Eugeniusz Michalski
Politechnika Koszalińska

STRATEGIES FOR INTERNATIONAL ENTERPRISE COMPETITION

The main aim of this paper is analyzed the role, importance and methodology for creating the strategies for international competition, as well as the ways of implementing and evaluating the selected strategies. This is done by applying exploratory, descriptive and casual methods to outperform competitors and determine the scope of an enterprise’s engagement in international business. The article examines forces and steps of planning, implementing and evaluating a business strategy. Enterprises must recognize and compare the factors that compose foreign environments, especially the state and local governmental politics, legal regulations, economic and financial forces, cultural differences, business ethics, technological development, infrastructure, natural resources protections, sociological and demographic issues.

Three competitive strategies have been distinguished: cost leadership, differentiation and focus. Virtues of M. Porter’s five forces model: threat of new entry, competitive rivalry, supplier power, buyer power and threat of substitutes have been considered. The selection of the target markets and recognizing customers preferences belong to the most important tasks of strategic planning. An enterprise can select three levels of international involvement: passive participation, active involvement and taking the international position. Foreign countries impose barriers on international trade, but international agreements facilitate healthy competition.

Keywords: business, environment, reputation, market, barriers

Introduction

The main aim of this paper is to present the role, importance and methodology of composing the strategies for international competition, as well as the ways of implementing and evaluating of selected strategies. Examined are foreign environmental frameworks, know-how and forces of international business are clarified. This has been done by defining international competition problems and applying exploratory, conclusive and casual research. The objective of exploratory research is to provide insight into, and an understanding of international competition. The conclusive research is designed to determine, evaluate and select the best competition strategies. Casual research is used to obtain evidence of cause-and-effect (casual) relationships. Two hypotheses are formulated:

H1. Planning strategies are shaped by an unknown foreign environment, strong competitiveness and high risk.
H2. An enterprise must streamline decisions and level of involvement when starting an internalization business.

These hypotheses will be tested as the topic and issues of strategies for enterprises’ international competition are introduced, discussed and analyzed.

1 N. K. Malhotra, Marketing Research, Prentice Hall, Jersey City 2009, p. 75
A strategy is a general plan or set of plans intended to achieve something, especially over a long period of time. It is considered the art and science of planning and marshalling resources for their most effective use. Strategic plans establish overall objectives and position an enterprise in terms of its domestic and international environments. The enterprise needs to adapt its unique resources to objectives to different competitive situations. The selection of the target markets and service offering of the enterprise and the development of strategies for market preparation and sales targets belong to the most important tasks of strategic planning.

An entrepreneur takes an opportunity or a business venture in his or her own hands, at his or her own risk with the intention to create value, regarding entrepreneurship as a proactive, opportunity-driven, innovation-focused and customer-oriented process that creates value but also risk for the entrepreneur. An entrepreneurial mindset and the search for high potential opportunities is required for firms to compete successfully in the new competitive landscape of uncertain business environments. Entrepreneurship can be described as the commercialization of innovations through risk-taking activities.

Enterprises will often use a product differentiation strategy when they have a competitive advantage, such as superior quality or service. This strategy can also help an enterprise build brand loyalty. A price-skimming strategy involves charging high prices for a product, particularly during the introductory phase. Such a strategy may be used to quickly recover production and advertising costs. However, there must be something special about the product for buyers to pay an exorbitant price. An enterprise with extra capital may use an acquisition strategy to gain a competitive advantage. An acquisition entails purchasing another enterprise or one or more of its product lines.

The first step of strategic planning is called a mission statement, that will hold the enterprise together over a long period of time while it builds its international competitive viability. The next step is to analyze internal resources, along with environmental factors. Not only is the environment changing, but the pace of change grows faster. Competitors move, customers’ needs and behaviors change, and technology evolves. One crucial element to determine a future path for an enterprise is to predict these evolutions and trends and incorporate this thinking into the business strategy-building process.

A small enterprise inexperienced in foreign business may lack financial or human resources, even though it may have unique product capabilities that indicate opportunities abroad. An enterprise faced with rising domestic cost and expanded competition from import may pursue cost reduction, acquisition of resources the competition needs or diversification into new foreign markets or products. Legal and organizational structure may differ among foreign countries because of unique nature of activities and unique environmental requirements. To gain an advantage over competitors, an enterprise must produce its goods and services efficiently and be able to sell at a reasonable profit. It must convince customers that its products are either better

---

2 M. R. Czinkota, I.A. Ronkainen, International Marketing, Thomson South-Western, Mason 2007, p. 187-188
4 Strategic Entrepreneurship: The Role of Strategic Planning and Marketing in SMEs, p. 1028
5 https://www.researchgate.net/publication/228149962_Strategic_Entrepreneurship_The_Role_of_Strategic_Planning_and_Marketing_in_SMEs, accessed on 3.11.2018
or less expensive than those of its competitors. International competition, therefore, forces enterprises to make products better and cheaper.

**Competitive advantage of a nation**

National competitiveness refers to the ability of a country to generate more wealth than its competitor in international markets. Competitive advantage has become a widely accepted indicator of why nations engage in international trade. National competitive advantage derives from three conditions:

- Demand conditions - reflect a large domestic consumer base that promotes strong demand for innovative products.
- Related and supporting industries and infrastructure, include strong local or regional suppliers and industrial customers.
- Competitors that stress high productivity and innovative products.

Success in the international exchange requires figuring out environmental forces, enterprise capacity, and marketing mix activities with respect to competitor reactions. The enterprise is subject to constraints and frequent conflicts resulting from different laws, cultures and societies. Enterprises must recognize the factors that compose their domestic and foreign environments, especially the state and local governmental politics and regulations; legal, economic and financial forces; cultural differences and business ethics; technological development and infrastructure; natural resources protections; and sociological and demographic issues.

Political and legal environments reflects the relationship between business and government, usually in the form of government rules and regulations. Political stability is an important consideration. No enterprises wants to set up activities in another country unless relationships with that country are relatively well defined and stable. Enterprises try to maintain favorable political and legal environments in several ways. To gain public support for their products and activities they can use advertising campaigns for awareness on issues of local, regional or national importance. Lobbying and support of political candidates sometimes result in favorable laws and regulations and may even open new international opportunities. One of the reasons that government regulates business is to ensure that healthy competition exist among enterprises, because large enterprises with vast resources can drive smaller enterprise out of the market.

Enterprise is determining the consistency of the comparison between international and domestic environments. One key facet of a business concept is the adaptation to the foreign environment, particularly the market. In the short term, an enterprise has to adjust to these environmental forces. For example, food preferences and physical activities reflect the growing concern for healthy lifestyles and growing recognition of cultural diversity. These issues express the values, believes and ideas that forms the fabric of national society. Although most people value privacy, web surfers are discovering that a loss of privacy is often a price for convenience of internet shopping. Enterprises have to alter or adapt their competitive strategies because of political actions.

---

social changes, economic fluctuations, demographic trends, buyers’ attitudes, technological advances and growth of Internet/World Wide Web.

The social and cultural environments includes customs, values, attitudes and demographic characteristics of society in which an enterprise functions. They determine the goods and services as well as the standards of business conduct that a society is likely to value and accept. Ethical responsibility is also a critical element of international business. The employees, stockholders, consumers, unions, creditors and government are entitled to a fair representation of the facts so they can make enlightened personal and business decisions. Appropriate standards of business conduct vary across cultures. In some countries accepting bribes in return for political favors is unethical, but in other countries, payments to local politicians are expected to obtain a favorable response in businesses transactions. Customers’ preferences and tastes vary both across and within national boundaries. Economic conditions determine spending patterns by consumers, businesses and governments. They influence product offerings, pricing and promotional strategies. Entrepreneurs’ concern should be with inflation, interest rates, recession, and recovery, that mean monitor the general business cycle.

Reputation Institute’s Global RepTrak covers the world’s most respectable enterprises over the years. Table 1 shows the world’s most reputable companies in 2018. The standard is providing a measurement of how the customers view the world’s best-known enterprises. It examines more than 7,000 companies in 50 countries. Reputation shows the emotional bond that customers have with the company and connects it with rational behaviors. Customers’ perception is assessed in following dimensions: goods, services, innovation, workplace, governance, citizenship, leadership and performance. Emotional bond is expressed in feeling, esteem, admiring and trust. Supportive behavior is shown in customers’ purchases, recommendations, being crisis proof, verbal support, investment and employment.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Company</th>
<th>RepTrak Score</th>
<th>Headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Rolex</td>
<td>79.3</td>
<td>Switzerland</td>
</tr>
<tr>
<td>2.</td>
<td>LEGO</td>
<td>77.9</td>
<td>Denmark</td>
</tr>
<tr>
<td>3.</td>
<td>Google</td>
<td>77.7</td>
<td>United States</td>
</tr>
<tr>
<td>4.</td>
<td>Canon</td>
<td>77.4</td>
<td>Japan</td>
</tr>
<tr>
<td>5.</td>
<td>The Walt Disney Company</td>
<td>77.4</td>
<td>United States</td>
</tr>
<tr>
<td>6.</td>
<td>Sony</td>
<td>77.3</td>
<td>Japan</td>
</tr>
<tr>
<td>7.</td>
<td>Adidas</td>
<td>76.6</td>
<td>Germany</td>
</tr>
<tr>
<td>8.</td>
<td>Bosch</td>
<td>76.4</td>
<td>Germany</td>
</tr>
<tr>
<td>9.</td>
<td>BMW Group</td>
<td>76.1</td>
<td>Germany</td>
</tr>
<tr>
<td>10.</td>
<td>Microsoft</td>
<td>75.8</td>
<td>United States</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on Global Top Companies
https://www.reputationinstitute.com/global-reptrak-100, accessed 3.11.2018

Information technology (IT) has played an important role in enterprises. It is considered as a major enabler for new forms of working and collaborating within an enterprise and across its borders. New technologies affect competition in many ways. They improve and create new products that make some existing products obsolete and...
many of them change the values and lifestyles of customers. In turn, they stimulate new goods and services not directly related to new technology itself. For example cellphones not only facilitate business communications but also free up time for recreation and leisure. Along with technological developments, it is the case with literally thousands of breakthroughs in such fields as genetics, electronics, aeronautics, medicine, communications systems, transportation, the internet and e-marketing. New technologies have changed the way of doing business, allowing both supplying and receiving products from across the world by using the internet. As a result, consumers, policymakers, and sometimes even enterprises themselves are finding it increasingly difficult to define where a particular product was made. Technology applied to the business includes all ways enterprises create value from knowledge, work methods, physical equipment, electronics and telecommunications and processing systems. The innovation process includes research and development which provides new ideas for goods, services and processes. Ongoing technological innovation speeds up production and makes it less expensive from sources around the world bought at lower cost, and customized to meet diverse customers’ needs\(^9\).

---

**Figure 1.** M. Porter’s five forces model of industry competition  
Source: Own elaboration bases on Porter's Five Forces  
https://www.mindtools.com/pages/article/newTMC_08.htm

One of the most popular methods to analyze a competitive situations in industry is called M. Porter’s five force model, which includes: threat of new entry, competitive rivalry, supplier power, buyer power and threat of substitutes. The model presented in Figure 1 helps to analyze important sources of competitive pressure and then decide what competitive strategy should be. Rivalry can be seen in activities like intense price

---

competition, elaborate advertising campaigns, and increased emphasis on customer service. The amount of bargaining power that suppliers have in relation to customers helps determine how competitive an industry is. When there are only a few suppliers, they tend to have great bargaining power. The power of suppliers is influenced by the number of substitute products that are available, i.e. products that perform the same or similar functions. When there are few substitute products, suppliers obviously have more power. When there are only a few buyers and many suppliers, the buyers have a great deal of bargaining power. If there are many substitute products available, the industry is more competitive. Porter’s ideas help decide the level of competitive intensity in domestic or foreign industry.

Each enterprise operates in a specific industry and each industry has different characteristics. The intensity of competition in an industry has a big influence on how an enterprise operates. To be effective an enterprise must develop a competitive strategy to exploit opportunities in the industry. M. Porter identifies three competitive strategies in the industry:

- **Cost leadership** – means becoming the low-cost leader in industry.
- **Differentiation strategy** – an enterprise seeks to be unique in the industry along some dimension that is valued by customers.
- **Focus strategy** – means selecting a market segment and serving the customers in that segment better than competitors.¹⁰

Enterprises that attempt to increase market share by cutting prices more deeply than competitors typically don’t achieve significant gains, because rivals meet the price cuts or offer other values so customers don’t switch. Too many customers can put a strain on the enterprise’s resources, hurting product value and service delivery. A slow conversion and significant service problems led to customer dissatisfaction and eventually enterprises’ bankruptcy.

**The scope of enterprises’ engagement in international businesses**

Competitive intelligence is the process of discovering, analyzing and using information to become an enterprise that is more competitive in the international marketplace.¹¹ This involves gathering information about competitors in order to determine their current and possible future actions and strategies to gain a competitive advantage. Information is mainly gathered about local and international competitors and their activities. Intelligence is also used for the collection and monitoring of external data such as analysts’ reports, competitor financial data and mass media monitoring. It can assist with more or less every international marketing decision faced by an enterprise.

In particular, competitive intelligence is an ongoing process that involves gathering specific data about:

- competitors and their strategic intentions;
- technology, especially emerging trends and possible future developments;
- legal and regulatory changes;


- suppliers and changes to distribution systems;
- economy and market trends;
- political and social changes that affect the competitive environment\textsuperscript{12}.

Figure 2 shows four basic decisions an enterprise must make when faced with the prospect of internalization. The first decision is whether to engage in international business. Once a positive decision has been made, it must decide if the product has to be modified to fit a foreign market and if the climate is suited to imports. The enterprise must also answer if it has or can get the necessary skills and knowledge to do business abroad.

International marketing research is conducted either simultaneously or sequentially with competitive intelligence to facilitate trade decisions. Comparative research, focus on identification, classification, measurement and interpretation of similarities and differences among entire national systems. Outcomes of these kind of research and the prior market entry of competitors may indicate whether there is demand for an enterprise’s products\textsuperscript{13}.

![Figure 2. The decisions of involvement in international business](source)

Source: Own elaboration.

As is showed in Figure 3, an enterprise can organize three levels of international involvement: passive participation, active involvement and taking the international position. Next, it has to structure these levels to best meet its activities. Casual exporting involves distribution of the same offering in another country. Because this approach typically requires minimal capital investment and is easy to initiate, it is a popular option for entering foreign markets and an excellent way to learn the fine points of international business. As an enterprise gains experience and success as an exporter or importer, it may move to the next level of involvement\textsuperscript{14}.

\textsuperscript{12} D. Chaffey, Digital Business i E-commerce Management, Wydawnictwo Naukowe PWN, Warszawa 2016, p. 193-194
\textsuperscript{13} N. K. Malhotra, Marketing Research, Prentice Hall, Jersey City 2004, p. 666
\textsuperscript{14} S. P. Robbins, M., R. Coulter, R. Stuart-Kotze, Management, Prentice Hall, Boston 2012, p. 79
An independent agent is a foreign individual or organization that agrees to represent an exporter’s interests in foreign markets. Agents often act as sales representatives as well collecting payments and ensuring that customers are satisfied. They often represent several enterprises at once and usually do not specialize in a particular product or market. Almost every permanent agreement with the foreign middleman leads to partnership.

Enterprises seeking more involvement in international business may opt for licensing arrangements, where the exporting enterprise gives individuals or enterprises in a foreign country the exclusive right to manufacture or market their products. An enterprise gives the right to patents, trademarks, know-how, copyrights, designs, and other intellectual property by its owner to another enterprise in return for a royalty or a fee\(^\text{15}\). Royalties are usually calculated as a percentage of the license holder’s sales. Licensing provides a low-risk, quick, and capital free entry to another country. An enterprise may also send some of its own managers to foreign country branch offices, where it has more direct control than it does over agents or license holders. Branch offices also give an enterprise a more visible public presence in foreign countries.

![Figure 3. The Levels of Involvement in International Business](source)

A franchise is a type of license that a franchisee acquires to gain access to the franchiser’s proprietary knowledge, processes and trademarks in order to allow the party to sell a product or provide a service under its name. In return the franchisee usually pays an initial start-up and annual fee. Franchises are a very popular method for people to start a business, especially for those who wish to operate in a highly competitive industry like the fast-food industry. One of the biggest advantages of purchasing a franchise is that an enterprise has access to an established brand name.

A joint venture is a commercial enterprise undertaken jointly by two or more parties which involves investment by both in a foreign enterprise and for a local enterprise to create a new entity. One enterprise may not have the necessary financial, technological, or managerial resources to enter a market alone. This approach also often ensures against barriers being imposed on the foreign enterprise by the government of the host enterprise.

\(^\text{15}\) E. Michalski, Marketing, Wydawnictwo Naukowe PWN, Warszawa 2018, p. 621
A strategic alliance is an agreement for cooperation between two or more independent enterprises to work together toward common objectives. Unlike in a joint venture, enterprises in a strategic alliance do not form a new entity to further their aims but collaborate while remaining apart and distinct. Strategic alliances allow enterprises to pursue opportunities at a faster rate than if they functioned alone.

A direct investment means buying or establishing tangible assets in another country. Enterprises that successfully gain assets in other countries typically outperform competitors in three areas: new-product activity, product quality and marketing expenditures. An enterprise should analyze many variables when considering making direct investments in a foreign country:

- some governments prohibit or limit imports of goods produced in other countries, but an enterprise can build a production site in the foreign market and produce locally,
- producing goods in the target market avoids import duties and other taxes and the requirement for import permits,
- the enterprise can obtain the services of skilled employees in the target market or gain intelligence held by people in that market,
- in certain countries, an enterprise can take advantage of lower costs, such as cheaper labor.

Enterprises can merge with other enterprises or buy them in a foreign country. Investments are often made in countries as a way of gaining access to markets that are closed or limited by trade barriers, procurement practices or government regulations. Direct investment is the most risky option and requires the greatest commitment. However, it brings an enterprise closer to its customers and may be the most profitable approach for developing foreign competition.

**Barriers to international business**

Protectionism is the practice of supporting domestic business at the expense of free market competition. Success depends largely on the way businesses respond to social, economic, legal and political barriers that exist in foreign countries. Trade barriers are government restrictions imposed mainly on import. These barriers can include tariffs, quotas, import licensing, customs practices, standards, testing, labeling, and certification.

A tariff is a tax charged on imported products. Tariffs raise the price of imports to customers. Most tariffs discourage the import of products and protect domestic enterprises and jobs. In particular, they protect new industries until they are able to compete internationally. A quota is a restriction by a nation on the total number of products of a certain type that may be imported from another nation. It indirectly raises the prices of imports by reducing their supply. An extreme form of a quota is an embargo that occurs when a government forbids the export or import of a particular product.

---

16 Ibidem, p. 634
Many enterprises entering new markets encounter problems in complying with stringent regulations and bureaucratic obstacles. Sometimes that which is a legal and even accepted business practice in one country is illegal in another. A country can affect how a foreign enterprise does business there by enacting local laws, which require that products sold be at least partly made in that country. An enterprise can understand the transactional differences either by itself or by acquiring a local partner.

Despite these barriers, international trade is flourishing. This is because organizations and free trade treaties exist to promote international trade\(^1\). The most significant of those are the General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO), European Union (EU), and North American Free Trade Agreement (NAFTA).

The purpose of the GATT is to reduce and eliminate trade barriers, such as tariffs and quotas which protect domestic industries, and engage in multilateral negotiations.

The WTO is empowered to pursue three goals:
- promote trade by encouraging members (164 countries) to adopt fair trade practices,
- reduce trade barriers by promoting multilateral negotiations,
- establish justifiable procedures for resolving disputes among members.

The EU is the agreement among 28 European nations to eliminate or make uniform most trade barriers affecting group members. The EU has eliminated most quotas and set uniform tariff levels on products imported and exported within their group. The EU is the largest free marketplace in the world and produces nearly one quarter of global wealth. NAFTA removes tariffs and other trade barriers among the United States, Canada and Mexico.

International business offers many potential advantages, such as trading with other nations, but it can pose problems if a country’s imports and exports are not balanced. Two measures are used in deciding whether and overall balance exists: balance of trade and balance of payments\(^2\). A nation’s balance of trade is the difference in value between its total exports and its total imports. A country that exports more than imports has a favourable balance of trade, or a trade surplus. A country that imports more than it exports has an unfavourable balance of trade, or a trade deficit.

The balance of payments refers to the flow of money into or out of a country. Money spent by tourists, on foreign aid programs, and spent or received in buying and selling of currency on financial markets also affect the balance of payment.

Enterprises must watch exchange rate fluctuation closely because changes affect demand for their products and can be a major factor in competition\(^3\). When the value of a country’s currency rises, i.e. it becomes stronger, it becomes harder to export products to foreign markets and it is easier for foreign enterprises to enter local markets. It also makes it more cost efficient for domestic enterprises to move production operations to lower cost sites in foreign countries. When the value of a country’s currency declines, its balance of trade is improved because domestic enterprises experience a boost in exports.

\(^{19}\) E. Michalski, Marketing, op. cit., p. 673-674

\(^{20}\) Ph. R. Cateora, M. C. Gilly, J. L. Graham, op. cit., p. 33

\(^{21}\) M. R. Czinkota, I. A. Ronkainen, op. cit., p. 196
Conclusions

The hypothesis that strategies for international competition must take into consideration an unknown foreign environment, strong competitiveness and high risk as well as streamline decisions and their level of involvement in internalization business have been proven. A useful technique for gauging outcomes of alternative competitive strategies is to array possible actions and responses to these actions. Strategic planning must recognize and compare the factors that compose domestic and foreign environments. Political and legal activities and economic systems have profound effects on international competition.

Different levels of involvement in international business require specific kinds of organizational structure. Customers preferences and tastes also change over time. By making it easier for customers to compare prices, the internet has increased their bargaining power. Reputation Institute’s Global RepTrak uncovers the world’s most respectable business enterprises by analyzing variables that may best serve each target market. The trade barriers introduced by foreign countries make it difficult to implement international competitive strategies.

No matter how well a foreign environment is understood, there is always something missing, so it is better to listen and learn from a local partner. Building and developing local networks is time consuming and can be expensive but it may be worth a fortune.

Bibliography

FIT on set-backs of new exporters https://outlook.live.com/owa/?path=/mail/inbox/rp, accessed on 3.11.2018
Gregor B., Kaczorowska-Spychalska D., (red.) Marketing w erze technologii cyfrowych, Wydawnictwo Naukowe PWN, Warszawa 2018
Malhotra N. K., Marketing Research, Prentice Hall, Jersey City 2009
Michalski E., Marketing, Wydawnictwo Naukowe PWN, Warszawa 2018
Porter's Five Forces https://www.mindtools.com/pages/article/newTMC_08.htm accessed on 3.11.2018
Robbins S. P., Coulter M., R., Stuart-Kotze R., Management, Prentice Hall, Boston 2012,
The Role of Strategic Planning and Marketing in SMEs, (in) Strategic Entrepreneurship, p. 1028
Streszczenie

Głównym celem artykułu jest analiza roli, znaczenia i metodologii opracowywania koncepcji strategii międzynarodowego biznesu oraz sposobów wdrażania i oceny wybranych strategii. Realizacja tego zadania została przeprowadzona przez zastosowanie badań odkrywczych, rozstrzygających i przyczynowych. Przedstawiono, metody pokonania konkurentów i skalę zaangażowania przedsiębiorstwa w prowadzenie międzynarodowego biznesu. Artykuł rozpatruje czynniki determinujące międzynarodową przewagę konkurencyjną i etapy jej planowania, wdrażania i oceny. Przedsiębiorstwo muszą poznać i porównywać czynniki determinujące obce środowisko, a w szczególności krajowa polityka regulacji prawne, czynniki ekonomiczne i finansowe, różnice kulturowe, etykę prowadzenia biznesu, postęp technologiczny, infrastrukturę, ochronę naturalnego środowiska oraz kwestie społeczne i demograficzne. Wyniki analizy pozwoliły na wyróżnienie najbardziej cenionych przedsiębiorstw na świecie.


Słowa kluczowe: biznes, środowisko, renoma, rynek, bariery

Informacje o autorze:

Prof. dr hab. Eugeniusz Michalski
Department of Management
Faculty of Economics
Koszalin University of Technology
Kwiatkowskiego 6e, 75-343 Koszalin
e-mail: e_michalski@hotmail.com
ORCID: 0000-0002-0696-1772