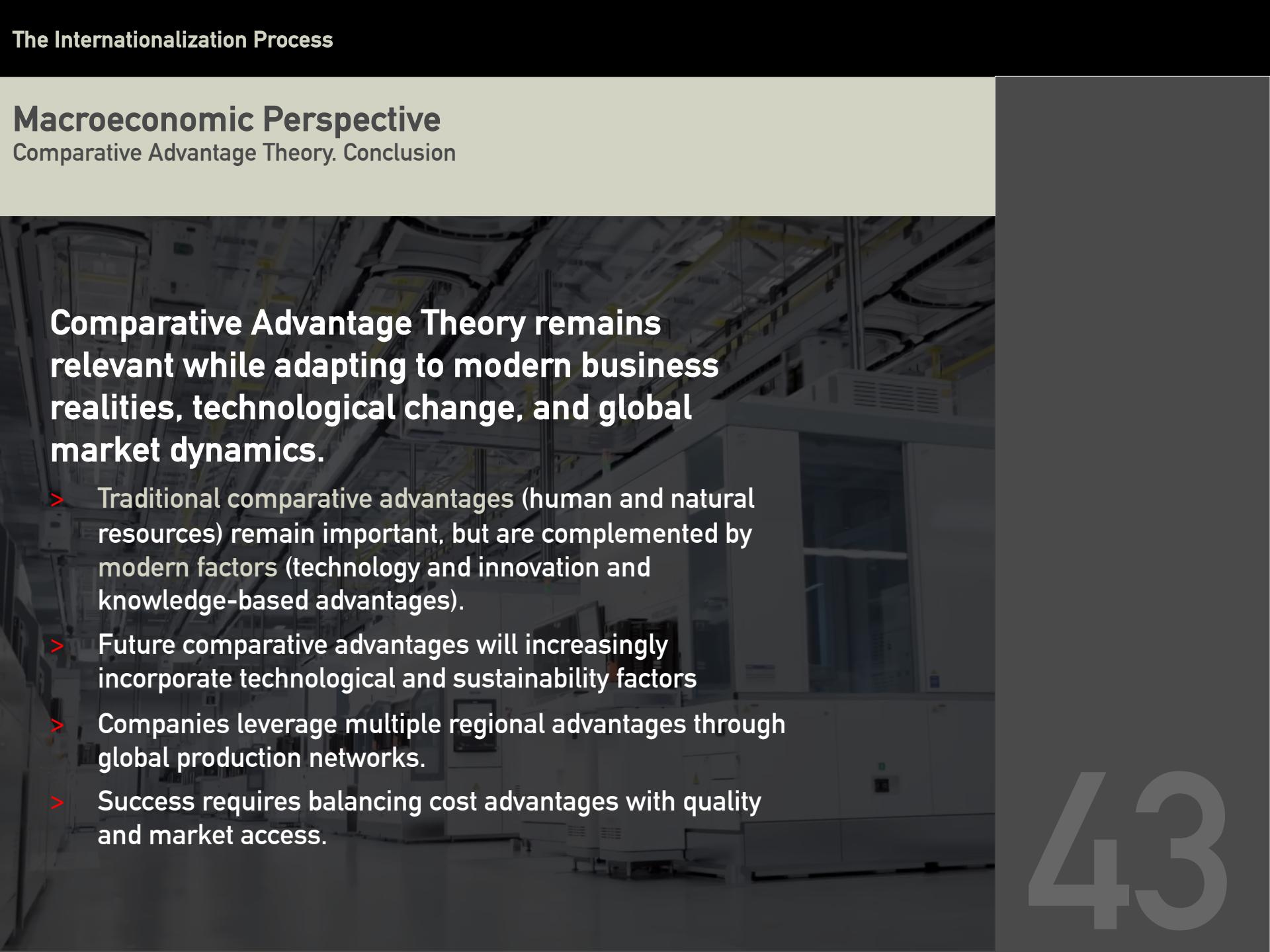
The Theory of Comparative Advantage explains why countries and companies specialize in specific production activities, even when they could theoretically produce various goods.

This specialization pattern becomes particularly evident when examining the global production decisions of companies across different regions and industries.

The modern application of Comparative Advantage Theory demonstrates how companies optimize their global production networks by leveraging both traditional and emerging advantages.

## Macroeconomic Perspective

Comparative Advantage Theory. Conclusion



**Comparative Advantage Theory remains relevant while adapting to modern business realities, technological change, and global market dynamics.**

- > Traditional comparative advantages (human and natural resources) remain important, but are complemented by modern factors (technology and innovation and knowledge-based advantages).
- > Future comparative advantages will increasingly incorporate technological and sustainability factors
- > Companies leverage multiple regional advantages through global production networks.
- > Success requires balancing cost advantages with quality and market access.

## Macroeconomic Perspective

Comparative Advantage Theory: Complementing Theories

### Theories complementing Comparative Advantage

Adapted to current realities

#### Heckscher-Ohlin Model (1919, 1933)

Extends comparative advantage theory by introducing factor endowment differences (capital, labor), better explaining why some countries export capital-intensive goods while others specialize in labor-intensive goods.

#### International Product Life Cycle Theory (R. Vernon, 1966)

Explains how products transition from being exported by the Innovating country to being produced in other countries as they mature, highlighting that internationalization and foreign production respond to the stages of the product life cycle.

#### Theory of Competitive Advantage (M. Porter, 1990)

Considers the ability of firms and countries to innovate and improve products, basing competitive advantage on dynamic factors such as technology and organizational capabilities, beyond mere resource endowments.

#### New Theories of International Trade (P. Krugman, 1975-1985)

Consider economies of scale and preferences for diversity, explaining why similar countries trade with each other and how firms benefit from producing at large scale in global markets.

### Macroeconomic Perspective

#### International Product Life Cycle Theory



1966

Raymond Vernon

Explains the behavior of multinational companies and how products evolves as they progress through their life cycle in an international context

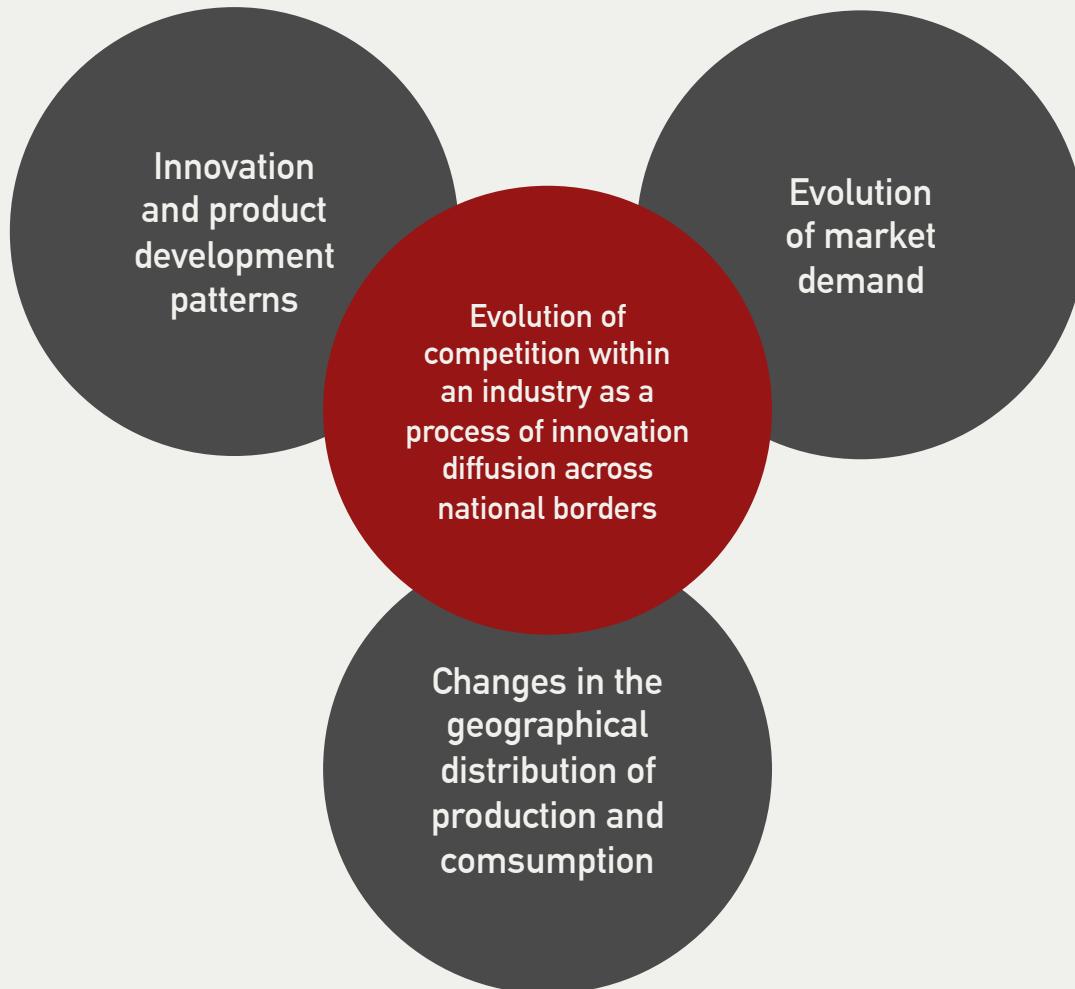
“The product life cycle is an attempt to explain certain regularities in the international flow of goods. It suggests that innovations are most likely to occur in the high-income markets where labor is expensive, and that over time, as the technology becomes more standardized, production shifts to lower-cost locations.”

The theory suggests that products go through four stages—introduction, growth, maturity, and decline—and that, at each stage, production and trade patterns tend to shift from developed countries to developing ones. This model illustrates how innovations in advanced countries, may later expand to other markets, altering import and export dynamics between different economies.

This theory remains particularly relevant in the study of international business expansion and global trade.

## Macroeconomic Perspective

International Product Life Cycle Theory. Essential Elements



# Macroeconomic Perspective

## International Product Life Cycle Theory. Theoretical Foundations

1

### Economies of Scale and Scope

- > Advantages derived from large market size (tangible assets)
- > Benefits from international market accumulation (intangible assets)
- > Cost optimization through production scale

2

### Consumer Preference Similarities

- > Primarily determined by income levels
- > Independent of nationality
- > Convergence patterns in developed markets

3

### Technological Innovation

- > Development of competitive advantages
- > Temporary monopolistic power until imitation occurs
- > Innovation diffusion across markets

4

### Product Life Cycle

- > Product diffusion/adoption process within markets
- > Sequential international market development
- > Evolution of production location patterns

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### Macroeconomic Perspective

International Product Life Cycle Theory. Core Theoretical Propositions

1

#### Market-driven Innovation

- > Innovation is primarily driven by advanced market needs
- > High-income markets generate sophisticated consumer demands
- > Initial product development responds to domestic market signals

2

#### Dynamic Comparative Advantage

Production Location Shifts & Export/Import Pattern Changes

- > Production location advantages shift over time
- > Labor costs become increasingly significant as products mature
- > Technology transfer follows predictable patterns

3

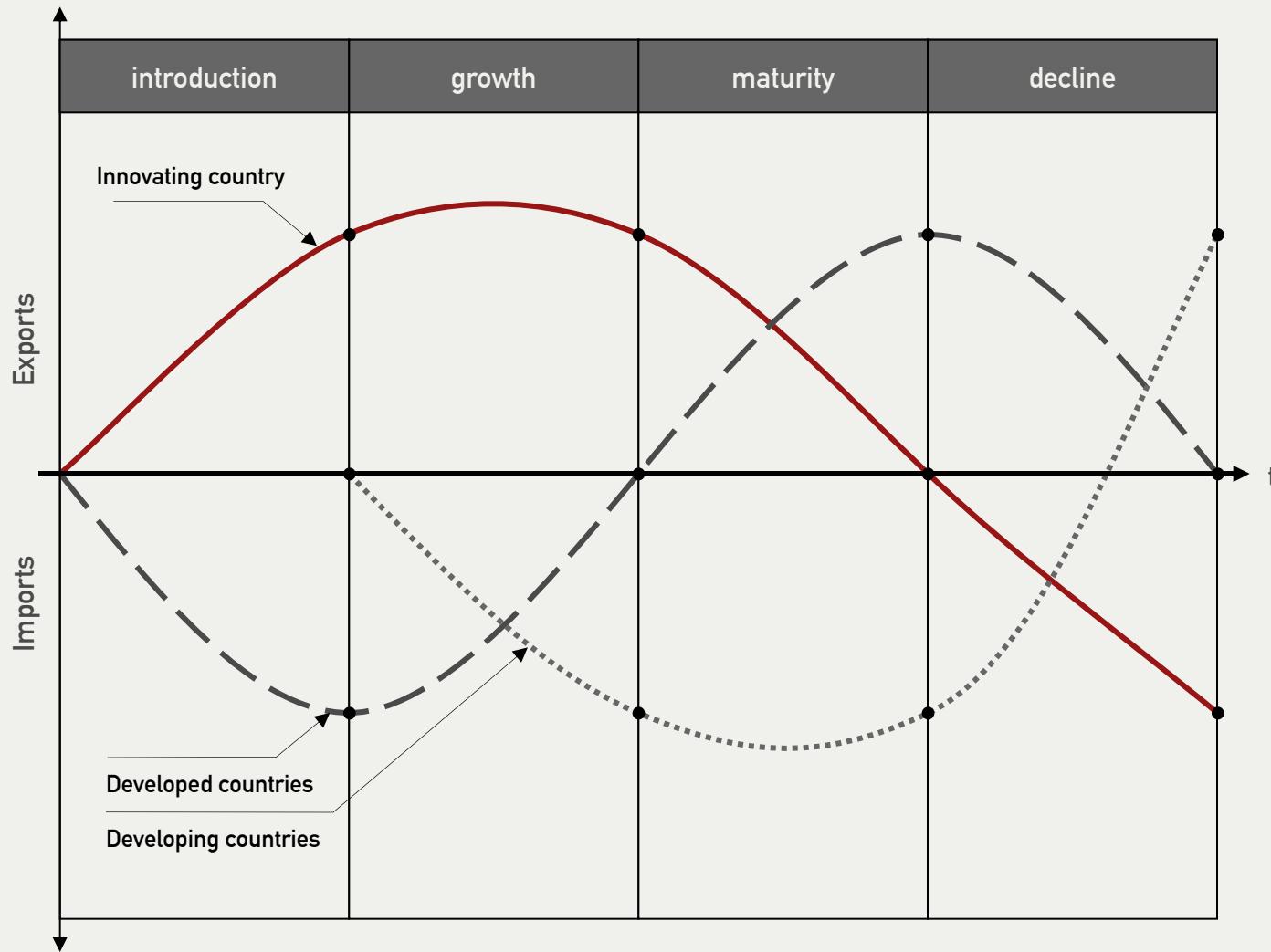
#### Product Standardization Evolution

- > Products move from customized to standardized offerings
- > Production processes become increasingly automated
- > Scale economies become more critical over time

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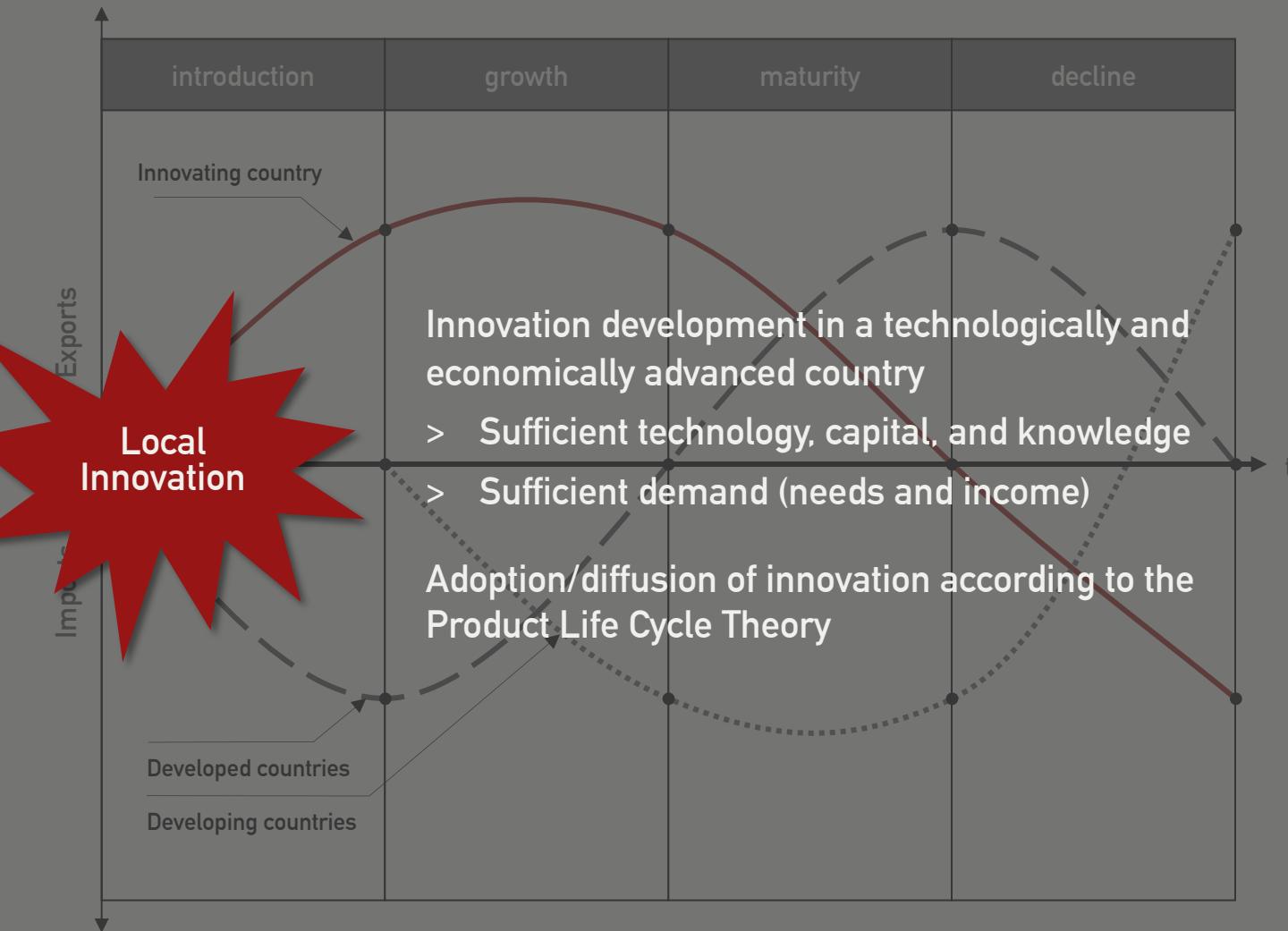
## Macroeconomic Perspective

International Product Life Cycle Theory. Lifecycle Phases and Strategic Implications



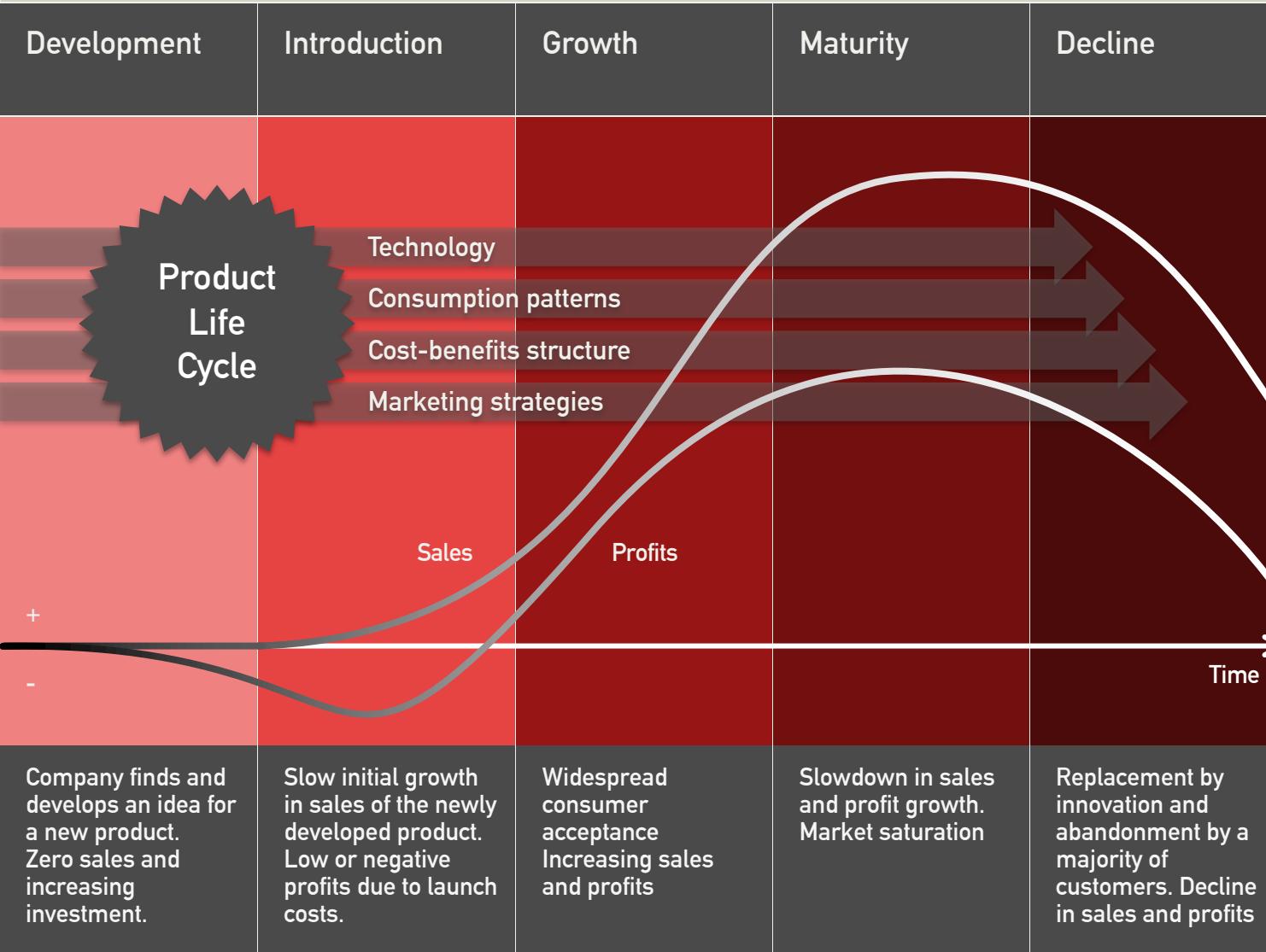
## Macroeconomic Perspective

International Product Life Cycle Theory. Lifecycle Phases and Strategic Implications



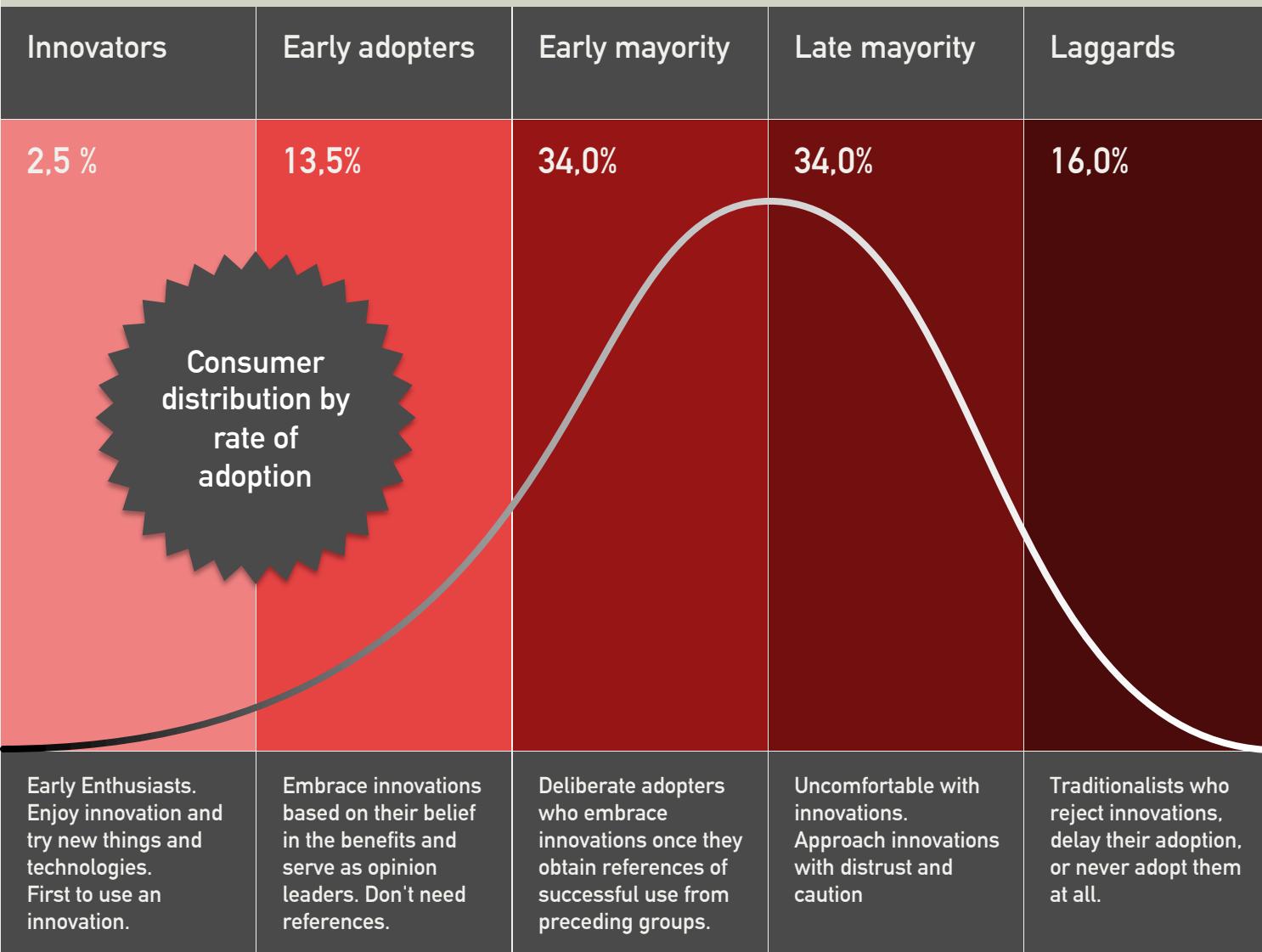
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### International Product Life Cycle Theory. Lifecycle Phases and Strategic Implications



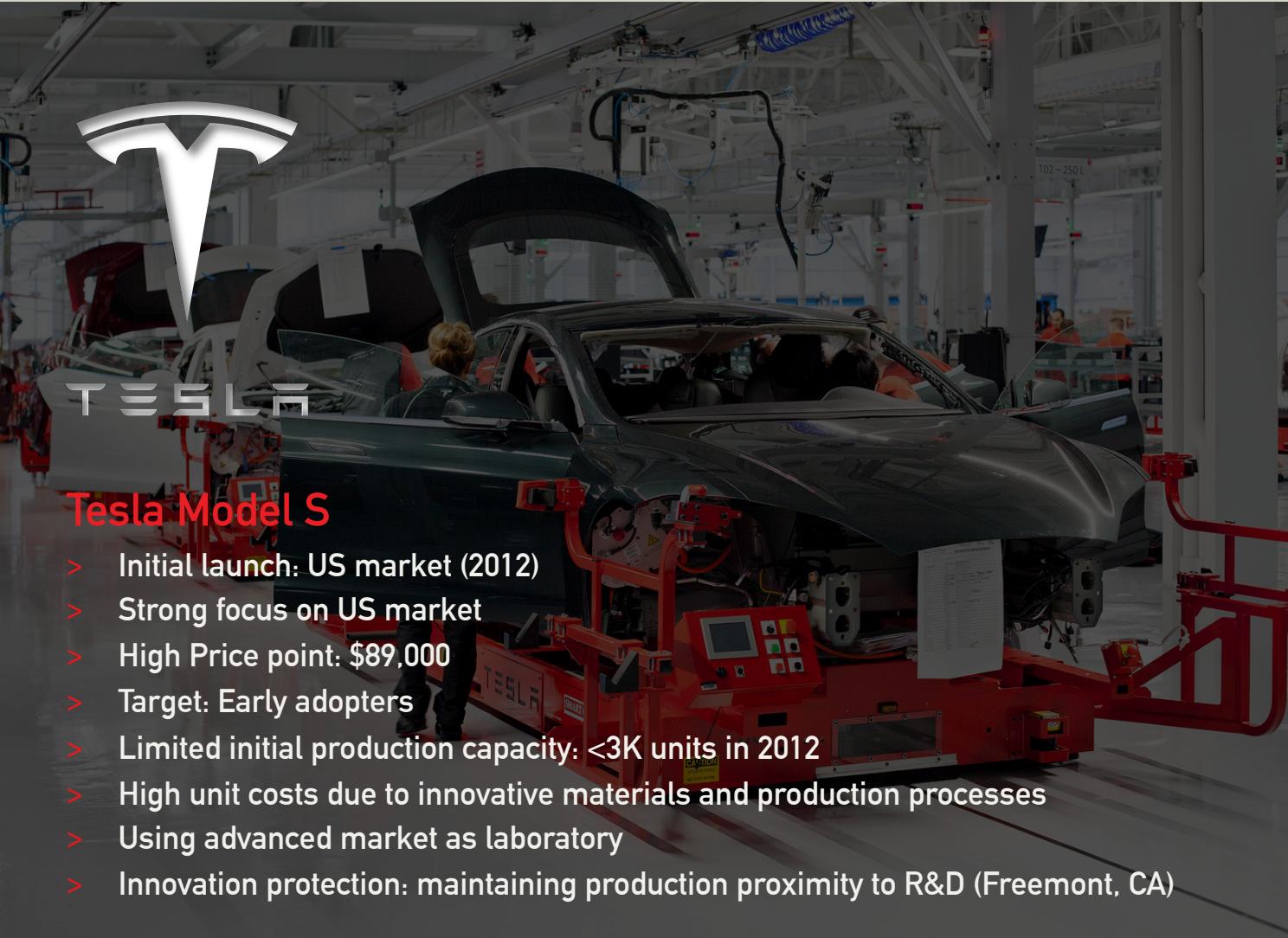
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International Product Life Cycle Theory. Lifecycle Phases and Strategic Implications



## Macroeconomic Perspective

International Product Life Cycle Theory. Lifecycle Phases and Strategic Implications

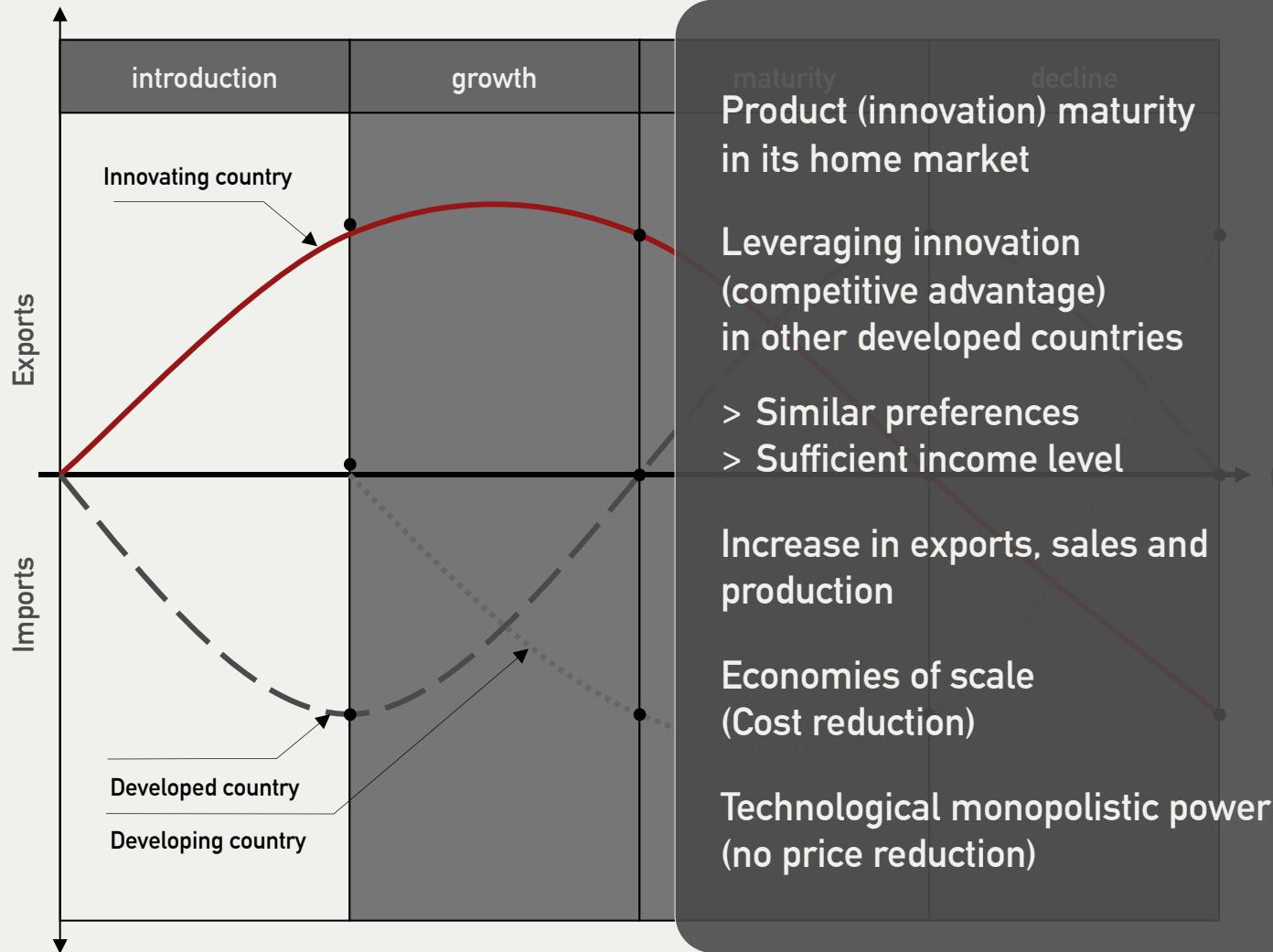


### Tesla Model S

- > Initial launch: US market (2012)
- > Strong focus on US market
- > High Price point: \$89,000
- > Target: Early adopters
- > Limited initial production capacity: <3K units in 2012
- > High unit costs due to innovative materials and production processes
- > Using advanced market as laboratory
- > Innovation protection: maintaining production proximity to R&D (Freemont, CA)

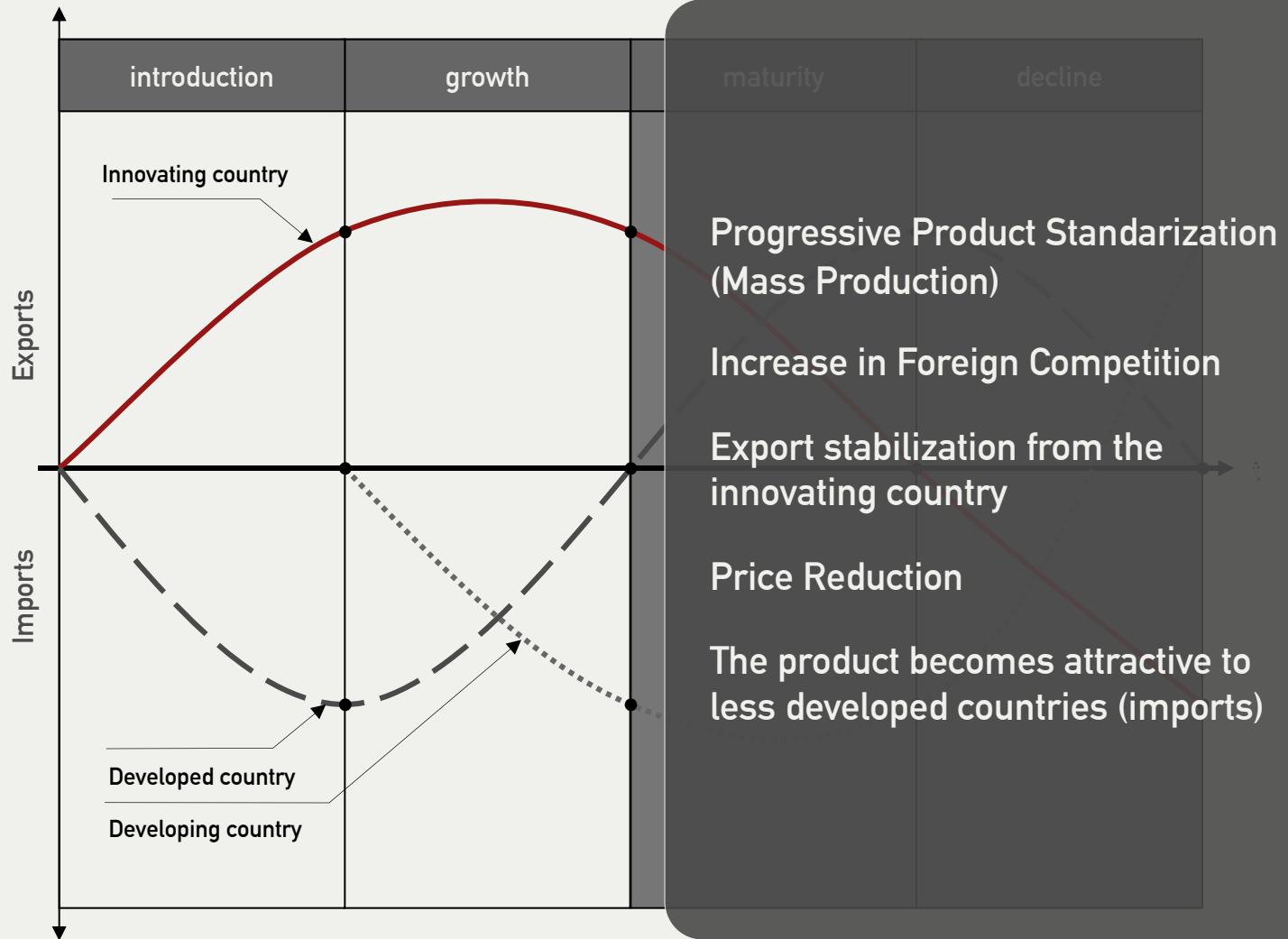
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International Product Life Cycle Theory. Lifecycle Phases and Strategic Implications



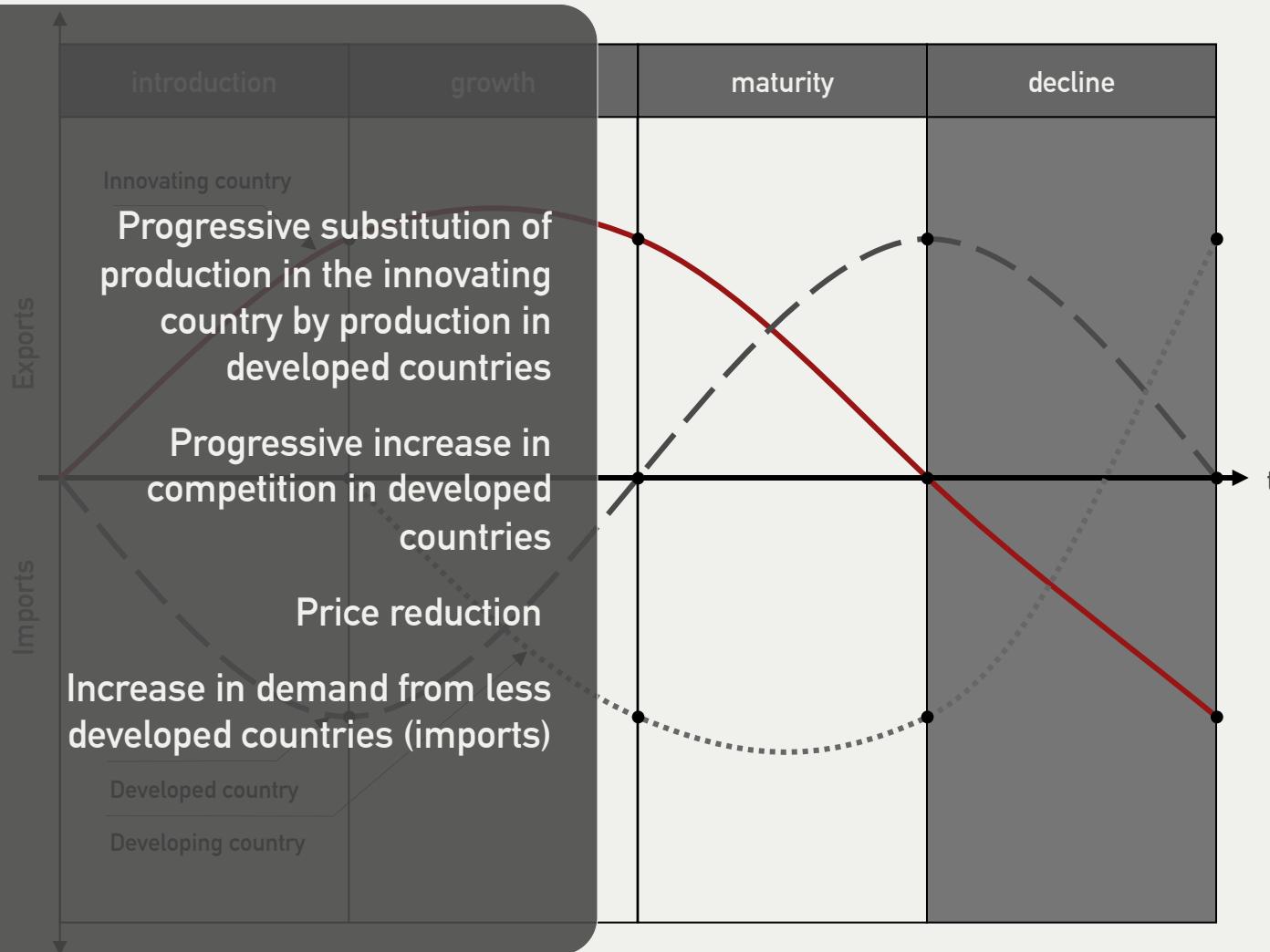
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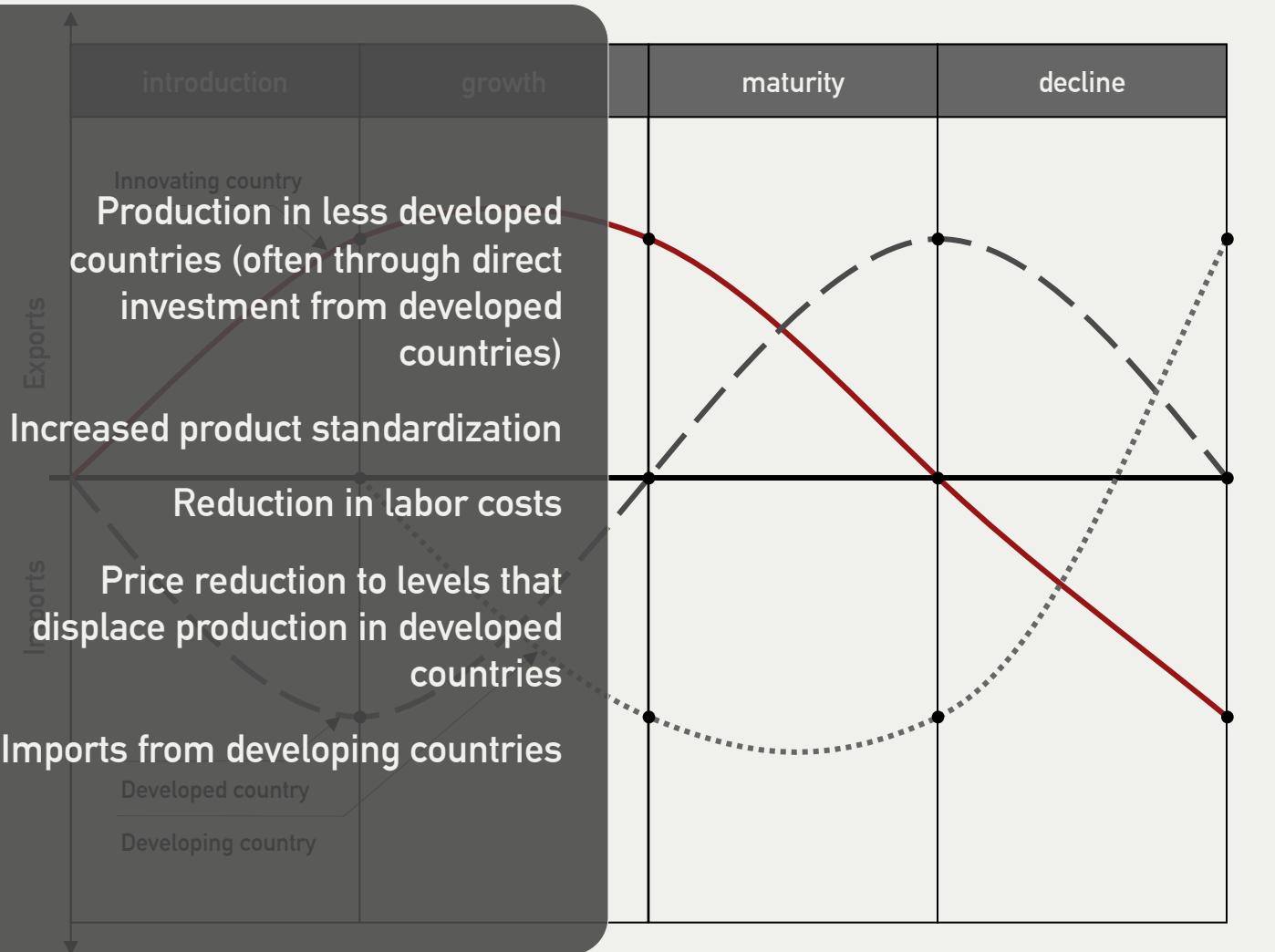
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International Product Life Cycle Theory. Lifecycle Phases and Strategic Implications



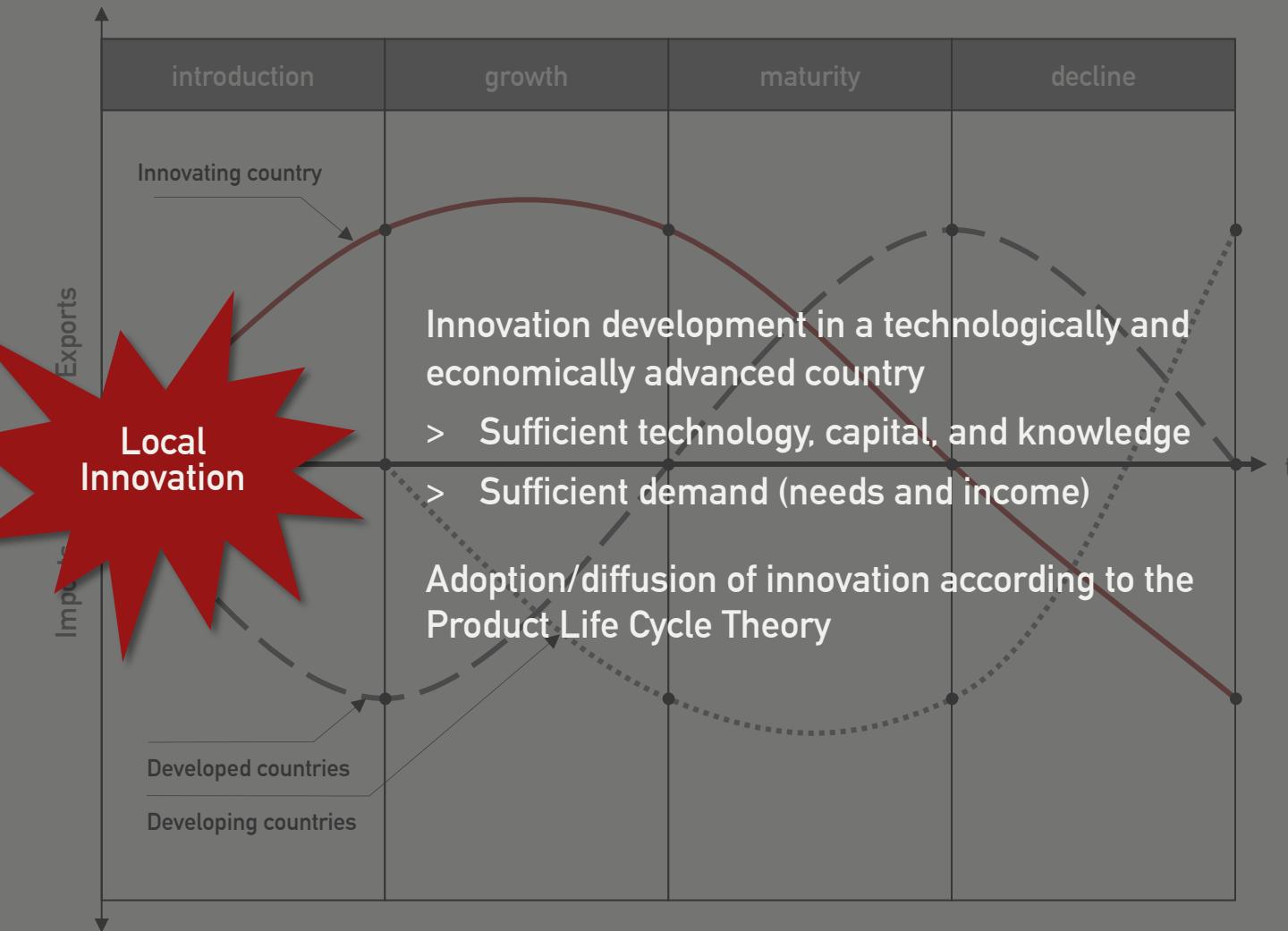
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International Product Life Cycle Theory. Lifecycle Phases and Strategic Implications



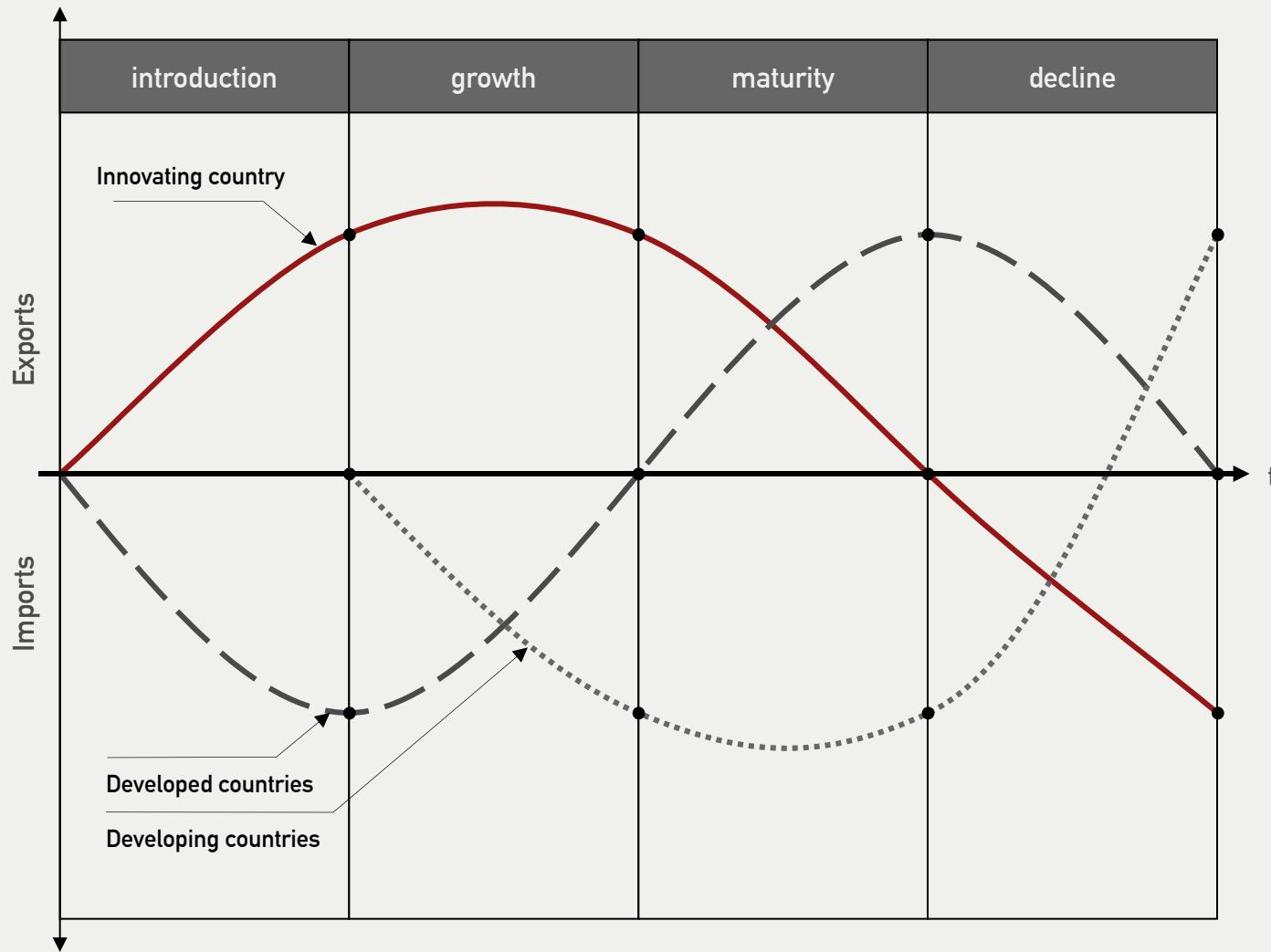
## Macroeconomic Perspective

International Product Life Cycle Theory. Lifecycle Phases and Strategic Implications



## Macroeconomic Perspective

International Product Life Cycle Theory. Lifecycle Phases and Strategic Implications



## Macroeconomic Perspective

### International Product Life Cycle Theory. Case Study

introduction	growth	maturity	decline
<p>2007 Initially produced and sold primarily in the US Proximity to innovation centers High-end market focus High price point \$499-\$599 Exports from innovation country Limited international availability</p>	<p>2008-2012 Rapid expansion to European and Asian markets. Growing international demand Production still primarily centralized in developed nations Premium positioning maintained</p>	<p>2013-present Production shifted to China and other Asian countries Reverse trade flows Global distribution network. Complex supply chain across Asia Global availability Increased competition from Samsung, Huawei Cost optimization focus, achieved through supply chain management</p>	<p>Older models sold in emerging markets at lower prices New models introduced to maintain market position Strategic pricing in different markets</p>



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## Macroeconomic Perspective

### International Product Life Cycle Theory. Case Study

introduction	growth	maturity	decline
<p>1960s - 1970s  <b>Domestic Innovation and Entry into Electronics</b>          Basic electronic products          Initial focus on Korean market          High-Cost, Localized Production          Limited international presence</p>	<p>1980s - 1990s  <b>Entry into Developed Markets and Export Expansion</b>          Expansion to developed markets (United States, Japan, and Europe)          Shift to Cost-Effective Manufacturing Locations          Technology transfer agreements          Quality improvement initiatives          Brand Development initiatives</p>	<p>2000s  <b>Global Standardization and Mass Production</b>          Global brand establishment          Market Saturation and Brand Dominance          Innovation leadership          Premium market positioning          Standardization of Products and Processes          Expansion to Emerging Markets for Cost Efficiency</p>	<p><b>Adaptation to New Market Demands and Shifts in Production</b>          Reinvention strategy          Continuous innovation          Market segmentation          New product categories</p>



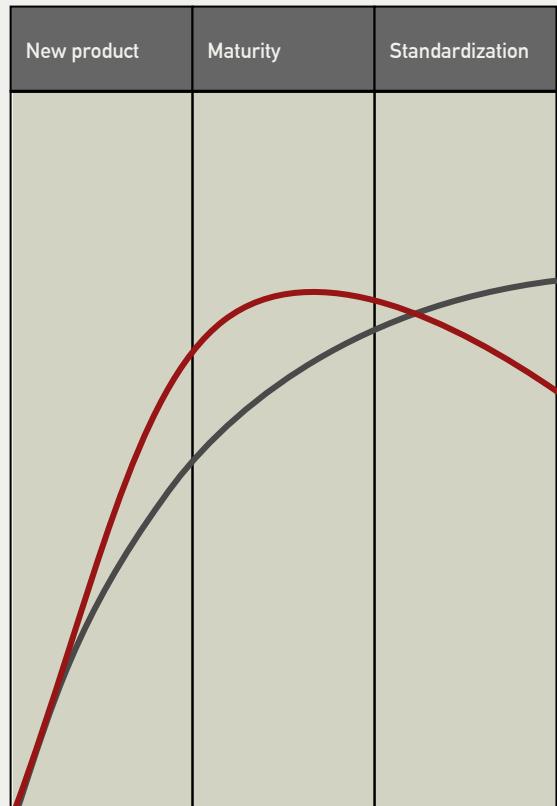
SAMSUNG

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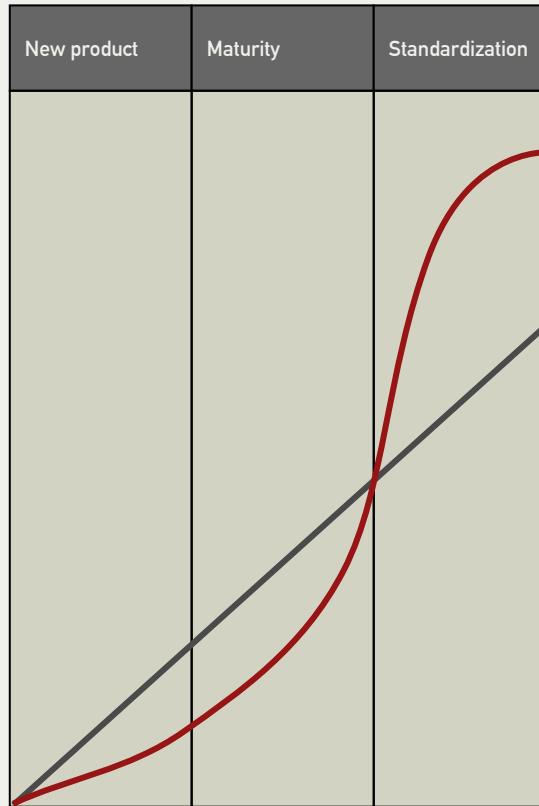
## Macroeconomic Perspective

International Product Life Cycle Theory. Case Study

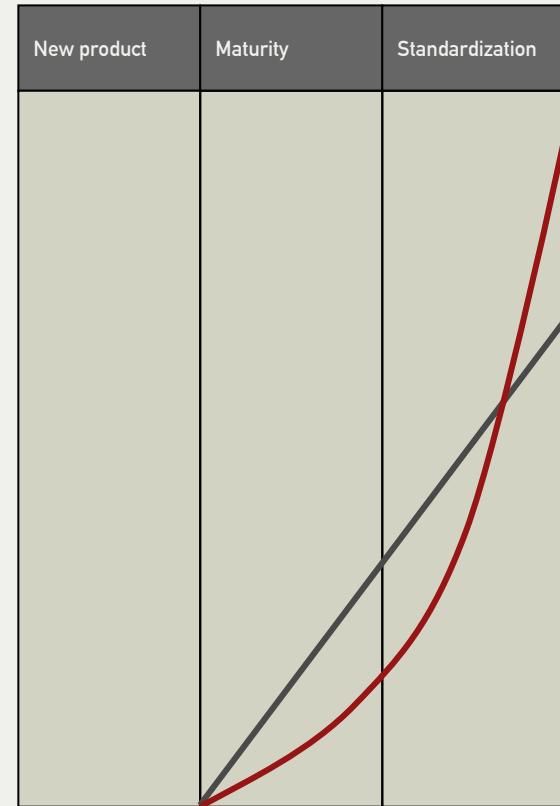
Innovating country



Other advanced countries



Less developed countries



— Production  
— Consumption

## Macroeconomic Perspective

International Product Life Cycle Theory. Production Location & Export/Import Pattern Changes

introduction	growth	maturity	decline
Exports from innovation country Limited international production High-value trade	Bilateral trade flows Production dispersion Market expansion	Reverse trade flows Global production network Cost-driven trade	Imports from low-cost countries Limited export focus in advanced markets Market exit in unprofitable regions
Production in advanced markets Proximity to innovation centers High-cost manufacturing	Expansion to developed markets Technology transfer Cost optimization	Movement to emerging markets Labor cost focus Scale production	Complete shift to low-cost regions Outsourced production Minimized investment in production upgrades
Flexible manufacturing Local production High customization	Location optimization Labor cost focus Technology transfer	Automated processes Global sourcing Scale efficiency	Outsourcing and offshoring Minimal capital investment Efficiency over quality

Export/Import Pattern

Production Location

Production Focus

## Macroeconomic Perspective

International Product Life Cycle Theory. Product-Market Approach & Production Focus

introduction	growth	maturity	decline
Aggressive innovation Flexible design Market-specific adaptation Performance improvement focus Custom solutions High-end features Rapid innovation	Sequential production Sales maximization Progressive standardization Brand development Standardization Cost reduction Process efficiency	Integrated production Cost minimization Market segmentation Global platform Global standardization Uniform specifications Scale economies Automated production	Intermittent production Harvest strategy Special applications focus Simplified product line Cost-focused design Durability over innovation Minimal adaptation
Product awareness building Exclusive distribution channels High marketing investment Premium segments Advanced markets High-touch service	Selective distribution High service levels Feature emphasis Market expansion Cost-based pricing Broader distribution	Extensive channels Moderate service Price emphasis Mass market Global presence Standardized service	Selective distribution Minimal service Low marketing investment Niche or residual markets Focus on low-income segments Minimal service levels

Product Strategy

Market Approach

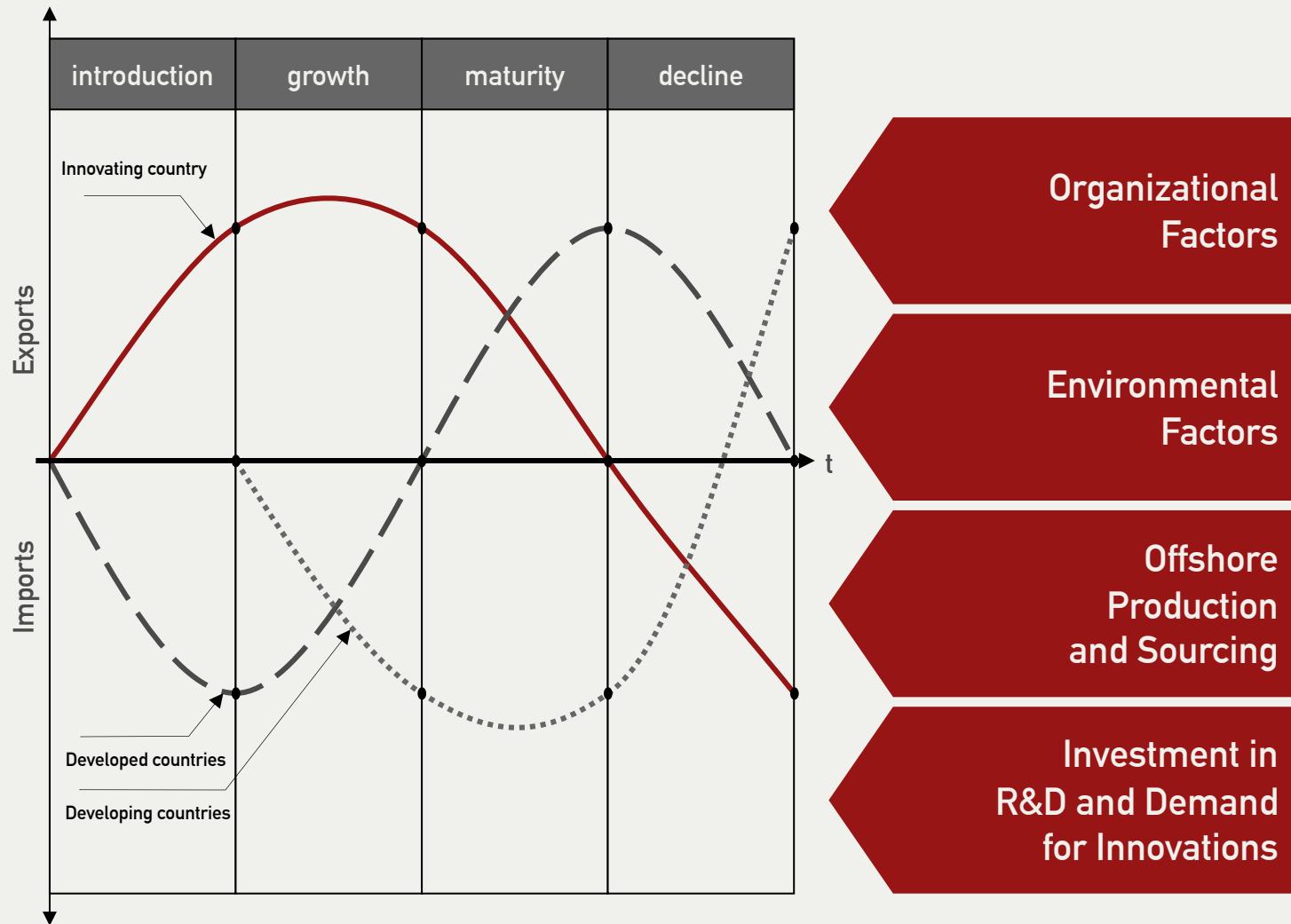
## Macroeconomic Perspective

International Product Life Cycle Theory. Lifecycle Phases and Market Characteristics

introduction	growth	maturity	decline	
Aggresive	Maintenance	Cost Focus	Harvest	Strategy Focus
Technology & Sales Forecasts	Competitive Pressures	Process Rigidity	New Products or Preferences	Risk Sources
Small to moderate Slow to moderate	Rapidly growing Fast	Large Slow	Decreasing Negative	Market size / Growth rate
Rapid Innovation Customization	Brand development Sales maximization	Cost Minimization Global Product	Simplified Product Standardization	Product Strategy
Premium pricing	Market penetration	Competitive pricing	Value-based pricing	Pricing Strategy
Exclusive	Selective	Intensive	Selective	Distribution Strategy
Awareness	Brand building	Differentiation	Maintenance	Promotion Strategy

## Macroeconomic Perspective

International Product Life Cycle Theory. Accelerating Factors



## Macroeconomic Perspective

International Product Life Cycle Theory. Theory Limitations

Direct Internationalization	Multinational Production
<b>BORN-GLOBAL FIRMS</b> Enabled by digital infrastructure and global connectivity, they bypass the conventional stages of domestic market development, immediately targeting international markets	<b>GLOBAL VALUE CHAINS</b> Dispersed production networks from inception Simultaneous operation across multiple countries Complex supplier relationships Value creation at multiple geographic points
<b>DIGITAL PLATFORMS</b> Minimal physical infrastructure requirements Reduced importance of manufacturing location Near-instant global scalability Network effects - international adoption	<b>SIMULTANEOUS PRODUCTION</b> Parallel manufacturing in multiple locations Regional production hubs Flexible production capabilities Rapid response to market demands
<b>SERVICE COMPANIES</b> Different internationalization patterns Less dependent on production cost advantages Knowledge-based competitive advantages (talent and expertise)	<b>NETWORK MANUFACTURING</b> Interconnected production facilities Shared technology and knowledge Real-time coordination Dynamic resource allocation

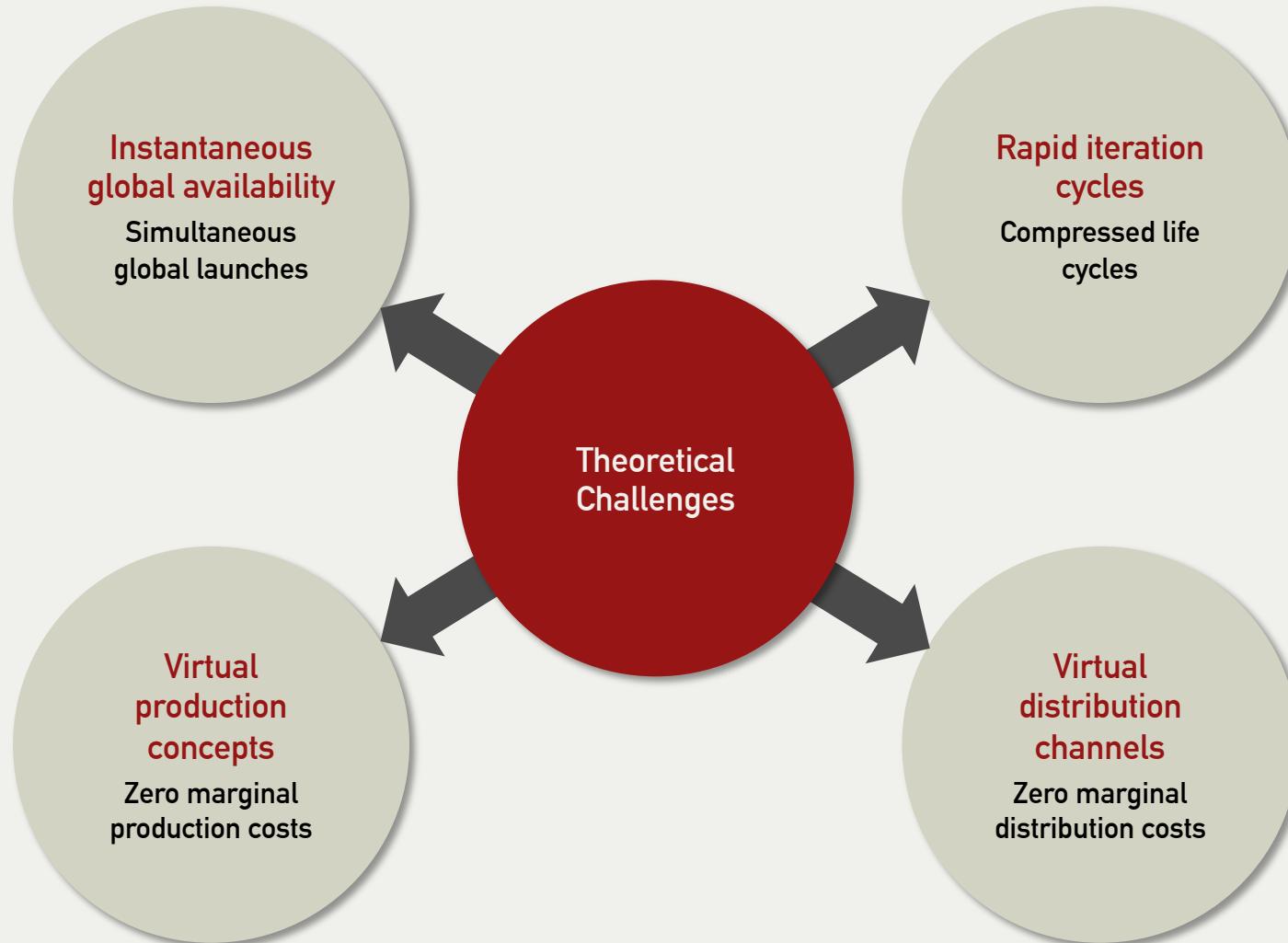
## Macroeconomic Perspective

International Product Life Cycle Theory. Contemporary Adaptations

Digital Transformation	Innovation Patterns	Market Evolution
<b>VIRTUAL PRODUCTS</b> Software and digital services Cloud-based solutions Subscription models Continuous updates and improvements	<b>RAPID PROTOTYPING</b> Digital modelling Quick market testing Iterative improvement Accelerated development cycles	<b>GLOBAL CONVERGENCE</b> Similar preferences Global brand recognition Cultural cross-pollination Standardized product features
<b>PLATFORM ECONOMICS</b> Network effects User-generated value Multi-sided markets Global scalability	<b>CONTINUOUS ITERATION</b> Agile product development Regular feature updates Dynamic product evolution Customer-driven improvements	<b>DIGITAL DISTRIBUTION</b> E-commerce platforms Direct-to-consumer channels Global marketplace access Reduced intermediary dependence
<b>GLOBAL REACH</b> Virtual presence Digital distribution channels Remote customer support Instant market access	<b>MARKET FEEDBACK</b> Real-time user data Analytics-driven decisions A/B testing Continuous market research	<b>SUSTAINABILITY ISSUES</b> Environmental impact awareness Sustainable production methods Green technology adoption

## Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Digital Products Transformation



## Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Digital Products Transformation

Traditional IPLC Framework	Spotify	Market Entry & Expansion
Product launch times: months/years	Launch time reduction: weeks/months	
Sequential international expansion based on learning	Simultaneous multi-country launches	
Step-by-step expansion	Regional cluster launches	
Market-by-market growth	Parallel market penetration	
Experiential learning curve	Data-driven rapid deployment	
High entry barriers	Low entry barriers	
Significant capital investment	Digital infrastructure leverage	
Physical presence requirements	Cloud-based deployment	
Local partnership development	API-based integrations	
Gradual market development	Rapid market penetration	

### Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Digital Products Transformation

Traditional IPLC Framework	Spotify	Infrastructure & Operations
Physical production relocation	Minimal physical infrastructure needed	
Local production facilities	Centralized server architecture	
Physical distribution networks	Global content delivery networks	
Market-specific inventory	Cloud-based service deployment	
Cost-driven geographic shifts	Location-independent scalability	
Infrastructure requirements: high	Infrastructure requirements: minimal	
High maintenance costs	Zero marginal production costs	
Limited scalability	Near-instant scalability	

## Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Digital Products Transformation

Traditional IPLC Framework	Spotify	Product Adaptation & Customization
Product adaptation after market entry	Pre-entry market analysis	
Delayed product adjustment	Continuous product evolution	
Sequential modification based on feedback	Real-time service optimization	
Limited local customization	AI-driven personalization	
Standardized product offerings	Dynamic content customization	
	Local playlist curation	
	Market-specific features	
	Language localization	
	Cultural adaptation	

### Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Digital Products Transformation

Traditional IPLC Framework	 Spotify	Market Intelligence & Customer Relationship
Significant market research requirements	Data-driven market understanding	
Periodic market research	Real-time analytics	
Limited customer feedback	Continuous customer interaction	
Market-specific customer service	Global service with local touch	
Delayed response to market changes	Real-time adjustment capability	
Annual/quarterly market analysis	Daily user behavior analysis	
Focus groups and surveys	AI-powered user analytics	

## Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Digital Products Transformation

### Traditional IPLC Framework



Pricing & Revenue Model

Market-by-market price setting

Market-specific pricing

Purchase power adjustment

Local competition response

Currency fluctuation management

Fixed pricing models

Flexible subscription models

Limited pricing flexibility

Freemium model

Cost-plus pricing strategies

Multiple tier options

Family/Student plans

Dynamic promotional pricing

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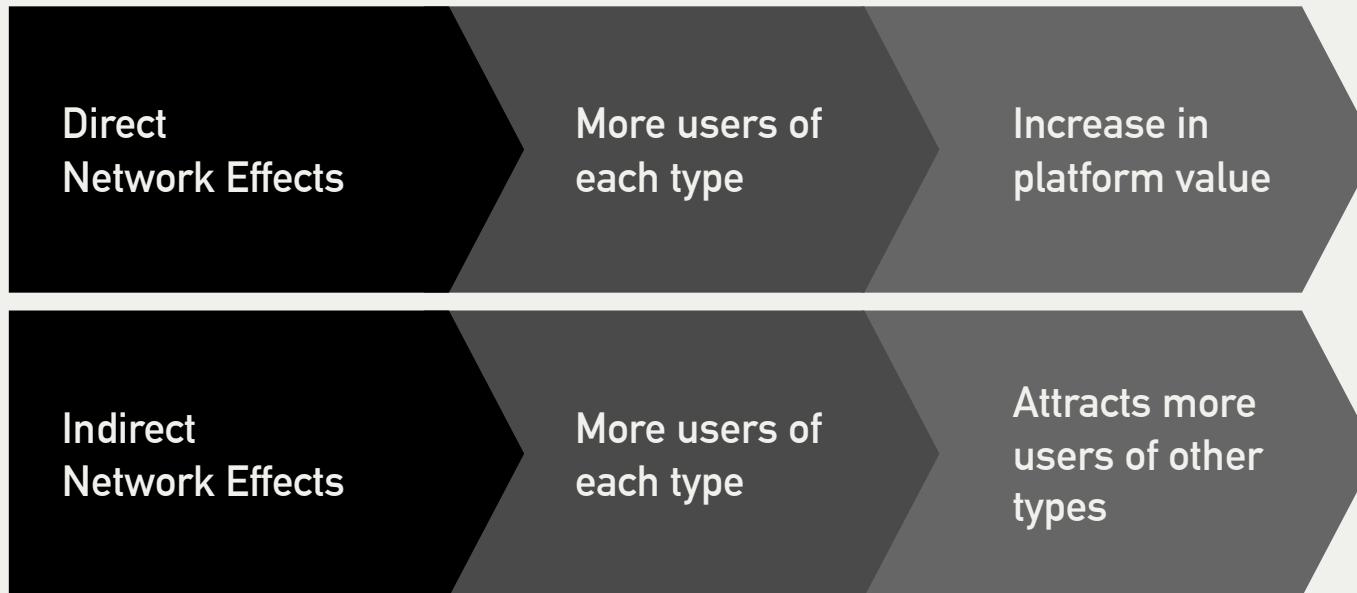
### Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Platform Economy Impact

The platform economy refers to a business model and economic system where digital platforms facilitate interactions, transactions, and value creation between two or more user groups (typically producers and consumers).

These platforms create value by enabling direct interactions between parties through digital infrastructure.

The value of the platform increases exponentially with each additional user.



# Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Platform Economy Impact

## Transaction Platforms

### Marketplace Platforms

Connect buyers and sellers  
(e.g., Amazon, eBay)

## Innovation Platforms

### Development Platforms

Enable third-party development  
(e.g., iOS, Android)

### Service Platforms

Connect service providers with users  
(e.g., Uber, Airbnb)

### Technology Platforms

Provide tools and infrastructure  
(e.g., AWS, Azure)

### Payment Platforms

Facilitate financial transactions  
(e.g., Paypal, Stripe, Bizzum)

### Content Platforms

Enable content creation and sharing  
(e.g., Youtube, TikTok)

## Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Platform Economy Impact

### Value Creation

#### Matching

Connecting relevant users efficiently

#### Trust Building

Rating systems and user verification

#### Standards Setting

Creating protocols for interaction

#### Data Analytics

Improving matches and user experience

### Value Capture

#### Commission Models

Taking a percentage of transactions

#### Subscription Fees

Regular access payments

#### Advertising

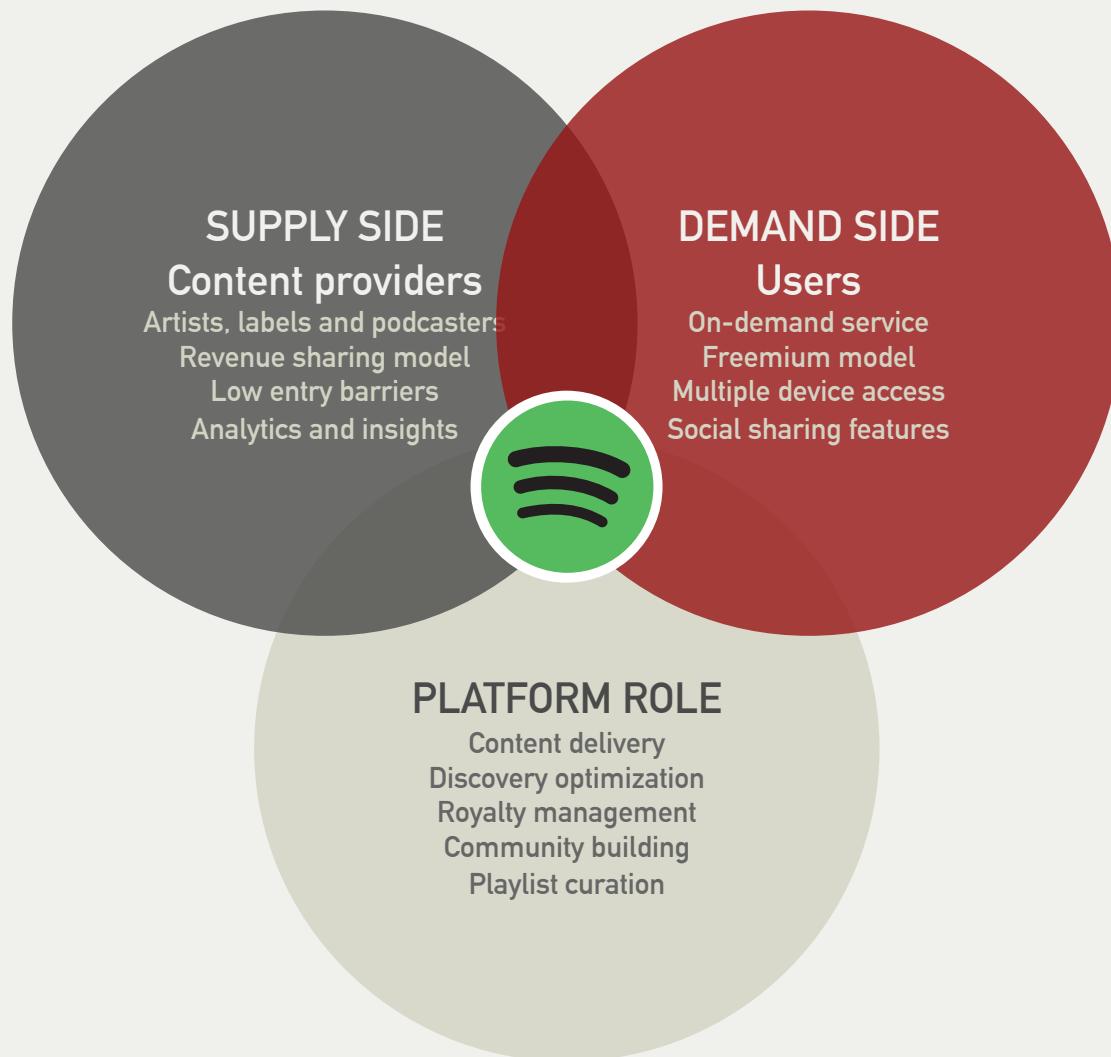
Monetizing user attention

#### Premium Services

Additional paid features

## Macroeconomic Perspective

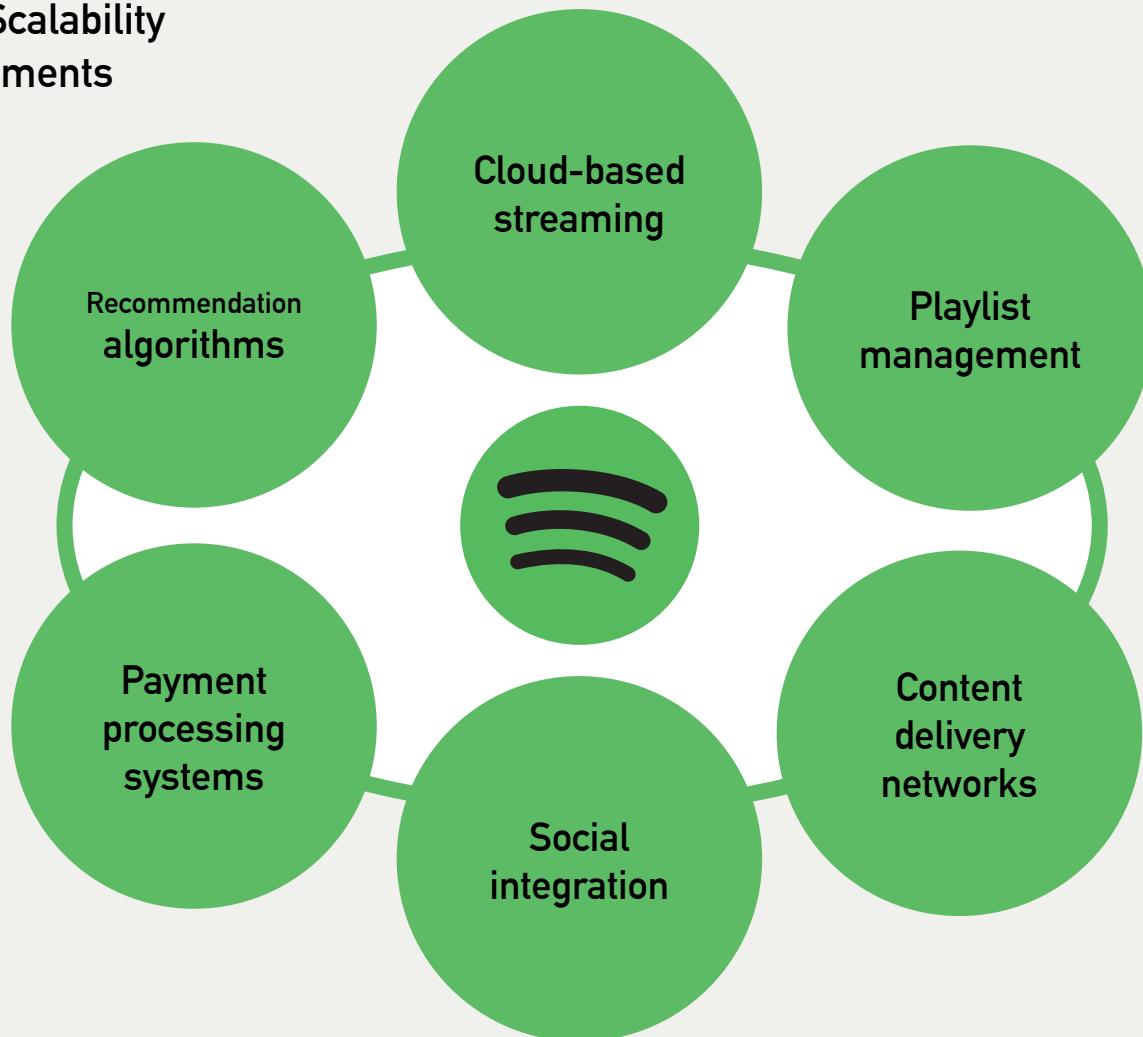
International Product Life Cycle Theory. Case Study: Platform Economy Impact



## Macroeconomic Perspective

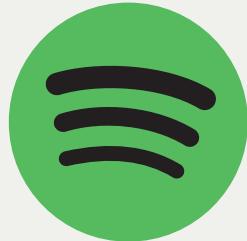
International Product Life Cycle Theory. Case Study: Platform Economy Impact

### Global Scalability Requirements

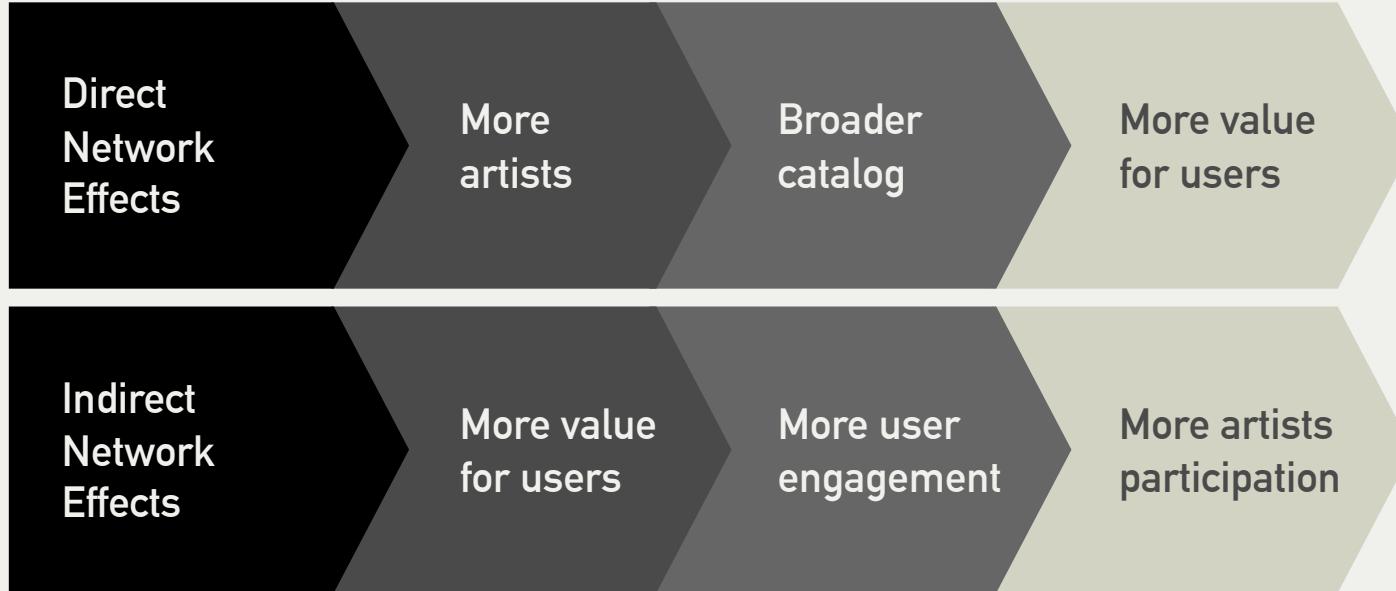


## Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Platform Economy Impact



# Spotify



## Macroeconomic Perspective

International Product Life Cycle Theory. Case Study: Platform Economy Impact

Aspect	Traditional IPLC Model	Platform Model
Geographic Expansion	Sequential	Simultaneous possible
Content Distribution	Physical	Digital Streaming
Market Learning	Gradual	Data-driven, rapid
Resource Requirements	Physical Distribution	Digital Infrastructure

# Microeconomic Perspective

## Transaction Costs Theory



1937  
Ronald H. Coase

The Transaction Cost Theory introduces a paradigm shift by placing the **transaction**, rather than the firm or the price mechanism, as the basic unit of analysis, making the **costs** associated with transactions the key determinant in organizational decisions.

"A firm will tend to expand until the costs of organizing an additional transaction within the firm become equal to the costs of carrying out the same transaction through exchange on the open market."

### Practical implications:

- > Firms and markets are alternative mechanisms for organizing the same transactions.
- > The choice between them depends on their relative costs.
- > There is no universal "optimal" form, but rather it depends on the context and nature of the transaction

## Microeconomic Perspective

### Transaction Costs Theory



1937  
Ronald H. Coase

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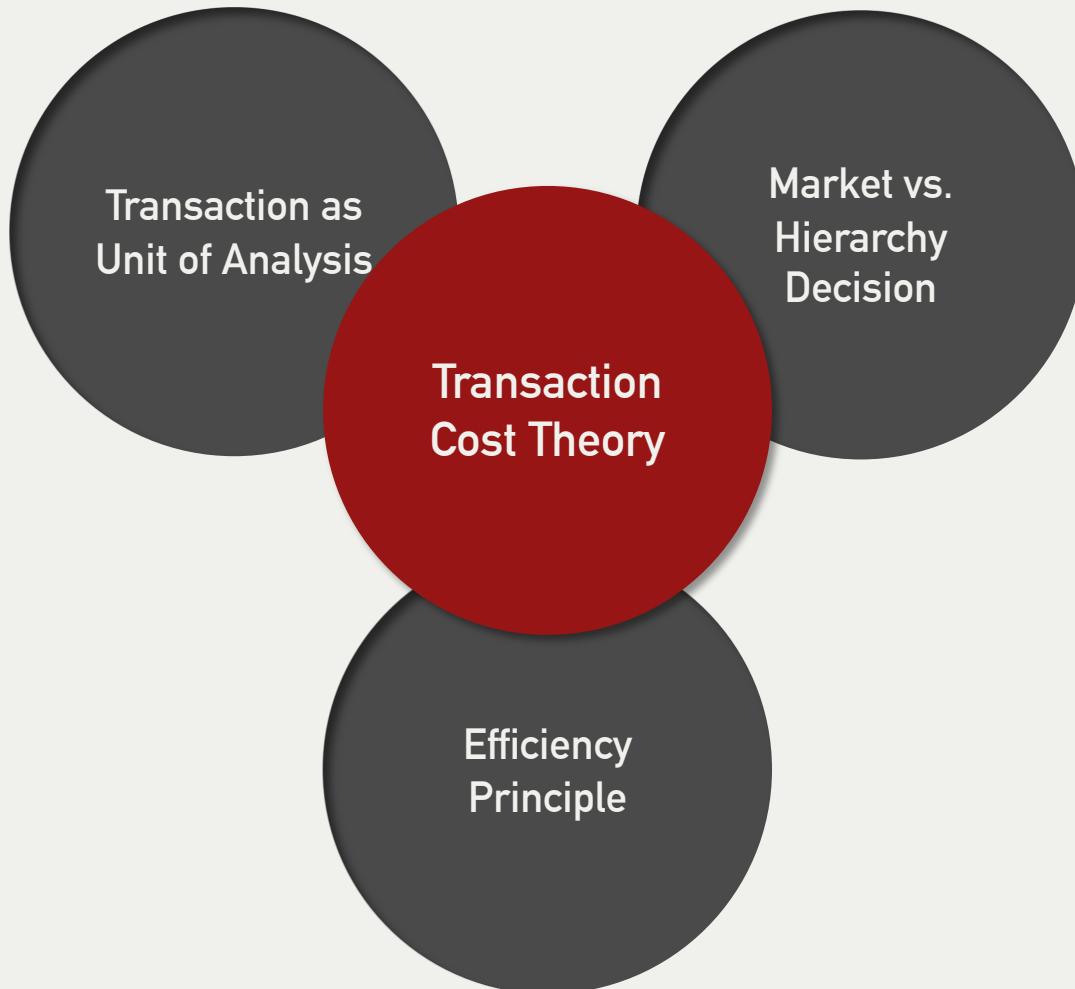
These principles are particularly relevant in **international business decisions** because they help companies:

- > Assess the trade-offs between different entry modes
- > Calculate the total costs of international operations (both explicit and implicit)
- > Make informed decisions about the level of resource commitment and control needed

Coase (1937)

## Microeconomic Perspective

### Transaction Costs Theory: Key Propositions



Coase (1937)

## Microeconomic Perspective

### Transaction Costs Theory: Key Propositions

#### Transaction as Unit of Analysis

- > **Transactions** represent transfers of goods, services or resources between separate entities
- > Each transaction involves **costs** beyond the direct price of the good or service
- > The nature and magnitude of these costs influence organizational decisions

#### Market vs. Hierarchy Decision

- > Firms will expand until the costs of organizing an extra transaction within the firm (**hierarchy**) become equal to the costs of carrying out the same transaction through the price mechanism (**market**)
- > This equilibrium determines the optimal boundaries of the firm

#### Efficiency Principle

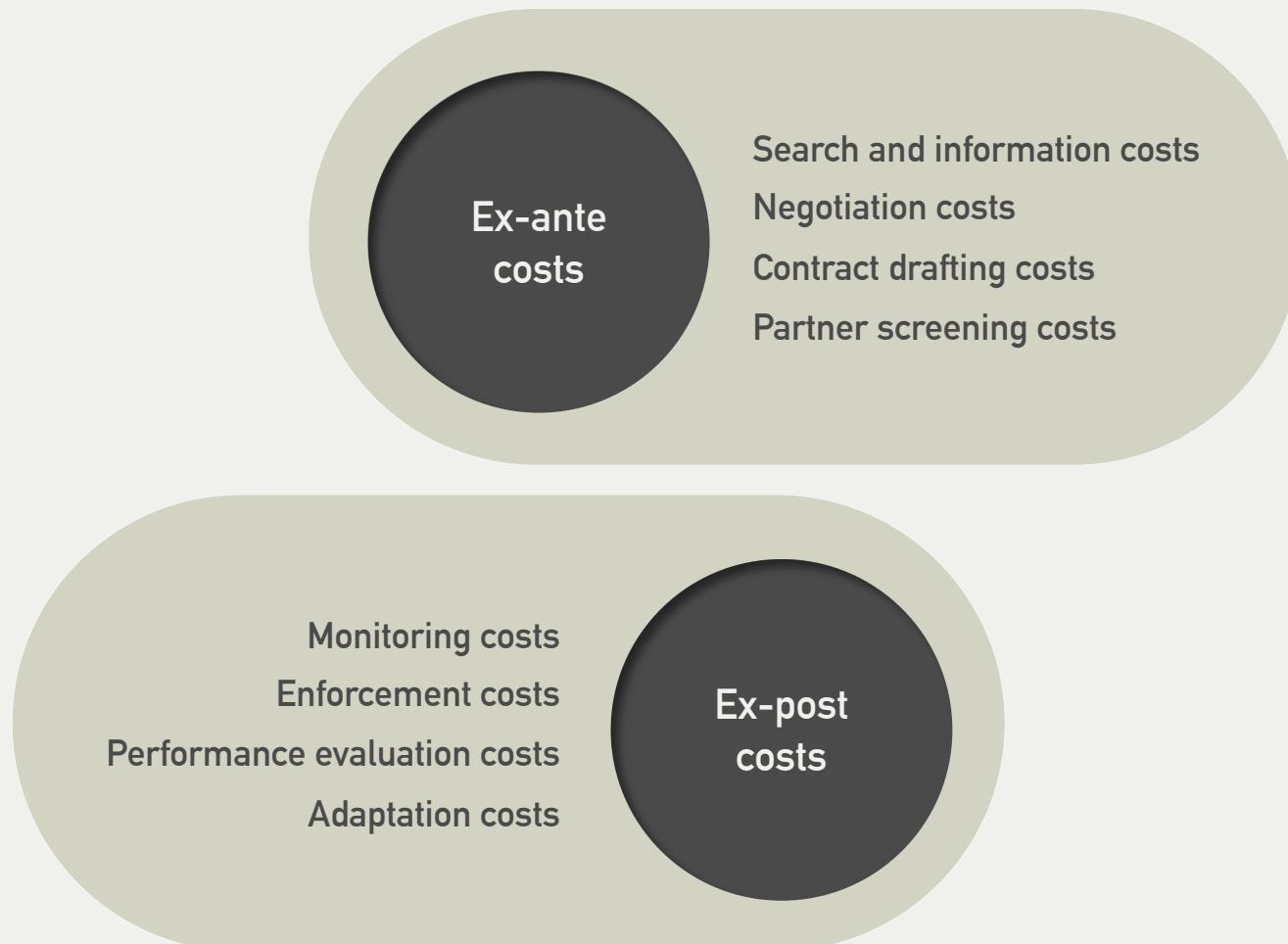
- > Organizations choose **governance structures** that minimize the sum of production and transaction costs
- > Different transactions require different governance structures to achieve efficiency

Coase (1937)

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## Microeconomic Perspective

### Transaction Costs Theory: Types of Transaction Costs



Coase (1937)

## Microeconomic Perspective

Transaction Costs Theory: Governance Structures in International Markets

### Market-based Governance

### Hierarchical Governance

Coase (1937)

#### Price Mechanism

Market prices coordinate economic activity  
Supply and demand dynamics  
Minimal direct control over operations

#### Internal Organization

Vertical integration  
Common ownership  
Direct operational control

#### Operational Features

Formal, contract-based relationships  
Independent parties  
Limited information sharing  
Market-determined prices  
Flexible supplier selection  
Limited duration commitments

#### Operational Features

Relationship building  
Direct control  
Information sharing and strategic alignment  
Internal transfer prices set by management  
Infrastructure development  
Long-term Commitment

## Microeconomic Perspective

Transaction Costs Theory: Governance Structures in International Markets

### Market-based Governance

#### Export/Import Operations

Direct Exporting

Indirect Exporting

Licencing Agreements

Franchising

### Hierarchical Governance

#### Foreign Direct Investments

Wholly-owned Subsidiaries

Manufacturing Facilities

Sales Operations

Regional Headquarters

Coase (1937)

### Advantages

Lower commitment of resources

Greater flexibility

Market testing opportunities

Easy market entry/exit

Reduced risk exposure

### Advantages

Greater control over operations

Protection of intellectual property

Quality control

Market knowledge adquisition

Customer relationship management

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## Microeconomic Perspective

Transaction Costs Theory: Governance Structures in International Markets

### Market-based Governance

Transaction governed by price mechanism (supply and demand)

Involves transaction externalization

In international marketing, corresponds to an export/import operation

Absence of market imperfections

### Hierarchical Governance

Transaction governed by firm's hierarchical structure (ownership)

Involves transaction internalization

In international marketing, corresponds to a FDI operation

Presence of market imperfections

Coase (1937)

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## Microeconomic Perspective

Transaction Costs Theory: Governance Structures in International Markets

Market-based  
Governance

Supplier

Producer

Distributor

Customer

Hierarchical  
Governance

Company

Customer

Coase (1937)

Price mechanism

Ownership

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## Microeconomic Perspective

### Transaction Costs Theory

#### MODES OF FOREIGN ENTRY: A TRANSACTION COST ANALYSIS AND PROPOSITIONS

Erin Anderson\* and Hubert Gatignon\*\*  
*The Wharton School  
 University of Pennsylvania*

**Abstract.** A "frontier issue" in international marketing is the appropriate choice of entry mode in foreign markets. The objective of this paper is to offer a transaction cost framework for investigating the entry mode decision. This framework provides 1) a theoretical basis for systematically interrelating the literature involving (2) 12 propositions about interactions which resolve the apparently contradictory arguments advanced to date. Specifically, the paper:

- illustrates the feasibility of clustering 17 entry modes into the degree of control the mode provides the entrant;
- proposes that the most appropriate (i.e., most efficient) entry-mode is a function of the tradeoff between control and the cost of resource commitment;
- advances testable propositions delimiting the circumstances under which each mode maximizes long-term efficiency.

The entry mode literature is reviewed in the context of these propositions, and guidelines are derived for choosing the appropriate mode of entry, given certain characteristics of the firm, the product, and the environment.

\*Erin Anderson is Assistant Professor of Marketing at the Wharton School, University of Pennsylvania, where she joined in 1981. She received her Ph.D. from the UCLA Graduate School of Management. She has published in the *Journal of Economics, Marketing Science, and the Sloan Management Review*.

\*\*Hubert A. Gatignon has been an Assistant Professor of Marketing at the Wharton School, University of Pennsylvania since 1981. He obtained an MBA from Wharton in 1975 and a Ph.D. in Management from UCLA in 1981. Professor Gatignon has published in *Marketing Science, the Journal of Marketing Research, the Journal of Consumer Research, and the Journal of Marketing*.

**Figure 1**  
**Entry Mode Classified by the Entrant's Level of Control**

#### High-Control Modes: Dominant Equity Interests

- Wholly-owned subsidiary
- Dominant shareholder (many partners)
- Dominant shareholder (few partners)
- Dominant shareholder (one partner)

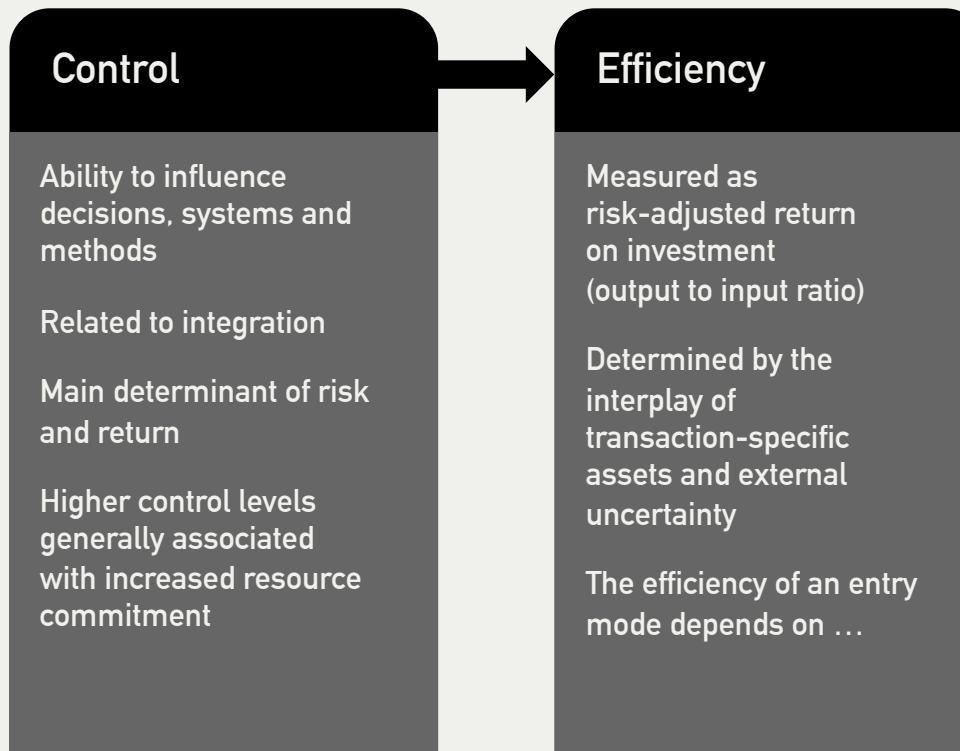
#### Medium-Control Modes: Balanced Interests

- Plurality shareholder (many partners)
- Plurality shareholder (few partners)
- Equal partner (50/50)
- Contractual joint venture
- Contract management
- Restrictive exclusive contract (e.g., distribution agreement, license)
- Franchise
- Nonexclusive restrictive contract
- Exclusive nonrestrictive contract

#### Low-Control Modes: Diffused Interests

- Nonexclusive, nonrestrictive contracts (e.g., intensive distribution, some licenses)
- Small shareholder (many partners)
- Small shareholder (few partners)
- Small shareholder (one partner)

Developed a **transaction cost framework** that focuses on the efficiency of different entry modes, arguing that the optimal entry mode is a function of the trade-off between **control** and **resource commitment costs**, under certain risk and uncertainty conditions.



Anderson & Gatignon (1986)

## Microeconomic Perspective

Transaction Costs Theory: Determinants of Entry Mode Choice

Transaction-Specific Assets

Entry mode  
(Degree of Control)

Firm  
Hierarchy  
Internalization  
Direct Investment

External  
Uncertainty

Market  
Prices  
Externalization  
Export/Import

Internal  
Uncertainty

Free-riding  
potential

Industry  
structure

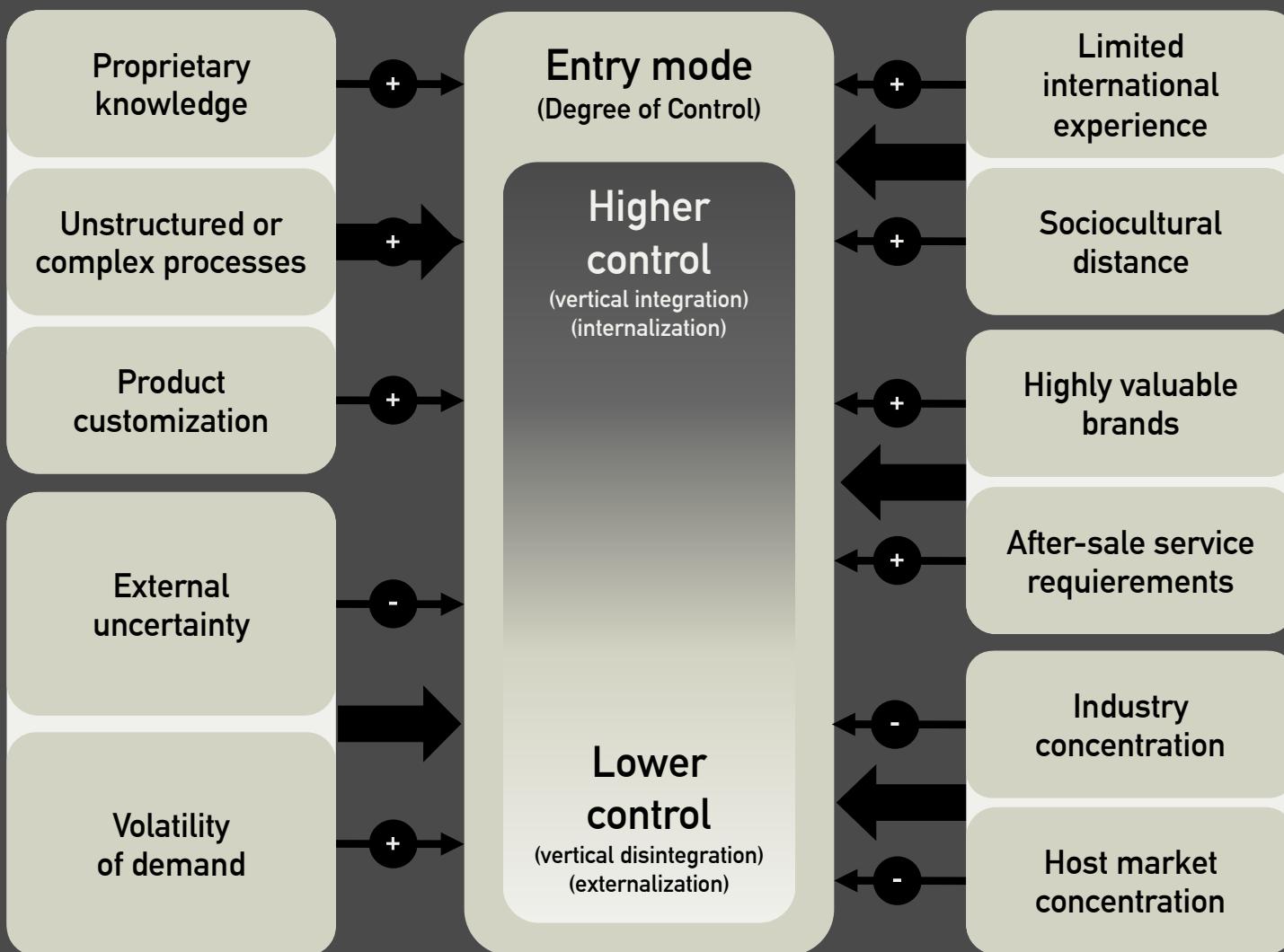
Anderson &  
Gatignon (1986)

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## Microeconomic Perspective

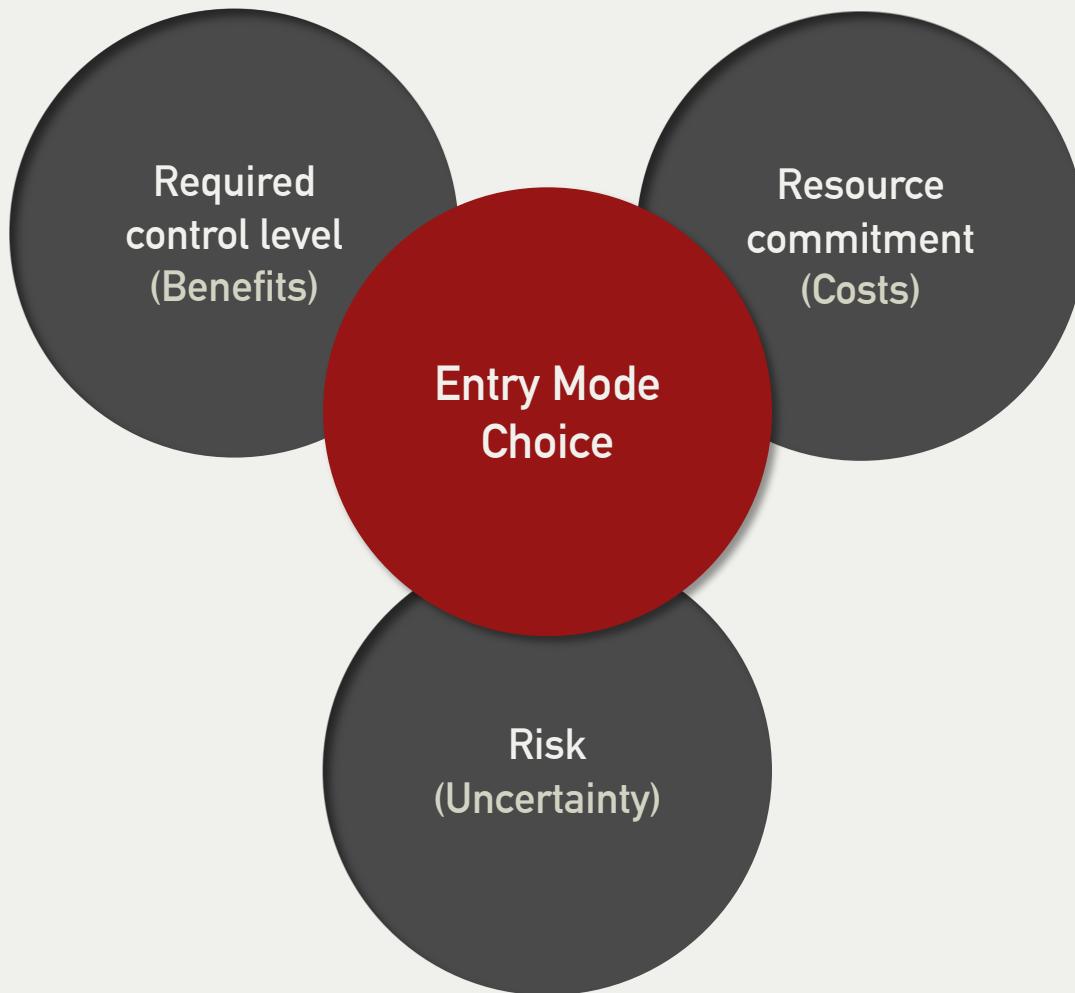
Transaction Costs Theory: Determinants of Entry Mode Choice

Anderson & Gatignon (1986)



## Microeconomic Perspective

Transaction Costs Theory: Determinants of Entry Mode Choice



Anderson &  
Gatignon (1986)

## Microeconomic Perspective

Transaction Costs Theory: Determinants of Entry Mode Choice



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## Microeconomic Perspective

Transaction Costs Theory: Toyota Case Study

aim10x digital  
VIRTUAL EVENT

# Toyota's Complex Supplier Ecosystem



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## Microeconomic Perspective

Transaction Costs Theory: Toyota Case Study

Traditional view	Dimension	
<ul style="list-style-type: none"><li>&gt; Heavy investment in physical assets Machinery, Plants, ...</li><li>&gt; Emphasis on human resources Toyota Production System</li><li>&gt; Assets dedicated to supplier relationships Keiretsu System</li></ul>	Asset Specificity	 <b>TOYOTA</b>
<ul style="list-style-type: none"><li>&gt; Regular, high-volume transactions with suppliers</li><li>&gt; Continuous interaction within Keiretsu System</li><li>&gt; Internalization of critical activities</li><li>&gt; Strong vertical integration in key markets</li></ul>	Transaction Frequency	
<ul style="list-style-type: none"><li>&gt; External uncertainty managed through long-term supplier relationships</li><li>&gt; Internal uncertainty reduced through standardized processes</li><li>&gt; Cultural distance addressed through gradual internationalization</li><li>&gt; Market uncertainty managed through local partnerships</li></ul>	Uncertainty	97

## Microeconomic Perspective

Transaction Costs Theory: Toyota Case Study

### Digital Age Reality

- > Increasing importance of digital assets  
Cloud-based systems and platforms
- > Digital Skills and capabilities  
Global digital literacy
- > Virtual collaboration  
Digital relationships

- > Automated and instantaneous transactions
- > 24/7 operation capability
- > Real-time coordination
- > Global market reach

- > Digital external uncertainty  
Cybersecurity, technology evolution and platform dependence risks
- > Digital internal uncertainty  
Data quality, digital capability and system integration issues
- > Digital behavior uncertainty  
Digital trust mechanisms, smart contracts enforcement, online reputation

### Dimension

#### Asset Specificity

#### Transaction Frequency

#### Uncertainty



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## Microeconomic Perspective

Transaction Costs Theory: Toyota Case Study

Traditional view	Digital Age Reality	Decision	
<ul style="list-style-type: none"> <li>&gt; Gradual market entry</li> <li>&gt; Heavy physical investment</li> <li>&gt; Local partnership focus</li> <li>&gt; Regional adaptation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Rapid market testing</li> <li>&gt; Digital infrastructure focus</li> <li>&gt; Platform-based partnerships</li> <li>&gt; Global-local digital balance</li> </ul>	Market entry	 <b>TOYOTA</b>
<ul style="list-style-type: none"> <li>&gt; Keiretsu system</li> <li>&gt; Physical integration</li> <li>&gt; Local management</li> <li>&gt; Direct control</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Digital ecosystem</li> <li>&gt; Virtual integration</li> <li>&gt; Remote management</li> <li>&gt; Platform governance</li> </ul>	Governance choice	
<ul style="list-style-type: none"> <li>&gt; High control entry modes</li> <li>&gt; Strong vertical integration</li> <li>&gt; Wholly-owned subsidiaries</li> <li>&gt; Joint ventures in key markets</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Digital-first entry strategies</li> <li>&gt; Cloud-based operations</li> <li>&gt; Digital partnerships</li> <li>&gt; Hybrid control models</li> </ul>	Entry modes	<span data-bbox="1536 1152 1852 1404">99</span>

## Microeconomic Perspective

Transaction Costs Theory: Contemporary Applications

### Digital Transformation

#### Transaction cost reduction

- > **Search costs:**  
AI-powered solutions
- > **Communication costs:**  
Real-time communication and translation tools
- > **Compliance costs:**  
Blockchain and smart contracts
- > **Monitoring costs:**  
Big data analytics

### Global Value Chain Digitalization

#### Activity Location

- > **Geographic dispersion:**  
Digital service delivery / no physical presence
- > **Clustering benefits:**  
Knowledge sharing and digital innovation hubs
- > **Coordination requirements:**  
Real-time communication and digital workflows
- > **Control needs:**  
Digital monitoring and AI-powered analytics

### New Governance Forms

- > **Platform-based models:**  
Direct interaction between producers and consumers
- > **Network effects:**  
Network externalities to create value
- > **Virtual integration:**  
Control without full ownership through interconnected networks of partners

### Governance Choices

- > **Make-or-buy decisions:**  
Easier access to global suppliers
- > **Partnership arrangements:**  
Smart contracts – automatic enforcement
- > **Network coordination:**  
Real-time tracking of network activities
- > **Hybrid models:**  
Mix of digital and physical integration strategies

Williamson  
(1971-2002)

00

# Microeconomic Perspective

The Eclectic Paradigm (OLI Model): Core Framework



1979

John H. Dunning

The Eclectic Paradigm provides a holistic framework for understanding why and how companies engage in international production.

### Integration of Multiples Theories

- > International trade theory
- > Transaction cost economics
- > Resource-based view of the firm

### Dynamic Perspective

- > Recognizes that advantages change over time
- > Accounts for firm and country development

The theory suggests that firms will engage in foreign direct investment (FDI) when three key advantages align:

- > **(O) Ownership Advantages**  
Firm-specific advantages that give companies competitive edges over local firms
- > **(L) Location Advantages**  
Country-specific advantages that make it attractive to operate in a foreign market
- > **(I) Internalization Advantages**  
Benefits of maintaining internal control rather than licensing or outsourcing

Dunning (1979)

01

## Microeconomic Perspective

### The Eclectic Paradigm (OLI Model): Key Propositions

#### Investment decisions

##### OLI Configuration

The more OLI advantages a firm possesses, the greater its propensity to engage in international production (FDI)

##### Market Entry

Different OLI configurations lead to different entry mode choices

#### Dynamic Considerations

##### Investment Development Path

Countries' FDI position evolves with economic development  
OLI advantages change over time

##### Strategic Responses

Firms adjust their international production based on OLI changes  
Dynamic interaction between advantages

#### Entry mode (Degree of Control)

##### Higher control

(vertical integration)  
(internalization)

##### Lower control

(vertical disintegration)  
(externalization)

Dunning (1979)

02

## Microeconomic Perspective

The Eclectic Paradigm (OLI Model): Key Propositions

Dunning (1979)

### Advantages Present

Ownership  
advantages

Location  
advantages

Internalization  
advantages

### Entry mode (Degree of Control)

Wholly-owned  
subsidiary

Ownership  
advantages

Location  
advantages

Joint venture  
Alliance

Ownership  
advantages

Licencing  
Franchising

Market  
transactions  
(Export/Import)

03

## Microeconomic Perspective

The Eclectic Paradigm (OLI Model): Advantages

Ownership advantages

Location advantages

Internalization advantages

Asset advantages

Market factors

Transaction cost factors

Proprietary knowledge

Patents / Trademarks  
Product innovations  
Marketing systems

Economic factors

Market size & growth potential  
Development level  
Infrastructure quality

Market failure protection

Avoid negotiation costs  
Control supply chain / quality standards  
Manage intellectual property

Human Capital

Management expertise  
Technical knowledge  
Innovation capacity

Political factors

Goverment policies & political stability  
Regulatory framework  
Investment incentives

Coordination benefits

Value chain integration  
Knowledge transfer  
Resource allocation

Transaction advantages

Resource factors

Organizational capabilities

Management systems  
Access to resources  
Network benefits

Natural factors

Raw materials & energy sources  
Geographic location  
Climate conditions

Institutional assets

Corporate culture  
Internal structures  
Relationship capabilities

Created assets

Technology & innovation infrastructure  
Human capital  
Support industries

Dunning (1979)

04

## Microeconomic Perspective

Transaction Costs Theory: Limitations and criticisms

### Overly simplistic view of firm decision-making behavior

- Oversimplifies entry mode-control relationships
- Ignores social interaction-based alternatives to achieve control and efficiency (not requiring ownership and generating additional synergies)
- Overlooks hybrid entry mode strategies (combination of entry modes)

### Limited Dynamic Perspective: Pays insufficient attention to dynamic aspects of the internationalization process

- Neglects organizational evolution
- Fails to capture decision interdependencies in internationalization process

a

b

05

## Behavioral Perspective

The Uppsala Model



1977-2009  
Jan-Erik Vahlne



1977-2009  
Jan Johanson



06

### Behavioral Perspective

The Uppsala Model



1977-2009  
Jan-Erik Vahlne

Highlights the significance of **experiential learning** and **market knowledge** in reducing uncertainty associated with internationalization.

Introduced key concepts such as the **establishment chain** and **psychic distance**, proposing that firms gradually increase their commitment to foreign markets as they accumulate experience, progressing from sporadic exporting to establishing sales subsidiaries and eventually production facilities abroad.

#### **Experiential Learning:**

Learning that occurs through the accumulation of direct experience in foreign markets, as they operate internationally.

#### **Market Knowledge:**

The general information and understanding a firm has about a foreign market's conditions.

#### **Establishment Chain:**

A step-by-step sequence that firms typically follow when expanding internationally.

#### **Psychic Distance:**

The perceived differences between the home country and a foreign market, including cultural, language, legal, and business practice differences.

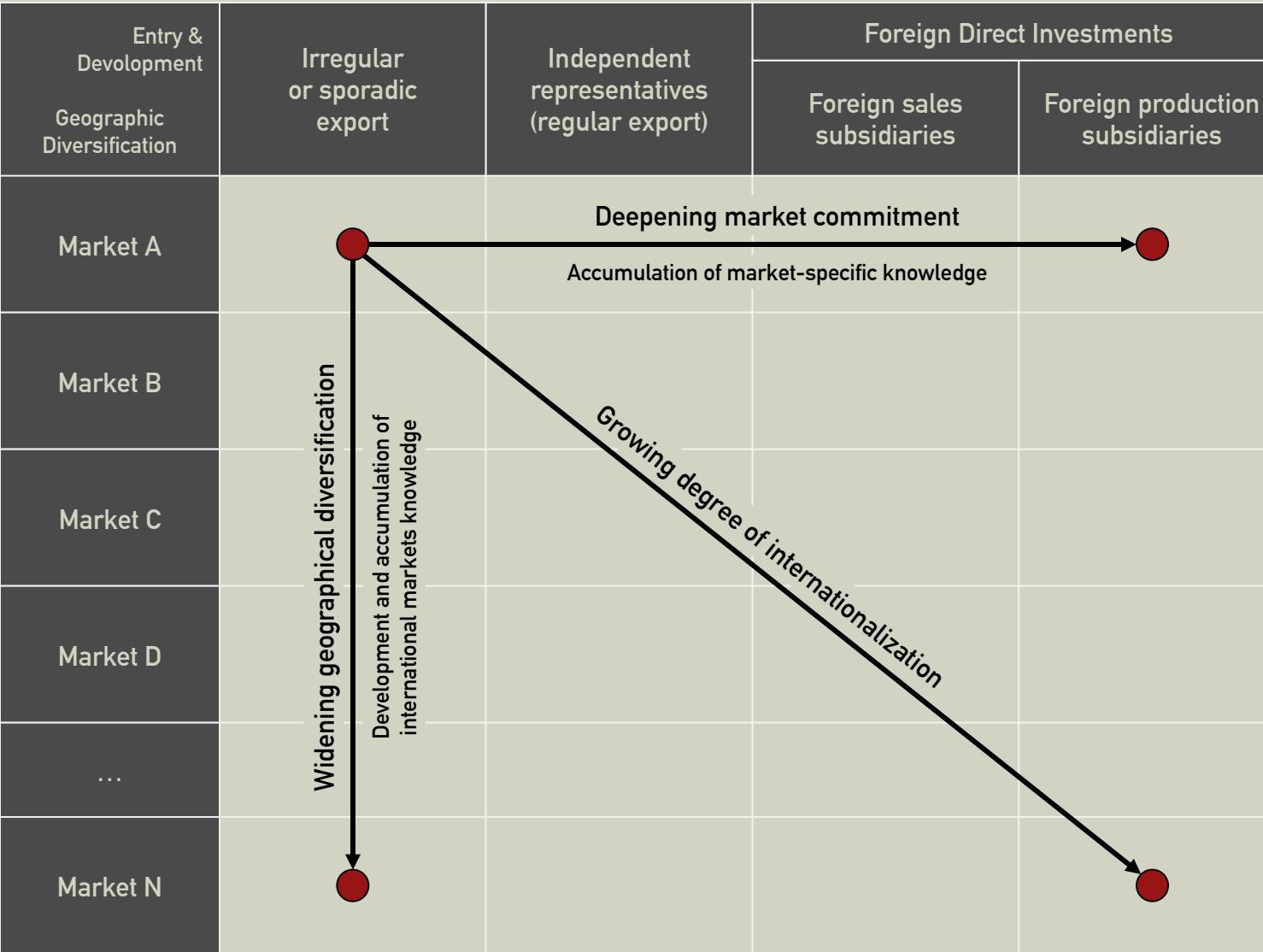


1977-2009  
Jan Johanson

07

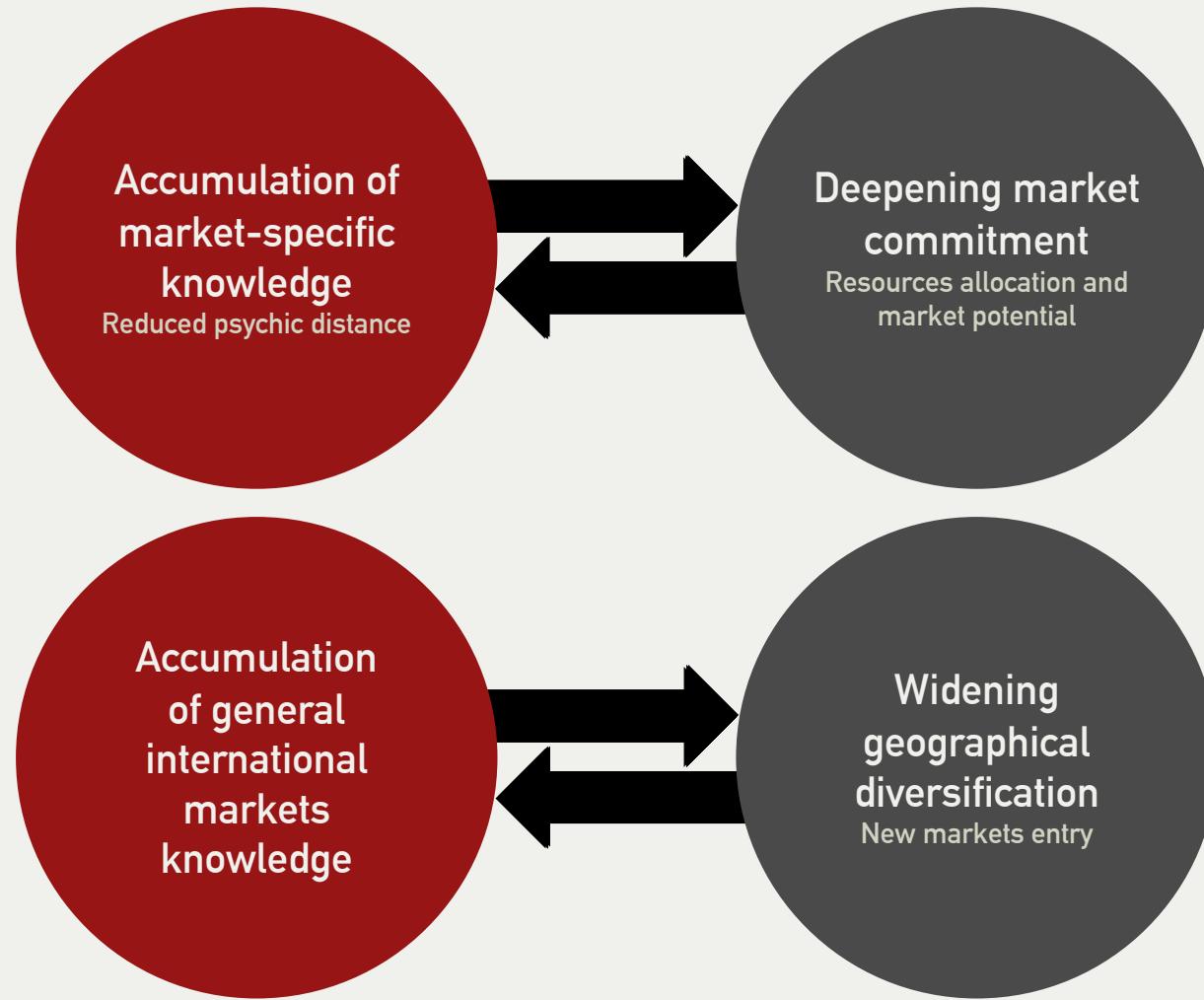
## Behavioral Perspective

### The Uppsala Model: Core Concepts



## Behavioral Perspective

The Uppsala Model: Core Concepts



## Behavioral Perspective

### The Uppsala Model: Phase distinction approaches in the internationalization process

Johanson & Windersheim-Paul (1975)				I. No export activity or commitment to overseas resources	II. Psychologically closer export sales via agents	III. Psychologically further export sales via subsidiaries		
Bilkey & Tesar (1977)	I. No interest in export, unwilling to fill unsolicited orders	II. Passive exploration of exports, willing to fill unsolicited orders	III. Management actively explores export feasibility	IV. Experimental export to psychologically close countries	V. Experienced exporter. Optimal adaptation to environmental factors	VI. Export to more psychologically distant countries		
Wiedersheim-Paul et al. (1978)	I. Domestic-oriented company. No desire to export. Limited information flow	II. Passive non-exporter. Moderate interest in initiating exports. Moderate information gathering	III. Active non-exporter. Interest in initiating exports. High information gathering					
Wortzel & Wortzel (1981)				I. Import capacity. Loss of domestic clients	II. Production & basic marketing capacity	III. Advanced production & marketing capacity	IV. Product marketing. Push through channel	V. Product marketing. Pull over channel
Cavusgil (1982)	I. Pre-export stage. Sales concentrated in domestic market. Gathering export-related information	II. Reactive involvement. Export viability assessment. Search for export-related information		III. Experimental involvement. Limited export to psychologically close countries	IV. Active involvement. Export to new markets using direct methods	V. Resource commitment. Split between domestic & international		
Czinkota (1982)	I. Complete disinterest in export	II. Partial interest. Export as desirable but risky activity	III. Export exploration & active exploration of export possibilities	IV. Experimental export. Favorable attitude toward export possibilities	V. Small experienced exporter. Favorable attitude toward export	VI. Large exporter. Very favorable attitude toward current & future export		
Barrett & Wilkinson (1986)	I. Non-exporter not considering export	II. Non-exporter investigating export & former exporters		III. Exporter without direct foreign investment				
Moon & Lee (1990)				I. Low level of export involvement	II. Intermediate level of export involvement	III. High level of export involvement		
Lim et al. (1991)		I. Awareness & recognition of export as opportunity	II. Interest in export as viable strategy	III. Intent to initiate export	IV. Export trial & adoption			
Rao & Naidu (1992)	I. Non-exporter with no interest in export	II. Non-exporter with some interest in export opportunities		III. Sporadic involvement in export activities	IV. Regular involvement in export activities			
Crick (1995)	I. Completely uninterested company	II. Partially interested company	III. Exporting company	IV. Experimental exporter	V. Small experimental exporter	VI. Large experimental exporter		

## Behavioral Perspective

### The Uppsala Model: Phase distinction approaches in the internationalization process

Author(s)	Conceptual Base	Activity Range	Operation Mode	Development Pattern	Interest Phase	Structural Dynamics	Segmentation Variables	Explanatory Variables
Johanson & Windersheim-Paul (1975)	International Trade Theory Learning Theory	Export Direct foreign investment	Incremental resource commitment	Phase (3)	Initial Advanced	Static	Export distribution method	Resource commitment Market psychological distance
Bilkey & Tesar (1977)	Management Theory Learning Theory Innovation Adoption Theory	Pre-export Export	Gradual experience increment	Phase (6+)	Initial Advanced	Static	Export preparation Export experience	Management attitudes Goals and aspirations Export barriers Company size Competitive advantages International orientation
Wiedersheim-Paul et al. (1978)	Management Theory Location Theory	Pre-export	Gradual increment of information gathering and transmission	Phase (3)	Initial	Static	Export preparation Information gathering Information transmission	Decision maker characteristics Competition characteristics Company objectives Regional expansion Information activities
Wortzel & Wortzel (1981)	Relational Marketing	Export	Gradual internationalization of marketing resources	Phase (5)	Initial Advanced	Static	Control degree over marketing-mix elements	Product characteristics Physical distribution Promotional activity
Cavusgil (1982)	Innovation Adoption Theory Management Theory	Pre-export Export	Incremental commitment Gradual experience increment	Phase (5)	Initial Advanced	Static	Interest in gathering export-related information Intensity exportadora	Company size Differential advantages Information Managerial characteristics Management attitudes
Czinkota (1982)	Innovation Adoption Theory Management Theory	Pre-export Export	Incremental resource commitment Gradual experience increment	Phase (6)	Initial Advanced	Static	Export volume Export ratio Number of clients Number of transactions Foreign personnel	Management attitude Export stimuli Export objectives/expectations Company size
Barrett & Wilkinson (1986)	Management Theory Learning Theory	Pre-export Export	Interest and incremental resource commitment	Phase (5)	Initial Advanced	Static	Export interest Export ratio	Executive position Management attitudes Planning characteristics
Moon & Lee (1990)	Previous export models	Export	Gradual resource commitment Gradual marketing increment	Phase (3)	Initial Intermediate Advanced	Static	Export ratio Export volume Market diversification Product commitment Development	Company size Export experience Competition characteristics Differential advantages Export barriers Objectives/expectations
Lim et al. (1991)	Innovation Adoption Theory	Pre-export Export	Gradual innovation adoption	Phase (4)	Initial Advanced	Static	Awareness Interest Trial Export adoption	Information gathering Management attitudes
Rao & Naidu (1992)	Previous export models	Pre-export Export	Incremental resource commitment	Phase (4)	Initial Advanced	Static	Assignment of priority to export in management perceptions	Company characteristics Export marketing organization Management attitudes
Crick (1995)	Previous export models	Pre-export Export	Incremental resource commitment Gradual experience increment	Phase (6)	Initial Advanced	Static	Export volume (past, present and future) Experience area Geographic coverage Product types Number of foreign clients Number of transactions	Government barriers Needs Marketing strategy

## Behavioral Perspective

The Uppsala Model: Integrative proposal for phase differentiation

0

### Pre-international stage

Initial domestic focus

1

### Start of international operations

First steps into international markets

2

### Development of local markets

Local market expansion abroad

3

### Global rationalization

Final evolution toward global optimization of operations

12

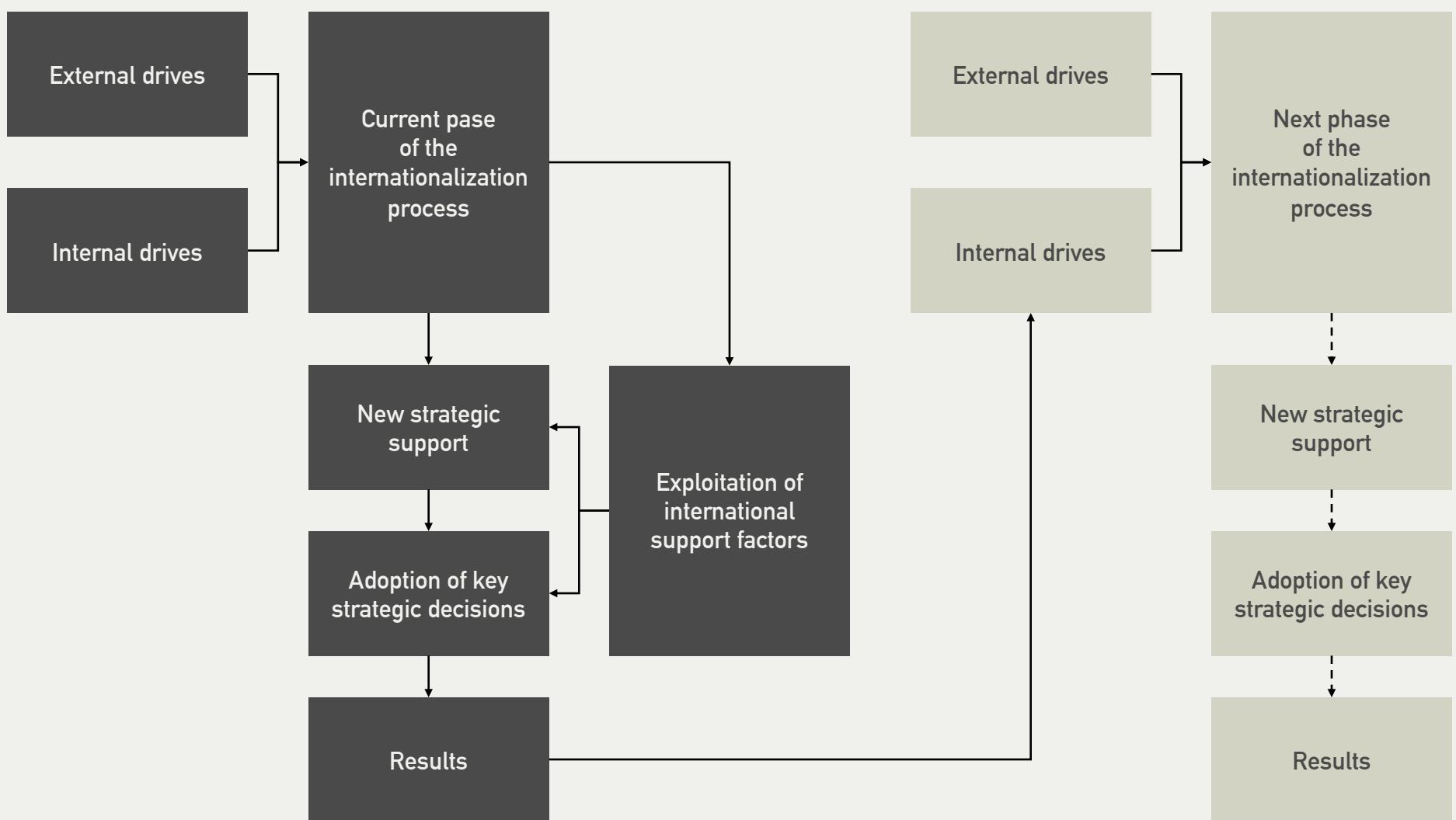
### Behavioral Perspective

The Uppsala Model: Parameters for International Marketing Strategy Formulation

Driving factors	Internal and external factors that propel/motivate the company to progress through different phases of its internationalization process
Strategic orientation	<ul style="list-style-type: none"><li>&gt; Direction the company will follow in its internationalization process</li><li>&gt; Competitive domain and strategic priorities</li></ul>
Support factors	Core elements supporting the company's international competitive capabilities
Strategic decisions	<ul style="list-style-type: none"><li>&gt; Motivated by driving factors</li><li>&gt; Determined by strategic orientation</li><li>&gt; Built upon support factors</li></ul>

## Behavioral Perspective

The Uppsala Model: Parameters for International Marketing Strategy Formulation



## Behavioral Perspective

The Uppsala Model: Integrative proposal for phase differentiation

### 0 Pre-international stage

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First steps into international markets

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Final evolution toward global optimization of operations

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## Behavioral Perspective

The Uppsala Model: Pre-international stage

### Strategic Orientation

- Home market-centered operations
- Domestic market expertise-based strategies
- Vulnerability to changes in the international environment:
  - Competition
  - Technology

## Behavioral Perspective

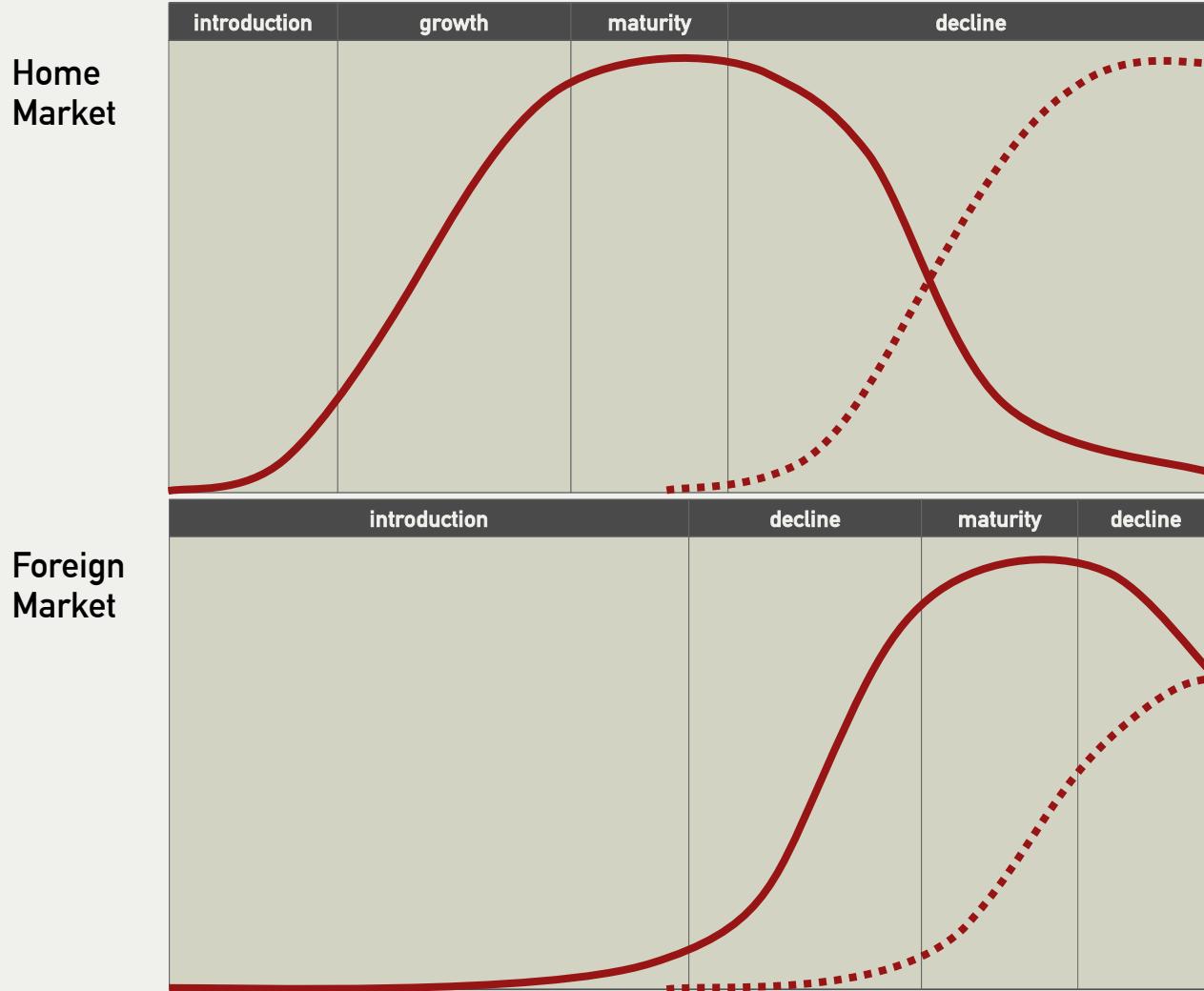
The Uppsala Model: Pre-international stage

### Driving factors

- Idle (excess) production capacity (search for economies of scale)
- Risk diversification
- Identification and exploitation of more advantageous supply sources
- Following key clients in their internationalization process
- Defensive response to foreign entrants to the domestic market
- Keeping up with technological developments
- Government incentives
- Advances in logistics and communications
- Management's international orientation/mindset
- Domestic market saturation (search for less competitive markets or emergence of more attractive markets)

## Behavioral Perspective

The Uppsala Model: Pre-international stage



## Behavioral Perspective

The Uppsala Model: Pre-international stage

### Barriers to internationalization

- Financial constraints and resource limitations
- Small size/Limited scale
- Management resistance/unfavorable attitude
- Lack of familiarity with foreign cultures and business practices
- Lack of qualified and experienced personnel
- Lack of knowledge/experience: Difficulties in identifying opportunities in foreign markets
- Difficulties in identifying reliable distributors
- Excessive bureaucracy/regulatory differences between markets
- Product/marketing adaptation requirements
- Established competitor presence (in newly industrialized countries)

## Behavioral Perspective

The Uppsala Model: Integrative proposal for phase differentiation

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## Behavioral Perspective

The Uppsala Model: Start of international operations

### Strategic Orientation

- Lack of international experience
- International strategy:
  - Leveraging domestic market expertise
  - Focused on achieving economies of scale/scope
- Market selection focused on identifying those markets that best match current offering:
  - Minimal adaptation of product and international strategies
  - Emphasis on reducing production and marketing costs and minimize complexity

## Behavioral Perspective

The Uppsala Model: Start of international operations

### Support factors

- Cost efficiency
- High quality or innovative product portfolio
- Patented processes/proprietary technology
- Superior technical expertise or production capabilities
- Powerful brand or strong corporate/national image (COO effect)
- Superior marketing practices

### Behavioral Perspective

The Uppsala Model: Start of international operations

#### Strategic decisions

##### Target market selection

- Based on opportunity and risk assessment for each market
- Analysis of product fit with:

- Demand
- Competition
- Environment
- Entry costs

##### Entry timing strategy

- Geographic and psychographic distance: determining the degree of similarity and market knowledge

##### Entry mode selection

## Behavioral Perspective

The Uppsala Model: Start of international operations

### Strategic decisions

#### Target market selection

- Sequential (phased approach) or concurrent (multiple markets simultaneously)
- Key determinants:

- Market-specific entry costs

- Potential for scale/scope economies

#### Entry timing strategy

#### Entry mode selection

### Behavioral Perspective

The Uppsala Model: Start of international operations

#### Strategic decisions

##### Target market selection

- Available organizational resources
- Market entry resource requirements
- International market commitment level and strategic priority

##### Entry timing strategy

- Control requirements/preferences
- Perceived and accepted risk
- Market size and potential (opportunity assessment)

##### Entry mode selection

- Scale efficiency opportunities
- Cost-related factors (production, logistics, tariff and non-tariff barriers to trade, etc.)

### Behavioral Perspective

The Uppsala Model: Start of international operations

#### Driving factors

- Increase local market penetration through:
  - New product development
  - Existing products adaptation
- Increase competitive response capability against local competition:
  - Price strategy alignment
  - Promotional activity matching
- Local management empowerment and motivation
- Local advantage optimisation:
  - Improving local infrastructure capabilities
  - Developing broader local network connections
- Overcome restrictions imposed by local trade barriers:
  - Transportation/logistics systems
  - Distribution networks
  - Communication systems

## Behavioral Perspective

The Uppsala Model: Integrative proposal for phase differentiation

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## Behavioral Perspective

The Uppsala Model: Development of local markets

### Strategic Orientation

- Interest in identifying new expansion opportunities within local established markets:
  - Leveraging accumulated local experience
  - Local management expertise (subsidiary insights)
- Local market growth strategies:
  - New product development initiatives
  - Product adaptation programs
  - New segment targeting and penetration
- Shift from an export orientation to a country-by-country development approach

## Behavioral Perspective

The Uppsala Model: Development of local markets

### Support factors

Scope Economy Development: Extending intangible assets across expanded product/segment portfolio

Key intangible assets:

- Research & Development investments
- Market knowledge/expertise
- Network relationships
- Brand equity
- Technical know-how
- Marketing competencies

## Behavioral Perspective

The Uppsala Model: Development of local markets

### Strategic decisions

#### Product development

- Development pathways:
  - Innovation through R&D
  - Current product adaptation/modification
  - Product/brand acquisitions

- Decision criteria:
  - Local market growth potential
  - Scope economy opportunities (leveraging existing knowledge base, market experience, commercial infrastructure, other assets)

#### Country-by-country orientation

## Behavioral Perspective

The Uppsala Model: Development of local markets

### Strategic decisions

#### Product development

- Autonomous local subsidiary operations
  - Independent product development
  - Market-specific segmentation (each subsidiary targets different segments)
  - Distinct strategic approaches
- Minimal cross-market coordination
- Scale economy limitations
- Cost effectiveness challenges

#### Country-by-country orientation

## Behavioral Perspective

The Uppsala Model: Development of local markets

### Driving factors

- Need for enhanced cross-market coordination
  - Elimination of cost inefficiencies and effort redundancies
  - Cross-market transfer opportunities:
    - Products and brands
    - Ideas and innovations
    - Market experiences and learnings
  - Rise of global customers (B2C and B2B)
  - Strengthening connections between local marketing operations and infrastructures
- External market integration pressures

## Behavioral Perspective

The Uppsala Model: Integrative proposal for phase differentiation

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Final evolution toward global optimization of operations

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## Behavioral Perspective

The Uppsala Model: Development of local markets

### Strategic Orientation

- Primary focus: Elimination of inefficiencies arising from fragmented local operations
- Strategic objective: Enhanced integration and coordination of international strategies through:
  - Global strategy development: globally-based resource allocation
  - Scope economy exploitation
  - Scale economy realization
- Implementation methods:
  - Global expansion opportunity identification (cross-border segments)
  - Product portfolio harmonization

## Behavioral Perspective

The Uppsala Model: Development of local markets

### Support factors

- Improved coordination and integration capabilities
- Global-scale operational synergies:
  - Scope economy exploitation:
    - Experience transfer
    - Knowledge sharing
    - Commercial relationship leverage
  - Scale economy realization:
    - Production standardization
    - Volume enhancement
- Strategic cross-subsidization: Redeployment of cash flows for enhanced competitive positioning across markets

## Behavioral Perspective

The Uppsala Model: Development of local markets

### Strategic decisions

#### Efficiency improvement

- Strategic objectives:
  - Activity coordination
  - Activity rationalization
- Implementation methods:
  - Selective activity centralization
  - Production process standardization
  - Value chain optimization:
    - Production
    - Supply chain
    - Logistics
    - Other operations

#### Development of a global strategy

## Behavioral Perspective

The Uppsala Model: Development of local markets

### Strategic decisions

#### Efficiency improvement

- Strategic balance:
  - Activity coordination and global integration
  - Response to local demands and conditions
- Key requirements:
  - Global segment identification
  - Global product portfolio development
  - Coordination mechanism implementation: organizational redesign

#### Development of a global strategy

## Behavioral Perspective

The Uppsala Model: Development of local markets

### **Excessively deterministic nature (rigid sequential assumptions)**

Overlooks strategic choice: not an automatic process, but voluntaristic

Many companies skip certain phases (accelerated internationalization)

Knowledge can be "purchased" (direct experience not always necessary)

Does not explicitly account for international environment influence

### **Market Independence Assumption**

#### **Does not consider existing market interdependencies**

It is neither possible nor convenient to commercially and strategically isolate different international markets

### **Inadequate explanation of service sector firms' internationalization**

Overemphasis on physical investment

The concept of international commitment is not directly applicable to the service sector (foreign investments are not always required).

### **Dated Distance Concepts**

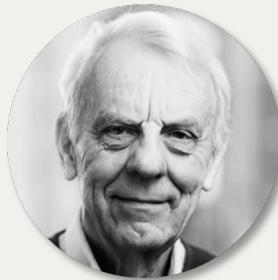
Declining relevance of psychic distance

Insufficient recognition of global market convergence

Understates modern connectivity impact

## Social Perspective

Network Theory



**1988**  
Lars-Gunnar Mattsson



**1988**  
Jan Johanson



**1982**  
Håkan Håkansson

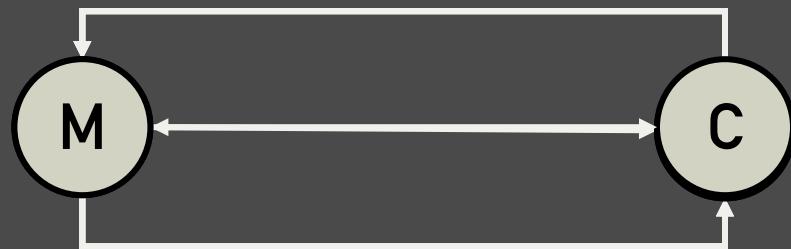
The social approach to internationalization is based on network theory and represents an innovative perspective that emphasizes the importance of inter-organizational relationships in the international expansion process.

**Fundamental premise:**

The current business context has evolved significantly from the traditional paradigm. While manufacturers could previously determine their offering unilaterally, the contemporary international environment requires a more collaborative and adaptive approach.

### Social Perspective

Network Theory

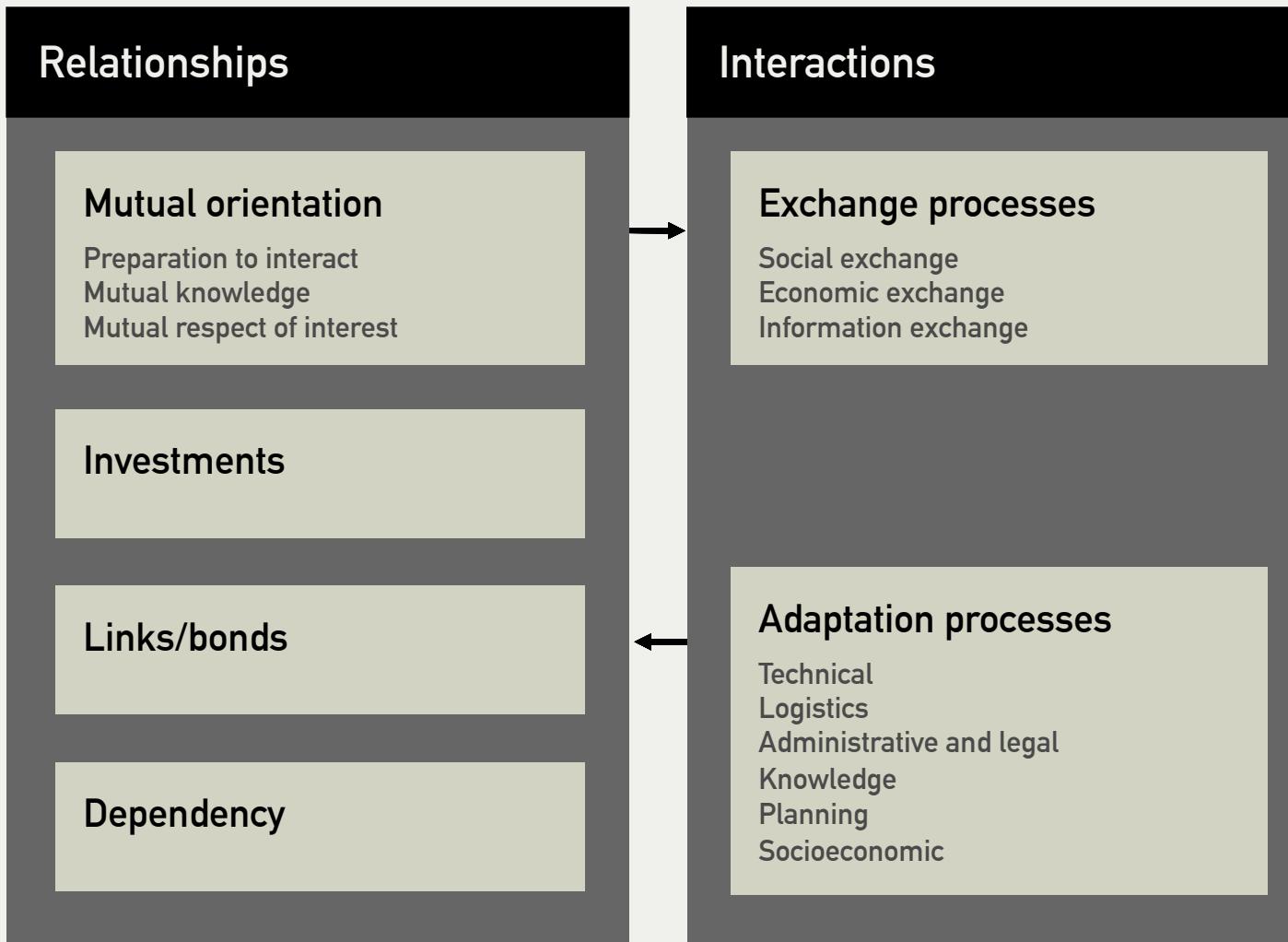


In the current international context, manufacturers cannot determine their offering unilaterally. Both parties are subject to a mutual interaction process (negotiation and adaptation)

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## Social Perspective

Network Theory

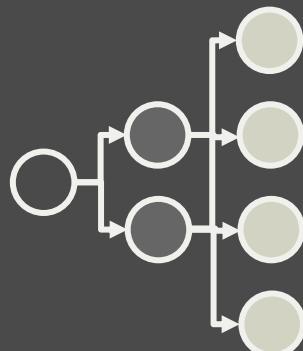


## Social Perspective

Network Theory: the network as an alternative form of exchange organization

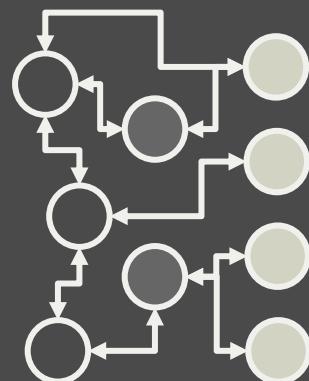
### Market

Does not assume the existence of interactions beyond mere transaction  
Interdependencies regulated by price mechanism



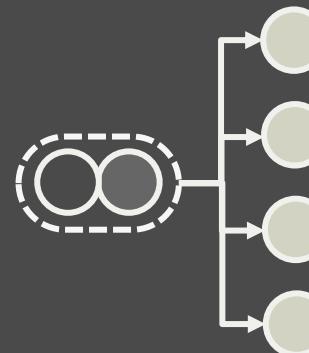
### Network

Mutual dependency as a coordination and control mechanism  
Division of labor and Specialization  
Management autonomy and flexibility



### Company

Control through ownership and a central plan established at higher levels



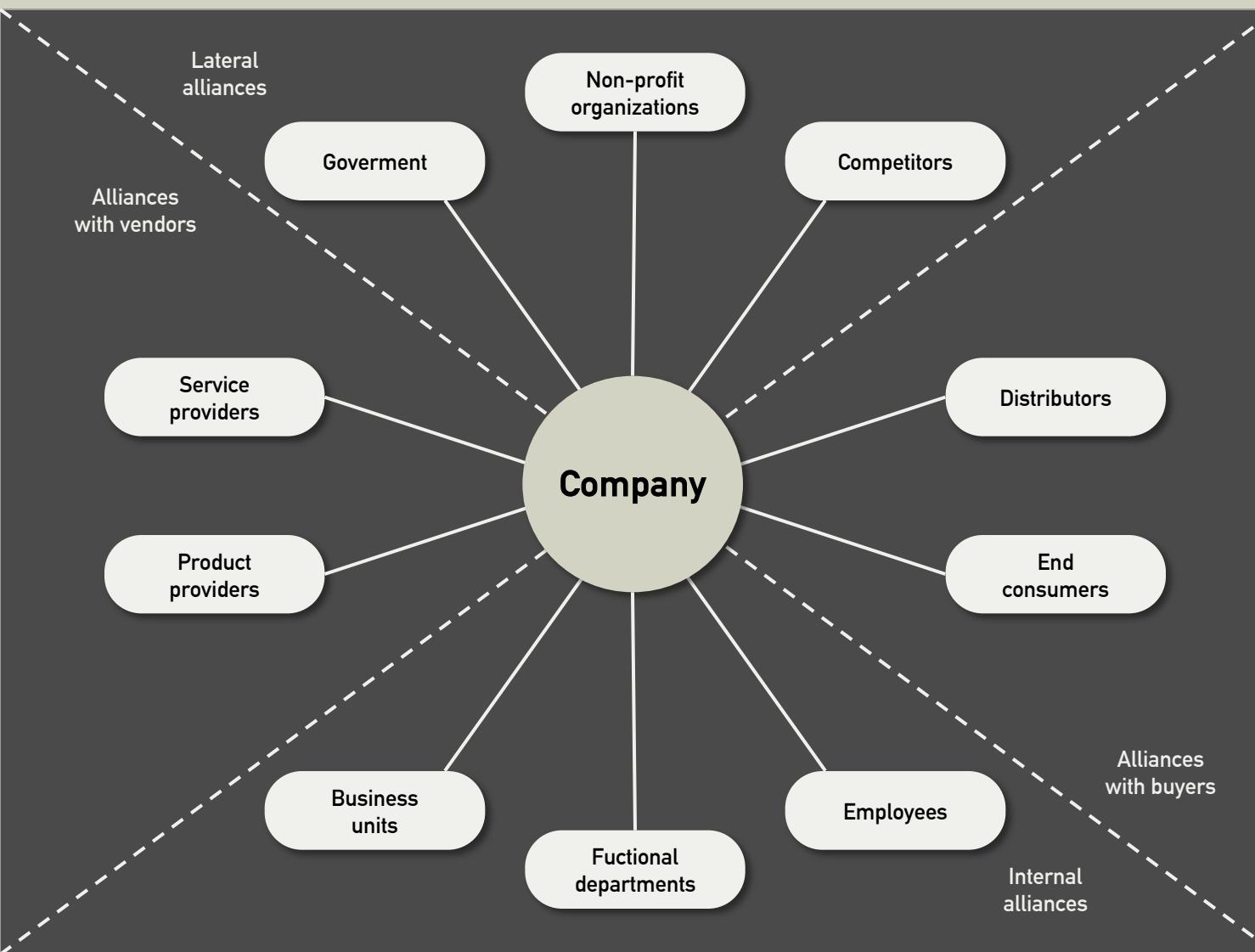
Network of interactions

Moreover, these interaction processes do not take place in isolation.  
Both organizations maintain these types of interactions with a large number of organizations.

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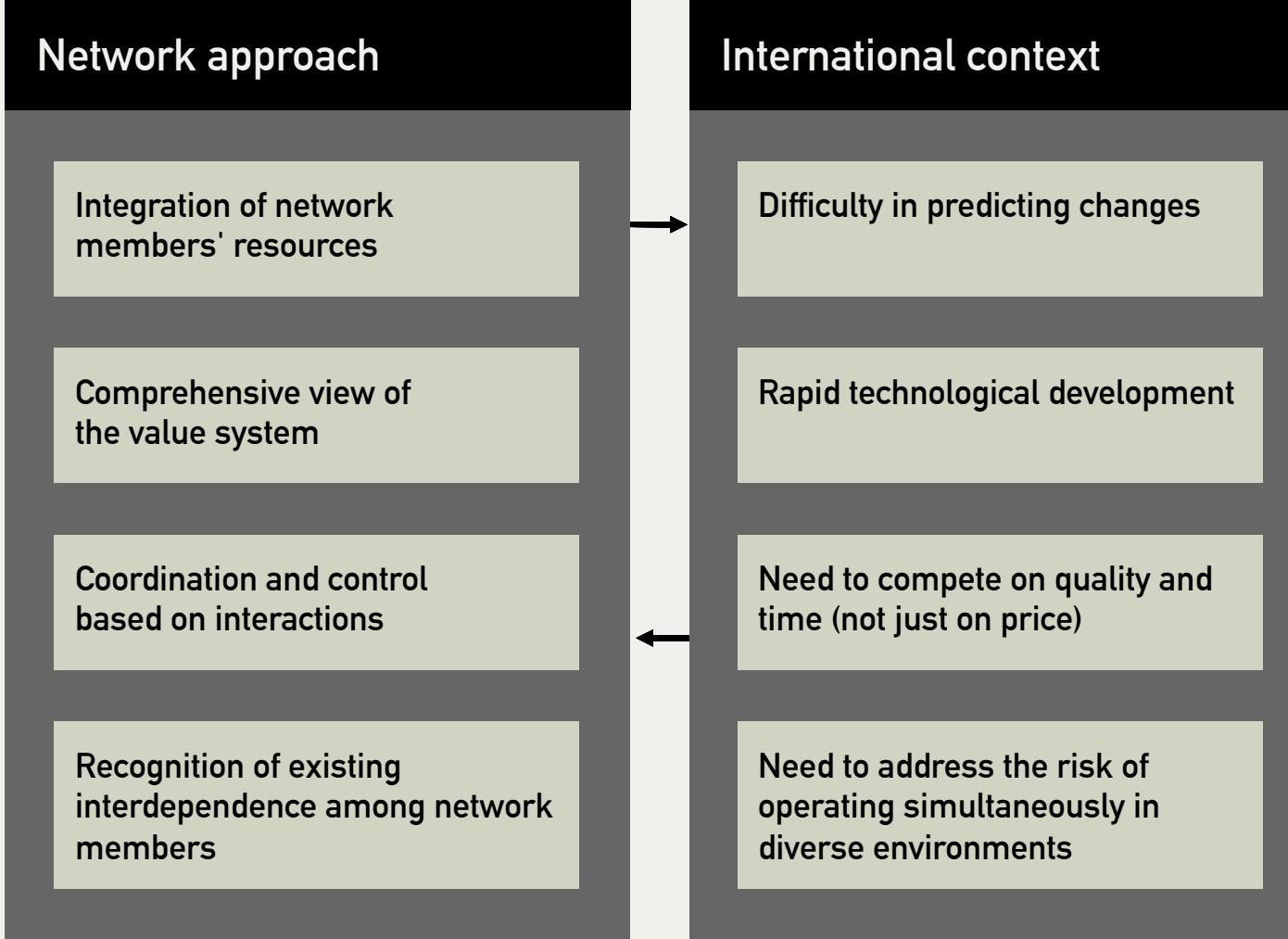
## Social Perspective

Network Theory: Network Approach's Fit with Today's International Context



## Social Perspective

Network Theory: Network Approach's Fit with Today's International Context



### Social Perspective

Network Theory: Network Approach's Fit with Today's International Context

**Greater coordination and collaboration between companies**, which enables the achievement of new competitive advantages better aligned with current market requirements (quality, flexibility, responsiveness, service, etc.)

**Greater specialization of companies** in those activities where they are most efficient, which within an integrated network implies the possibility of generating greater total value while maintaining a high degree of flexibility (something incompatible with TCT)

**Direct access to knowledge** about international market conditions, materialized in the relationships that companies establish internationally within the network.

## Social Perspective

Network Theory: Network Approach's Fit with Today's International Context

**Internationalization as a process of establishing  
and maintaining networks of relationships in  
international markets**

**Multilateral extension of the behavioral  
approach**

## Social Perspective

Network Theory: Key elements

1	Organizational relationships and interactions	Organizational relationships are characterized by: <ul style="list-style-type: none"><li>&gt; Mutual orientation based on preparation to interact, reciprocal knowledge, and respect for each party's interests</li><li>&gt; Development of specific investments that strengthen bonds between organizations</li><li>&gt; Creation of mutual dependencies that generate commitment and stability in relationships</li></ul>
2	Exchange Processes	
3	Adaptation Processes	
4	The Network as an Organizational Form	
5	Advantages of the Network Approach for Internationalization	
6	Current International Context	
7	Internationalization Process Under this Approach	

## Social Perspective

Network Theory: Key elements

1

Organizational relationships  
and interactions

2

Exchange Processes

3

Adaptation Processes

4

The Network as an  
Organizational Form

5

Advantages of the Network  
Approach for Internationalization

6

Current International Context

7

Internationalization Process  
Under this Approach

Three fundamental types are identified:

- > **Social exchange:**  
builds the foundation of trust and mutual  
understanding
- > **Economic exchange:**  
involves commercial transactions and  
resource flows
- > **Information exchange:**  
facilitates knowledge transfer and best  
practices

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## Social Perspective

Network Theory: Key elements

1

Organizational relationships  
and interactions

2

Exchange Processes

3

Adaptation Processes

4

The Network as an  
Organizational Form

5

Advantages of the Network  
Approach for Internationalization

6

Current International Context

7

Internationalization Process  
Under this Approach

Organizations must adapt across  
multiple dimensions:

- > **Technical:**  
adjustment of products and production processes
- > **Logistics:**  
optimization of international supply chain
- > **Administrative:**  
alignment of systems and procedures
- > **Knowledge:**  
mutual learning and capability transfer
- > **Planning:**  
strategic coordination
- > **Socioeconomic and legal:**  
adaptation to different institutional frameworks

## Social Perspective

Network Theory: Key elements

1	Organizational relationships and interactions
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3	Adaptation Processes
4	The Network as an Organizational Form
5	Advantages of the Network Approach for Internationalization
6	Current International Context
7	Internationalization Process Under this Approach

The network is distinguished from other organizational forms by:

- > Mutual dependency as a coordination and control mechanism
- > Division of labor and efficient specialization
- > High degree of management autonomy and operational flexibility
- > Integral vision of the value system

## Social Perspective

Network Theory: Key elements

1	Organizational relationships and interactions	> Enables greater coordination and collaboration, generating competitive advantages in quality, speed, and service
2	Exchange Processes	> Facilitates specialization in core activities while maintaining flexibility
3	Adaptation Processes	> Provides direct access to knowledge about international markets through partner relationships
4	The Network as an Organizational Form	> Reduces uncertainty and risks associated with operating in diverse environments > Reduced transaction costs through established networks
5	Advantages of the Network Approach for Internationalization	> Access to complementary resources and capabilities > Increased legitimacy in foreign markets > Risk sharing among network members > Better adaptation to local market conditions > Accelerated international market entry
6	Current International Context	
7	Internationalization Process Under this Approach	

## Social Perspective

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The network approach responds to  
specific environmental characteristics:

- > High uncertainty and difficulty in predicting changes
- > Rapid technological development
- > Need to compete in multiple dimensions (not just price)
- > Complexity of operating simultaneously in diverse environments

## Social Perspective

Network Theory: Key elements

1	Organizational relationships and interactions	Internationalization is conceived as: ➢ A multilateral extension of the traditional behavioral approach
2	Exchange Processes	➢ A process of establishing and maintaining relationship networks in international markets
3	Adaptation Processes	➢ A gradual development based on learning and relationship building ➢ A strategy requiring continuous investment in network development and maintenance
4	The Network as an Organizational Form	<b>Strategic Implications:</b> ➢ Need for long-term relationship investment
5	Advantages of the Network Approach for Internationalization	➢ Balance between commitment and flexibility ➢ Development of network management capabilities
6	Current International Context	➢ Integration of international network strategy with overall business strategy ➢ Continuous evaluation and adjustment of network relationships
7	Internationalization Process Under this Approach	

# The Internationalization Process

**Unit 3**

October 2024