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International Business and Strategy

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Abstract
International business and strategy help companies grow in a highly connected and competitive global market. As multinational corporations (MNCs) expand and globalization continues, businesses must develop strong strategies to handle institutional, cultural, and market challenges. This paper examines key theories such as Porter's Diamond Model, the Eclectic Paradigm (OLI Framework), Institutional Theory, the Uppsala Model, and Bartlett & Ghoshal's Global Strategy Matrix. These models explain why companies expand internationally and how they organize their operations. It also looks at different market entry methods, including exporting, licensing, franchising, joint ventures, and strategic alliances. Companies select their approach based on available resources, risk levels, and market conditions. Additionally, the paper explores the role of MNCs in global strategy, covering global, multidomestic, and transnational strategies that balance standardization with local market needs. The study also highlights the effects of digitalization, supply chain efficiency, and economies of scale on modern international business strategies. By reviewing academic research, it provides useful insights for scholars, policymakers, and business leaders.

Keywords: International Business Strategy, Multinational Corporations (MNCs), Globalization, Market Entry Strategies, Foreign Direct Investment (FDI), Porter's Diamond Model, Eclectic Paradigm (OLI Framework)

I. Introduction

As global markets keep changing, businesses must develop flexible international strategies to handle regulatory, economic, and competitive challenges. Companies expanding beyond their home markets need to adjust to new regulations, technological changes, and shifting consumer demands to stay sustainable (Riyanto, Sudarso, & Sumardi, 2024).[1]

To succeed in international markets, businesses must plan carefully, focusing on risk management, supply chains, and market research. Expanding firms often deal with cultural differences, trade restrictions, and different economic policies, making it necessary to adopt adaptable strategies for steady growth (Shumilo, Zaika, & Harbuzov, 2022)[2]. Companies also use market intelligence, digital tools, and global partnerships to strengthen their presence. By taking proactive steps, businesses can reduce risks, seize new opportunities, and establish themselves as key players in the global economy (Zayats & Hoshper, 2021).[3]

II. Major Theoretical Foundations of International Business Strategy

2.1 Porter's Diamond Model

Porter's Diamond Model is a flexible and widely used framework (Tsiligiris, 2018).[4] It explains why certain countries and industries gain a competitive edge in global markets (Shirodkar, V., et,.al 2020)[5]. Developed by Michael Porter in 1990, the model identifies four key factors that influence international

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[5] Shirodkar, V., Strange, R., & McGuire, S. (2020). Non-market Strategies in International Business. *The Academy of International Business*, For more details see : https://content.e-bookshelf.de/media/reading/L-13229833-5fa994edb7.pdf

competitiveness: (Aghdaie, S. F. A., et.al,. 2012)[6]

1. Factor Conditions – Availability of resources like skilled labor, infrastructure, and capital.
2. Demand Conditions – The strength and sophistication of local market demand.
3. Related and Supporting Industries – The presence of suppliers and complementary industries that boost competitiveness.
4. Firm Strategy, Structure, and Rivalry – The level of domestic competition, which pushes companies to innovate and improve efficiency. (Teramae, F., et.al, 2020)[7]

A modern example of this model in action is South Korea's semiconductor industry. The sector benefits from a highly skilled workforce, strong government support for research and development, and advanced infrastructure. Intense competition between major firms like Samsung and SK Hynix fuels continuous innovation and reinforces South Korea's global leadership in the semiconductor market (McKinsey, 2023).[8]

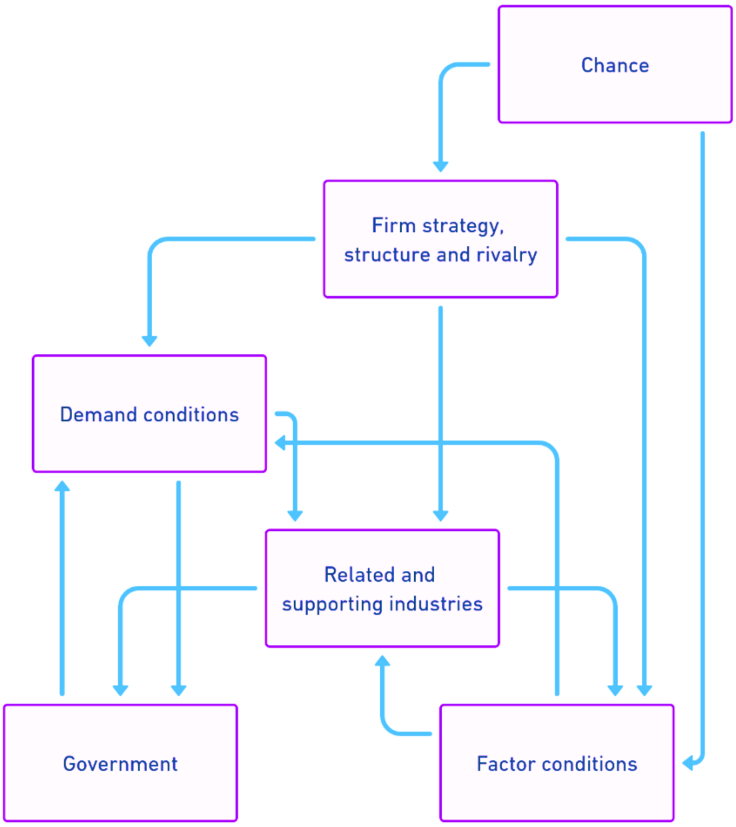

Fig: 1 Porter's diamond model

2.2 The Eclectic Paradigm (OLI Framework)

The Eclectic Paradigm, also called the OLI Framework, was introduced by John Dunning in the late 1970s and remains a key concept in international business strategy (Batschauer da Cruz, C. B., et.al,. 2022)[9]. It explains why firms prefer foreign direct investment (FDI) over exporting or licensing (Dunning, 1993, p. 145). The model states that firms

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invest in foreign markets when they have three advantages: Ownership, which includes unique assets like technology or branding; Location, which refers to benefits like cost savings and resource availability; and Internalization, which allows firms to maintain control and efficiency (Sharmiladevi, J. C. 2017)[10].

Ownership advantages (O) are firm-specific assets that give businesses a competitive edge in foreign markets (Dunning, 1993, p. 142)[11]. These assets can be tangible, such as technology, patents, and financial resources, or intangible, like brand reputation, managerial expertise, and proprietary knowledge. Companies with strong ownership advantages often choose foreign direct investment (FDI) over partnerships or licensing. For example, Google and Microsoft set up R&D centers in countries like India and China to take advantage of skilled labor and cost benefits (Narula, Verbeke, & Yuan, 2020).[12] Additionally, economies of scale strengthen ownership advantages by helping firms expand globally while keeping operations efficient (Tsang, 2020).[13]

Location advantages (L) influence a firm's choice to invest in foreign markets. These include access to natural resources, skilled labor, government incentives, and large consumer markets. For example, Tesla built a Gigafactory in Shanghai due to China's support for electric vehicle production, its large market, and cost-efficient suppliers (Danko, 2022).[14] Trade policies, tax rules, and economic stability also affect location choices. Many firms choose countries with tax benefits and trade advantages to strengthen their global position (Bhattacharyya, 2020).[15]

Internalization advantages (I) help firms decide whether to manage operations internally or outsource. Companies prefer internalization to protect intellectual property, cut costs, and maintain efficiency. Pharmaceutical firms keep R&D in-house to prevent competitors from copying patented technologies (Cha, 2020).[16] Similarly, Apple controls its supply chain in China, working with Foxconn while safeguarding its proprietary technology. This approach is common in high-tech and service industries, where firms aim to reduce knowledge leaks and improve efficiency.

The OLI framework helps explain why firms choose foreign direct investment (FDI) over exporting or franchising. Automobile companies like BMW and Toyota set up factories in the U.S. and China to benefit from lower transportation costs, skilled labor, and trade advantages (Buckley & Casson, 2020).[17] Likewise, retail giants such as Walmart and Amazon prefer wholly-owned subsidiaries over franchising to maintain control of operations, supply chains, and customer service (Paul & Mas, 2019).[18]

While the OLI framework is useful, it has limitations. It does not fully address digital globalization, where companies like Shopify and Alibaba expand internationally without major foreign direct investment (FDI). The model also assumes a rational and linear decision-making process, which may not reflect real-world uncertainties or political

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risks in global markets (Witt, 2019)[19]. It also overlooks corporate social responsibility (CSR) and environmental sustainability, which are now key factors in international business decisions (Yong, 2023).[20]

2.3 Institutional Theory

Institutional theory in international business highlights how legal systems, cultural norms, and political environments influence firm behavior and strategic decisions (Tihanyi, L., et.al,. 2012)[21]. Companies operating in multiple countries must adapt to different regulations and market expectations, which affect entry strategies, operations, and long-term success (Saikia, Bhattacharya, & Dwivedi, 2024).[22]

Institutional structures are divided into regulatory and normative institutions. Regulatory institutions include trade policies, tax systems, and intellectual property laws, which influence market access and business strategies (Xu, Hitt, Brock, Pisano, & Huang, 2021).[23] For example, the EU's GDPR forced tech companies like Google and Facebook to adjust their data policies to meet privacy laws. Normative institutions, such as cultural values and ethical standards, shape corporate governance, stakeholder relations, and consumer trust. In Japan and South Korea, businesses must follow collectivist values and long-term relationship-building to gain credibility (Sminia, 2024).[24]

Institutional distance refers to the gap between a firm's home and host country in terms of regulations and cultural environments. A larger gap makes adaptation harder. For instance, Western firms entering China or India must adjust to different business laws, informal negotiations, and government involvement in industries (Kalhor, 2024).[25]Companies respond by either complying with local norms or influencing policies through lobbying and negotiation (Meyer & Thein, 2020).[26]

Firms handle institutional constraints in different ways. Some follow compliance, strictly meeting regulatory requirements, while others adapt by adjusting their business models to fit the local environment. In countries with weak or fragmented institutions, multinational corporations may act as institutional entrepreneurs, working to reshape regulations or introduce new business practices. For example, FinTech firms influence cryptocurrency regulations, lobbying for policies that support digital banking and blockchain innovation (Marangos, 2020).[27]

2.4 The Uppsala Model

The Uppsala Model describes internationalization as a gradual process, where firms expand into foreign markets step by step, (Welch, C.,

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et.al,. 2016)[28] learning from experience and reducing uncertainty. Developed by Johanson and Vahlne (1977), (Coviello, N., 2017)[29], it suggests that businesses start with geographically and culturally close markets, then expand to more complex ones as they gain confidence. Companies first engage in low-risk exports, then move to local partnerships, followed by sales subsidiaries, and eventually set up production facilities (Rani, 2021).[30] The model highlights incremental decision-making, where firms expand as they gain market knowledge, trust, and adapt to institutions. However, in the digital era, some companies internationalize quickly through global networks and digital platforms, leading to modifications in the original framework (Vahlne, 2021)[31]. The model now also considers network theory, stressing the role of strategic alliances and knowledge-sharing in faster global expansion (Figueira-de-Lemos & Ferreira, 2024).[32]

2.5 Bartlett & Ghoshal's Global Strategy Matrix

Bartlett and Ghoshal's Global Strategy Matrix classifies multinational corporations (MNCs) based on their global integration and local responsiveness, identifying four strategies: global, multidomestic, transnational, and international. A global strategy focuses on centralized decision-making and standardized products, seen in companies like Apple and Samsung, which achieve efficiency through centralized production (Moon, 2022)[33]. A multidomestic strategy decentralizes operations, allowing firms like IKEA to adapt products to local markets (Yadav, 2020).[34] The transnational strategy combines global efficiency with local customization, as seen in Unilever, which centralizes core functions while staying flexible in different regions (Mees-Buss, Welch, & Westney, 2019).[35] An international strategy transfers home-based expertise across markets with minimal adaptation, common in pharmaceuticals and luxury brands. While this model helps explain global expansion, digital globalization and sustainability concerns are pushing firms toward hybrid strategies that mix elements of all four types (Hasanah, 2024).[36] Despite its limitations, this framework remains key to understanding how MNCs balance efficiency and market adaptation in a complex, interconnected world (Leong, S. M., & Tan, C. T. 1993).[37]

III. MARKET ENTRY STRATEGIES

3.1 Exporting

Exporting is a common market entry strategy that lets firms expand globally with low investment and reduced risk. It is often the first step

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in internationalization, allowing companies to test markets before committing to full-scale operations. Direct exporting involves selling directly to foreign buyers, while indirect exporting relies on agents or distributors (Shumilo, Zaika, & Harbuzov, 2022)[38]. This strategy helps businesses increase sales, reach larger markets, and benefit from economies of scale. However, challenges include tariff barriers, currency fluctuations, and reliance on intermediaries (Tkach, 2023).[39] Success depends on market research, export financing, and trade regulation compliance (Chebet, Ogutu, Njeru, & Njihia, 2022)[40]. While exporting is cost-effective, firms seeking greater control often shift to joint ventures or foreign direct investment as they gain experience (Yankovoi, Kulish, & Yashechen, 2023).[41]

3.2 Licensing and Franchising

Licensing and franchising help firms expand globally by using local market expertise. Licensing lets companies grant foreign firms the rights to use their intellectual property, brand names, or patented technology in exchange for royalties, making it a cost-effective growth strategy. This approach is common in pharmaceuticals, software, and entertainment, with companies like Microsoft and Disney licensing their products worldwide to increase market reach and revenue (Amos, Osindero, Sariat, & Sekinat, 2022).[42]

Franchising enables companies to expand globally by allowing franchisees to operate under an established brand. This approach supports fast market growth while keeping brand consistency, making it popular in fast food, hospitality, and retail. Global brands like McDonald's, KFC, and Hilton Hotels use franchising to enter new markets while ensuring uniform products and services (Namsrai, 2023).[43]

Licensing and franchising help businesses expand with low investment while using local market knowledge. Licensing allows firms to earn from their intellectual property without setting up physical operations, while franchising ensures market adaptation through locally owned outlets following a standardized system. Both strategies support faster global expansion, leveraging regional expertise and consumer trust.

3.3 Joint Ventures and Strategic Alliances

Joint ventures (JVs) and strategic alliances help firms enter new markets, improve operations, and use local expertise. A JV is when two or more companies create a separate legal entity, sharing risks, resources, and profits. This approach is useful in automotive, energy, and telecommunications industries, where local knowledge, regulations, and government partnerships are important (Magni & Pezzi, 2019).[44]

Strategic alliances differ from joint ventures as they allow companies to partner without creating a new legal entity, keeping operational independence while working on shared goals like technology sharing, supply chains, or market expansion. This approach is common in aviation and pharmaceuticals, with companies like Airbus and Boeing or Pfizer and BioNTech forming alliances to boost innovation and

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competitiveness (Thelisson, 2024).[45]

Joint ventures and strategic alliances help businesses with knowledge transfer, local adaptation, and cost-sharing, making them useful for expanding into emerging markets. Studies show that joint ventures improve market stability and resource sharing, especially when firms from emerging economies partner with developed market companies (Mimoso, 2020).[46] Strategic alliances also help firms lower competition and enhance sustainability by combining expertise in global markets (Fageda, Flores-Fillol, & Theilen, 2019). [47]

IV. Multinational Corporations (MNCs) and Global Strategy

Multinational corporations (MNCs) operate in multiple regions, using economies of scale, global R&D, and supply chain efficiency to stay competitive. Their strategies vary based on market conditions, regulations, and firm capabilities (Sen, 2024).[48] Global business strategies usually fall into three categories: global, multidomestic, and transnational.

A global strategy focuses on standardization and centralization, ensuring uniform products and processes across markets to improve cost efficiency. Companies like Apple and Toyota follow this approach by using global supply chains and centralized production. A multidomestic strategy, on the other hand, prioritizes local adaptation, allowing firms to adjust products based on regional preferences. For example, McDonald's customizes its menu to match local cultures and dietary habits (Ma, Zhang, & Song, 2023).[49] The transnational strategy blends global efficiency with local responsiveness, helping firms like Unilever and Nestlé streamline operations while adapting marketing and products to different markets (Spinellis, 2023).[50]

In the digital age, multinational corporations (MNCs) use technology, AI-driven analytics, and digital platforms to improve their global strategies. This enhances efficiency and market responsiveness. By integrating operations across regions while staying flexible in local markets, MNCs maintain a competitive edge in a constantly changing global environment.

Challenges in International Business and Strategy

Political and economic risks affect firms in international markets, creating challenges like political instability, trade restrictions, and economic fluctuations. Regulatory changes, tariffs, and foreign investment policies add uncertainty, especially in emerging markets. Additionally, currency fluctuations, inflation, and economic downturns impact pricing and financial stability. To manage these risks, companies use strategies like currency hedging and market diversification (Idris, Nurhadi, & Sakinah, 2024).[51]

Cultural barriers influence consumer behavior, business negotiations, and management practices in global markets. Companies must adjust to language differences, social norms, and ethical standards to build strong local relationships. Marketing preferences, leadership styles, and employee expectations vary across cultures, requiring firms to tailor strategies accordingly. Ignoring cultural differences can lead to brand misalignment and poor market penetration (Liu, 2024).[52]

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Competitive pressures have grown with globalization, requiring firms to innovate, improve efficiency, and stand out in the market. Companies from emerging markets challenge established multinational corporations (MNCs) through cost-effective production, localized strategies, and digital advancements. The rise of e-commerce, digital supply chains, and new technologies has reshaped competition, pushing firms to adopt agile strategies, invest in technology, and build strong global partnerships (Dumitrescu, Paraschiv, & Nitu, 2019).[53]

V. Conclusion

International business strategy helps firms navigate global markets, regulations, and competitive challenges. Key frameworks like Porter's Diamond Model, the OLI Framework, Institutional Theory, the Uppsala Model, and Bartlett & Ghoshal's Global Strategy Matrix guide international expansion decisions. Firms use exporting, licensing, franchising, joint ventures, and strategic alliances to enter new markets while managing risks and leveraging local expertise. Multinational corporations (MNCs) drive global integration, economies of scale, and digital transformation, adopting global, multidomestic, and transnational strategies to balance efficiency with local adaptation. As international business evolves, firms must focus on flexibility, innovation, and sustainability to stay competitive. Future research should explore emerging technologies, AI-driven strategies, and sustainable business models to shape global expansion.

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