



**Bachelor's Thesis Organisation & Strategy**

*(Strategy and structure of multi businesses and multinational firms)*

**Global Strategy versus Multi-Domestic Strategy**

B.Warnier

S334360

Word Count: 7286

Group ss2

M. Röthengatter

## Table of Contents

<b>Chapter: 1</b> .....	4
§1.1 Introduction .....	4
§1.2 Problem statement .....	5
§1.3 Research questions .....	5
§1.4 Relevance .....	5
§1.5 Research design and data collection .....	6
§1.6 Overview of the rest of the chapters.....	7
<b>Chapter: 2 Global strategy drivers</b> .....	8
§2.1 Introduction .....	8
§2.2 Cost drivers .....	9
§2.3 Market drivers.....	10
§2.4 Competitive drivers.....	12
§2.5 Governmental drivers .....	12
§2.6 Disadvantages and limitations .....	13
§2.7 Conclusion.....	14
<b>Chapter: 3 Multi-domestic drivers</b> .....	15
§.3.1 Introduction .....	15
§.3.2 Consumer drivers.....	16
§.3.3 Competitive drivers.....	16
§.3.4 Distribution drivers .....	18
§.3.5 Host governments & legal issue drivers .....	19
§.3.6 Disadvantages and limitations.....	19
§.3.7 Conclusion.....	20
<b>Chapter: 4 What will be the prospect trends of these different models of strategy?</b> .....	21
§.4.1 Introduction .....	21
§.4.2 Prospect trends.....	21
§.4.2 Conclusion.....	23

<b>Chapter: 5 Conclusion</b> .....	24
§.5.1 Conclusion.....	24
§.5.2 Limitations.....	25
§.5.3 Recommendations .....	25
<b>References</b> .....	26

## CHAPTER 1

---

### §1.1 Introduction

Globalization refers to increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, service, technology and capital (Joshi & Mohan, 2009). Whilst economic globalization has been occurring for the last several thousand years, since the emergence of trans-national trade, it has begun to occur at an increased rate over the last 20-30 years (Riley, 2005). Globalization also created the opportunity for companies to expand their customer bases, and on the other hand profit from lower wages and production costs in developing countries.

Due to the increase of globalization, world markets becoming increasingly similar, a standardized approach to sourcing, production, marketing and other functions is both feasible and desirable (Samiee & Roth, 1992). However, these times seem to have changed; despite most consumers' basic needs are more similar than a few decades ago some consumers tend to become more and more aware of their product preferences (Aner, Berger, & Liu, 2008). Therefore standardization is not always the best approach to maintain businesses. Only after analysis of the product and market-fit and the capabilities of the company, the best strategy can be chosen (Keegan, 1969). Corporate strategy is a pattern of decisions in a company that determines and reveals its objectives, purposes, goals, and produces the principal policies and plans for achieving those goals (Foss, 1997).

Nowadays companies have the possibility of choosing between two important strategies; global strategy and multi-domestic strategy. Global strategy theory argues that it is profitable to manufacture and sell one standardized product worldwide and at the same time locate the most favourable value chain activities around the world to gain the highest cost advantage possible (Oviatt & McDougall, 2005). While the multi-domestic strategy argues that basic human needs may be similar everywhere, cultural and other environmental factors significantly influence the buying pattern of people in different countries, and therefore multi-domestic is more desirable (Boddewyn, Soehl, & Picard 1986). In this research the different drivers of these two strategies will be explained, investigated and compared.

## **§1.2 Problem statement**

A prior study (Lemak, David, & Wiboon, 1997) showed that: the controversy surrounding standardization and adaptation in international marketing has existed for more than three decades and is still unresolved. The concept of standardization first emerged in the relatively stable environment of the 1960s. Surprisingly, in the face of an increasingly dynamic global picture, it has recently resurfaced. (p. 1)

Since both strategies have different advantages and disadvantages, multinationals experience difficulties at applying the appropriate strategy. Therefore the problem statement of this research will be:

What are the differences between global strategy and multi-domestic strategy?

## **§1.3 Research Questions**

In order to increase revenue potential for multinationals, choosing the appropriate strategy is very important. In this research the differences between two important strategies; global strategy and multi-domestic strategy, are elaborated and compared.

To answer the problem statement, some sub questions should be answered. The sub questions are formulated in the following way:

- What are the drivers of a global strategy?
- What are the drivers of a multi-domestic strategy?
- What will be the prospect trends of these different models of strategy?

## **§1.4 Relevance**

The focus of this research is; what drives multinationals to apply a global strategy or a multi-domestic strategy. From an academic perspective it is useful to investigate both strategies, because these strategies play a great role in the financial performance of multinationals, and it gives a summary of the differences between these two strategies. From a managerial perspective; it is a useful research in order to make decent decisions about corporate strategy for the future.

### **§1.5 Research Design and data collection**

The research is a literature review. A literature review is a clearly and logically presented documentations of a widely review of the published work from other scientific sources. It contains relevant research performed up to now.

Writing the literature review is done in three steps (Sekaran, 2003). First: identify the relevant sources. The main sources will be the online database of the University Library, the databases used are ABI/Inform EconLit, ScienceDirect, Online Contents Landelijk, Online Contents Tijdschriftartikelen UvT and IBBS. The abstract database is very comprehensive and provides links to full-text databases. In this database one can find secondary data; many useful journal articles, working papers and books which contain information about the subject. Furthermore, usage of the internet is used to find more global information and it helps with terms or articles which need more in-depth explanation.

The second step is extracting the relevant information. Articles are selected on the basis of their title and abstract. After checking the quality and relevance on the basis of the references and citation impact, the articles are printed. After reading the articles useful information is highlighted.

The third step of this literature survey is writing up the literature review. The goal of this review is to identify and highlight the central variables and document the findings of concern from previous research, these form the basis of the theoretical framework.

When searching for a specific article based on references, the author and the year of publication is used to find the correct article. When a useful article has been found, reference checks are conducted to find more related articles. When several other articles refer to same article, the article is most likely reliable and valid. The advantage of this way of collecting data is that it is inexpensive and can be generated quickly. The limitations of this way of retrieving data are that the accuracy and the consistency are not certain. Another disadvantage is that it is hard to find data that perfectly fits the problem statement and that one needs to work with ill fitting information. Furthermore, the articles are checked on year of publication, because the investigated subjects are still in development and therefore older publications can contain outdated conclusions.

## **§1.6 Overview of the Rest of the Chapters**

In the following chapters, both strategies will be explained in depth. The research focuses on the drivers of both strategies and explains how the drivers of one strategy are advantageous for multinationals with that kind of strategy, while limitations and disadvantages of both strategies are also mentioned. After the drivers of both strategies are discussed, the fourth chapter describes future trends of these different strategy models. The research ends with a conclusion and some recommendations, limitations and implications for further research.

### Global strategy drivers

#### §2.1 Introduction

As described in the previous chapter, two strategies will be explained, investigated and compared. In this chapter the drivers of the global strategy are discussed. At the same time these drivers are linked on how multinationals can take advantage of these drivers.

Globalization refers to increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, service, technology and capital (Joshi, Rakesh Mohan, 2009). Multinationals in certain industries can benefit from the changes of globalization. However, some multinationals benefit more from globalization than others. Some regions have a comparative advantage over another region in certain industries. To create a successful global strategy, managers first must understand the nature of global industries and the dynamics of global competition. (QuickMBA, Strategic Management, 2010). Globalization of world markets has led to a global strategy where multinationals sell a standardized product worldwide. With a standardized product, a standardized approach of production, outsourcing, marketing and other functions is meant (Samiee & Roth, 1992). According to Samiee and Roth (1992) emphasize is on the importance of an underlying long-term economic payoff on the adoption of global strategy and posit that the pursuit of global standardization is generally considered to be appropriate only to the extent to which it has a positive influence on financial performance (Buzzell, 1968).

In this research, the drivers of global strategy are elucidated by four important subcategories. Industry globalization drivers are externally determined by industry conditions or by the economics of the business and they fall into four groups; market, cost, government, and competitive drivers (Yip, 2002). By investigation of each driver of the global strategy, one can analyze if a company is suitable for a global strategy. Analysis using this framework can play an important role in shaping the global strategy of a multinational (Yip, 2002).

## §2.2 Cost Drivers

### *Economies of Scale*

One of the most obvious driver of global strategies for companies is the potential of economies of scale. An economy of scale occurs when the cost advantages that a business obtains due to expansion increases. Most of these are factors that cause a producer's average cost per unit to decrease as output is increased. An economy of scale is a long run concept and refers to reductions in unit cost as the size of a facility, or scale, increases (Silvestre, 1987). Due to the positive effects of globalization, (increase of consumers), the numbers of total sales are much higher than before. Economies of scale are important and profitable for different reasons; companies can pass on the lower costs per unit to customers by selling their product for lower prices and therefore increase its market share. Or a business could choose to sustain its existing price for its product and accept higher profit margins.

Scale economies can be present in nearly every function of a business, including manufacturing, purchasing, research and development, marketing, service network, sales force utilization, and distribution (Porter, 1980). Economies of scale are also important to reduce the research and development costs, especially companies with high research and development expenses (e.g. the aircraft and pharmaceutical industry) profit by economies of scale (Meir & Scott, 1982).

Scale economies may also affect entry possibilities of other companies because the absolute amount of capital required for efficiency may be so large that relatively few entrepreneurs could secure the required capital, or that entrants could secure it only at interest rates that placed them at an important cost disadvantage relative to incumbents (Preston, 2003).

Global strategy theory argues that it is profitable to manufacture and sell one standardized product worldwide. Standardized production allows businesses to produce large quantities of the same product, and therefore economies of scale are easier to achieve. In this way, multinationals can benefit from economies of scale in more ways.

### *Location of strategic resources*

Multinationals with a global strategy locate their value adding activities where they can achieve the greatest competitive and cost advantage (Oviatt & McDougall, 2005). Depending on the companies industry, global strategy can be implemented to improve the company's revenue by acting global. Location of strategic resources (e.g. raw materials, employees, knowledge) can be very important. Sourcing efficiency and costs vary from country to country and global firms can take advantage of this fact (Ferrier, 2004). Due to differences in country costs multinationals can reduce their costs by outsourcing parts of their production and service processes to other, low wage, countries. Outsourcing tends to be functional only when it has certain distinguishing features like: the activity is a routine job, expensive to do it in-house, and is not central to generating profits or competitive success (Baron & Kreps, 1999).

Another factor in favour of global strategy is that it optimizes the transportation options. Multinationals produce a high quantity of products and therefore transportation cost per unit decreases. Other advantage is that one of the driving forces behind globalization is the continuous decrease in transportation costs. As these costs decrease relative to production costs, it increasingly makes economic sense to produce in one place for consumption in another (Braudel, 1979).

## **§2.3 Market Drivers**

### *Common customer needs*

Multinationals can profit from a global strategy when their customer base consists out of customers in different countries with the same need or want for a product or service. Despite the increasing number of consumers with a special product demand the customer needs tends to be more similar than before. Capitalism, global transport, communications, marketing and advertising, and transnational cosmopolitanism are interacting to dissolve the boundaries across national cultures and economies, and in the eyes of many, accelerating the emergence of a homogeneous global consumer culture (Ger, 1999). This similarity of tastes and preferences is called market homogenization; all markets demanding the same products, regardless of their domestic culture and traditional preferences (Levitt, 1983). Market homogenization has led to a

so called “global consumer”. Research proved that globalization of markets has offered an opportunity for the growth of global consumer segments (Hassan & Katsanis, 1994; Holt, Quelch, & Taylor, 2004). More globalization of products and services means that consumers around the world can get the product they desire, therefore the number of customers that want the same product (global consumer products) increases. Corporations take advantage of the emergence of a global consumer culture by altering their brand portfolios in favor of global brands (Quelch, 1999; Quelch, 2003), or by positioning brands as part of the globally shared consumption symbols in their marketing communications (Alden, Steenkamp, & Batra, 1999). The market driver of common customer needs allows multinational to produce more standardized products world-wide. Appearance of a global consumer increases the potential customer base and can reinforce the benefits of economies of scale by a rising market potential.

#### *Global distribution & Transferable marketing*

Another driver for global strategy is the driver of global distribution and transferable marketing. Global strategy can be beneficial when multinationals use elements of their marketing mix, such as promotions, advertisements, pricing strategy, and brand-names globally. The advantage of this so called transferable marketing is that it reduces cost of designing the marketing campaign. Once the initial costs of the marketing plan are incurred, the campaign can be used world-wide. Well known examples of multinationals which make use of transferable marketing are BurgerKing, Nike and Coca Cola. Both multinationals sell the same standardized products world-wide, and therefore their marketing campaigns can be used almost everywhere around the globe. Other advantages that multinationals can take of a global transferable marketing mix is that when multinationals benefits from the cost advantages of a worldwide marketing mix it reduces possible barriers to enter unexplored markets in different countries by using the same already developed (working) marketing mix. It may as well increases barriers for other competitors who try to enter your markets, because they don't have the advantages of a transferable marketing mix.

Furthermore, multinationals are positive affected by global distribution. Global distribution occurs when different sub-units and subsidiaries are coordinated in such a way that they

effectively exchange, knowledge, expertise, materials and other requirements for the companies benefit. Global orientated multinationals can therefore profit from different fields of expertise from different sites around the world. Knowledge, materials, can be generated at cheaper rates than otherwise. Even though it may thus be potentially easy to achieve a global distribution of sourcing and production, a global distribution of sales may be more difficult to accomplish (Rugman & Alain Verbeke, 2004).

## **§2.4 Competitive Drivers**

### *Global competitors*

A multinational may create competitive independence among countries by pursuing a global strategy (Rugman, 2002). As for multinationals, having global competitors in a certain type of market is not always perceived as an advantage. The existence of many global competitors only indicates that an industry is ripe for globalization and therefore global strategy. Global competitors will have a cost advantage over local competitors by scale economies (QuickMBA, Strategic Management). Competitive advantage will be more impending in industry fields that can be described as standardized or global industries. These industries are most likely industries with higher globalization needs. Such industries need large investments for efficient participation, need a uniform global customer need (e.g., semiconductor chip design is the same around the world), and production need no or less local assets such as local workforce and distribution networks. In these industries, multinationals have usual a significant benefit over domestic firms in terms of greater learning possibilities, lower costs, and greater steadiness in revenues and profits.

## **§2.5 Governmental Drivers**

Global strategy is also influenced by governmental drivers. These governmental drivers include factors like the emergence of trading blocks, large scale privatization, and reduction in trade barriers (Kedia, 1999). Companies are now confronted by the rapid globalization of markets and competition. The increasing importance of speed and flexibility as key sources of competitive advantage, and the growing proliferation of partnership relations with suppliers, customers, and competitors (Ghoshal, Arnzen, & Brownfield, 1992).

Multinationals with a global strategy can profit from governmental regulations and decisions designed by the force of globalization world-wide. Due to globalization, the role of government as producers and consumers declined. The decline of government influence has a positive effect on market liberalization and privatization. Liberalizations of markets can be beneficial for multinationals when new markets become available, and an increase of potential customers can be realized.

Other governmental drivers which are beneficial for a global strategy are the adoption of common standards. Common standards are developed by governments and multinationals to lower the costs of product and transportation to different parts of the world. Examples of common standards are: ISO (International Organization for Standardization), and Wi-Fi Alliance (Wireless Communication). These compatible technical standards create opportunities for product standardization and are therefore suitable for multinationals with a global strategy.

Other advantages of governmental drivers are common marketing regulations. These regulations provide a clear framework for multinationals what is permissible on the advertisement market and therefore standardize their marketing campaign to be cost effective.

## **§2.6 Disadvantages and limitations**

Even though the focus of this research is to identify the drivers which support the global strategy and to shed light on the advantages forthcoming from the global strategy drivers, it will be no revelation that the global strategy has some disadvantages as well.

One of these disadvantages is the fact that due to standardization in production, marketing, and distribution, multinationals frequently lacks responsiveness to local markets. Therefore multinationals are not able to meet specific customer demands in some regions or cultures.

Second disadvantage is that multinationals with a global strategy locate their value adding activities at places where they can achieve the greatest competitive and cost advantages. In most cases this means that different parts (subsidiaries) of a multinational are located in different countries. This requires a lot of resource and information sharing across company parts and borders. Therefore multinationals with a global strategy are difficult to manage.

## **§2.7 Conclusion**

Global strategy theory argues that it is profitable to manufacture and sell one standardized product worldwide. Global strategy therefore allows multinationals to be active in all world markets of the product they produce. Whereas the decisions regarding business-level strategies are made centralized in the home office. The multinationals competitive advantage depends on cost drivers such as economies of scale gained across markets. Economies of scale can be acquired by producing large quantity of products.

After analysis of the drivers of the global strategy for multinationals it is clear that there is an overlap between globalization drivers and global strategy. Globalization has shaped the world in such a way that a global strategy can be very cost effective and therefore advantageous for multinationals. Factors that caused the rapid globalization of our world seem correlated to the effectiveness of the global strategy.

The global strategy, in terms of standardization, has despite some disadvantages many advantages in the field of: costs, customers, competitive, and governmental factors. The common characteristic of these four elements are that standardization of these factors are advantageous for multinationals that produce large quantity of products and sell them in many different countries across the globe.

### Multi-domestic drivers

#### §3.1 Introduction

Whereas multinationals with a global strategy sell standardized products in order to benefit from economies of scale and other advantages, other multinationals tend to adopt a multi-domestic strategy. This strategy is typically adopted by companies operating in markets in which the perceived cultural and consumers differences are considerable and customization is not simply desirable but mandatory to achieve satisfactory market shares (Solberg, 2000). European multinationals, such as Nestlé and Unilever, seem to fit clearly into this definition.

As standardization of product and marketing campaigns are important for the global strategy, it is clear that local responsiveness and local adjustments are important for the multi-domestic strategy. Local responsiveness, local adjustments and local embeddedness are used as synonyms in this research, as this is done by previous researchers in the same subject. Opposed to the global strategy, it is sometimes more advantageous for a multinational to adjust their product in order to be successful in different markets.

Multi-domestic and therefore customized products have been defined as “slight variations of standard configurations and are typically developed in response to a specific order by a customer” (Ulrich & Eppinger, 1995). Customer-focused strategies and customized products have become increasingly popular in the 1990's (Lampel & Mintzberg; 1996, Pin, 1993). When compared with standardization, local adaptation can offer a competitive advantage with increased customer value and better service (Simon & Dolan, 1998). Other characteristics of a multi-domestic strategy are the independence of business units in each operating country, and focus on local competition in each market/country.

Analysis of the driving forces of a multi-domestic strategy and the subsequent advantages of the multi-domestics strategy can provide an important framework. It allows multinationals to match their company structure with this framework in order profit from the multi-domestic strategy for in terms of revenue, market share and imago.

### **§3.2 Consumer Drivers**

Local responsiveness is driven by different consumer tastes and preferences. In this strategy also host government demand, traditional business ethics, business demand and channels of distribution are included. Customization of products may also be motivated by local content rules, local manufacturing and testing requirements, and threats of protectionism (Bartlett & Ghoshal, 1989). Multi-domestic reduces the potential benefits to be gained from manufacturing a standardized product in the lowest cost location and then selling it globally, the basic approach to standardization.

Despite this disadvantage, local responsiveness concerns the attempt to respond to specific needs within a variety of host countries. If a multinational want to effectively deal with different markets, business practices and different cultures, one has to be differentiated enough in order to succeed. But the differentiated subunits must fit in the overall structure in order to remain flexible and contribute to corporate performance (Jarillo & Martinez , 1990; Prahalad & Doz, 1987; Roth, Schweiger & Morrison, 1991).

One advantage of multi-domestic strategy is, that by taking into account: local culture and needs, by making adjustments in their products and services their products. The product becomes more suitable for sale in different markets whereas a standardize product of the same category would probably fail because of the lack of local adaptation.

Products and services designed especially for the needs and want of a country will lead to an increase in customer satisfaction. Customer satisfaction may be linked sequentially to individual loyalty, aggregate retention rate, market share, and profits (Zahorik, 1993). These findings of improved customer satisfaction and the forthcoming effect of more loyalty, market share and brand loyalty will improve the company revenue. A multi-domestic strategy may also emphasize the need to be responsive to different local environments. This concludes that multi-domestic strategy implies competing in industry segments that are most effected by local differences (Porter, 1986).

### §3.3 Competitive Drivers

When product differentiation and customer responsiveness are required to gain a local competitive advantage, local responsiveness becomes part of a multinational organizational system for stimulating business success (Porter, 1990). Multi-domestic strategy seeks to maximize worldwide performance by maximizing local competitive advantage. Local competitive advantage can be acquired by meeting the specific demand of local consumers. This phenomenon of multi-domestic is most used in the food & beverage, and furniture markets. As stated on the website of Unilever: “*multi-domestic and implementation of foods innovations will be ensured through consolidated country and factory teams.*” And a report of the FAO (food and agriculture organization of the United Nations) stated: “Therefore, even as the food industry becomes more global with the same multinational retailers and manufacturers operating across the world, food demand is being increasingly satisfied at the local level where food suppliers are better able to meet specific demands of local consumers. Therefore, separate manufacturing facilities, to serve each national market independently, are economical.” Both examples are in favor of a multi-domestic strategy, because it is economical profitable to alter your product to meet the preferences of a country or culture and therefore gain competitive advantage over rivals.

#### *Rivalry & Technological drivers*

With a multi-domestic strategy the control is generally decentralized and the decision making is done on a local level. If a multinational follows a global strategy it will have a centralized control with little decision making authority left in the local level. In other words: multi-domestic strategy allows multinationals, to have subsidiaries which can make their own decisions and plans for the future. These subsidiaries are located in a market with, most likely, other domestic companies who are rivals and competitors of each other.

The existence of other competitors leads to the following advantage; increase of rivalry in a market increases the technological advance of a company. This statement is supported by (Larsson, 1999) who argues that multi-domestic by multinationals forces rivalry to innovate. Innovation therefore increases competitive benefits in the international market. Companies

without fierce domestic competition, find it harder to achieve high-level technological performance in the international market. Larsson also argues that his findings are based on two ideas. One is that domestic competition is a prestige and emotional battle between other companies. Competition is always striving to become the market-leader, by acquiring the best domestic resources (labour, capital, raw material, political influence) and therefore create a dynamic milieu in which it has a stimulating effect on the technological development of firms (Larsson, 1999). Second is that there is always a certain amount of knowledge spill-over within a local (national) milieu, even between rivals. Spill-over occurs when the opportunity to exchange ideas that lead to key innovations are with employees in a common industry in a given location are stationed close to one another (Carlino, 2004).

Local competitors force each other produce at lower costs, and at the other hand increase service and quality when creating new products and services. But unlike rivalries with foreign competitors, which tend to be analytical and distant, local rivalries often go beyond pure economic or business competition and become intensely personal. (Porter, 2008)

### **§3.4 Distribution Drivers**

Marketing, production, HRM and research and development activities need to be present in every key national market where business is done. In most multi-domestic strategies each organization and each subsidiary is a self-sufficient part of the value chain. Each subsidiary requires its own input and is able to provide most of its operating services. The multinationals activities are replicated in each location, adapted to the local preferences. To enhance economic efficiency from location advantages, factor endowments, and demand opportunities, local responsiveness is necessary (Dunning, 1981; Porter, 1990).

In other words; sometimes it is economical more advantageous to produce and develop a product in a specific country itself because of the great differences between the multinational and the subsidiary. The multinational subsidiary can be able to produce cheaper due to the fact it makes use of the local employees from the host country instead of the more expensive domestic employees.

Other advantages with respect to distribution channels are that subsidiaries can benefit from the local infrastructure of a certain country. It allows them to distribute products by the use of cheaper distribution channels, and it reduces the effects of imports and exchange risks.

### **§3.5 Host Governments, & Legal Issues drivers**

Foreign companies must respond to diverse consumer tastes, distribution constraints, different business cultures, and changes in governmental regulations (Golden, 1992; Roth & Morrison, 1991). Multi-domestic strategy of multinationals can be beneficial when legal or governmental issues force multinationals to adapt their product to these laws and regulations.

#### *Political & Legal issues*

Sometimes multi-domestic is required to maintain operative in some markets in a country or region. Historical and cultural differences require some additions or changes to the original product. This is the case with many automobile manufactures, which make different versions of one model to sell the model in countries where it is required to have the steering wheel on the other side.

Even law can force companies to change their products in order to be sold in a country. For example; as of 2010 it is required for mobile phone manufactures to equip their new model phones with a mini-USB charger. This decision is made by the EU government to lower the different kind of battery chargers which has an economical and environmental advantage.

Multi-domestic seems not to have economical benefits at first sight. Sometime it is just necessary to get or maintain access to a certain type of market. For companies with the multi-domestic strategy it is easier to respond fast and accurate to these governmental demands.

### **§3.6 Disadvantages and limitations**

In this chapter the importance is on what drives the multi-domestic strategy and the forthcoming advantages for multinationals. Despite many advantages the multi-domestic strategy has some limitations and disadvantages. One of these is the inability to transfer and exploit experience between different markets; consequentially this is the same with the

inability to transfer competitive advantages in one country/market to another. At last, due to local adaptation and customization economies of scale are less likely to occur.

### **§3.7 Conclusion**

Conclusive it can be stated drivers of multi-domestic strategy, tends to be advantageous when customization is not applicable. External forces, like consumer preferences, cultural differences and law and regulations, forces multinationals to customize their products to meet the required demands. In contradiction with global strategy, where the focus is on scale economies, multi-domestic strategy is able to increase customer satisfaction by customization.

Apart from the satisfaction of consumers, multi-domestic strategy boost technological advance by competition with domestic companies.

### **What will be the prospect trends of these different models of strategy?**

#### **§4.1 Introduction**

Both the global strategy and the multi-domestic strategy can be useful for different kinds of multinationals. Global strategy is characterized by the concept of standardization of business activities whereas the multi-domestic strategy is characterized by the concept of local responsiveness and local embeddedness by adjusting some business activities to become successful in a certain type of market or country. Both strategies are characterized by different drivers. In the following section the prospects trends of both strategies are investigated.

#### **§4.2 Prospect trends**

Predictions in the field of economics and strategy are difficult to make. Nevertheless research conducted that a dominant trend for business strategies is toward the middle; customized standardization (Lampel & Mintzberg, 1996). They argue that an increasing number of multinationals incline to a combination of both standardization and customization. The combination of both multi-domestic and global strategy is called: transnational strategy.

Transnational strategy involves a hybrid between the global and multi-domestic strategies. It involves internationalization through simultaneously responding to host market conditions while integrating worldwide activities. This strategy is driven by a combination between a shared managerial philosophy and a country-specific managerial philosophy. Firms employing a transnational strategy confront the task of simultaneously optimizing efficiencies, responsiveness, and learning, throughout their international operations (Bartlett & Ghoshal, 1987). Similar to global firms, transnational firms encounter global competition. However, they are distinguished from global firms by a lack of worldwide customers with standardized needs (Roth & Morrison, 1990).

Transnational strategy is already successfully adopted by different multinationals. Although a transnational strategy is difficult to implement due to the complex structure of multi-domestic

and global strategy, all of the multinationals in table 1 are multinationals who managed to adapt their product to local preferences and remain selling products worldwide:

Table 1: The world's most transnationalized corporations, ranked by foreign-to-total sales, 2001 (Percentage)

Rank	Corporation	Home country	Foreign-to-total sales
1	Nokia	Finland	98.5
2	Roche	Switzerland	98.2
3	ABB	Switzerland	97.4
4	Philips Electronics	The Netherlands	95.2
5	Nortel Networks	Canada	94.6

Source: Regional transnationals and and Triad strategy, United Nations, 2004

Table 2: Regional distribution of the sales of the world's most transnationalized corporations, 2001(Percentage)

Rank	Corporation	Home country	Intraregional sales	North America	Europe	Asia-Pacific
1	Nokia	Finland	49.0	25.0	49.0	26.0
2	Roche	Switzerland	36.8	38.6	36.8	11.7
3	ABB	Switzerland	53.9	25.1	53.9	11.3
4	Philips Electronics	The Netherlands	43.0	28.7	43.0	21.5
5	Nortel Networks	Canada	54.4	54.4	...	...

Source: Regional transnationals and and Triad strategy, United Nations, 2004

Table 2 gives an overview of the Regional distribution of the sales of the world's most transnationalized corporations.

### **§4.3 Conclusion**

According to different researcher, transnational strategy combines the advantages of the global strategy and the multi-domestic together. This allows multinationals to be globally active and therefore creating economies of scale. And at the same time the ability to adapt to local markets remains. In spite of its complex structure to implement the strategy, and the high cost of coordination the benefits of the transnational strategy still outweigh the disadvantages. As the provided table shows that big multinationals adopted successfully the transnational strategy (total foreign sales and sales per continent) Therefore transnational strategy can be stated as a role model for combining global and multi-domestic strategies together.

## §5.1 Conclusion

---

In conclusion, this paper analyses the drivers behind both strategies and link these drivers to the advantages of a global strategy and a multi-domestic strategy. After analysing the drivers, advantages and benefits of both strategies, many differences became observable. It can be concluded that a global strategy is more efficient when a multinational produces a standardized product. Multinationals with a global strategy can benefit from the globalization drivers which enhanced the globalization process. It is therefore no revelation that these multinationals profit from the globalization forces like: common customer needs, location of strategic resources, global distribution and transferable marketing, global competitors, and governmental drivers. Almost all of these forces have one common characteristic, they allow multinationals to achieve economies of scale by producing huge quantities of products at a lower costs per unit. This process can increase their market share or increase higher profit margins.

Multi-domestic strategy consists out of local responsiveness and is driven by consumer tastes and preferences, local, traditional business practices, distribution channels, and host government demands. It requires a change in product characteristics in order to sell the product or service in a different market or region. In contradiction with the global strategy, multi-domestic strategy is not applicable to create economies of scale in the same size as multinationals do with a global strategy. Multi-domestic strategy will be applied in order to meet the different demand of consumers and governments. This result in products and services tailored to local markets, higher customer satisfaction, and higher technological advance and minimized political risks. All these advantages can contribute to the financial performance of a multinational.

Although global integration and local responsiveness can be inversely related, their underlying determinants are not necessarily homogeneous (Doz & Prahalad, 1991). This is supported by the fact that researchers predict that the future strategies will consist out of a combination of global and multi-domestic strategy. The so called: transnational strategy. Transnational strategy involves a hybrid between the global and multi-domestic strategies. It involves internationalization through simultaneously responding to host market conditions while integrating worldwide activities.

In conclusive, this research can be used as a collection of characteristics of both strategies and can be used to solve the research: What are the differences between global strategy and multi-domestic strategy?

## **§5.2 Limitations**

Most important limitation of this research is that it only provides an overview of both strategies. This means that multinationals cannot choose the strategy they prefer or the one that is the most profitable. The type of strategy a multinational has to pursue is completely depended on the product they produce or in which markets they are present. So this research does not offer multinationals a guideline; how to choose an appropriate strategy, but only indicates the drivers and (dis)advantages of both strategies.

Another important limitation of this research is the lack of an in depth analysis of the disadvantages of both strategies. It was a deliberately choice to give more attention to the advantages and due to word count restrictions of this research it was almost impossible to do the same intensive research as done for the drivers and advantages. Still some major disadvantages where mentioned.

Other limitation of this research is that it is hard to find a multinational that can benefit completely from one strategy. As Rugman and Alain Verbeke (2004) describe that only nine firms among the largest 500 companies have a complete global strategy. It seems clear that all multinationals are different in forms of production, marketing, structure. Therefore a complete fit with one strategy is not very likely to happen.

## **§5.3 Recommendations**

Recommendations can be made when matching multinational characteristics to the advantages of both strategies. One has to be aware of the capabilities of the multinational, their customer preferences and future targets. Managers have to be aware of the multinationals objectives, purposes, goals, produces and the principal policies and plans for achieving those goals. Therefore is it of great importance to investigate these subjects before you comparing multinational with the findings of this research.

## References

- Alden, D. L., Steenkamp, J. B., & Batra, R. (1999). Brand positioning through advertising in Asia, North America, and Europe: The role of global consumer culture. *Journal of Marketing, 63*, 75–87.
- Baron, N. J., & Kreps, M.D. (1999). *Strategic human resources frameworks for general managers*. Hoboken, United States: John Wiley & Sons, Inc.
- Bartlett, C.A., & Ghoshal, S. (1989). *Managing across borders: The transnational solution*. Boston, United States: Harvard Business School Press.
- Berger, S.A., Jonah, A., & Liu, W. (2008). Variety, vice, and virtue: how assortment size influences option choice. *Journal of Consumer Research, 6*, 1-11.
- Boddewyn, J.J., Soehl, R., & Picard, J. (1986). Standardization in international marketing: is Ted Levitt in fact right? *Business Horizons, 29*, 69–75.
- Braudel, F. (1979). *Civilisation materielle, economie et capitalisme*. Paris, France: Librairie Armand Colin.
- Buzzell, R. (1968). Can you standardize multinational marketing? *Harvard Business Review, 46*, 102-113.
- Carlino, G. A. (2001). Knowledge spillovers: Cities' role in the new economy. *Business Review, 4*, 17-26.
- Doz, Y., & Prahalad, C. K. (1991). Managing MNCs: a search for a new paradigm. *Strategic Management Journal, 12*, 145–164.
- Dunning, J. H. (1981). *International production and the multinational enterprise*. London, England: Allen & Unwin.
- Ferrier, W., & Lyon, D. (2004). Competitive repertoire simplicity and firm performance: The moderating role of TMT heterogeneity. *Managerial & Decision Economics, 25*, 317-327.

- Foss, J. (1997). *Resources, firms, and strategies, a reader in the resource-based perspective*. New York, United States: Oxford University Press.
- Ger, G. (1999). Localizing in the global village: local firms competing in global markets. *Calif Manager Review*, 41, 64–83.
- Ghoshal, S., Arnzen, B., & Brownfield, S. (1992). A learning alliance between business and business schools: executive education as a platform for partnership. *California Management Review*, 3, 50-67.
- Golden, B. R. (1992). SBU strategy and performance: the moderating effects of the corporate-SBU relationship. *Strategic Management Journal*, 13, 145–158.
- Hassan, S. S., & Katsanis, L. P. (1994). *Globalization of consumer markets: structures and strategies*. New York, United States: International Business Press.
- Holt, D. B., Quelch, J. A., & Taylor, E. L. (2004). How global brands compete. *Harvard Business Review*, 82, 68–75.
- Hout, T., Porter, M.E., & Rudden, E. (1982). How global companies win out. *Harvard Business Review*, 9, 98–108.
- Jarillo, J. C., & Martinez, J. I. (1990). Different roles for subsidiaries: the case of multinational corporations in Spain. *Strategic Management Journal*, 11, 501–512.
- Joshi, R.M. (2009). *International Business*. New York, United States: Oxford University Press.
- Kedia, B.L., & Mukherji, A. (1999). Global managers: developing a mindset for global competitiveness. *Journal of World Business*, 34, 230-251.
- Keegan, W. J. (1969). Multinational product planning: strategic alternatives. *Journal of Marketing*, 33, 58-62.
- Lampel, J., & Mintzeberg, H. (1996). Customizing Customization. *Sloan management Review*, 38, 21-30.
- Larsson, S., & Malmberg, A. (1999). Innovations, competitiveness and Local embeddedness. *A Study of Machinery Producers in Sweden*, 81, 1–18.
- Lemak, D.J., & Wiboon, A. (1997). Global business strategy: a contingency approach. *Multinational Business Review*, 5, 395–421.

- Leong, S.M., & Tan, C.T. (1993). Managing across borders: an empirical test of the Barlett and Goshal 1989 organization typology. *Journal of International Business Studies*, 24, 449-464.
- Levitt, T. (1983). The Globalization of Markets. *Harvard Business Review*, 5, 92-102.
- Oviatt, B.M., & McDougall, P.P. (2005). Toward a theory of international new ventures. *Journal of International Business Studies*, 36, 29-41.
- Pine, B.J. (1993). *Mass customization: the new frontier in business competition*. Boston, United States: Harvard Business School Press.
- Porter, M. E. (1980). *Competitive strategy: techniques for analyzing industries and competitors*. Michigan, United States: Free Press.
- Porter, M. E. (1990). The competitive advantage of nations. *Harvard Business Review*, 4, 73-93.
- Porter, M. E. (2008). *On competition*. Boston, United States: Harvard Business School Publishing.
- Prahalad, C. K., & Doz, Y. (1987). *The Multinational mission: balancing local demands and global vision*. Michigan, United States: Free Press.
- Preston, R.M., Hugo, M.M., & Michael, A.W. (2003). *What is a barrier to entry?* Available at SSRN: <http://ssrn.com/abstract=594601>.
- Quelch, J. (1999). Global brands: taking stock. *Business Strategy Review*, 10, 1-14.
- Quelch, J. (2003). The return of the global brand. *Harvard Business Review*, 81, 22-23.
- Riley, T. (2005). *Year 12 Economics*. Dee Why NSW, Australia: Tim Riley Publications.
- Roland, T., Anthony, R., & Zahorik, J. (1993). Customer satisfaction: customer retention and market share. *Journal of Retailing*, 69, 193-215.
- Roth, K., Schweiger, D., & Morrison, A. J. (1991). Global strategy implementation at the business unit level: operational capabilities and administrative mechanisms. *Journal of International Business Studies*, 22, 369-402.
- Rugman, A.M., & Verbeke, A. (2004). A Perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies*, 35, 3-18.

- Samiee, S., & Roth, K. (1992). The influence of global marketing standard-ization on performance. *Journal of Marketing*, 56, 1-17.
- Sekaran, U. (2003). *Research methods for business: a skill-building approach*. New York, United States: Wiley.
- Silvestre, J. (1987). *The new palgrave: a dictionary of economics*. London, England: Macmillan.
- Simon, H., & Dolan, R.J. (1998) Price customization. *Marketing Management*, 7, 11-17.
- Solberg, A.C. (1999). Educator insights: standardization or adaptation of the international marketing mix: the role of the local subsidiary/representative. *Journal of International Marketing*, 8, 78–98.
- Ulrich, K. T., & Eppinger, S. D. (1995). *Product design and development*. New York, United States: McGraw-Hill.
- Yip, G.S. (2002). *Total Global Strategy II*. Harlow, England: Prentice Hall.