

The review questions can be used as a basis for seminar discussion.

#### Review Questions

- 1. The internationalization process is normally a gradual transition from exporting to FDI but some firms may be 'born global'. Explain what this means and why firms should want or need to be 'born global'.**

Students should be able to explain the Uppsala model in which firms are assumed to internationalize gradually from simple export to a geographically close and culturally similar country through to the setting up of production facilities across the world.

A 'born global' firm is said to be one which has foreign sales of at least 25% of its total sales within three years of inception.

Such firms take an international perspective from the outset and see the domestic market as a support for their international business. Such companies are usually small, with limited resources but with a global vision (Gabrielson 2005). They tend to be high technology companies, focused on market niches. Companies in small open economies, like Denmark, Sweden, and Switzerland, because of the limited size of their domestic market and the pressure of competition, are likely to come under more pressure to enter global markets than firms based in bigger markets.

Globalization provides market opportunities and along with the widespread diffusion of new communications technology and falling transport costs lowers the costs of entering foreign markets. Born-global firms use technology to achieve competitive advantage and develop a range of alliances and collaborative partnerships with suppliers, distributors and customers. This helps them overcome the traditional constraints to internationalization: being too small to gain economies of scale; lack of resources both financial and knowledge; and an aversion to risk-taking. The financial burden and risk is

shared with alliance partners and the partners provide knowledge about foreign markets (Freeman et al. 2006).

## **2. Using examples, explain the reasons for FDI.**

Probably the best approach to this question is to start with some examples of firms and ask the students to explain why they are located where they are and from this what they think are the determinants of FDI.

They should be able to classify firms into one or more of the following reasons for FDI:

- market access
- lower production costs/new base for exports/
- co-ordinating value chain
- natural resources
- competition from developing country MNCs
- to acquire other assets, e.g. technology/know-how.

## **3. Discuss the problems of collecting international data.**

Students should appreciate that international data may not be as accurate as it is portrayed and should therefore be handled with care.

Problems include the following:

Lack of Government funds to collect and analyse data.

Lack of skilled labour.

Low priority for some Governments.

Political manipulation of figures.

Out of date data.

No data collected.

Definitional problems.

Large informal economy.

Large 'Shadow' economy.

Conversion to common currency using exchange rates.

**4. Explain what is meant by risk. Use examples to illustrate your answer.**

In this context we are referring to Country risk rather than normal competitive risks, i.e. the additional risk of operating in other countries. Country risk refers to the possibility of the business climate changing in such a way as to negatively affect the way in which business operates.

It is probably best to start from examples which students should be able to give and from this build a list of possible risks.

Sources of risk could include:

- change in political leadership
- radical change in philosophy of political leadership
- civil unrest between ethnic groups, races, and religions
- corrupt political leadership
- weak political leadership
- reliability of the infrastructure
- supply chain disruption
- economic risks such as the volatility of the economy and foreign exchange problems
- changes in economic policy
- natural disasters
- cyber attacks
- organized crime
- poor relationships with other countries
- wars
- terrorism, and
- piracy.