

# CONTENT MODULE 1 INTERNATIONALIZATION: ESSENCE, OPPORTUNITIES AND THREATS

## Topic 1

### The concept of internationalization by the method of "essence-content-result"

**Objective:** to clarify the essence of the concept of internationalization by the method of "essence-content-result"

#### Plan

1. The concept of internationalization by the method of "essence-content-result".
2. Estimation of the level of internationalization on the basis of matrix methods



#### Basic terms and concepts

Internationalization, essence, content, result, matrix methods, level of internationalization of the enterprise, indicators.

#### Thematic theses

**The concept of internationalization by the method of "essence-content-result".**

In theory and practice, there are three groups of global strategies that determine certain forms of enterprise penetration: internationalization strategy, segmentation strategy and diversification strategy.

Theoretically, internationalization is defined as the expansion or entry of an enterprise into foreign markets outside the country in which the entity is based and, accordingly, adaptation to the environment in which the entity operates in certain markets.

The above approach to this interpretation of the concept of internationalization involves taking into account certain aspects: the definition, which is based on foreign experience to determine the characteristics of the enterprise in markets around the world, on the one hand, and determines the need to adapt to foreign business environment. features of the country's development.

In the conditions of increasing dynamics of development and unpredictability of consequences from influence of global challenges the international business first of all has to realize tasks concerning operative regulation on inquiries of the international market, requirements of consumers and other market participants. Note that the higher the company's ability to quickly and efficiently adapt to changes in the business environment, the higher the level of internationalization of the enterprise. Therefore, the next stage of the

study is to determine the essence of the category "internationalization" (Table 1.1).

Table 1.1 - The structure of the category of "internationalization" in the approaches of different authors

№	Author, year, type of scientific work	The essence of the phenomenon	Content of the phenomenon	The result of the phenomenon
1	Antonyuk LL (2004), textbook	it is a process of expanding economic activity	outside individual national economies in the form of multilateral cooperation contacts	in order to increase productivity and increase production efficiency
2	World economy. Lecture notes (electronic resource)	convergence of national economies	by strengthening industrial cooperation and interdependence of international trade, movement of labor capital between countries	-
3	Mocherny SV, textbook, (2000)	objective economic process of emergence and development of relations between national economies of different countries,	covering all areas of social reproduction and specified in the process of internationalization of productive forces, technical, economic and industrial relations (economic property relations)	-
4	Glossary of terms (electronic resource)	the process of giving the international character to various forms of public life of the state	-	-
5	Epstein E. H. (2003), article	increasing the interconnectedness and interdependence of businesses around the world	-	-
6	Nettle IV., (2004), article	historical and evolutionary preparation for globalization	-	-

7	Chernetsky YA, (2008), encyclopedia	the process of increasing the scale of international relations and growing their role in the current state of the economy and solving problems of development of individual countries, regions and the world as a whole	-	-
8	Gokhberkh O. Yu., (2011), article	the trend of intensive development of external relations and interactions	-	-
9	Timeless LK, (2001), article	the process of evolution of international economic relations on the basis of the international division of labor,	which is manifested in the development of international trade and the formation of international property,	as the basis for the transition to a higher level of economic cooperation between states
10	Weaver OV (2009), Krapivny IV, (2008), article	going beyond something purely internal or combining the actions of several actors in the world economy and politics around their common tasks, goals, activities	-	-
11	Ilchuk PG, (2014), article	expansion and / or transfer of the enterprise outside the market of the country of base	taking into account and adapting activities to the conditions of management in these markets	-

		(national) to foreign markets		
<b>The essence of the category of "internationalization" in the interpretation of foreign scholars</b>				
12	Bell J., Crick D., Young S. (2004), article	it is a process of expanding activities into international markets	-	-
13	Johanson J., Vahlne J.-E. (1992), article	the process of gradually increasing the international activities of the enterprise.	-	-
14	Welch L., Luostarinen R. (1988),	the process of active participation and increasing the volume of international operations abroad	-	-
15	Beamish P.W., (1990), article	process,	under which firms raise their awareness of the direct and indirect effects of international agreements on their future, as well as conduct transactions with other countries.	
16	Andersen O., (1993), article	the process of adaptation of barter transactions in international markets	-	-
17	Cantu M. P. (2012), article	strategy,	through which enterprises respond to globalization	-
18	Lemos F., Johanson J., Vahlne J., (2010) article	it is a process of internal adaptation of the enterprise to the conditions of management in	-	

		the international markets		
19	Maclean C.	it is a process of identification and entry into international markets	-	-
20	Pham T. K. N., (2008), these	the process of carrying out international operations by the enterprise		
21	Barretto A., Rocha A.	process,	under which the company operates in countries other than the domestic market	-
22	Hill C. W. L. (2000), textbook	it is the process of selling products and goods in regions outside the domestic market,	where the firm is looking for new opportunities	
23	Investopedia (electronic resource)	product development process in such a way	so that it meets the needs of users in many countries or can be easily adapted for this	-

Of the 23 categories listed, only two have all three elements and have the result of the phenomenon. Most categories have only the essence of the phenomenon, among foreign interpretations there is no one that has such an element as "result". This indicates the incompleteness of the above definitions.

Table 1.2 analyzes the above categories and outlines the approaches to the concept of "internationalization". Here are the main ones: - phenomenon, - process, - strategy.

Table 1.2 - Classification of existing approaches to defining the category of "internationalization"

№	Author	The essence of the phenomenon			Availability of content	Availability of the result
		<i>Phenomenon</i>	<i>Process</i>	<i>Strategy</i>		
1	Antonyuk LL (2004), textbook		+		+	+
2	World economy. Lecture notes (electronic resource)	+			+	
3	Mocherny SV, textbook, (2000)		+		+	

4	Glossary of terms (electronic resource)		+			
5	Epstein E. H. (2003), article	+				
6	Nettle IV., (2004), article	+				
7	Chernetsky YA, (2008), encyclopedia		+			
8	Gokhberkh O. Yu., (2011), article	+				
9	Timeless LK, (2001), article		+		+	+
10	Weaver OV (2009), Krapivny IV, (2008), article	+				
11	Ilchuk PG, (2014), article		+		+	
<b>The essence of the category of "internationalization" in the interpretation of foreign scholars</b>						
12	Bell J., Crick D., Young S. (2004), article		+			
13	Johanson J., Vahlne J.-E. (1992), article		+			
14	Welch L., Luostarinen R. (1988),		+			
15	Beamish P.W., (1990), article		+			
16	Andersen O., (1993), article		+			
17	Cantu M. P. (2012), article			+	+	
18	Lemos F., Johanson J., Vahlne J., (2010) article		+			
19	Maclean C.		+			
20	Pham T. K. N., (2008), these		+			
21	Barretto A., Rocha A.		+			
22	Hill C. W. L. (2000), textbook		+			

23	Investopedia (electronic resource)		+			
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The next step is a critical evaluation of approaches to the concept under study. The results of the study presented in table 1.3 allow us to identify the most rated values that will be the basis for the development of the author's category.

Table 1.3 - Assessment of existing approaches to defining the category of "internationalization"

№	Author, year	Score (points)				
		availability of components	prevalence of definition	theoretical validity	practical availability	summary assessment
1	Antonyuk LL (2004), textbook	5	5	4	5	19
2	World economy. Lecture notes (electronic resource)	3	4	4	2	13
3	Mocherny SV, textbook, (2000)	3	4	3	4	14
4	Glossary of terms (electronic resource)	2	4	3	3	12
5	Epstein E. H. (2003), article	2	4	3	4	13
6	Nettle IV., (2004), article	2	2	2	2	8
7	Chernetsky YA, (2008), encyclopedia	3	4	3	4	14
8	Gokhberkh O. Yu., (2011), article	2	3	3	4	12
9	Timeless LK, (2001), article	5	5	4	4	18
10	Weaver OV (2009), Krapivny IV, (2008), article	2	3	3	3	11
11	Ilchuk PG, (2014), article	3	3	4	4	14

<b>The essence of the category of "internationalization" in the interpretation of foreign scholars</b>						
12	Bell J., Crick D., Young S. (2004), article	2	3	2	4	11
13	Johanson J., Vahlne J.-E. (1992), article	2	3	2	4	11
14	Welch L., Luostarinen R. (1988),	2	3	2	4	11
15	Beamish P.W., (1990), article	4	4	4	4	16
16	Andersen O., (1993), article	2	3	2	3	10
17	Cantu M. P. (2012), article	4	3	3	3	13
18	Lemos F., Johanson J., Vahlne J., (2010) article	2	3	2	3	12
19	Maclean C.	2	3	2	3	12
20	Pham T. K. N., (2008), these	2	3	2	3	12
21	Barretto A., Rocha A.	4	3	3	4	14
22	Hill C. W. L. (2000), textbook	4	3	3	4	14
23	Investopedia (electronic resource)	4	4	3	4	15

According to Table 1.3, it can be noted that most often "internationalization" is characterized as a process that results in increased production and increased productivity (Table 1.2).

The most rated concepts for the formation of our definition will be the definitions provided by Antonyuk LL, Beschasy LK, as well as categories provided by such foreign scientists as Beamish P.W. and Investopedii.

Thus, as a result of elaboration of approaches of different scientists to the definition of "internationalization", it is possible to determine that its essence is that it is a process of expansion, characterized by intensification of various forms of international cooperation to increase productivity, increase production and profits.



## 2. Assessment of the level of internationalization based on matrix methods

The essence of matrix methods is the marketing evaluation of the enterprise. The methodology is based on the analysis of two-dimensional matrices, built on the principle of the coordinate system, where the abscissa and ordinate axis reflect changes in two factors of competitiveness, which in turn have a direct relationship and affect each other.

Matrix estimation methods are based on the use of a matrix - a table of elements arranged by rows and columns.

We will consider the application of the approach to assess the level of internationalization on the example of agro-industrial enterprises: Nibulon LLC and its closest competitors in the domestic market (TOP-5 - five leaders in the ranking).

The first indicator that can be used is the share of exports of agricultural products and the number of countries to which products are exported. The data are presented in table 1.5

Table 1.5 - The share of exports of agro-industrial enterprises and the number of partner countries in exports

<b>№</b>	<b>Enterprise</b>	<b>Share of exports</b>	<b>Number of countries to which products are exported</b>
<b>1</b>			
<b>2</b>			
<b>3</b>			
<b>4</b>			
<b>5</b>			
<b>Average value (geometric mean)</b>			

In Table 1.5, the first indicator indicates the quantitative level of internationalization, and the second - the qualitative, as it allows to determine the geographical diversification. The average value of enterprises as a whole is calculated. The geometric mean formula is used for this purpose, which allows to take into account low and high values of the indicator, because when determining the arithmetic mean, low values are compensated by high ones, which reduces the objectivity of calculations and their correspondence to the real situation. The geometric mean is determined by the formula:

$$\bar{X}_i = \sqrt[N]{\prod_{i=1}^N X_i}, \quad (1.1)$$

where  $\bar{X}_i$  – is the geometric mean of the i-th indicator;

$N$  – the number of enterprises under investigation;

$\prod_{i=1}^N X_i$  – the product of the values of the i-th indicator of the enterprises under study.

Hypothesis 1 (H1): the greater the export in terms of the number of markets, the greater the level of internationalization

On the basis of the received calculations we make a matrix (tab. 1.6) which consists of four squares:

the first quadrant of the matrix: the share of exports above the average level and the number of countries to which products are exported above the average level

the second quadrant of the matrix: the share of exports below the average level and the number of countries to which products are exported above the average level

the third quadrant of the matrix: the share of exports below the average level and the number of countries to which products are exported above the average level

fourth quadrant of the matrix: the share of exports above the average level and the number of countries to which products are exported above the average level

Table 1.6 - Matrix of internationalization assessment

	the share of exports is above average	частка експорту нижче середнього рівня
the number of countries to which products are exported above average	I quadrant	II quadrant
the number of countries to which products are exported below average	IV quadrant	III quadrant

For enterprises under study, the matrix of internationalization assessment is presented in table 1.7

Table 1.7 - Matrix for assessing the internationalization of enterprises under study

	The share of exports is above average	The share of exports is below average
the number of countries to which products are exported above the average level	Enterprise 1 Enterprise 5	Enterprise 3
the number of countries to which products are exported below average	Enterprise 4	Enterprise 2

Matrix analysis allows either to confirm or refute Hypothesis 1 (H1).

If the company falls into the first quadrant of the matrix of internationalization, the hypothesis is confirmed, because the company has not only a significant share of exports, but also the number of markets.

If the company falls into the second quadrant, it is necessary to analyze in detail the countries to which products are exported and the conditions offered by the company, product prices, determine the reasons for low exports and improve these components to increase exports to exporting countries.

If the company falls into the third quadrant, its main task is to create conditions for increasing exports and finding new markets.

If the company falls into the fourth quadrant of the matrix, it is the search for new markets to diversify exports and reduce potential risks

Similarly, this approach can be used to assess other indicators: the share of exports and the average price level.

Table 1.8 - The share of exports of agro-industrial enterprises and the level of prices for agricultural products

<b>№</b>	<b>Enterprise</b>	<b>Share of exports</b>	<b>Price level</b>
<b>1</b>			
<b>2</b>			
<b>3</b>			
<b>4</b>			
<b>5</b>			
<b>Average value (geometric mean)</b>			

Use the approach described above.

Table 1.9 - Matrix for assessing the internationalization of enterprises under study

	The share of exports is above average	The share of exports is below average
the price level is above average	Enterprise 1 Enterprise 5	Enterprise 3
price level below average	Enterprise 4	Enterprise 2

And then build a common matrix for all indicators

Table 1.10 - General matrix for assessing the level of internationalization of enterprises under study

<b>Internationalization</b>	<b>Indicators of internationalization</b>			
		Part of exports	Number of markets	Product price level
High		Growth, development, retention of positions	Growth, development, retention of positions	Improving export conditions through price revision
Average		Growth, development,	Consider finding new markets	Improving export conditions through price revision

		retention of positions		
	Low	Diversification of exports to increase its volume and share	Search for new markets	Improving export conditions through price revision

Such a matrix can be built for each company in order to determine the export strategy for internationalization:

- Strategy "holding positions" - a high level of internationalization: growth and retention of competitive positions;

- Strategy of "further expansion" - the average level of internationalization: consider opportunities to find new markets and improve export conditions in order to increase competitive positions;

- Strategy of "urgent action" ("shock therapy") - low level of internationalization: finding new markets and improving export conditions based on the revision of pricing policy.

Also on the basis of these indicators it is possible to offer definition of the general index of internationalization for the enterprise of an agro-industrial complex.

Given that the contribution of the proposed indicators to the development of international and foreign economic relations may be different, for each indicator of internationalization it is necessary to determine the weighting factor (coefficient of significance). Table 1.11 presents the weights of the indicators (as an example).

Table 1.11 - Values of weights of indicators of the level of internationalization

Indicator	Export volume, UAH million	Number of markets, units	Level of prices for products, UAH
Weighting factor	0,4	0,35	0,25

To calculate the index of internationalization of the enterprise it is necessary to build a matrix of indicators of internationalization (Table 1.12).

Table 1.12 - Data to determine the level of internationalization

№	Enterprise	Export volume, UAH million	Number of markets, units	Level of prices for products, UAH
1				
2				
3				
4				
5				

Formula for determining the internationalization index:

$$I_i^{\text{III}} = \sqrt[m]{\sum_{j=1}^m \left( \frac{a_j x_{ij}}{\max_j(a_j x_{ij})} \right)}, \quad (1.2)$$

where  $x_{ij}$  – the value of the  $j$ -th indicator of the internationalization of the  $i$ -th enterprise;

$a_j$  – weighting factor of the  $j$ -th indicator of internationalization,  $j = \overline{1, m}$

Formula (1.2) contains the operation of the sum, which is equivalent to the value of "or", ie low values of the indicator will compensate for high.

You can also use a modified formula:

$$I_i^{\text{III}} = \sqrt[m]{\prod_{j=1}^m \left( \frac{a_j x_{ij}}{\max_j(a_j x_{ij})} \right)}, \quad (1.3)$$

Formula (1.3) contains the operation of the product, which is equivalent to "and / and", ie simultaneously takes into account the values of indicators, without compensating for low values with high ones.

You can calculate the index by formula (1.2) and (1.3) and compare the values obtained.

It is possible to change the weights of indicators and take into account the contribution of each of them to the level of internationalization, ie to analyze how the index of internationalization will change (increase or decrease) when changing weights. This will allow us to conclude on the contribution of each indicator and the level of internationalization of the enterprise and determine the export strategy for further action to increase the level of internationalization.



### Questions for self-control

1. What is the method of constructing categories "essence-content-result"?
2. Describe the features of the use of matrix methods?
3. What is internationalization?
4. Define internationalization as: phenomenon, process and strategy.
5. What is the method of assessing the level of internationalization?