

## Chapter 12

# Global Strategies & the Multinational Corporation

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**Implications of International Competition for Industry Analysis**

**Analyzing Competitive Advantage within an International Context**

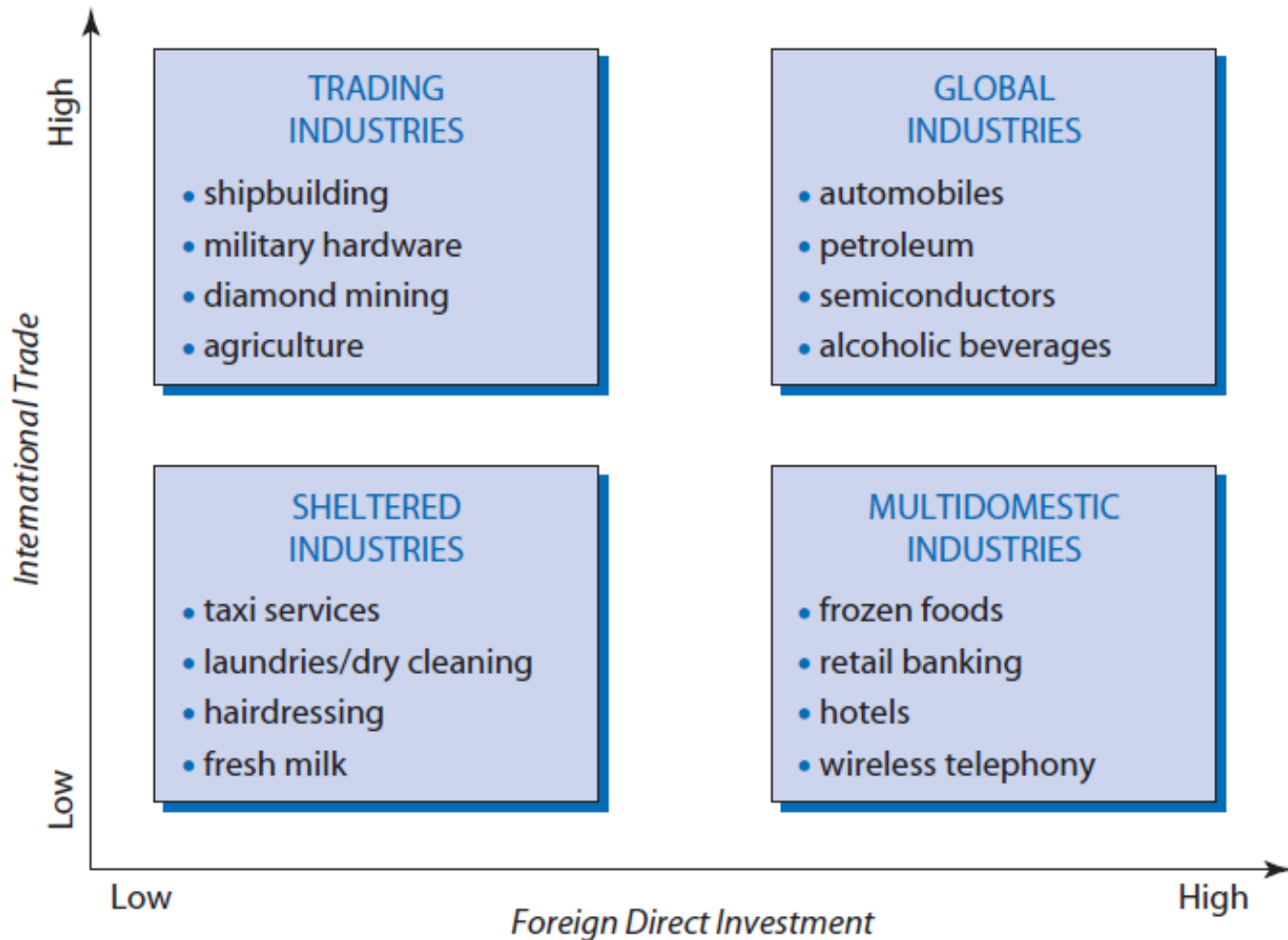
**Applying the Framework**

- 1. International location of production**
- 2. Foreign market entry strategies**

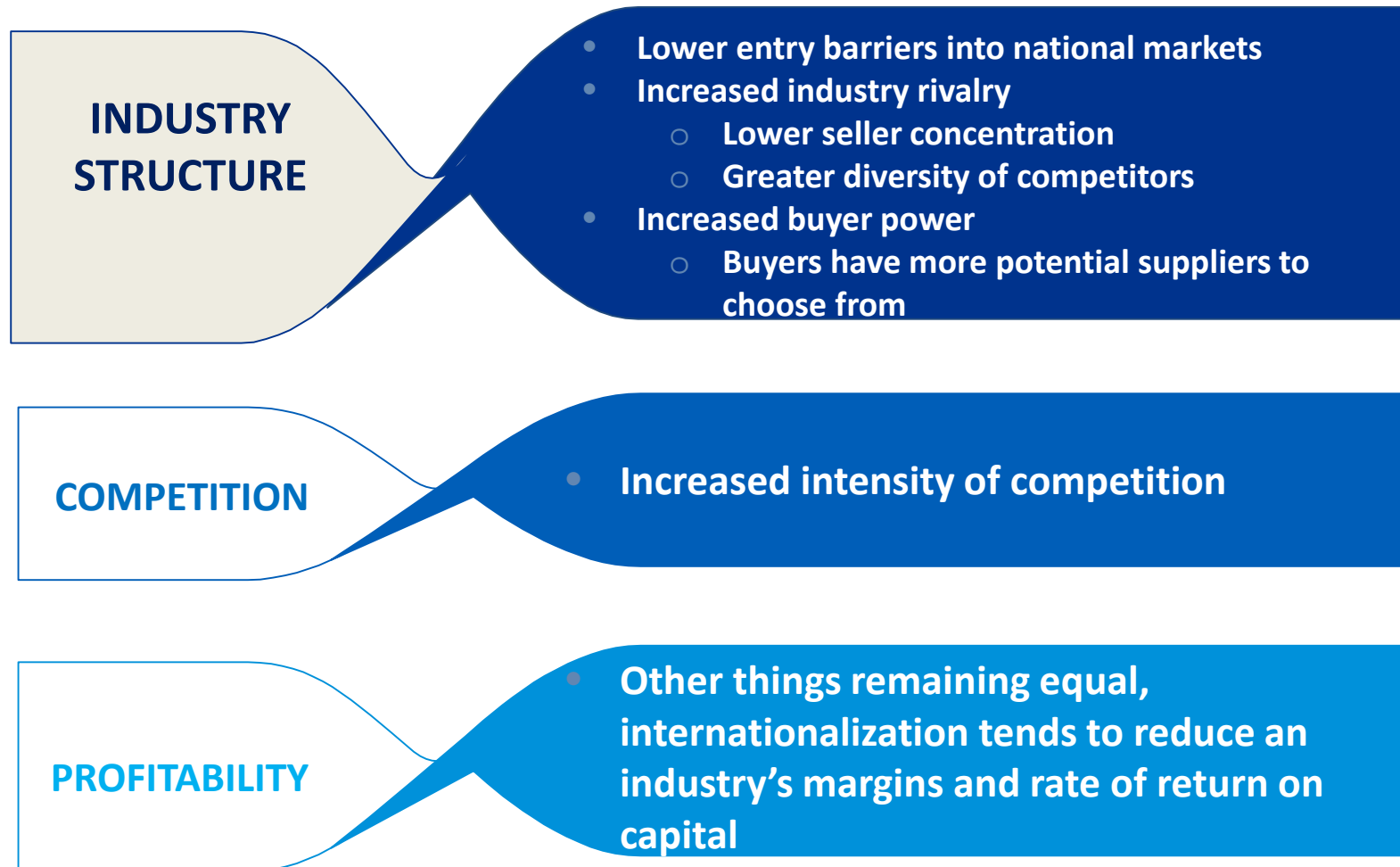
**Multinational Strategies: Globalization versus National Differentiation**

**Strategy and Organization of the Multinational Corporation**

# Patterns of Internationalization



# Implications of Internationalization for Industry Analysis



# Competitive Advantage within an International Context

**THE NATIONAL ENVIRONMENT**

**FIRM RESOURCES & CAPABILITIES**

**COMPETITIVE ADVANTAGE**

**THE INDUSTRY ENVIRONMENT**

**FIRM RESOURCES & CAPABILITIES**

- Financial resources
- Physical resources
- Technology
- Reputation
- Functional capabilities
- General management capabilities

## **THE NATIONAL ENVIRONMENT**

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

## **THE INDUSTRY ENVIRONMENT**

Key Success Factors

# National Influences on Competitiveness: The Theory of Comparative Advantage

- 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

	US	UK	Japan	Switzerland	Germany	Australia	China	India
Cereals	1.91	0.13	0.00	0.00	0.44	4.78	0.03	5.33
Beverages	0.72	3.30	0.09	1.38	0.75	1.28	0.10	0.06
Mineral fuels	0.55	0.68	0.14	0.04	0.17	1.49	0.09	1.23
Pharmaceuticals	0.94	2.19	0.15	9.14	1.90	0.00	0.10	1.34
Vehicles	1.15	1.27	2.79	0.14	2.25	0.16	0.36	0.56
Aerospace	4.32	1.96	0.33	0.50	1.78	0.30	0.05	0.71
Electrical and electronic equipment	0.91	0.49	1.29	0.51	0.84	0.10	2.18	0.29
Optical, medical, and scientific equipment	1.76	1.16	1.83	2.25	1.53	0.35	1.12	0.23
Clocks and watches	0.30	0.58	0.60	40.13	0.64	0.16	0.99	0.04
Apparel (knitted)	0.15	0.45	0.02	0.03	0.50	0.06	3.52	1.72

**Note:**

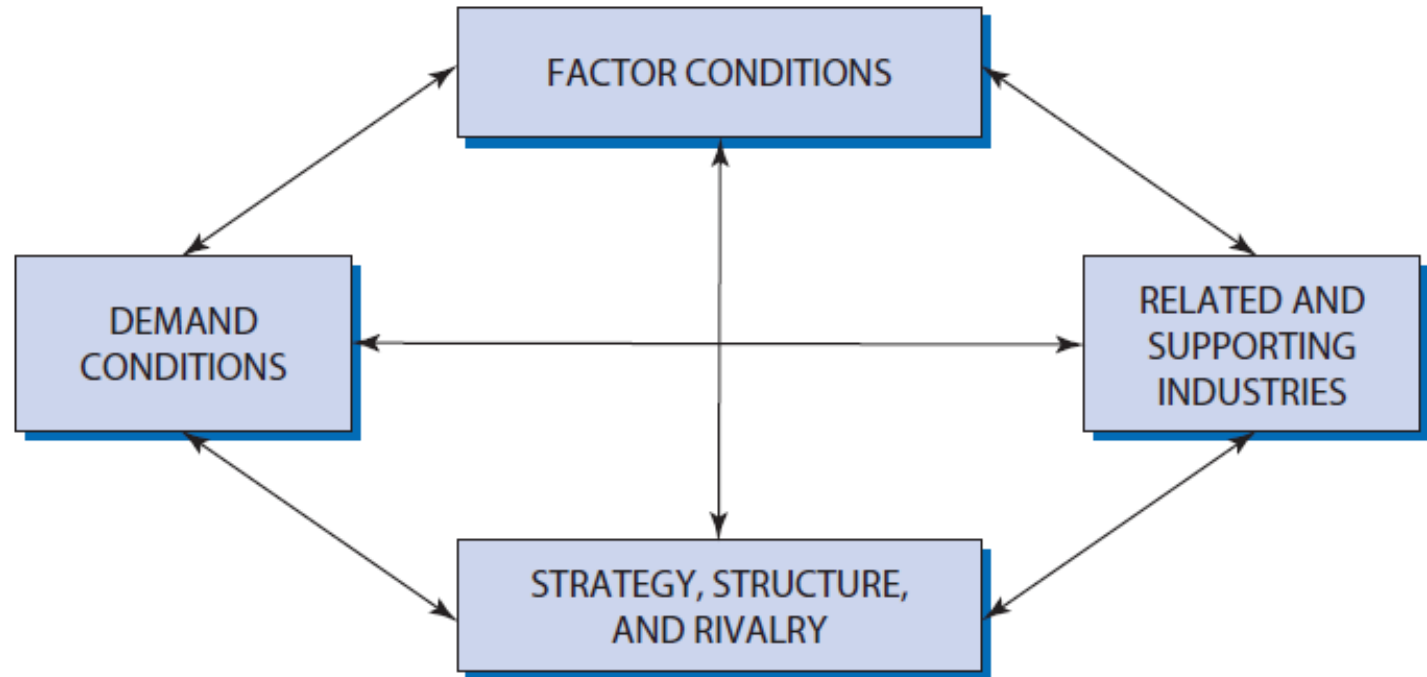
Country X's revealed comparative advantage within product category A is measured as: Country X's share of world exports in product category A / Country X's share of world exports in all products.

# Porter's Competitive Advantage of Nations

- Extends and adapts traditional theory of comparative advantage to take account of three factors:
  - International competitive advantage is about *companies not countries*—the national environment provides a *home base* for the company
  - Sustained competitive advantage depends upon *dynamic* factors-- *innovation* and the *upgrading* of resources and capabilities
  - 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**

# Applying the Framework

## (1) International Location of Production

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

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

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**Source:** US Department of Labor, Bureau of Labor Statistics. Reproduced with permission.

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# Location and the Value Chain: Textiles and Clothing

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	Raw cotton	Spun cotton yarn	Knitted fabric	Knitted apparel
US	+0.68	+0.85	+0.03	-0.89
Germany	-1.00	-0.18	+0.30	-0.18
Korea	-1.00	-0.28	+0.94	-0.34
China	-0.99	-0.54	+0.70	+0.97
Bangladesh	-0.98	-0.95	-0.96	+0.98

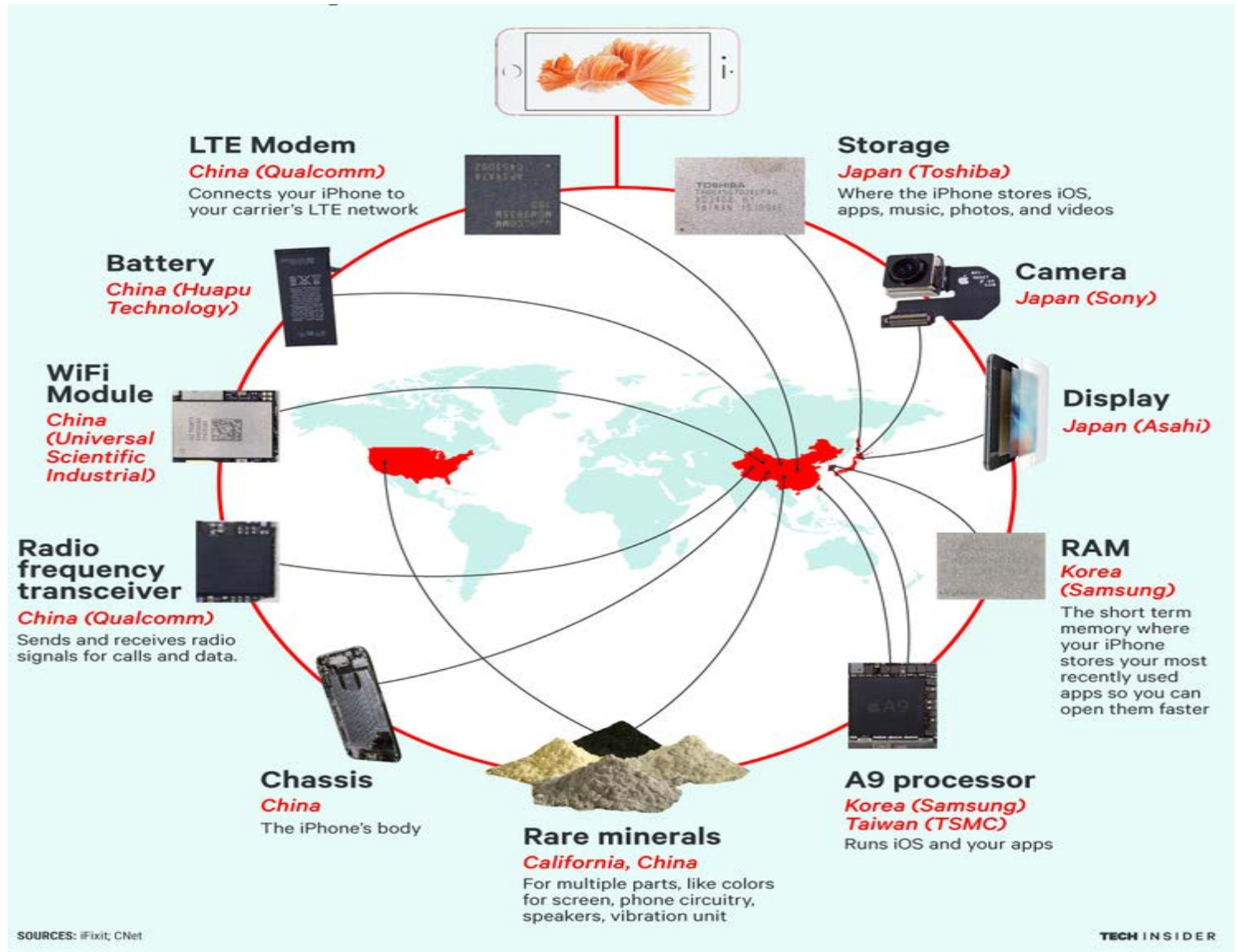
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**Note:** A country's revealed comparative advantage in particular product is measured as  $(\text{exports} - \text{imports}) / (\text{exports} + \text{imports})$ . The scale ranges from -1 to +1.

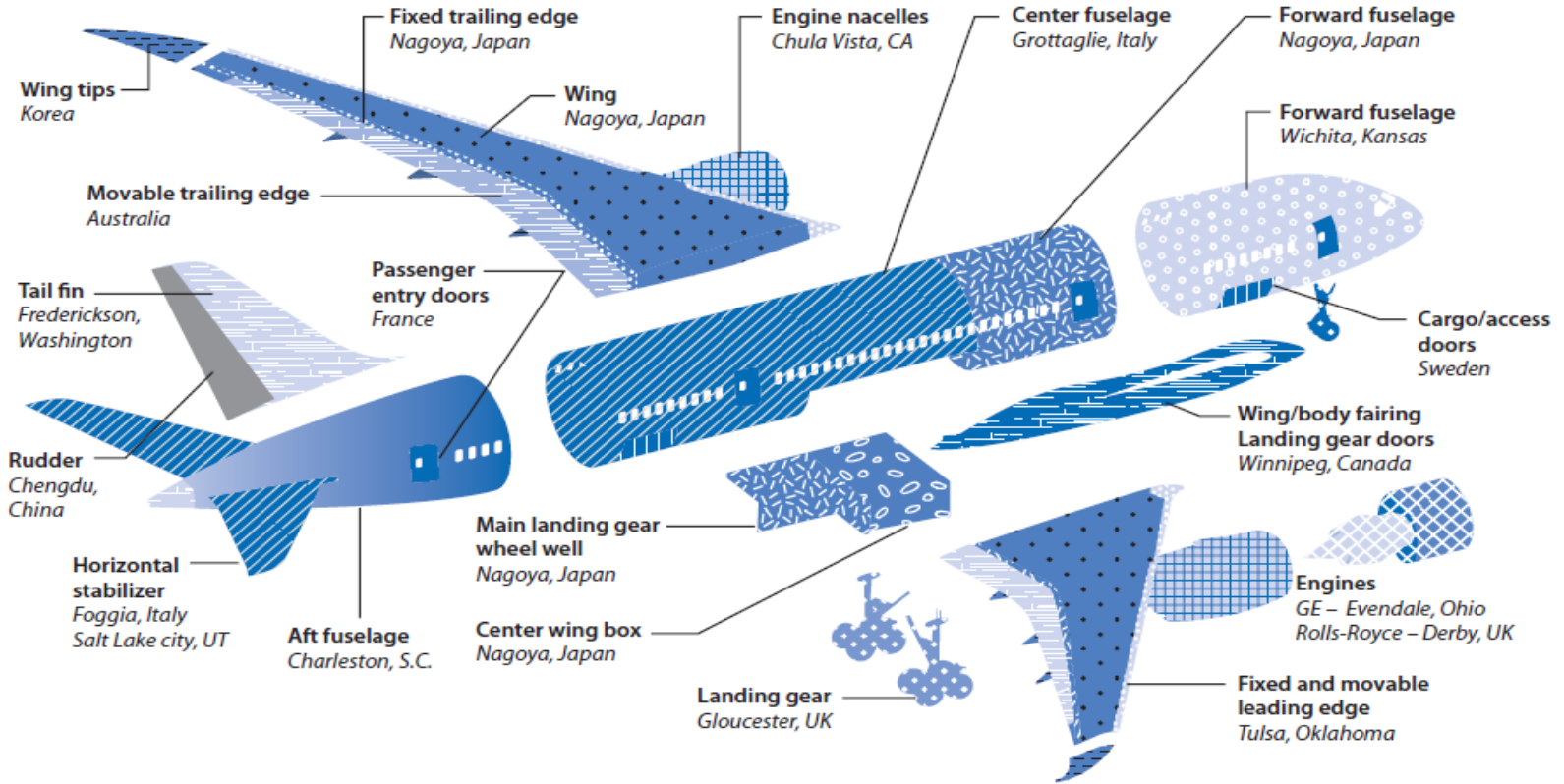
**Source:** International Trade Commission.

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# Where Does the iPhone Come From?

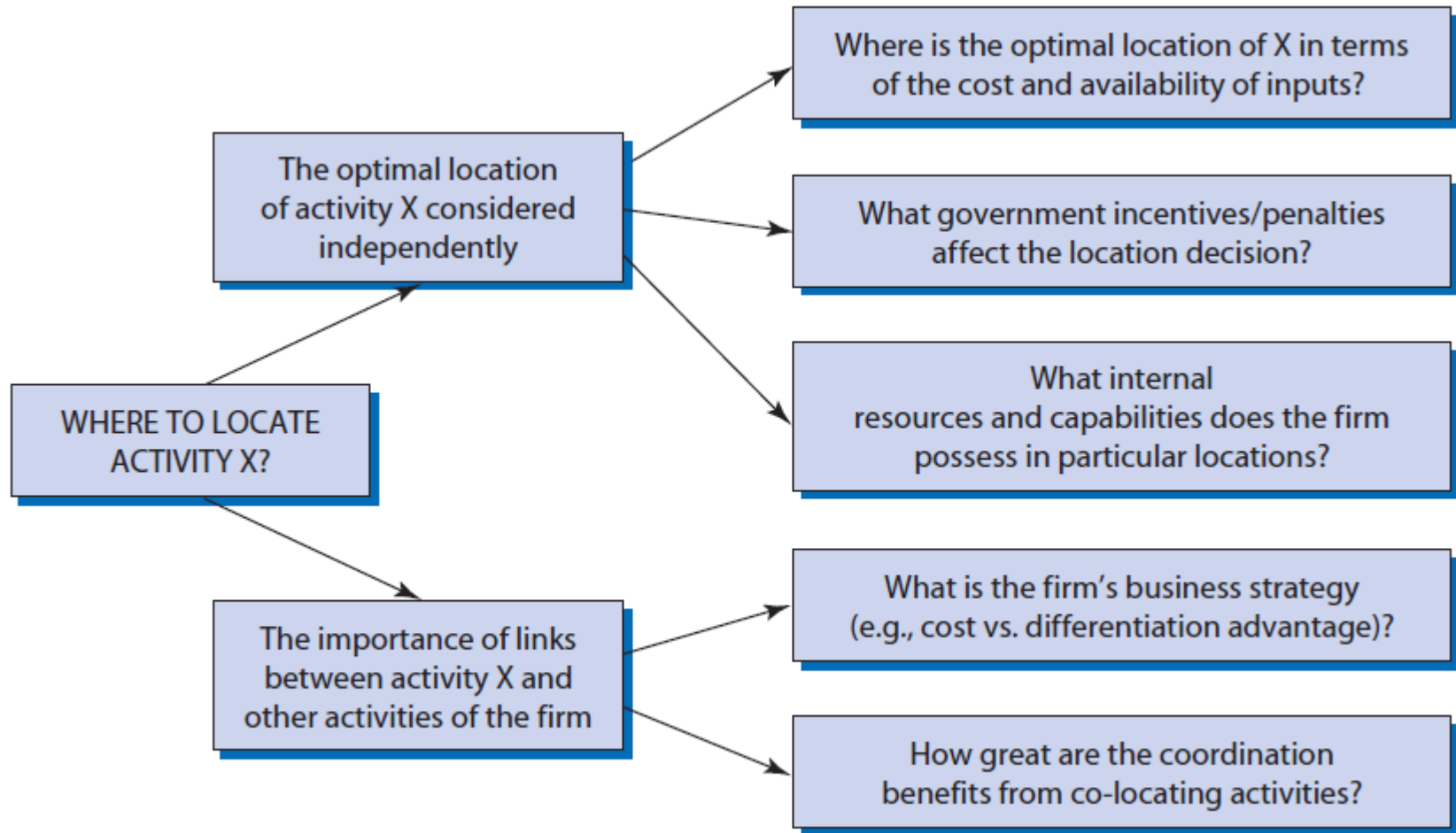


# Globally-Dispersed Production: Boeing 787



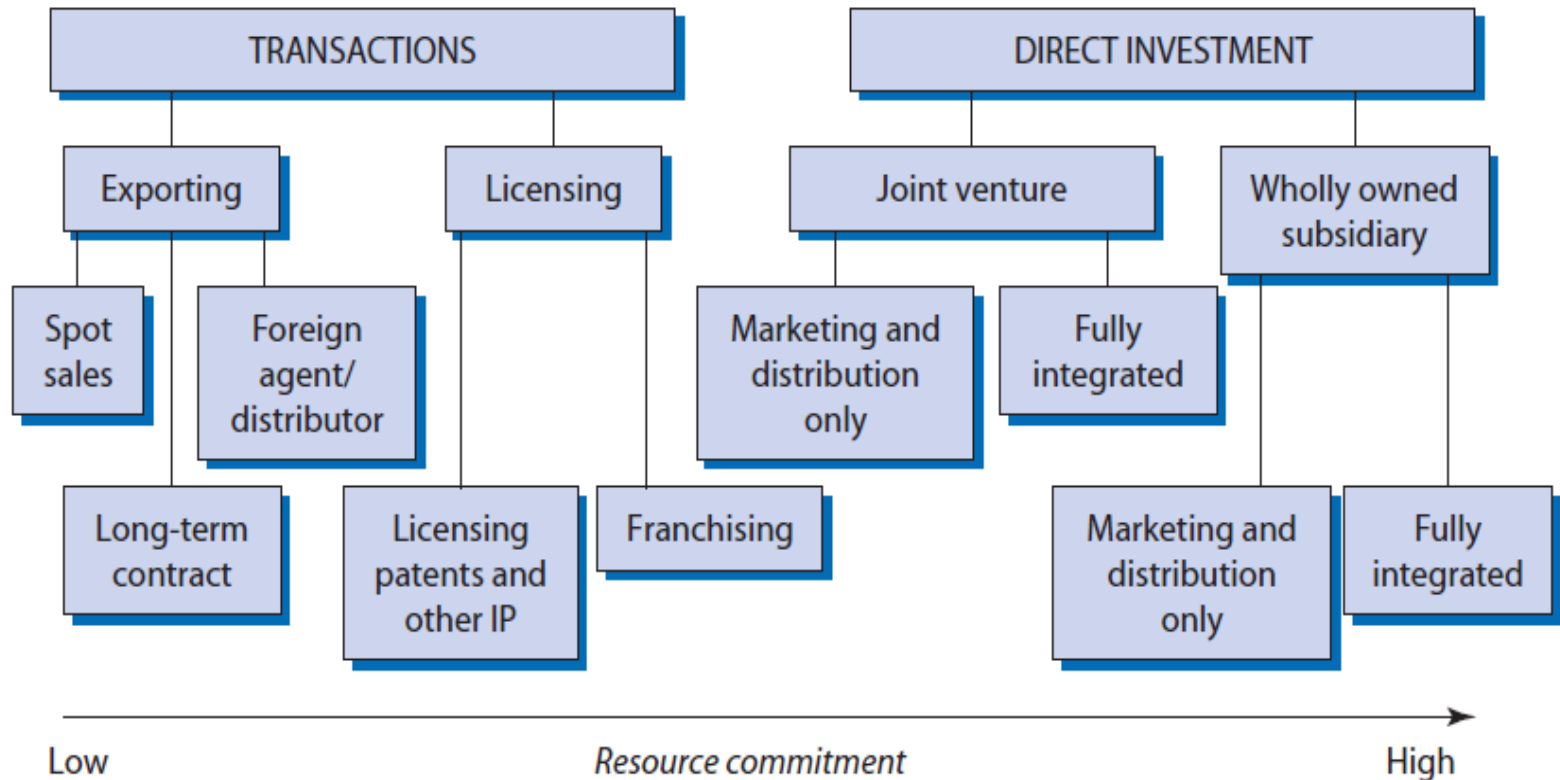
U.S.	Canada	Australia	Asia	Europe
Boeing	Boeing	Boeing	Kawasaki	Messier-Dowty
Spirit	Messier-Dowty		Mitsubishi	Rolls-Royce
Vought			Fuji	Latecoere
GE			KAL-ASD	Alenia
Goodrich			Chengdu Aircraft Industrial	Saab

# Determining the Optimal Location of Value Chain Activities



# Applying the Framework

## (2) Modes of Overseas Market Entry





# 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)



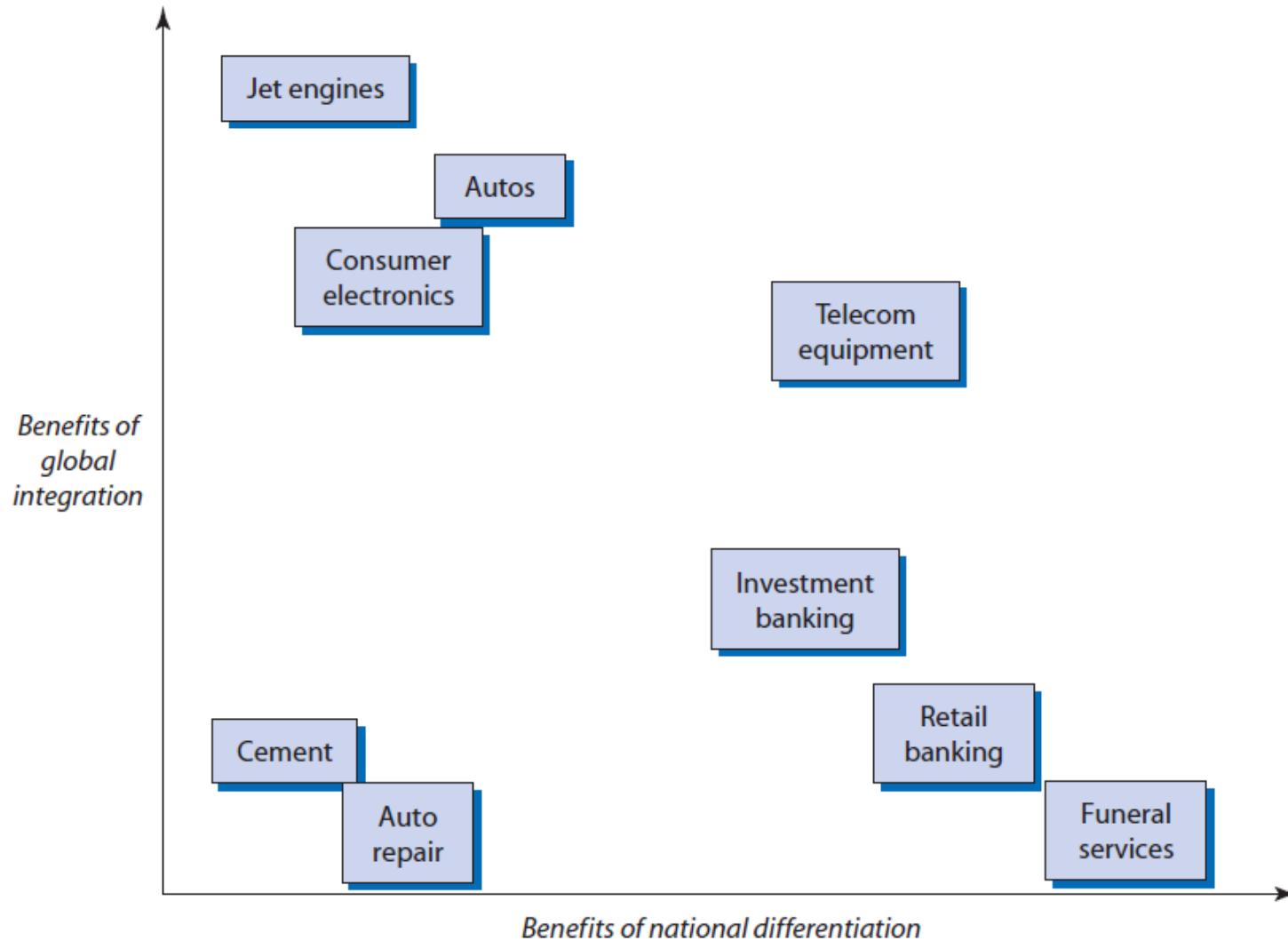
# Analyzing Benefits/Costs of a Global Strategy

- **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

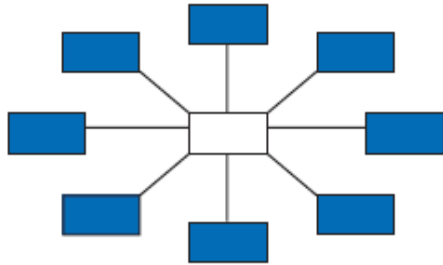
# Ghemewat's CAGE Framework

	<b>CULTURAL DISTANCE</b>	<b>ADMINISTRATIVE AND POLITICAL DISTANCE</b>	<b>GEOGRAPHICAL DISTANCE</b>	<b>ECONOMIC DIFFERENCES</b>
<b>Distance between two countries increases with</b>	<p>Different languages, ethnicities, religions, social norms</p> <p>Lack of connecting ethnic /social networks</p>	<p>Absence of shared political or monetary association</p> <p>Political hostility</p> <p>Weak legal and financial institutions</p>	<p>Lack of common border, or transportation or communication links</p> <p>Physical remoteness</p>	<p>Different consumer incomes</p> <p>Differences in resources</p> <p>Different information or Knowledge</p>
<b>Industries most affected by source of distance</b>	<p>Industries with high linguistic content (TV, publishing) or cultural content (food, wine, music)</p>	<p>Industries viewed by government as strategically important (e.g. energy, defence, telecom)</p>	<p>Products with low value-to-weight (cement), or fragile (glass) or perishable (milk), or where communication vital (financial services).</p>	<p>Products with income elastic demand (luxuries). Labor intensive products (clothing)</p>

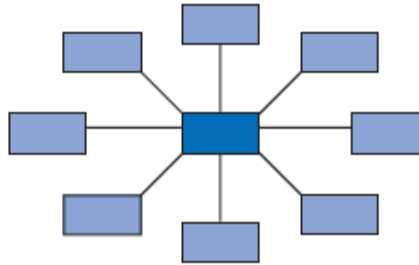
# Global Integration vs. National Differentiation



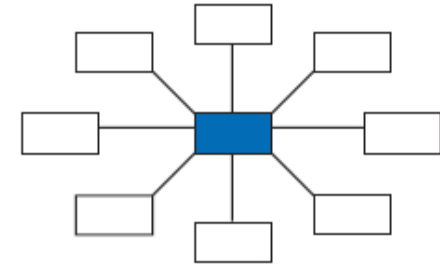
# Development of Multinational Corporation



The Europeans:  
Decentralized  
Federations



The Americans:  
Coordinated  
Federations



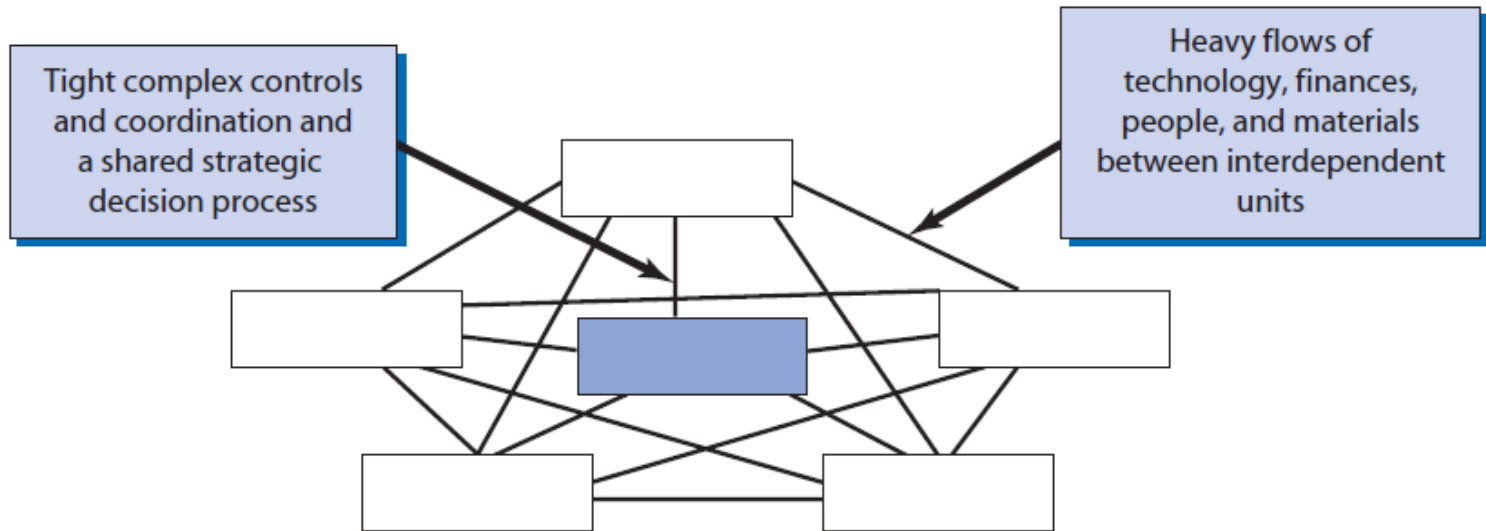
The Japanese:  
Centralized  
Hubs

**Note:**

The density of shading indicates the concentration of decision making.

- 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

# 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.