Chapter 12
Global Strategies & the Multinational Corporation

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Global Strategies & the Multinational Corporation

Implications of International Competition for Industry Analysis

Analyzing Competitive Advantage within an International Context

Applying the Framework
1. International location of production
2. Foreign market entry strategies

Multinational Strategies: Globalization versus National Differentiation

Strategy and Organization of the Multinational Corporation
Patterns of Internationalization

- **TRADING INDUSTRIES**
  - shipbuilding
  - military hardware
  - diamond mining
  - agriculture

- **GLOBAL INDUSTRIES**
  - automobiles
  - petroleum
  - semiconductors
  - alcoholic beverages

- **SHELTERED INDUSTRIES**
  - taxi services
  - laundries/dry cleaning
  - hairdressing
  - fresh milk

- **MULTIDOMESTIC INDUSTRIES**
  - frozen foods
  - retail banking
  - hotels
  - wireless telephony

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Implications of Internationalization for Industry Analysis

INDUSTRY STRUCTURE
- Lower entry barriers into national markets
- Increased industry rivalry
  - Lower seller concentration
  - Greater diversity of competitors
- Increased buyer power
  - Buyers have more potential suppliers to choose from

COMPETITION
- Increased intensity of competition

PROFITABILITY
- Other things remaining equal, internationalization tends to reduce an industry’s margins and rate of return on capital
Competitive Advantage within an International Context

THE NATIONAL ENVIRONMENT
National resources and capabilities (raw materials; national culture; transportation, communication)
Domestic market conditions
Government policies

THE INDUSTRY ENVIRONMENT
Key Success Factors

FIRM RESOURCES & CAPABILITIES
• Financial resources
• Physical resources
• Technology
• Reputation
• Functional capabilities
• General management capabilities

COMPETITIVE ADVANTAGE

THE INDUSTRY ENVIRONMENT

THE NATIONAL ENVIRONMENT
A country has a relative efficiency advantage in those products that use resources that are abundant within that country. E.g.:

- Philippines relatively more efficient in the production of footwear, apparel, and assembled electronic products than in the production of chemicals and automobiles
- U.S. is relatively more efficient in the production of semiconductors and pharmaceuticals than shoes or shirts

When exchange rates are well-behaved, comparative advantage translates into competitive advantage
### Revealed Comparative Advantage for Selected Product Categories

<table>
<thead>
<tr>
<th>Category</th>
<th>US</th>
<th>UK</th>
<th>Japan</th>
<th>Switzerland</th>
<th>Germany</th>
<th>Australia</th>
<th>China</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>1.91</td>
<td>0.13</td>
<td>0.00</td>
<td>0.00</td>
<td>0.44</td>
<td>4.78</td>
<td>0.03</td>
<td>5.33</td>
</tr>
<tr>
<td>Beverages</td>
<td>0.72</td>
<td>3.30</td>
<td>0.09</td>
<td>1.38</td>
<td>0.75</td>
<td>1.28</td>
<td>0.10</td>
<td>0.06</td>
</tr>
<tr>
<td>Mineral fuels</td>
<td>0.55</td>
<td>0.68</td>
<td>0.14</td>
<td>0.04</td>
<td>0.17</td>
<td>1.49</td>
<td>0.09</td>
<td>1.23</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>0.94</td>
<td>2.19</td>
<td>0.15</td>
<td>9.14</td>
<td>1.90</td>
<td>0.00</td>
<td>0.10</td>
<td>1.34</td>
</tr>
<tr>
<td>Vehicles</td>
<td>1.15</td>
<td>1.27</td>
<td>2.79</td>
<td>0.14</td>
<td>2.25</td>
<td>0.16</td>
<td>0.36</td>
<td>0.56</td>
</tr>
<tr>
<td>Aerospace</td>
<td>4.32</td>
<td>1.96</td>
<td>0.33</td>
<td>0.50</td>
<td>1.78</td>
<td>0.30</td>
<td>0.05</td>
<td>0.71</td>
</tr>
<tr>
<td>Electrical and electronic</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Optical, medical, and scientific</td>
<td>1.76</td>
<td>1.16</td>
<td>1.83</td>
<td>2.25</td>
<td>1.53</td>
<td>0.35</td>
<td>1.12</td>
<td>0.23</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clocks and watches</td>
<td>0.30</td>
<td>0.58</td>
<td>0.60</td>
<td>40.13</td>
<td>0.64</td>
<td>0.16</td>
<td>0.99</td>
<td>0.04</td>
</tr>
<tr>
<td>Apparel (knitted)</td>
<td>0.15</td>
<td>0.45</td>
<td>0.02</td>
<td>0.03</td>
<td>0.50</td>
<td>0.06</td>
<td>3.52</td>
<td>1.72</td>
</tr>
</tbody>
</table>

**Note:**
Country X’s revealed comparative advantage within product category A is measured as: Country X’s share of world exports in product category A / Country X’s share of world exports in all products.
Porter’s Competitive Advantage of Nations

• Extends and adapts traditional theory of comparative advantage to take account of three factors:
  o International competitive advantage is about *companies not countries*—the national environment provides a *home base* for the company
  o Sustained competitive advantage depends upon *dynamic factors*—*innovation* and the *upgrading* of resources and capabilities
  o The critical role of the national environment is its impact upon the dynamics of innovation and upgrading
Porter’s National Diamond Framework

1. FACTOR CONDITIONS – “Home grown” resources/capabilities more important than natural endowments
2. RELATED AND SUPPORTING INDUSTRIES – Key role of “industry clusters”
3. DEMAND CONDITIONS – Discerning domestic customers drive quality and innovation
4. STRATEGY, STRUCTURE AND RIVALRY
Location decisions need to take account of three sets of factors:

- **National resource conditions**: What are the major resources which the product requires? Where are these available at low cost?

- **Firm-specific advantages**: To what extent is the company’s competitive advantage based upon firm-specific resources and capabilities, and are these transferable?

- **Tradability issues**: Can the product be transported at economic cost? If not, or if trade restrictions exist, then production must be close to the market.
## Labor Costs by Country

**Production Workers in Manufacturing, US$ per Hour**

<table>
<thead>
<tr>
<th>Country</th>
<th>1975</th>
<th>2000</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>6.09</td>
<td>21.24</td>
<td>57.79</td>
</tr>
<tr>
<td>Australia</td>
<td>5.62</td>
<td>14.47</td>
<td>47.68</td>
</tr>
<tr>
<td>Germany</td>
<td>6.31</td>
<td>24.42</td>
<td>45.79</td>
</tr>
<tr>
<td>France</td>
<td>4.52</td>
<td>15.70</td>
<td>39.81</td>
</tr>
<tr>
<td>US</td>
<td>6.36</td>
<td>19.76</td>
<td>35.67</td>
</tr>
<tr>
<td>Japan</td>
<td>3.00</td>
<td>22.27</td>
<td>35.34</td>
</tr>
<tr>
<td>Italy</td>
<td>4.67</td>
<td>14.01</td>
<td>34.18</td>
</tr>
<tr>
<td>UK</td>
<td>3.37</td>
<td>16.45</td>
<td>31.23</td>
</tr>
<tr>
<td>Spain</td>
<td>2.53</td>
<td>10.78</td>
<td>26.83</td>
</tr>
<tr>
<td>Korea</td>
<td>0.32</td>
<td>8.19</td>
<td>20.72</td>
</tr>
<tr>
<td>Taiwan</td>
<td>0.40</td>
<td>5.85</td>
<td>9.46</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.47</td>
<td>2.08</td>
<td>6.36</td>
</tr>
<tr>
<td>Philippines</td>
<td>0.62</td>
<td>1.30</td>
<td>2.10</td>
</tr>
</tbody>
</table>

Location and the Value Chain: Textiles and Clothing

<table>
<thead>
<tr>
<th></th>
<th>Raw cotton</th>
<th>Spun cotton yarn</th>
<th>Knitted fabric</th>
<th>Knitted apparel</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>+0.68</td>
<td>+0.85</td>
<td>+0.03</td>
<td>−0.89</td>
</tr>
<tr>
<td>Germany</td>
<td>−1.00</td>
<td>−0.18</td>
<td>+0.30</td>
<td>−0.18</td>
</tr>
<tr>
<td>Korea</td>
<td>−1.00</td>
<td>−0.28</td>
<td>+0.94</td>
<td>−0.34</td>
</tr>
<tr>
<td>China</td>
<td>−0.99</td>
<td>−0.54</td>
<td>+0.70</td>
<td>+0.97</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>−0.98</td>
<td>−0.95</td>
<td>−0.96</td>
<td>+0.98</td>
</tr>
</tbody>
</table>

*Note:* A country’s revealed comparative advantage in particular product is measured as (exports – imports)/(exports + imports). The scale ranges from −1 to +1.

Where Does the iPhone Come From?

- LTE Modem: China (Qualcomm)
  - Connects your iPhone to your carrier’s LTE network
- Storage: Japan (Toshiba)
  - Where the iPhone stores iOS, apps, music, photos, and videos
- Battery: China (Huapu Technology)
- Camera: Japan (Sony)
- WiFi Module: China (Universal Scientific Industrial)
- Display: Japan (Asahi)
- Radio frequency transceiver: China (Qualcomm)
  - Sends and receives radio signals for calls and data.
- RAM: Korea (Samsung)
  - The short term memory where your iPhone stores your most recently used apps so you can open them faster
- Chassis: China
  - The iPhone’s body
- A9 processor: Korea (Samsung) / Taiwan (TSMC)
  - Runs iOS and your apps
- Rare minerals: California, China
  - For multiple parts, like colors for screen, phone circuitry, speakers, vibration unit
Determining the Optimal Location of Value Chain Activities

WHERE TO LOCATE ACTIVITY X?

The optimal location of activity X considered independently

Where is the optimal location of X in terms of the cost and availability of inputs?

What government incentives/penalties affect the location decision?

What internal resources and capabilities does the firm possess in particular locations?

What is the firm’s business strategy (e.g., cost vs. differentiation advantage)?

How great are the coordination benefits from co-locating activities?

The importance of links between activity X and other activities of the firm
Applying the Framework
(2) Modes of Overseas Market Entry

[Diagram showing Modes of Overseas Market Entry]

- Transactions
  - Exporting
    - Spot sales
    - Long-term contract
  - Licensing
    - Foreign agent/distributor
    - Licensing patents and other IP
  - Franchising

- Direct Investment
  - Joint venture
  - Wholly owned subsidiary
  - Marketing and distribution only (Fully integrated)
  - Marketing and distribution only (Fully integrated)

Resource commitment: Low to High
Globalisation and Global Strategy: What Are They?

- **Globalization**
  - Increasing interdependence and homogeneity among countries

- **Global Strategy**
  - At simplest level: Treating the world as a single market: standard products, distributed & marketed worldwide (e.g. YKK and Honda during 1970s and 1980s)
  - At a more sophisticated level: Strategy that recognizes and exploits linkages between countries (e.g. exploits global scale, national resource differences, strategic competition)
Analyzing Benefits/Costs of a Global Strategy

• **Forces for globalization**
  - Cost benefits of scale and replication
  - Serving global customers
  - Exploiting arbitrage benefits from national resources—e.g. natural resources, low labor costs, knowledge
  - Learning in multiple national environments

• **Forces for national differentiation**
  - Transportation and communication costs arising from geographical distance and remoteness
  - Differences in customer needs and behavioural norms arising from cultural factors (including institutional, governmental, regulatory and political differences)
  - Market and infrastructure differences arising from differences in level of economic development
# Ghemewat’s CAGE Framework

<table>
<thead>
<tr>
<th>Distance between two countries increases with</th>
<th>CULTURAL DISTANCE</th>
<th>ADMINISTRATIVE AND POLITICAL DISTANCE</th>
<th>GEOGRAPHICAL DISTANCE</th>
<th>ECONOMIC DIFFERENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distance between two countries increases with</td>
<td>Different languages, ethnicities, religions, social norms</td>
<td>Absence of shared political or monetary association</td>
<td>Lack of common border, or transportation or communication links</td>
<td>Different consumer incomes</td>
</tr>
<tr>
<td></td>
<td>Lack of connecting ethnic/social networks</td>
<td>Political hostility</td>
<td>Physical remoteness</td>
<td>Differences in resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Weak legal and financial institutions</td>
<td></td>
<td>Different information or Knowledge</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Industries most affected by source of distance</th>
<th>CULTURAL DISTANCE</th>
<th>ADMINISTRATIVE AND POLITICAL DISTANCE</th>
<th>GEOGRAPHICAL DISTANCE</th>
<th>ECONOMIC DIFFERENCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industries with high linguistic content (TV, publishing) or cultural content (food, wine, music)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industries viewed by government as strategically important (e.g. energy, defence, telecom)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products with low value-to-weight (cement), or fragile (glass) or perishable (milk), or where communication vital (financial services).</td>
<td></td>
<td></td>
<td></td>
<td>Products with income elastic demand (luxuries). Labor intensive products (clothing)</td>
</tr>
</tbody>
</table>
Global Integration vs. National Differentiation

- Jet engines
- Autos
- Consumer electronics
- Telecom equipment
- Investment banking
- Retail banking
- Funeral services
- Cement
- Auto repair
Development of Multinational Corporation

- National subsidiaries self-sufficient & autonomous
- HQ control through appointing subsidiaries senior management

- Dominant role of U.S. parent in developing technology and products
- Foreign subsidiaries autonomous in operations and marketing

- Global strategy pursued from home base
- Strategy, R&D and production home based
- Foreign subsidiaries conduct sales and distribution

*Note:* The density of shading indicates the concentration of decision making.
Reconciling Global Integration with National Differentiation: The Transnational Corporation

• The Transnational: an integrated network of distributed, interdependent resources and capabilities.
  - Each national unit a source of ideas and capabilities that can benefit the whole corporation.
  - Each national unit becomes world source for a specific product, component, or activity.
  - Corporate center orchestrates collaboration through creating the right organizational context.