

## Internationalization of companies: Strategies, benefits and current importance

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10.56238/rcsv14n3-019

### ABSTRACT

The internationalization of companies is an essential phenomenon in the current scenario of globalization and deglobalization. This article explores the fundamental concepts, challenges, and opportunities associated with international trade and the expansion of businesses across national borders. With the increasing interconnectedness of global markets, internationalization has become a vital strategy for business growth and sustainability. The motivations for this expansion include the search for new markets, risk diversification and production efficiency. However, internationalization also presents complex challenges, such as trade barriers, global competition, cultural differences, and the management of multinational operations. This study analyzes the significant benefits of internationalization, such as access to new markets, risk mitigation, and the use of specific competitive advantages. In addition, the article discusses examples of companies that have stood out on the international stage, highlighting the importance of adaptation and innovation. Understanding the concepts and strategies associated with internationalization is crucial for companies that want to stand out in a globalized business environment.

**Keywords:** Internationalization of Companies, International trade, Global Expansion, Foreign Direct Investment, Management of Multinational Operations.

### INTRODUCTION

International trade and the internationalization of companies play a crucial role in the contemporary phase of globalization, often referred to as deglobalization or the post-Western world. With the interconnectedness of global markets intensifying, companies face an increasingly competitive and dynamic business environment, where expansion across national borders has emerged as a vital strategy for business growth and survival. In this scenario, an in-depth understanding of the concepts, challenges and opportunities inherent to international trade and the internationalization of companies is essential.

International trade involves the exchange of goods, services, and capital between countries, accomplished through the export and import of products, as well as direct investments abroad. The internationalization of companies, on the other hand, is a process through which organizations seek to expand their operations and resources beyond national borders, establishing a consolidated presence in foreign markets.

This process of internationalization can manifest itself in different ways, from the export of products to a single foreign market to the creation of subsidiaries or joint ventures in multiple

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countries. This strategy allows companies to access new markets, reduce risks associated with dependence on a singular domestic market, and capitalize on specific competitive advantages of certain regions. The motivations for internationalization are diverse and include the search for opportunities for growth and expansion in international markets, especially in the face of saturation of domestic markets and increasing competition.

In addition, internationalization enables companies to diversify risks, reducing dependence on a single market and mitigating the negative impacts of economic crises or political instabilities in specific countries. Operating in multiple markets makes companies more resilient to economic fluctuations and location-specific risks.

The search for productive efficiency and access to resources is another motivation for internationalization. Certain regions may offer skilled labor, lower production costs, access to specific raw materials or technologies, encouraging companies to establish operations in different countries to take advantage of these competitive advantages.

Despite significant opportunities, internationalization also presents complex challenges, especially in a post-Western international order. Among the main challenges are trade barriers, global competition, cultural differences, and managing operations in different jurisdictions. Trade barriers, such as tariffs, quotas, and non-tariff restrictions imposed by governments to protect domestic industry, can make it difficult to access certain markets and increase export or import costs. Global competition has intensified, requiring companies to develop effective competitive strategies and adapt their products and services to the demands of foreign markets.

Cultural differences are another significant challenge. Norms, values, customs, and business practices vary from country to country, requiring a deep understanding of local cultures and the ability to adapt marketing, communication, and negotiation strategies according to these differences. Managing operations in different jurisdictions presents legal, regulatory, and operational challenges, from tax and employment issues to licensing requirements and regulatory compliance. In addition, managing global supply chains and coordinating activities across different locations requires a careful and efficient approach.

Despite these challenges, internationalization offers numerous benefits to companies. Highlights include access to new markets and customers, risk diversification, the use of competitive advantages specific to each region and the development of a broader and more global view of the business. Expanding into foreign markets allows companies to reach new consumers and increase their customer base, resulting in significant sales growth and increased market share. Risk diversification allows for greater resilience in the face of specific crises or instabilities in a region, while internationalization provides the opportunity to take advantage of competitive advantages

specific to each market, including access to natural resources, skilled labor, advanced technologies, or logistical advantages.

In addition, internationalization stimulates learning, innovation and the development of a global business perspective, enabling the development of creative solutions that are adaptable to global demands. Real-world examples from renowned companies such as Apple, Coca-Cola, McDonald's, and Toyota illustrate how these organizations have risen to the challenges and taken advantage of internationalization, adapting to the needs and characteristics of global markets.

Therefore, understanding the concepts, theories, and strategies related to international trade and the internationalization of companies is essential for professionals who wish to stand out in this competitive environment. Throughout this article, we will explore these aspects in depth, addressing the motivations for international expansion, the challenges faced, and the benefits achieved, building a knowledge base on the complexities, strategic decisions, and opportunities in the globalized market.

#### **DEFINITION AND IMPORTANCE OF THE INTERNATIONALIZATION OF COMPANIES:**

The internationalization of companies refers to the expansion of business activities beyond the borders of the country of origin. This process can involve several strategies, such as exporting products, establishing subsidiaries, forming strategic partnerships, joint ventures, franchising and licensing. By going international, companies have the opportunity to diversify their revenue sources, reduce dependence on the domestic market, and explore new growth opportunities in emerging and developed markets.

In the present day, internationalization is of crucial importance for several reasons. First, it allows companies to gain a significant competitive advantage by accessing new markets and diversifying their operations. Second, international expansion offers additional sources of revenue while mitigating the risks associated with domestic market saturation. In addition, exposure to different cultures and markets stimulates innovation and the development of new products and services. Finally, large-scale production for multiple markets can reduce costs and increase operational efficiency.

#### **INTERNATIONAL MARKET ENTRY STRATEGIES:**

Entering international markets requires careful analysis and strategic planning, considering several available options, among which we have: Export, Licensing, Franchising, Joint Ventures, Subsidiaries, Distribution Agreements, Joint Development, Acquisition and Greenfield Investments.

Thus, one of the most common strategies is Export, which can be direct, when the company sells its products directly to foreign customers, or indirect, when it uses national intermediaries to facilitate export. Another approach is Licensing, which involves transferring intellectual property rights to a foreign company, allowing it to produce and market products or services using the technology or brand of the licensing company.

Franchising is a specific form of licensing, in which the franchising company grants the right to use its brand and know-how to a foreign company, which operates according to the model established by the franchisor. This strategy allows for global expansion without taking on all the risks and costs associated with opening own units.

Another important strategy is the formation of Joint Ventures, where two or more companies come together to form a new business entity, sharing resources, knowledge, and risks to explore opportunities in international markets. Setting up Subsidiaries is another entry strategy that involves establishing a company controlled by the parent company in a foreign country, offering a high level of control over international operations.

Additionally, Distribution Agreements and Joint Development are viable options, allowing businesses to collaborate with local partners to develop new products and expand their presence in the market. Finally, Acquisitions and Greenfield Investments are strategies that can accelerate entry into the foreign market, although they involve significant risks and requirements in terms of capital and knowledge of the target market.

A noteworthy case is that of the internationalization investments of Chinese companies. Although China is the world's largest economy in nominal terms, it still does not rank at the top of other regions. The stock of Chinese direct investment abroad has increased eightfold in the past decade, and in 2015, in terms of flows, China overtook Japan to become the world's second-largest investor. However, in terms of overseas direct investment stock, China had USD 2.4 trillion, only 6.4% of the world total in 2020. Despite this, China's share of global direct investment has more than doubled in the past five years and increased more than fivefold in the past decade, indicating different strategies adopted by Chinese companies.

Each strategy presents unique advantages and challenges, and the choice will depend on a number of factors, including available resources, risks involved, knowledge of the market, and long-term goals of the company. It is essential for companies to conduct a detailed analysis of the target market, evaluating geographical, cultural, regulatory, and competitive aspects. Understanding the geography of international business plays a crucial role in strategic decision-making. The geographical location of the target markets, the available logistics infrastructure, the physical and cultural characteristics of the countries, as well as trade and regulatory barriers, must be considered.

These aspects directly influence the entry strategies chosen and the way companies operate in foreign markets. In addition, it is important to highlight that the strategies for entering international markets are not mutually exclusive. Companies can adopt combined approaches and adjust their strategies over time, according to the changing business environment and the specific needs of each market.

In summary, the internationalization of companies requires a strategic and adaptive approach. Understanding international market entry strategies and carefully analyzing the geography of international business are key to seizing global opportunities, mitigating risk, and achieving sustainable success in international markets.

## **ADVANTAGES OF INTERNATIONALIZATION FOR THE RECEIVING COUNTRY AND FOR THE COMPANY:**

### **ADVANTAGES FOR THE RECIPIENT COUNTRY**

The internationalization of companies brings several advantages to the receiving country. One of the main advantages is the injection of foreign capital into the local economy. Foreign direct investment (FDI) can result in the construction of new facilities, infrastructure, and the development of projects that generate jobs and increase the country's productive capacity. This influx of capital can boost economic growth, improve the balance of payments, and strengthen the local currency.

Another significant advantage is the transfer of technology and knowledge. International companies often introduce new technologies, advanced production processes, and efficient management practices, which can be assimilated by local companies. This transfer of know-how can lead to the modernization of economic sectors and increase the competitiveness of the national industry. Additionally, the presence of foreign companies can spur innovation, encouraging local businesses to adopt new technologies and improve their products and services.

Internationalization can also promote the development of human resources. Multinational companies often offer training and professional development to their employees, raising the skill level of the local workforce. This improvement of work skills contributes to the creation of a more qualified workforce prepared to face the challenges of the global market.

In addition, the entry of foreign companies can expand the supply of products and services available to local consumers, increasing competition and leading to an improvement in quality and a reduction in prices. This effect directly benefits consumers by providing them with more choice and better value for money.

## ADVANTAGES FOR THE INTERNATIONALIZED COMPANY

For companies that internationalize, the advantages are equally significant. One of the main advantages is the diversification of markets. By expanding their operations beyond national borders, businesses can reduce their reliance on the domestic market and mitigate the risks associated with local economic fluctuations. This diversification helps to stabilize revenues and can provide a stronger financial foundation for the company.

Another benefit is the increased growth potential. International markets, especially those in development, offer significant opportunities for expanding sales and increasing market share. By entering new markets, businesses can reach new consumer groups and tap into market segments that were not previously accessible.

Internationalization can also improve the company's global competitiveness. By operating in different countries, the company can take advantage of economies of scale, optimize its operations, and reduce costs. Exposure to different markets and competitions can stimulate innovation and the development of new products and services, improving the company's offering and strengthening its competitive position in the global market.

Additionally, international presence can increase brand recognition and reputation. Companies that operate globally are often seen as more trustworthy and prestigious, which can increase customer loyalty and make it easier to enter new markets. A strong global brand can be a key differentiator in an increasingly competitive market.

In summary, internationalization offers a range of advantages for both the receiving country and the company that internationalizes. For the recipient country, the benefits include increased investment, technology transfer, human resource development, and improved product and service offerings. For the company, the advantages include diversifying markets, increasing growth potential, improving competitiveness and strengthening the brand. With a well-planned and executed strategy, internationalization can be a powerful engine for economic development and business success.

## CONCLUSION

The internationalization of companies is essential in today's globalized world. It provides the opportunity to expand operations, access new markets, and diversify revenue streams, while mitigating the risks associated with reliance on the domestic market. For the receiving countries, the presence of international companies can boost the local economy, generate jobs and foster technology transfer.

The internationalization process requires careful strategic planning, understanding of target markets, and the ability to adapt to cultural and regulatory differences. Companies should evaluate

the various entry strategies, such as export, licensing, franchises, joint ventures, and subsidiaries, to determine the most appropriate approach to their goals and resources.

In summary, internationalization is a vital strategy for sustainable growth and global competitiveness. With robust planning and effective execution, companies can overcome the challenges and seize the opportunities of international markets, ensuring success and relevance on the global stage.

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