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REVIEW ARTICLE

Multinational Strategies in Emerging Economies

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Abstract

The multinational manager faces an array of complex strategic issues. All multinational managers, in both large and small companies, must deal with the multinational of local responsiveness versus the global solution. After reading this research you should be able to appreciate the complexities of the global-local dilemma faced by the multinational company; to understand the content of the multinational strategies transnational, international, multi-domestic, and regional; to formulate a multinational strategy by applying the diagnostic questions that aid multinational companies in solving the global-local dilemma; to understand the content of the participation strategies: exporting, licensing, alliances/IJVs, and foreign direct investment; to formulate a participation strategy based on the strengths and weaknesses of each approach and the needs of the multinational company. This research paper describes an industry where almost any company can be a multinational strategist. Such companies can seek lower-cost expertise or source lower-cost or higher-quality raw material anywhere in the world to enhance their competitive positions

Introduction

This research paper describes an industry where almost any company can be a multinational strategist. Such companies can seek lower-cost expertise or source lower-cost or higher-quality raw material anywhere in the world to enhance their competitive positions. In this, we review the essential strategies that multinationals use to bring their companies to international markets and compete successfully.

Unlike those in the previous research, the strategies discussed here pertain specifically to international operations; that is, besides the basic issues regarding strategy content and formulation, there are additional strategic issues specific to the multinational company. This research paper contains two major sections. In the first section, we introduce general strategies regarding multinational operations. In the second section, we introduce the specific techniques that multinational companies use to enter markets. After reading this research, you should understand how global markets, products, competition, and risk influence the choice of a multinational strategy and the choice of a market-entry strategy. You should also understand that multinational managers face different and more complex challenges than those faced by domestic-only managers.

Multinational Strategies

A fundamental strategic dilemma faced by all multinational companies is how to compete internationally. We call this problem the global-local dilemma. On one hand, there are pressures to respond to the unique needs of the markets in each country in which a company does business. When a company chooses this option, it adopts the local responsiveness solution. On the other hand, efficiency pressures encourage companies to deemphasize local differences and conduct business similarly throughout the world. Companies that lean in this direction choose the global integration solution. The solution for the global local dilemma, whether local responsiveness or global integration, forms the basic strategic orientation of a multinational company. This strategic orientation affects the design of organization and management systems as well as supporting functional strategies in areas such as production, marketing, and finance. Here we consider only strategic implications of multinational companies' global-local dilemma. In later research you will see how this fundamental problem influences other areas of management, such as human resources and organizational design. Companies that lean toward the local responsiveness solution stress customizing their organizations and products to accommodate country or regional differences. The focus is on satisfying local customer needs by tailoring products or services to meet those needs. Forces that favor a local responsiveness solution come primarily from national or cultural differences in consumer tastes and variations in customer needs. In addition, national differences in how industries work and political pressures can lead companies to favor local responsiveness. For example, government regulation can require a company to share ownership with a local company. Some governments also require companies to produce their products in the countries in which they sell.

To the largest degree possible, multinational companies that lean toward a global integration solution reduce costs by using standardized products, promotional strategies, and distribution channels in every country. In addition, such globally oriented multinationals seek sources of lower costs or higher quality anywhere in their value chain and anywhere in the world. For example, in such con panics, headquarters, R&D, production, or distribution centers may be located anywhere they can provide the best value added with quality or lower cost. Neither responding to local customer needs nor selling the same product worldwide is a guarantee of success. Multinational firms must choose carefully for each product or business how globally or locally they orient their strategies. Later in the research you will see some of the questions that managers must answer before selecting an appropriate multinational strategy. Before that, however, we will review the broad strategic choices for the multinational manager dealing with the global-local dilemma. Four broad multinational strategies offer solutions to the global-local responsiveness dilemma: multi-domestic, transnational, international, and regional. The multi-domestic and the transnational strategies represent the bipolar reactions to one side of the global-local dilemma. The international and regional strategies represent compromise positions that attempt to balance these conflicting drives.

The multi-domestic strategy gives top priority to local responsiveness. The multi-domestic strategy is in many respects a form of differentiation strategy. The company attempts to offer products or services that attract customers by closely satisfying their cultural needs and expectations. For example, advertisements, packaging, sales outlets, and pricing are adapted to local standards. As with most uses of differentiation, it usually costs more for multinational companies to produce and sell unique or special products for different countries throughout the world. There are extra costs to adapt each product to local requirements, such as different package sizes and colors. Thus, to succeed, a multi-domestic strategy usually requires charging higher prices to recoup the costs of tailoring a product for local needs. Customers will pay this higher price if they perceive an extra value in having a company's products adapted to their tastes, distribution systems, and industry structures. A multi-domestic strategy is not limited to large multinationals that can afford to set up overseas subsidiaries. The transnational strategy gives two goals top priority seeking location advantages and gaining economic efficiencies from operating worldwide. Using location advantages means that the transnational company disperses or locates its value-chain activities (e.g., manufacturing, R&D, and sales) anywhere in the world where the company can "do it best or cheapest" as the situation requires. Thus, a company adopting a transnational strategy can locate the activities in its upstream value chain based not only on lower costs but also on the potential for creating additional value for its products or services.

When necessary for economic or political reasons, companies with international strategies frequently do set up sales and production units in major countries of operation. However, home-country headquarters retain control of local strategies, marketing, R&D, finances, and production. Local facilities become only "mini-replicas" of production and sales facilities at home. The regional strategy is another compromise strategy. It attempts to attain some of the economic efficiency and location advantages of the more global transnational and international strategies combined with some of the local-adaptation advantages of the multi-domestic strategy. Rather than having worldwide products and a worldwide value chain, the regional strategist manages raw-material sourcing, production, marketing, and some support activities within a particular region. For example, a regional strategist might have one set of products for North America and another for Mexico and South America. This allows some cost savings similar to those of the transnational international strategists, and it gives the firm flexibility for regional responsiveness. Managers have the opportunity to deal regionally with regional problems, such as competitive position, product mix, promotional strategy, and sources of capital.

Regional trading blocs such as the European Union (EL)) and North American Free Trade

Agreement (NAFTA) have led to more uniformity of customer needs and expectations within member nations. Trading blocs also reduce differences in government and industry required specifications for products. As a result, within the trading bloc, companies can use regional products and regional location advantages for all value-chain activities. The rise of trading blocs has forced son former multi-domestic strategists, especially in Europe and the United States, to adopt regional strategies. For example, Procter & Gamble and DuPont have combined their subunits in Mexico the United States and Canada into one regional organization. With this strategy, these companies gain some of the advantages of local adaptation and some of the advantages of trans-nationalization

Formulating a Multinational Strategy

The selection of a transnational, multi-domestic, international, or regional strategy depends largely on the globalization of the industry in which a company competes. Multi-business companies need to consider the degree of globalization within all industries in which they compete. It makes an industry global? George Yip, a leading authority on global strategy, calls the trends the globalization drivers. Globalization drivers are conditions in an industry to favor the more globally oriented transnational or international strategies over the more oriented multi-domestic or regional strategies. The diagnostic questions such as what strategies do your competitors use? Help managers decide whether to compete globally or locally in their Industries. The globalization drivers represent a balance sheet of forces that move a company either toward transnational or international strategies on the one side, or regional or multi-domestic strategies on the other. In addition, the location in the value chain of primary sources of a firm's competitive advantage influences the choice of a generic multinational strategy.

If most of a company's competitive advantages come from upstream in the value chain, from low-cost or high-quality design, engineering, and manufacturing a company can often generalize these advantages worldwide. A transnational strategy or an international strategy becomes the likely choice. Conversely, if a firm generates most of its value downstream in marketing, sales, and service then it is well positioned to engage in a multi-domestic strategy, which serves each market individually. Next, we discuss how the globalization drivers push some firms toward the transnational strategy and others toward the international strategy be firms may have competitive strengths in downstream activities, such as customer service, but compete in industries with strong globalization drivers. Other companies may produce high-quality products efficiently but compete in industries with strong pressures for local adaptation. In such circumstances, multinational companies often compromise and select a regional strategy. For the firm upstream competitive strengths, such as high-quality R&D, the regional strategy allows some stream adaptation of products to regional differences. For the firm with downstream competitive strengths, such as after-market service, the regional strategy allows some economies of scale produced by activities such as centralized purchasing and uniform products.

In globalized industries, companies with global strategies tend to perform better than do multi-domestic or regional strategists because they can usually offer cheaper or higher-quality products or services. How do companies choose between these two approaches to globalization the transnational and the international? To select a transnational over an international strategy, the multinational manager must believe that the benefits of dispersing activities worldwide offset the costs of coordinating a more complex organization. For example, a company may do R&D in one country, parts manufacturing in another, final assembly in another, and sales in a fourth. Coordination of these activities across national borders and in different parts of the world is costly and difficult. In later, you will see some of the complexities of organizing a transnational company to accomplish these tasks. The transnational strategist, however, anticipates that the benefits of these dispersed activities in low-cost or high-quality labor and raw materials will offset the difficulties of coordination to produce better or cheaper products. The world's largest multinational companies seldom adopt a pure international or transnational strategy. Most major multinational corporations, such as IBM, GM, and Siemens, have some mixture of transnational and international strategies. Multi-business companies may be more international or transnational in different business lines. However, as information systems and communications systems become more sophisticated, many of the traditional international firms are developing transnational characteristics. Boeing, for example, has components of its aircraft produced in Japan and China.

Beyond the traditional strategic questions facing all managers, the multinational manager must confront the global-local dilemma. Markets, costs, governments, and the competition drive the choice of a solution. As the world becomes more globalized, we are seeing more companies choosing transnational or international strategies to compete with low cost and high quality. However, cultural and other national differences still exist, and these will continue to provide opportunities to companies with more local or regional orientations. Once multinational managers choose their basic strategic approach to the internationalization of their business, that is, their multinational strategy, they must also select the operational strategies necessary to enter different countries.

Participation Strategies

Regardless of their choice of a general multinational strategy (e.g., multi-domestic or transnational), companies must also choose exactly how they will enter each international market in which they want to do business. For example, multinational managers must decide will we export only? Or will we build our own manufacturing plant in the country? The strategies that deal with the choices regarding how to enter foreign markets and countries are called participation strategies. This section reviews several popular participation strategies, including exporting, licensing, strategic alliances, and foreign direct investment. Exporting is the easiest way to sell a product in the international market. The effort can be as little as treating and filling overseas orders like domestic orders, often called passive exporting. Alternatively, a multinational company can put extensive resources into exporting with a dedicated export department or division and an international sales force. Although exporting is often the easiest participation strategy, it is an important one. In the United States, most export sales in dollars go to large companies, but most U.S. exporters are small companies. As you will see in the next research, exporting is often the only strategy available to small businesses. However, even some very large multinational companies use exporting as their major participation strategy. The aircraft manufacturer Boeing, for example, receives more than half of its revenues from exports. Once a company moves beyond passive exporting, there are two general export strategies that multinational companies can use indirect and direct exporting.

International licensing is a contractual agreement between a domestic licenser and a foreign licensee. A licenser usually has a valuable patent, technological know-how, trademark, or company name that it provides to the foreign licensee. In return, the foreign licensee provides royalties to the domestic licenser. Licensing provides one of the easiest, lowest-cost, and least risky mechanisms for companies to go international. Licensing, however, is not just for small companies or for companies with limited capital. Even the giant multinational firms use licensing when the conditions are right. Many international firms enter foreign markets using agreements similar to the basic licensing agreement. Like the more general forms of licensing, these agreements allow firms to operate in foreign countries without extensive capital investments. International franchising represents a form of comprehensive licensing agreement. The franchisor grants to the franchisee the use of a whole business operation, usually including trade man business organization, technologies and know-how, and training. Some worldwide franchisors, such as McDonald's, even provide company-owned stores. To standardize operations, franchisees agree follow strict rules and procedures. The franchisor in turn receives royalties and other compensation usually based on sales revenue. U.S. companies, such as Holiday Inn, McDonald's, 7-Eleven, and Kentucky Fried Chicken, dominate the use of franchising as an international participation strategy. Some international companies contract with local foreign firms to produce the international com-products.

International strategic alliances are cooperative agreements between two or more firms from different countries to participate in business activities. These activities may include any value-chain activity, from R&D to sales and service. There are two basic types of international strategic alliances the equity international joint venture, known popularly as the IJV, and non-equity-based alliances usually known as international cooperative alliances. Gaining increasing popularity during the last decade, international strategic alliances have become one of the dominant participation strategies for multinational firms. Even firms such as IBM and General Motors, which have resources for and traditions of operating independently, have turned increasingly to international strategic alliances as basic participation strategies. Some multinational companies set up foreign operations only to extract raw materials to support their production at home. This type of backward vertical integration is common in the steel, alu-minum, and petroleum industries. Other companies set up foreign operations primarily to find low-cost labor, components, parts, or finished goods. Finished products or components are then shipped home or to other markets. Ford, for example, assembles some automobiles in Mexico and Thailand primarily for export. Market penetration however, is the major motivation to in abroad. Companies invest in foreign subsidiaries to have a base for production or sales in their get countries. The scale of FBI often changes as firms gain greater returns from their investments or perceive less risk in running their foreign operations. Although multinational companies have many options regarding how to participate internationally, the difficult questions focus on choosing the right participation strategy for a particular company and its products.

Formulating a Participation Strategy

As in formulating any strategy, formulating a participation strategy must take into account several issues, including the basic functions of each participation strategy; general strategic considerations regarding the company and its strategic intent, products, and markets; and how best to support the company's multinational strategy. Exporting is the easiest and cheapest participation strategy, although it may not always be the most profitable. However, it is a way to begin to internationalize or to test new markets. Most companies continue to export even as they adopt more sophisticated participation strategies. However, a company must answer the question. Which form of exporting should it choose? Each export strategy has some advantages and some drawbacks. As with most business decisions, the greater potential profits of direct exporting are offset by considerations of greater financial risk and commitment of resources. In addition, there are considerations regarding the needs and capabilities of the company. The decision to license is based on three factors the characteristics of the product selected for licensing, the characteristics of the target country in which the product will be licensed, and the nature of the licensing company.

The best products to license use a company's older, or a soon-to-be-replaced, technology, companies that license older technologies avoid giving potential competitors their newest innovations, while using the license to profit from earlier investments. The situation in the target country may make licensing the only viable participation strategy. Factor that add costs to a product often make licensing more attractive than exporting. Trade barriers such as tariffs or quotas add costs to finished goods that can make exporting them unprofitable. In situation, rather than transferring a physical product, a company can transfer the intangible know how through a license. For example, a brewing company that exports kegs of beer may face stiff import tariffs. However, by licensing the brewing process to a local brewer, know-how is transferred and tariffs or import quotas are avoided. Some companies lack adequate financial, technical, or managerial resources to export or to invest directly in foreign operations. With licensing, however, the company does not have to manage international operations. There is no need for an export department, a foreign sales force, or an overseas manufacturing site. The company's managers need not know much about operations in the foreign country or how to adapt their product to local needs. The licensee assumes these chores and responsibilities. Thus, licensing is a low-cost option. It does not demand much from the licensing company and is often the most attractive option for small companies.

Although a low-cost and low-risk participation strategy, there are four major drawbacks of licensing as a participation strategy. First and most important, licensing gives up control. Once an agreement is signed and the trademark, technology, or know-how is transferred, there is little the licenser can do to control the behavior of the licensee, short of revoking the licensing agreement. For example, a licensee may not market the product adequately or correctly. Second, a company may create a new competitor. The licensee may use your technology to compete against you not only in the licensee's country but elsewhere in the world market. Third, law income generally results. Royalty rates seldom exceed 5 percent. Often licensees are less motivated to sell a licensed product with its shared profits than to sell their own, homegrown products. Fourth, there are opportunity costs to licensing. That is, the licensee removes the opportunity to the country through other means, such as exporting or direct investment. Usually the licensing contract grants licensees the exclusive right to use trademarks or technologies in their countries, excluding even the licenser. Several motivations lead multinational companies to use strategic alliances. Most of these reasons are based on the logic that two or more companies have different capabilities that, when combined, can lead to competitive advantages. Some of the reasons for forming alliances follow local Partner's Knowledge of the Market, Government Requirements, Sharing Risks, Sharing Technology, Economies of Scale, Low-Cost Raw Materials or Labor.

Companics must assess their needs for and abilities to succeed in strategic alliances. Questions to consider include could other participation strategies better satisfy strategic objectives? Does the firm have the management and capital resources to contribute to the relationship? Can a partner really benefit the company's objectives? What is the expected payoff of the venture? In addition to addressing these questions, to maximize their chances of success companies must plan for the design and management of the alliance. Later we will discuss the management and design of strategic alliances in more detail. Each form of strategic alliance has its benefits. Equity-based IJVs often provide more security than non-equity-based agreements because firms must invest up front when creating the new company, ever, because no equity cooperative alliances do not require the creation of a legal entity, they are often more flexible, easier to create, and easier to dissolve. Cooperative alliances can also be less visible to competitors. Which form of alliance a firm chooses depends on the needs and character-ides of the companies involved as well as on other issues such as local legal requirements? All but the most experienced international firms usually try other forms of participation strategies before they select direct investment. Exporting, licensing, or alliances can prepare a firm for FDI and minimize the chances of failure. In any case, however, the advantages and disadvantages of FDI must be weighed.

General Strategy Considerations

Once a multinational manager considers the general merits of each possible participation strategy, several broader strategic issues should be considered as part of formulating a participation strategy. In particular, multinational managers must consider their company's strategic intent regarding profits versus learning, the capabilities of their company, local government regulations, the characteristics of the target product and market, geographic and cultural distance between the home country and target country, and the tradeoff between risk and control. Although ultimately profit is the major goal of all firms, many companies enter international markets with less emphasis on short-term profit. Other goals such as being first in a market with potential or learning a new technology motivate their internationalization efforts. For example, many firms have entered China and the former Eastern bloc countries with the knowledge that profits possible only in the distant future. In the meantime, their companies are learning the market and making the business contacts necessary to take advantage of future market potential. Joint venture often serves these purposes well. If the strategic goal is immediate profit, then entry strategies can be compared using more traditional market-forecasting techniques. Such techniques use die predicted sales to project estimate revenues for each participation strategy (for example, licensing versus exporting). Comparing to forecasted revenues to the costs associated with the investment yields a forecasted profit for each participation strategy. All things being equal, a company will choose the most profitable entry strategy. However, companies also consider issues such as financial risk (for example, the cost of the investment relative to the size of the company; the certainty of the profit forecast) and political risk (e; the stability of the target country's government). Companies may also consider using participation strategies based on competitive issues, such as using FBI in a counter-parry move.

What can a company afford? This fundamental question governs entry choice. For many companies exporting is the only viable internationalization option. Companies should also consider human resource issues. Do they have the necessary managers to run a wholly owned subsidiary, to transfer to a joint venture, or even to supervise an export department? Production capabilities may be important if the company needs to adapt its products to foreign markets. Finally, even if a firm has the necessary managerial and financial resources to implement a participation strategy, the managers must be committed to using these resources. Dealing with the complexities of the legal system and government regulations often challenge many firms in their own countries. A company that decides to go international confronts a whole new set of regulations in the target market countries. Many questions must be considered. What kinds of import or export tariffs, duties, or restrictions exist? Factors related to the product targeted for the international market affect the participation decision in several ways. A great distance between two countries, either in geography or culture, affects the participation decision. Physical distance raises several issues. Not all potential or otherwise attractive international markets have stable political systems. Governments change, and policies toward foreign firms can change just as quickly. Usually, firms hold off on equity investments (that is, direct investments or joint ventures) until governments show degree of stability. However, firms that take risks in unstable political environments can sometimes gain first-mover advantage in new international markets. As with political systems, economic systems can be unstable and risky for multinational companies. A company going international must determine how important it is to monitor and control operations overseas.

Usually, participation choices that increase control also have more risks.

To conclude this section, summarizes the preferred participation strategies for companies facing different conditions for the issues just discussed. Ultimately, and perhaps most importantly, participation strategies must align with the multinational strategy. Should a transnational strategist use mostly FDI? Should an international strategist use mostly exporting? There are no simple answers to these questions. Even companies with the same multinational strategies may use different participation strategies in the same country. Most multinational companies prefer combinations of participation strategies, depending on their reasons for being in a country. Each product and each market may require a different choice. The multinational manager must ask these questions. Why do we want to be in this country? Are we in this market to get raw materials, manufacture products, or sell products? For example, raw-material extraction and manufacturing may favor FBI as a participation choice. A focus on sales only may favor exporting or licensing, especially if the market is small. The answer to the question why a company is in a specific country follows from the choice of a general multinational strategy. Transnationalists seek location advantages and may be in any country for any value-chain activity. Multi-domestics seek local adaptation. They must address the issue of whether this is best done by modifying home-country exports or by locating the entire value chain from R&D to service in each country. Thus, the basic diagnostic question for the multinational manager is what participation strategy best serves the firm's objectives for being in a given country or region. In this sense, participation strategies represent the "nuts and bolts" regarding how a company is actually going to use international markets and country locations to carry out its more general multinational strategies [1-10].

Conclusion

The multinational manager faces an array of complex strategic issues. All multinational managers, in both large and small companies, must deal with the multinational of local responsiveness versus the global solution. There are benefits to favoring local responsiveness, a form of differentiation. Either through the multi-domestic or regional strategy, the multinational can meets the needs of customers by country or region. International and transnational strategists see the world as one market. They try to have global products with global marketing. The goal is to produce high-quality products as efficiently as possible. For the multinational company, participation in the international market may occur anywhere in the value chain. In a globalizing world, the complexities of choosing multinational and participation strategies represent significant challenges to multinational managers.

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