UNIT 8: CORPORATE LEVEL STRATEGIES-II

UNIT STRUCTURE

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8.1 LEARNING OBJECTIVES

After going through this unit , you will be able to:

- learn multidomestic strategy involves and be able to offer an example.
- understand the global strategy involves and be able to offer an example.
- discuss the transnational strategy involves and be able to offer an example.

8.2 INTRODUCTION

In the earlier unit we discussed about the different corporate level strategies like concentration, integration and diversification. In this unit we are going to discuss the various other concepts of corporate level strategies like Internationalisation Strategies, types of International Strategies, Advantages and Disadvantages of Expansion through Internationalisation, Strategies for Local Companies Competing with Global Companies and emergence of the Indian MNC.

Let us now discuss the concepts in the following sections.

8.3 INTERNATIONALISATION STRATEGIES

As Hon'ble Prime Minister Pandit Nehru rightly said in 60s that,if nation doesn't involve in export it will perish. Each and every country is dependent on other country. No country in the world is self-sufficient as regards to its requirement. Whether the country is developed or developing they have to depend on other nations. There are various reasons for this namely geographical constraints, technological factors, demographic factors etc. India as developing nation has to concentrate more on international market along with domestic market. Internationalization in a simple word is entering into international market. International strategies are a type of expansion strategies that require organization to market their product beyond domestic market. But, entering into international market is not so easy. Firms need to carry out in-depth marketing research to know the whereabouts of the market. Research enables the firm to know the international environment, evaluate its own strength and weaknesses in comparison with the opportunities and threat in the international market. Based on SWOT(discussed in Unit 6) analysis firm will devise strategies to enter into foreign market. Only framing strategies is not enough it should be properly implemented.

International trade and investment have grown with higher rate after the end of World War II. Technological development reduced the transportation costs, that leads to improvement in communication technology for better contact. The reduction in trade barriers is also one of the factors responsible for growth in the international market. With reduction in investment barriers between nations and the easing of regulations governing trade and investment is responsible for intensification of globalization of production and markets. Globalisation has impact on organization corporate strategies.The international environment is ever changing and nations need to identify the industries and businesses that their firm need to focus upon to gain a competitive edge. The model presented below shows why some nations may possess competitive advantage in particular industries and how the firms in that nations endeavor to utilize that advantage.

8.4 THE PORTER DIAMOND MODEL

The Porter Diamond Model, developed by strategy Guru Michael Porter in a practical way.

The American strategy professor Michael Porter developed an economic diamond model for (small-sized) businesses to help them understand their competitive position in global markets. This Porter Diamond Model, also known as the Porter Diamond theory of National Advantage or Porters double diamond model, suggest that all factors that are important in global business competition whichresemble like the points of a diamond. Michael Porter assumes that the competitiveness of businesses is related to the performance of other businesses.

Porter Diamond Model clusters: Michael Porter uses the concept of clusters of identical product groups in which there is considerable competitive pressure. Businesses within clusters usually stimulate each other to increase productivity, foster innovation and improve business results. Companies operating in such clusters work according to Porter Diamond Model.

In addition, they have the advantage that they can move very well on the international market and that they can maintain their presence and handle international competition. Examples of large clusters are the Swiss watch industry and the Hollywood film industry.

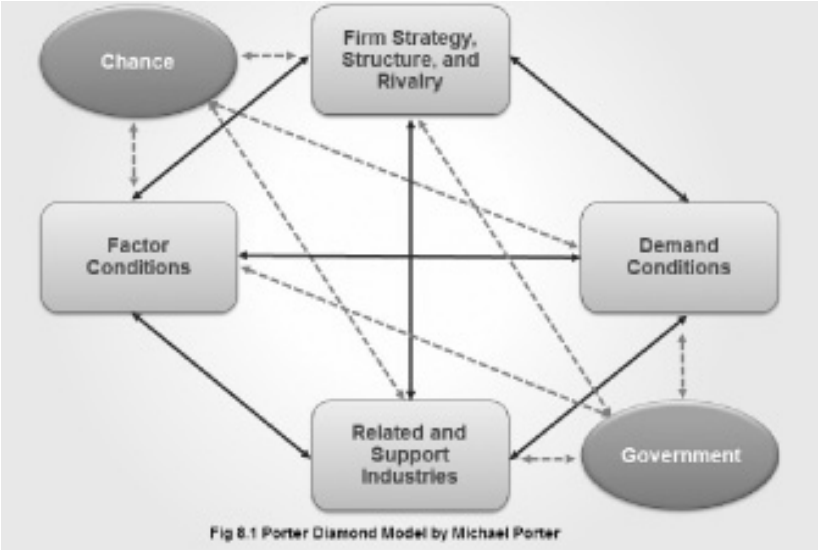


Fig 8.1 Porter Diamond Model by Michael Porter

Source: www.toolshero.com

International advantage: Organisations can use the Porter's Diamond Model to help the firms to establish how they can translate national advantages into international advantages. The Porter Diamond Model suggests that the national home base of an organization plays an important role in the creation of advantages on a global scale. The various factor which Michael Porter distinguishes are:

1. **Factor Conditions:** This is the situation in a country relating to production factors like knowledge and infrastructure. These are relevant factors for competitiveness in particular industries. These factors can be grouped into material resources, human resources (labour costs, qualifications and commitment), knowledge resources and infrastructure. But,it also include factors like quality of research or liquidity on stock markets and natural resources like climate, minerals, oil and these could be reasons for creating an international competitive position.
2. **Related and supporting Industries:**The success of a market also depends on the presence of suppliers and related industries within a region. Competitive suppliers reinforce innovation and internationalization. Besides suppliers, related organizations also plays an important role. If an organization is successful then this could be beneficial for related or supporting organizations. They can benefit from each other's know-how and encourage each other by producing complementary products.
3. **Home Demand Conditions:** In this determinant the key question is: What reasons are there for a successful market? What is the nature of the market and what is the market size? There always exists an interaction between economies of scale, transportation costs and the size of the home market. If a producer can realize sufficient economies of scale, this will offer advantages to other companies to service the market from a single location.
4. **Strategy, Structure and Rivalry:** This factor is related to the way in which an organization is organized and managed, its corporate objectives and the measure of rivalry within its own organizational culture. Furthermore, focus is also on the conditions of a country, that determine where a company will be established. Cultural aspects play

an important role in this aspect. Regions, provinces and countries may differ greatly from one another and factors like management, working morale and interactions between companies are shaped differently in different cultures. This could provide both advantages and disadvantages for companies in a certain situation when setting up a company in another country. According to Michael Porter domestic rivalry and the continuous search for competitive advantage within a nation can help organizations achieve advantages on an international scale. In addition to the above-mentioned determinants Michael Porter also mentions factors like Government and chance events that influence competition between companies.

5. **Government:** Governments can play a powerful role in encouraging the development of industries and companies both at home and abroad. Governments finance and construct infrastructure (roads, airports) and invest in education and healthcare. Moreover, they can encourage companies to use alternative energy or alternative environmental systems that affect production. This can be effected by granting subsidies or other financial incentives.
6. **Chance events:** Michael Porter also indicates that in most markets chance plays an important role. This provides opportunities for innovative companies that are not afraid to start up new operations. Entrepreneurs usually start their companies in their homeland, without this having any economic advantages, whereas a similar start abroad would provide more opportunities.

Porter Diamond Model example

A few business analysts set-up a case about Mobile telecommunication.

Demand conditions

- Evolving mobile possibilities in relation with Internet.
- Growing number of mobile owners. Mobile usage becomes cheaper and cheaper so it accessible for everybody.
- Upcoming online businesses including App builders.
- Government of county x stimulates Mobile Market regulation.

Factors endowments

- Government of country x puts continuous efforts in IT policies.
- IT Workforce is developing and growing.

- Level of Education on mobile and Internet technology is high.
- Country x has geographical IT advantages.

Related and supporting industry

- This country is leading in the microchip market.
- There are two countries that are trading partners.
- The government is planning to invest in Mobile R&D and IT development.
- Country x is leading in all Mobile & IT related production.

Firm strategy and structure

- Venture firms with high IT technology.
- Firm and small and medium size IT business companies.
- Market competition in Mobile telecommunication.
- Target niche market by continuous development and improvement of Mobile technology.



CHECK YOUR PROGRESS

Q1: What s Porter Diamond Model?

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Q2: What are the advantages of Porter Diamond Model?

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8.5 TYPES OF INTERNATIONAL STRATEGIES

A firm that has operations in more than one country is known as a multinational corporation (MNC). Wal-Mart's annual worldwide sales, for example, are larger than the dollar value of the entire economies of Austria, Norway, and Saudi Arabia. Though Wal-Mart is an American retailer, the firm earns more than one-quarter of its revenues outside the United States. Wal-Mart owns significant numbers of stores, as of mid-2014, in Mexico (2,207), Brazil (556), Japan (437), the United Kingdom (577), Canada (390),

Chile (386), Argentina (105), and China (400). Wal-Mart also participates in joint ventures in China (328 stores) and India (5).

Multinationals such as Kia and Walmart have chosen an international strategy to guide their efforts across various countries. There are three main international strategies available: (1) Multidomestic, (2) Global, and (3) Transnational. Each strategy involves a different approach to trying to build efficiency across nations while remaining responsive to variations in customer preferences and market conditions.

1. Multidomestic Strategy:

A firm using a multidomestic strategy sacrifices efficiency in favor of emphasizing responsiveness to local requirements within each of its markets. For example, rather than trying to force all of its American-made shows on viewers around the globe, MTV customizes the programming that is shown on its channels within dozens of countries, including New Zealand, Portugal, Pakistan, and India.

Similarly, food company H. J. Heinz adapts its products to match local preferences. Because some Indians will not eat garlic and onion, Heinz offers them a version of its signature ketchup that does not include these two ingredients.

2. Global Strategy:

A firm using a global strategy sacrifices responsiveness to local requirements within each of its markets in favor of emphasizing efficiency. This strategy is the complete opposite of a multidomestic strategy. Some minor modifications to products and services may be made in various markets. A global strategy focuses on the need to gain economies of scale by offering essentially the same products or services in each market.

Microsoft, for example, offers the same software programs around the world but adjusts the programs to match local languages. Similarly, consumer goods maker Procter & Gamble attempts to gain efficiency by creating global brands whenever possible. Global strategies also can be very effective for firms whose product or service is largely hidden from the customer's view, such as silicon chip maker Intel. For such firms, variance in local preferences is not very important.

3. Transnational Strategy:

A firm using a transnational strategy seeks a middle ground between a multidomestic strategy and a global strategy. Such a firm tries to balance the desire for efficiency with the need to adjust to local preferences within various countries. For example, large fast-food chains such as McDonald's and KFC rely on the same brand names and the same core menu items around the world. These firms make some concessions to local tastes too. In France, for example, wine can be purchased at McDonald's. This approach makes sense for McDonald's because wine is a central element of French diets.



CHECK YOUR PROGRESS

Q3: What is Multidomestic Strategy?

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Q4: What is Transnational Strategy ?

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8.6 ADVANTAGES AND DISADVANTAGES OF EXPANSION THROUGH INTERNATIONALISATION

Internationalization offers an attractive strategic alternative to the firm for its expansion. When firms adopts for internationalization they gain in the form of lower costs, increased sales and higher profits.

8.6.1 Advantages of Internationalisation

When a firm enters into international market they learn many things from the international market and other similar producers and sellers. It also assures better return than local market. Following are the advantages to the firm:

a. Economies of scale: The firm enters into international market along with the domestic market. Hence they enjoy the benefit of large scale operations.

b. Economies of Scope: With experience and learning, firms develop valuable competencies in the local market and implement a specific business model. A firm uses these tested competencies in the global market to gain competitive advantage. It replicates their business models and enjoys economies of scope.

c. Realizing location economies: Some countries are gifted with certain natural resources which act as a competitive advantage for them in the international market. This advantage can be rightly utilized by the firm to produce at lower cost and thus gain competitive advantage.

d. Expansion of Market: Economies of scale and operations enable firms to expand their markets from local to global level. Expanded markets help the firm to lower the cost.

e. Access to overseas resources: With the international presence firms gain access to resources overseas which are not available in the domestic market. Such resources may be natural, technological, geographical or human resources.

8.6.2 Disadvantages of internationalisation

The following are some of the disadvantages of Internatinalisation:

a. Higher Risks: The global market is more risky than domestic market. The risks is high as the environmental factors like economic and political environments are more dynamic and sensitive.

b. Cultural Diversity: Managing cultural diversity is the biggest challenges before the firms operating at international level. The employee comes from different socio-economic and cultural backgrounds. Even the markets served differ in their values, beliefs and taste and fashion. Managing such diversity is the critical tasks before the firms.

c. High bureaucratic cost: Utmost coordination is required for the firm operating internationally. Coordination is required between

the domestic office and the foreign subsidiaries. This involves high bureaucratic cost of coordination and communication.

d. Trade Barriers: Trade barriers are artificial restrictions imposed on international traded commodities in the form tariff and non-tariff barriers. Despite of liberlisation of trade between countries, still there exists trade barriers in the form tariffs, pricing restrictions, differing standards or local content requirements.

e. Higher distribution costs: In order to optimally utilize its competitive advantage in the home country, firms do not open manufacturing unit abroad. Hence, supplying products might involve higher distribution costs. Even though manufacturing is done at the country where firms intends to sell its products, the cost increases as the distribution channel differs.

8.7 STRATEGIES FOR LOCAL COMPANIES COMPETING WITH GLOBAL COMPANIES

India got the advantage of demographic dividend. It has vast market with low cost workers with advanced technical skills. Low labour cost are attracting more MNCs to settle down in India and setting up of manufacturing unit. For example, Ford and Suzuki are exporting cars from India in a large number. Motorola also has big export market. Companies like Siemens have set up their plants to sell products in domestic as well as international market. MNCs use different strategies for their operations in the emerging market economies. Majority of the MNCs are from developed nations. The reasons being the developed nations are financial strong, having technological strength, worldwide contact and are more efficient. MNCs while setting strategies they pay less attention on the impact on the local firms in terms of how they respond to the environment as the economy in which they operate is more opened up to the winds of the change. The majority of the market is dominated by MNCs of developed nations and therefore tends to focus on their own needs that mostly turn out to be the needs of the MNCs. When MNCs enters into developing nations they never thought how it will affect Indian or Chinese economy. They are less concerned about the pros and cons. An American company will never

indicate Indian firm how to compete with them. It is the Indian firm who has to decide its own strategies about how they are going to tackle with these MNCs of developed nations. The local firms (Indian) needs to frame such strategies which will enable them to survive in emerging market economy. The term Emerging Market Economy (EME) was coined in 1981 by Antoine Van Agtmael of the International Finance Corporation. It is defined as the economy with low-to-middle per capita income. Such countries constitute approx 80% of the global population and represents about 20% of the world's economy. India, China, Indonesia, Malaysia, Pakistan, Philippines, Thailand and Vietnam are considered to be the emerging economies in Asia.

When MNCs enters into emerging economies like India, most local firms look for mainly three options i.e. government support by reinstating trade barriers or providing some other form of support to becoming a subordinate partner to a multinational or by selling out the plant and leaving the industry. According to Dawar & Frost there are other options also to compete with the MNCs. According him there are four strategy options for local companies in emerging market which are as follows:

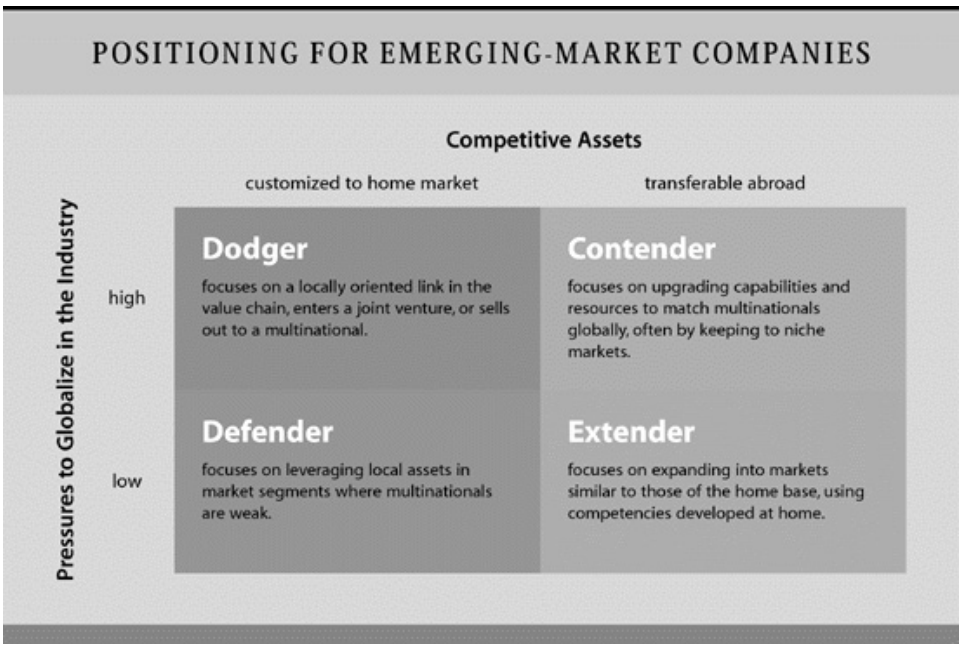


Fig: 8.2 Positioning for Emerging Market Companies

Source: Adapted from N. Dawar& T. Frost, Competing with Giants:Survival Strategies for Local Companies in Emerging Markets, Harvard Business Review, pg 122

Dawar and Frost have plotted these strategies in a matrix. At the same time, they warn, “As with any strategic framework, our matrix is not intended to prescribe a course of action but to help managers think about the broad options available.”

A Chinese cosmetics company thrives in the face of multinational competition by developing mass-market brands that take advantage of its familiarity with local tastes and standards. It’s a survival strategy - one of four identified by by Niraj Dawar and Tony Frost. Defenders need to resist the temptation to try to reach all customers or to imitate the multinationals. They’ll do better by focusing on consumers who appreciate the local touch and ignoring those who favor global brands.

Shanghai Jahwa, China’s oldest cosmetics company, has thrived by astutely exploiting its local orientation—especially its familiarity with the distinct tastes of Chinese consumers. Because standards of beauty vary so much across cultures, the pressure to globalize the cosmetics industry is weak. Nevertheless, as in other such industries, a sizable market segment is attracted to global brands. Young people in China, for example, are currently fascinated by all things Western. Instead of trying to fight for this segment, Jahwa concentrates on the large group of consumers who remain loyal to traditional products. The company has developed low-cost, mass-market brands positioned around beliefs about traditional ingredients.

Many Chinese consumers, for instance, believe that human organs such as the heart and liver are internal spirits that determine the health of the body. Liushen, or “six spirits,” is the name of a traditional remedy for prickly heat and other summer ailments, and it’s made from a combination of pearl powder and musk. Drawing on this custom, Jahwa launched a Liushen brand of eau de toilette and packaged it for summer use. The brand rapidly gained 60% of the market and has since been extended to a shower cream also targeted at the liushen user. Unilever and other multinational companies lack this familiarity with local tastes; they have found their products appeal mainly to fashion-conscious city dwellers.



CHECK YOUR PROGRESS

Q5: Write the two disadvantages and two advantages of expansion through internationalization

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Q6:What is Emerging Market Economy (EME)?

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8.8 EMERGENCE OF THE INDIAN MNC

An MNC is one which is having head quarter in one country and operates in several other countries. There are many Indian companies which are operating in as MNCs. The question here is do we have MNCs like Wal-Mart or Coca-Cola? We are still to achieve this position but India is moving fast towards a position where there is widespread awareness among the corporate sector to be globally competitive. Liberalization and globalization is helping firm to develop competitive capabilities. Before economic reforms the Birla group was one of the first Indian business houses to enter foreign markets when the late Aditya Birla set up world scale production bases in South East Asia. Asian Paints, Ranbaxy and the HCL group also played vital role in the global market.

Global integration and strengthening of the international economic order, primacy of economic considerations over political in international relations, emergence of regional trade blocs, establishment of WTO to regulate and manage trade relations are some of the significant pointers to the likelihood of international strategies becoming a favoured alternative for expansion. Few Indian MNCs with their CEOs and HQ.

MNC	CEO	Head Quarter
Micromax Informatics	Rahul Sharma	Gurgaon
Karbonn Mobiles	Pradeep Jain	Bengaluru & Noida
Hero Motocorp	PawanMunja	New Delhi
Bajaj	Rajiv Bajaj	Pune
Aditya Birla Group	Dr. Santrupt Misra	Mumbai
Dabur	Sunil Duggal	Ghaziabad
Dr. Reddy's Laboratories	G. V. Prasad	Hyderabad
Hindustan Unilever Limited	Sanjiv Mehta	Mumbai
Cafe Coffee Day	Sanjiv Mehta	Mumbai
Britannia	Varun Berry	Bengaluru
Parle Agro	Schauna Chauhan	Mumbai
ONGC	Dinesh K. Sarraf	Dehradun
HCL Technologies	Anant Gupta	Noida



8.9 LET US SUM UP

In this unit, we discussed the following:

- Globalisation has impact on organization corporate strategies.The international environment is ever changing and nations need to identify the industries and businesses that their firm need to focus upon to gain a competitive edge.
- The American strategy professor Michael Porter developed an economic diamond model for (small-sized) businesses to help them understand their competitive position in global markets. This Porter Diamond Model, also known as the Porter Diamond theory of National Advantage or Porters double diamond model.

- There are three main international strategies available: (1) Multidomestic, (2) Global, and (3) Transnational.
- We also discussed the strategies for local companies competing with global companies.



8.10 FURTHER READING

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8.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q1: An American strategy professor Michael Porter developed an economic diamond model for (small-sized) businesses to help them understand their competitive position in global markets. This Porter Diamond Model, also known as the Porter Diamond theory of National Advantage or Porters double diamond model. Michael Porter assumes that the competitiveness of businesses is related to the performance of other businesses.

Ans to Q2: By using the Porter Diamond Model, an organization may identify what factors can build advantages at a national level. The Porter Diamond Model is therefore often used during internationalization efforts. Michael Porter is of the opinion that all factors are decisive for the competitiveness of a company with respect to their foreign competitors. By

considering these factors a company will be better able to formulate a strategic goal.

Ans to Q3: A firm using a multidomestic strategy sacrifices efficiency in favor of emphasizing responsiveness to local requirements within each of its markets.

Ans to Q4: A firm using a transnational strategy seeks a middle ground between a multidomestic strategy and a global strategy

Ans to Q5: The advantages of expansion through internationalisationn are:
(i)Economies of scale: The firm enters into international market along with the domestic market. Hence they enjoy the benefit of large scale operations.
(ii)Economies of Scope: With experience and learning, firms develop valuable competencies in the local market and implement a specific business model.

The disadvantages of expansion through internationalisationn are
(i)Higher Risks: The global market is more risky than domestic market. The risks are high as the environmental factors like economic and political environments are more dynamic and sensitive.
(ii)Cultural Diversity: Managing cultural diversity is the biggest challenges before the firms operating at international level.

Ans to Q6: The term Emerging Market Economy (EME) was coined in 1981 by Antoine of the International Finance Corporation. It is defined as the economy with low-to-middle per capita income.



8.12 MODEL QUESTIONS

1. What is Internationalisation strategies
2. What are international advantages of using Porter's Diamond Model
3. Discuss The Porter Diamond Model with Illustration
4. Explain the various types of International Strategies
5. Outline the advantages and disadvantages of Internationalisation
6. Discuss the emergence of Indian multinational companies

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