Chapter 4

Motives for Internationalisation

The aim of this Chapter is to clarify that internationalisation is not in all cases simply driven by the desire to enhance sales but that the motives for internationalisation can be manifold, with major consequences for market entry strategies, the coordination of international subsidiaries, country selection, organisation, etc.

Heterogeneous Strategic Objectives for Internationalisation

Internationalisation into specific foreign countries, whether it is via exporting or importing, via international contracts or foreign direct investment, is always driven by certain motives of the MNC. In this regard, it can be assumed that the strategic conduct of a company in a particular country is always shaped by its strategic objectives with regard to this country, as an important part of the intended strategy.

However, the literature on internationalisation often does not differentiate between the respective objectives but rather it is assumed, often only implicitly, that sales-oriented objectives are the most relevant. The term market entry strategy which is often used for the foreign operation mode clearly indicates this assumption. Traditional concepts and studies on internationalisation (e.g. the theory of monopolistic advantage by Hymer (1960)) often assumed that the international activities of companies only give them the benefit of a broader exploitation of company-specific advantages. Very different objectives of internationalisation can be given, however. As has already been stated in the international product lifecycle theory by Vernon (1966), the production cost advantages of a foreign market might be an important reason for relocating production to foreign countries even if the primary sales focus is still on the home country.

In the perspective of the MNC as a “differentiated network”, as discussed in Chapter 1, different subsidiaries are assigned different tasks and roles, and heterogeneous location advantages of the different foreign subsidiaries are exploited. This perspective clearly illustrates the multi-facetedness of the motives for being active in foreign countries.
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The five motives shown in Figure 4.1 can be distinguished as the most relevant objectives of internationalisation (e.g. Dunning 1988; Shan 1991, p. 562; Morschett 2007, pp. 310-320; Dunning/Lundan 2008, pp. 67-77).

Figure 4.1
Alternative Motives for Internationalisation

Market Seeking

The primary motive for starting activities in a foreign country is frequently the access to new markets and the sales potential offered by foreign markets. In particular when the home market is saturated, as is more and more often the case for the industrialised countries of Western Europe, the USA or Japan, company growth can be maintained by international sales.

If market seeking is the motive for internationalising, foreign countries are chosen by the sales potential they offer for the company. Country characteristics that are used as selection criteria in this case include, for example:

- market size
- market growth
- presence of attractive customer segments and
- demand for the products or services of the company.

International market-seeking objectives are not necessarily associated with foreign production but may also be reached by home-country production that is being exported to the foreign market. While exporting can be used to exploit excess production capacity in the home country, and it is usually less risky and can be carried out with lower initial investment, FDI in the target market can help to circumvent trade barriers, reduce logistics costs and