Raymond Vernon captured the classic rationale for international diversification.9 He suggested that typically a firm discovers an innovation in its home-country market, especially in an advanced economy such as that of the United States. Often demand for the product then develops in other countries, and exports are provided by domestic operations. Increased demand in foreign countries justifies making investments in foreign operations, especially to fend off foreign competitors. Vernon, therefore, observed that one reason why firms pursue international diversification is to extend a product's life cycle.

figure 8.1 Opportunities and Outcomes of International Strategy



Another traditional motive for firms to become multinational is to secure needed resources. Key supplies of raw material—especially minerals and energy—are important in some industries. Other industries, such as clothing, electronics, and watchmaking, have moved portions of their operations to foreign locations in pursuit of lower production costs. Clearly one of the reasons for Chinese firms to expand internationally is to gain access to important resources.10

 (Hitt 219-220)

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