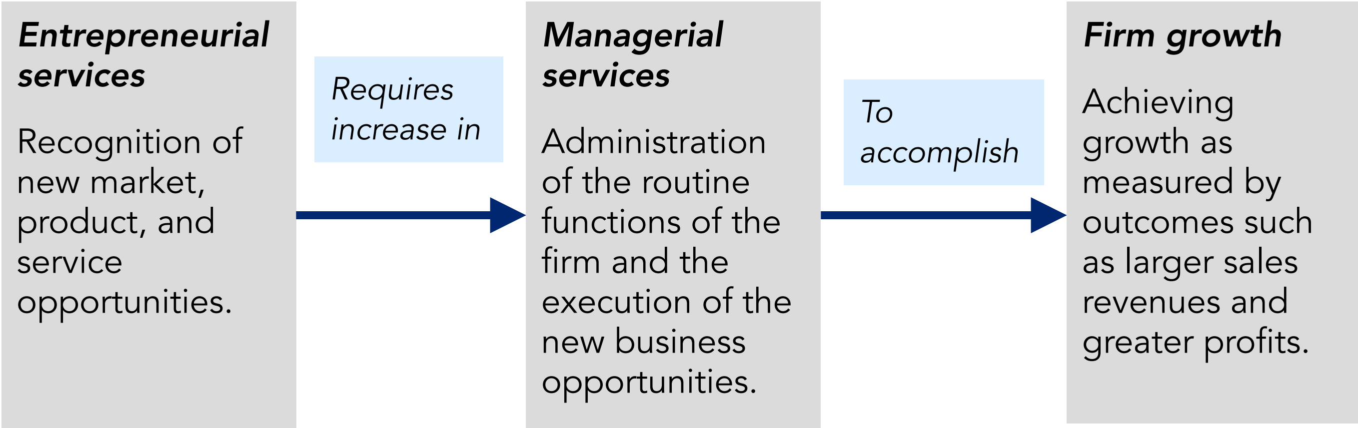
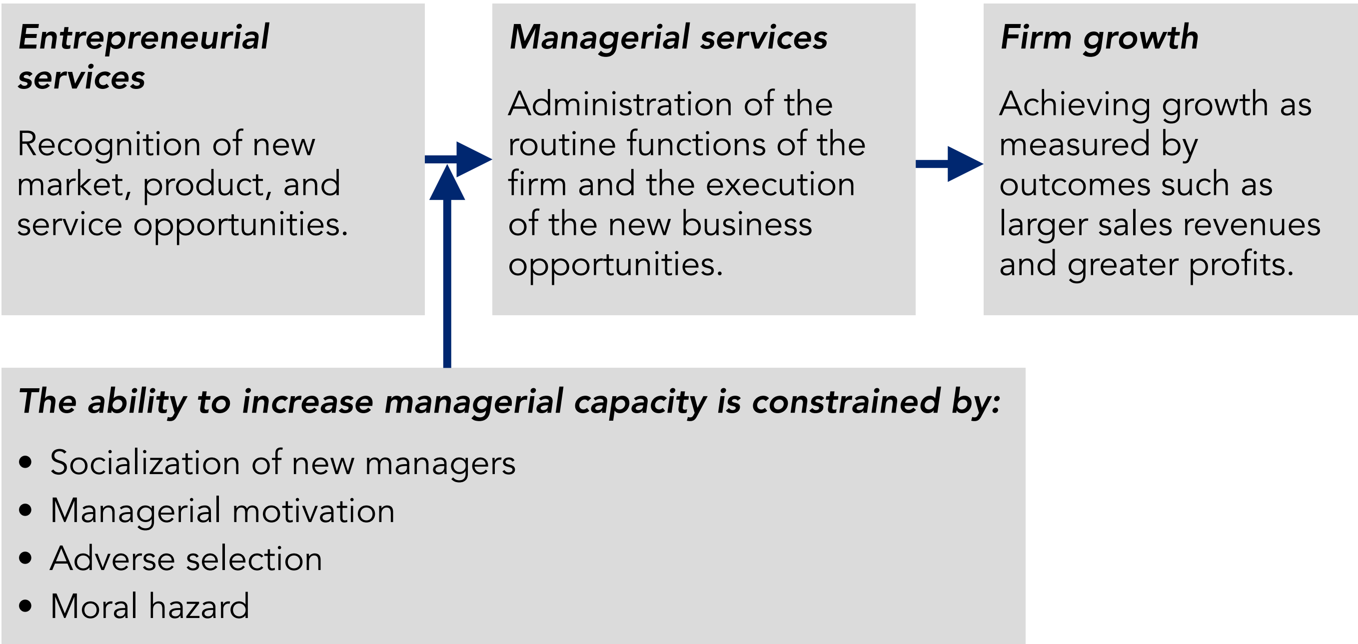
Model of firm growth.



Impact of Managerial capacity

Source: Based on material in E.T. Penrose, The Theory of the Growth of the Firm (New York: Oxford University Press, 1959).



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Firm’s overall suitability for growth through international markets

Management/organizational issues.

Depth of management commitment.
A firm’s first consideration is to test the depth of its management commitment to entering international markets. Although a firm can “test the waters” by exporting with minimal risk, other forms of internationalization involve far more significant commitment. A properly funded and executed international strategy requires top management support.

Depth of international experience.
A firm should also assess its depth of experience in international markets. Many entrepreneurial firms have no experience in this area. As a result, to be successful, and an experienced entrepreneurial firm may have to hire an export management company to familiarize itself with export documentation and other subtleties of the export process. Many entrepreneurial firms err by believing that selling and servicing a product or service overseas is not that much different than doing so at home.

Interference with other firm initiatives.
Learning how to sell in foreign markets can consume a great deal of entrepreneurs’ or managers’ time. Overseas travel is often required, and selling to buyers who speak a different language and live in a different time zone cambia painstaking process. Overall, efforts must be devoted to understanding the culture of the international markets the venture is considering. Thus, a firm should wait the advantages of competing in international markets against the time commitment involved and the potential interference with other firm initiatives.

Product and distribution issues.

Product issues.
A firm must first determine if its products or services are suitable for overseas markets. Many pertinent questions need to be answered to make this determination. For example, are a firm’s products subject to national health or product safety regulations? The products require local services, supplies, or spare parts distribution capability? Will the products need to be re-designed to meet the specifications of customers in foreign markets? Will foreign customers find the product desirable? All these questions must have suitable answers before entering a foreign market. A firm can't simply “assume” that its products are salable and easily serviceable in foreign countries.

Distribution issues.
How will the product be transported from one country to another? Is the transportation reliable and affordable? Can the product be exported from the venture’s home operation, or will it have to be manufactured in the country of sale?

Financial and risk management issues.

Financing export operations.
Can the foreign initiative be funded from internal operations, or will additional funding be needed? How will foreign customers pay the firm? How will the firm collect bad debts in a foreign country? Informed answers to these questions must be obtained before the firm initiates overseas sales.

Foreign currency risk.
How will the firm manage fluctuations in exchange rates? If the entrepreneurial firm is located in one country and it sells to a buyer in another, will it be paid in the currency of the first or the second country?

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Primary advantage and disadvantage of foreign-market entry strategies.

Strategy	Primary advantage	Primary disadvantage
Exporting The process of producing a product at one country and shipping it to a foreign market.	Exporting is a relatively inexpensive way for a firm to become involved in foreign markets.	High transportation costs can make exporting uneconomical, particularly for bulky products.
Licensing An arrangement whereby a firm with the proprietary rights to a product grants permission to another firm to manufacture the product for specified royalties or other payments.	The licensee puts up most of the capital needed to establish the overseas operation.	A firm in effect " teaches" a foreign company how to produce its proprietary product. Eventually, the foreign company will probably break away and start producing a variation of the product on its own.
Joint ventures Involves the establishment of a firm that is jointly owned by two or more otherwise independent firms.	Gaining access to the foreign partner's knowledge of local customs and market preferences.	A firm loses partial control of its business operations.
Franchising An agreement between a franchisor (proprietary of a product, service, or business method) and a franchisee (an individual or firm that is willing to pay the franchisor a fee for the rights to sell its product, service, and/or use its business method).	The franchisee pots up the majority of capital needed to operate in the foreign market.	Quality control.
Turnkey projects A contractor from one country builds a facility in another country, trains the personnel that will operate the facility, and turns over the keys to the project when it is completed and ready to operate.	Ability to generate revenue.	It is usually at one-time activity, and the relationships that are established in a foreign market may not be valuable to facilitate future projects.
Wholly-owned subsidiary A firm that establishes a wholly owned subsidiary in a foreign country has typically made the decision to manufacture in the foreign country and establish a permanent presence.	Provides a firm total control over its foreign operations.	The cost of setting up and maintaining a manufacturing facility and permanent presence in a foreign country can be high.

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Advantages and disadvantages of Strategic Alliances & Joint Ventures.

Advantages	Disadvantages
Gain access to a particular resource Such as capital, employees with specialized skills, or modern production facilities.	***Loss of proprietary information*** Proprietary information can be lost to a partner who is already a competitor or will eventually become one.
Economies of scale High fixed costs require firms to find partners to expand production volume as a means of developing economies of scale.	***Management of complexities*** Because strategic alliances and joint ventures require combined effort of two or more firms, managing them can be challenging. Frustrations and costly delays may occur.
Risk and cost sharing Allow two or more firms to share the risk and cost of a particular business endeavor.	***Financial and organizational risks*** The failure rate for strategic alliances and joint ventures is high.
Gain access to a foreign market Partnering with a local company is often the only practical way to gain access to a foreign market.	***Risk of becoming dependent on a partner*** Provoking a power imbalance. This increases the potential for opportunism (take advantage of a partner) on the part of the stronger partner.
Learning Often provide the participants the opportunity to learn from their partners.	***Partial loss of decision autonomy*** Joint planning and decision making may result in a loss of decision autonomy.
Speed to market Firms with complementary skills, such as one firm being technologically strong and another having strong market access, partner to increase speed to market in hopes of capturing first-move advantages.	***Partners' cultures may clash*** The corporate cultures of alliance partners may clash, making the implementation and management of the alliance difficult.
Neutralizing or blocking competitors Firms can gain competencies and market power that can be used to neutralize or block a competitor's actions.	***Loss of organizational flexibility*** A partnership with one firm may foreclose the possibility of establishing a partnership with another firm.

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