Study explores companies' expansion strategies

December 7 2016, by Brittany Magelssen

As many large, multinational firms expand operations into foreign countries, researchers are beginning to see greater sophistication of the strategies used.

A new study from The University of Texas at Dallas examines why and how multinational enterprises decide to internationalize.

Dr. Toyah Miller, associate professor of organizations, strategy and international management in the Naveen Jindal School of Management, is an author of the paper, recently published in the *Journal of International Business Studies*.

She said internationalization can enable firms to gain new competencies, boost sales and increase efficiencies. Going abroad also challenges firms to learn, overcome liabilities of foreignness and manage the complexity of international operations.

"We can think of internationalization in several different ways," Miller said. "Some firms pursue a global strategy. They're thinking about where they want to go abroad, but they're doing so country by country, and there's no regional strategy to it, yet others may select a region to exploit efficiencies."

The research looks at firms and how they are influenced to have a regional strategy.

"They might choose Southeast Asia and concentrate their plants, manufacturing and sales into countries there," she said. "They can start to deepen regional networks, learn about Southeast Asian culture and develop capabilities that are fungible regionally. Then, they can get a lot of return on their investment when they are able to capitalize on learning and capabilities in multiple countries.

"On the other hand, if you have a global strategy, you might go into one country and then go into another country with a completely different culture, and you're not able to capitalize on what you're learning," she said.

The study focuses on regions' institutional complexity – its institutional diversity and number of countries – and how it affects the internationalization of multinational enterprises. Using data from 698 Japanese multinational enterprises operating in 49 countries and nine regions, the researchers investigated the effects of the two components on firms' decisions to locate their foreign direct investments into a country.

The study found that moderate levels of institutional diversity in a region attract the highest amount of internationalization.

"They want to be able to learn from a different context, but they just want a moderate amount of diversity, because they also want to be able to use this knowledge in other countries," Miller said. "They don't want it to be so different that their capabilities are not transferrable to countries within that region."

Researchers also determined larger numbers of countries within the region reduce multinational enterprise internationalization. One reason is that the number of countries affects how complex it is to negotiate with lawmakers, which compounds the risk.

Miller said firms should consider their ability to make use of their learning regionally and also take advantage of the differences among countries in a region.

"Firms started out just looking at markets, asking 'Where can I sell?' or 'Where can I get the cheapest cost of resources?'" Miller said. "Now, as firm operations are entering a greater number of countries, regional strategies are more important to them. Taking advantage of a strategic look at which countries and which regions they consider will be beneficial for firms in this next stage of progression in the sophistication of their strategies."

More information: Jean-Luc Arregle et al. How does regional institutional complexity affect MNE internationalization?, *Journal of International Business Studies* (2016). DOI: 10.1057/jibs.2016.20

Provided by University of Texas at Dallas

Citation: Study explores companies' expansion strategies (2016, December 7) retrieved 26 April 2024 from https://phys.org/news/2016-12-explores-companies-expansion-strategies.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.