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# How to use artificial intelligence in international expansion?

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Stefan SCHMID & Zhengtian XIA  
ESCP Business School

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Stefan Schmid\*  
Zhengtian Xia\*\*

ESCP Business School

## **Abstract**

Artificial intelligence is transforming how firms approach international expansion. In this paper, we explore how AI changes the way firms acquire and interpret market knowledge, and how AI supports international strategic decision-making—such as market selection, entry mode choice, and local partner evaluation. We also highlight associated risks, such as biased and incomplete data, lack of cultural sensitivity, and neglect of human expertise. We emphasize the importance of building organizational capabilities that integrate AI into international expansion. By developing these capabilities, firms can ensure that AI helps understand foreign markets, take strategic decisions, and optimize international operations.

Keywords: artificial intelligence, AI risks, international business, international expansion, strategic decision-making

\*Professor, ESCP Business School

\*\*Research Assistant and PhD Candidate, ESCP Business School

# How to use artificial intelligence in international expansion?

## Introduction

Expanding internationally has always required firms to understand unfamiliar environments, make strategic decisions under uncertainty, and adapt to different (market) conditions. In the past, many firms relied on market studies, accumulated experience, and experiential learning to guide their international growth. However, as global markets become more unpredictable and interconnected, these approaches are becoming less effective. In addition, digitalization has impacted firms, and it continues at a rapid pace.

Artificial intelligence (AI) is at the forefront of this transformation. AI can be categorized into three primary types: analytical AI, human-inspired AI, and humanized AI (Kaplan & Haenlein, 2019). Analytical AI focuses on cognitive intelligence like learning, reasoning, and problem-solving and is linked to technologies such as machine learning, natural language processing (NLP), and large language models (LLMs). Human-inspired AI combines cognitive and emotional intelligence to recognize and respond to human emotions, whereas humanized AI aims to replicate full human intelligence but remains an aspirational concept. Up to now in international business, analytical AI has been the dominant type, where, for instance, machine learning helps firms predict customer preferences, NLP enables multilingual communication, and LLMs produce text, images, or even complex strategies, as exemplified by tools like OpenAI's ChatGPT or Google's Gemini.

In this paper, we argue that AI is changing the way firms can approach international expansion. AI has advanced beyond simply improving back-end operations; it now plays an important role in helping firms detect changes in foreign markets, interpret market developments, and support strategic decision-making for expansion. This paper concentrates on how AI influences acquiring market-specific knowledge, selecting entry modes, and managing international partnerships. We argue that given the risks and limits of AI, firms need to develop organizational capabilities to effectively integrate AI in their international strategies.

## How firms “know” more about the world

International expansion exposes firms to environments different from those in their home country, such as different institutional, cultural, or market environments. A key challenge lies in bridging the knowledge gap—the difference between the firm's existing knowledge base and the specific knowledge needed to operate successfully abroad (Petersen et al., 2008). Without sufficient knowledge, firms face higher risks, miss opportunities, and experience slower growth.

Traditionally, firms gather such knowledge by commissioning market research, hiring external consultants, sending expatriate managers, or drawing on experiential learning. These approaches often deliver retrospective, incomplete information, and potentially do not capture rapid shifts, such as changes in consumer preferences, policies, or competitor activities. This is especially relevant in emerging markets, which are changing more (and faster) than many established markets. As a result, firms depending exclusively or mainly on traditional intelligence are more vulnerable to unexpected disruptions and may miss early signals of risks or opportunities.

AI changes how firms acquire, interpret, and integrate knowledge about foreign markets. For instance, machine learning and NLP technologies enable firms to access and analyze large volumes of unstructured data, such as local news, regulatory updates, customer reviews, and social media discussions, across multiple languages and cultural contexts. AI not only expands the range of sources from which information can be drawn, but also improves the speed and precision of pattern recognition, uncovering insights that traditional approaches might miss (Luo & Zahra, 2023). Moreover, AI enables firms to embed market-specific insights directly into decision-support plans, making these insights readily accessible and actionable across organizational units (Ransbotham et al., 2020).

## **AI in international strategic decision-making**

Expanding into foreign markets forces firms to confront a set of essential strategic decisions: Which foreign markets should we enter? What is the most suitable entry mode? How can we identify reliable local partners? We will show with some examples how AI may help answer these questions.

### ***Market selection***

Instead of relying on traditional methods, such as analyzing static macroeconomic indicators like GDP or population size, or conducting periodic market studies, firms can use AI to continuously collect, analyze, and interpret real-time data from multiple sources (Baek et al., 2023). Analyzing unstructured data, such as customer feedback, regulatory changes, and competitor activities, AI can identify weak or early signals for market shifts. For instance, machine learning models could detect rising interest in sustainable products in mid-sized cities, long before this shows up in sales figures or periodic market studies.

### ***Market entry mode decision***

Choosing how to enter a new international market has always involved weighing potential gains against possible risks. AI-powered simulation tools now allow managers to evaluate different entry strategies—exporting, licensing, or investing in wholly owned subsidiaries—by continuously updating scenario models (Liu et al., 2024). These tools not only account for regulatory changes, political risks, and competitor moves; they also enable firms to test different strategies under varying conditions. For example, an AI-driven scenario model can show how a 5% increase in import tariffs would reduce export margins under different volume assumptions, helping managers decide whether to continue exporting or establish a local subsidiary. For instance, Manatex, a French AI-powered platform, assists firms in selecting entry modes by comparing options like exporting or joint ventures against factors such as tariffs, regulatory requirements, and availability of partners in the target markets.

### ***Evaluation of local partners***

In international markets, especially emerging markets, finding trustworthy local partners is critical yet fraught with hidden risks. AI-powered screening tools can analyze diverse partner information—such as financial disclosures, litigation histories, online reputations, and cross-border relationship networks—using NLP and network analytics (Pagani & Davenport, 2024). These tools can detect unusual patterns, such as a sudden drop in a partner's responsiveness or discrepancies between reported transactions and digital records. An AI system might, for instance, identify a distributor whose purchase orders sharply drop while its email and call volumes significantly decline by examining both

transaction data and email or calls. This would prompt managers to look into possible performance issues or contract problems prior to entering into a partnership. Platforms like Refinitiv leverage AI, such as NLP, to automate due diligence, pulling data from sanction lists, negative news reports, and regulatory databases to help firms assess the risk of working with potential partners.

## **Risks and limits of AI in international expansion**

As firms increasingly rely on AI to enhance their international decision-making, they benefit from faster insights, improved accuracy, and higher flexibility. However, the use of AI is not without difficulties. AI-related regulations are still developing in many countries. The European Union, for example, by adopting the EU AI Act in 2024, has introduced legally binding rules governing firms' use of AI.

Firms must carefully consider the potential risks and limitations that accompany AI-supported strategies. In the context of international business, these risks can be particularly pronounced for three critical reasons: biased or incomplete data, lack of cultural sensitivity, and neglect of human expertise. Although these are not the only challenges associated with AI, they are among the most significant ones for firms operating in international markets.

1. **Biased or incomplete data:** AI systems are only as reliable as the data they are trained on. Yet in international contexts, data availability and quality vary from one country to another. Countries with advanced digital infrastructures produce a wealth of high-quality data, while others remain “data-poor.” As a result, AI tools may overrepresent trends from digitally advanced countries and regions while missing important developments elsewhere. This creates a particular hazard for international strategy: firms may be pushed to focus on seemingly promising markets while overlooking opportunities or threats in other countries and regions (Liu et al., 2024).
2. **Lack of cultural sensitivity:** AI, particularly LLMs, often struggle to recognize cultural nuances. LLMs are typically trained on dominant language datasets, such as English, and may be better at handling textual data but fail to interpret context-specific meanings or cultural subtleties. This limitation is especially problematic in international markets, where values, social norms, communication styles, and symbols vary widely (Tenzer et al., 2024). For example, in Japan, irony is often conveyed through extreme politeness, which an English-trained AI may misinterpret as genuine agreement. Similarly, direct criticism may be softened or implied in high-context cultures, requiring the ability to “read between the lines”—a skill that contemporary AI often lacks.
3. **Neglect of human expertise:** Excessive reliance on AI can weaken a firm’s strategic agility and diminish human expertise. While AI can provide data-driven insights, it cannot replace experience-based knowledge, which comes from understanding a local language, having lived in a foreign country, or maintaining strong personal networks. Firms that become too dependent on AI may lose the essential human expertise needed for effective international operations. For example, using AI for partner selection may overlook the importance of origin, relationships, or informal networks that are crucial in certain regions, like caste in India (Bapuji et al., 2024) or *guanxi* in China.

## **Building organizational capabilities for AI integration**

Successfully using AI in international expansion takes more than just adopting AI as a technology. Firms must develop organizational capabilities that integrate AI into how they learn, make decisions, and operate in international markets.

First, firms must develop basic AI literacy across both headquarters and foreign subsidiaries. Employees at various levels should understand the strengths and limitations of AI, recognizing that AI-generated insights are data-driven suggestions, not absolute truths (Przegalinska et al., 2025). However, basic AI literacy alone is not enough. Firms must also establish a shared understanding of what AI can and cannot do, ensuring that all teams, from strategic planners at headquarters to managers in foreign subsidiaries, can interpret AI outputs and consider the cultural, institutional, and market contexts affecting those insights.

Second, AI should enhance rather than replace human expertise (Przegalinska et al., 2025). In international business, where market-specific knowledge, cultural signals, and regulatory changes often resist easy quantification, human interpretation is essential. For instance, an AI recommendation to enter a market might be adjusted by local managers who are familiar with recent changes in foreign investment regulations—details that AI may not capture. The key is to position AI as a “partner” that provides data-driven perspectives without overriding human expertise.

Third, integrating AI into international decision-making requires effective coordination across functions and regions. This is not merely about aligning headquarters and subsidiaries but involves collaboration among, for instance, strategic planners, local managers, and technical teams. Strategic planners ensure that AI initiatives align with the firm’s international strategy, local managers bring market-specific insights, and IT specialists maintain and improve the technical reliability of AI systems. Without this coordinated approach, AI initiatives can become isolated—technically reliable but disconnected from both local market conditions and the firm’s global strategy.

Fourth, using AI effectively means making it part of a long-term process. Rather than treating AI as a one-time analysis tool, firms should set up feedback loops where AI-generated insights are continuously tested, adjusted, and improved. This involves updating AI models with new data, trying out different strategies through scenario analysis, and listening to feedback from local managers. For example, a firm might use AI to forecast demand in different markets, but continuously refine these predictions based on actual sales data and input by local managers.

Finally, achieving competitive advantage with AI depends on how firms use it differently, when contrasted with competitors (Ransbotham et al., 2020). Even when several firms rely on the same tools, like OpenAI’s ChatGPT or Google’s Gemini, their results can vary widely. Success depends on high-quality data, deep knowledge of foreign markets, and clear processes for turning AI insights into action. Competitive advantage does not stem from owning the same algorithms, but from combining them with a firm’s unique knowledge, skilled employees, and specific decision-making processes. Only this way is a firm’s approach hard for competitors to copy.

## Conclusion

In summary, effective use of AI in international expansion is not just a matter of adopting advanced technology. It requires building organizational capabilities that make AI a practical tool for international strategic decision-making. Firms need a shared understanding of what AI can and cannot do, along with an awareness of cultural and market differences. Effective coordination between functions and regions is essential, as it makes AI part of a long-term process where its output is regularly tested, adjusted, and improved. Finally, firms should customize AI applications to be competitive. Firms that develop these capabilities can turn AI from a potential source of confusion and risk into support for informed decision-making across borders.

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