International Strategy Configuration

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Abstract

The paper presents four international strategy configurations, namely, emphasize on local responsiveness, emphasize on global efficiencies with some local advantages, emphasize on global efficiencies, and seeking to exploit local advantages and global efficiencies. Also, the paper presents the peculiarities of multinational companies' structure and design.

Within the paper there are examples in order to illustrate the tradeoffs between local responsiveness and global efficiency and, also, examples that present the differences between organization structures in Japan and in the West. The paper underline the importance of formulation and implementation of international strategy in order to centralize/decentralized the value - chain activities.

Keywords: *international strategy; global efficiencies; local responsiveness; local advantages; multinational structure.*

JEL classification: F23, M16, M31.

Introduction

In order to implement global strategies, the firms confront with two critical needs. These are: the need for efficiency and the need for local responsiveness. It is important to know that international strategy configuration is as much about strategy formulation as it is about implementation, because management is making choices about which value-chain components to centralize, where to centralize those operations geographically, and the degree to which those decentralized and centralized value-chain activities will be managed and coordinated. Also, the strategy helps a firm to manage important tradeoffs that differentiate it and its products from competitors.

Of course, international strategies are even more challenging than strategies limiting to national borders. As international strategies are more complex, (Radu, 2010) pointed out the main risks associated with strategic alliances as a way of competing successfully and also the reasons for which more than 60 % of strategic alliances fail.

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The present business environment places a high pressure on organizational capabilities in order to be able to meet the numberless challenges brought by a fast spreading economic crises and a suspicion with regard to managerial competencies of people at the top of organizations (Năstase, 2010).

For many years companies have experienced different managerial systems and policies and have learned many lessons from the implementation of those methodologies in their permanent attempt to improve their business processes. One of the most important lessons to be taken into consideration is the one that supports the idea that it is not only necessary to do things right, but it is also vital to ensure that one is doing the right things. It is not just important to work hard and work smart, but also to work smart on the right things (Cioană, 2009).

Choosing a marketing approach can occur only based on a thorough knowledge of the market and is designed to meet the characteristics of this market. However, examples of numerous of failures demonstrates the violation of this rule.

Among common errors committed regarding international marketing include: prior inconclusive market researches; absence of real tests; non-use of available information regarding foreign markets; conviction that standardization of marketing is the best choice, ignoring divergent opinions issued by national subsidiaries, refusal of any campaigns' adaptation to nature and to different tastes of potential local customers; desire to impose form of product and packaging on very different markets; lack of adaptation to the elections of local distribution channels and local media; rigid price policies; a vision limited, leading to impose rather than to convincing the refusal different views.

The firms should build special strategies for each market. It is necessary to obtain the standardization for as many of the marketing-mix elements because the standardization leading to cost reduction. Thus, it is advantageous whenever possible, standardization of product planning, of trademarks, of packaging, of methods of identification and analysis of the facts. Other factors, such as the price, the distribution channels, the physical distribution, personal selling, advertising to some extent, the promotion, services and personnel training may be more difficult to be standardized as to be adapted markets. Uniformity in administrative systems can be useful in physical distribution, although the latter must obey the rules and markets.

Meeting the ideal tradeoff between customizing for local needs and achieving cost efficiencies requires further tradeoffs with respect to the firm's value chain regarding which activities will be standardized and which will be locally tailored. These are the central tradeoffs a firm must wrestle with in designing and managing its international strategy.

Globalizing firms must reconcile the natural tension that exists between local preferences and global standards. The domination of local preferences over the search for global efficiencies, left unchecked, often leads to what strategy researchers describe as market fragmentation (Hamel & Prahalad, 1985). Also, local adaptation of products and services is significantly more expensive than relying on global standards. Consequently, attempting to achieve high levels of local responsiveness will almost always lead to higher cost structure. (Gupta & Govindarajan, 2001). A product that is uniform across markets is highly efficient to produce because the firm can simply design a factory of the most efficient size in a location that most efficiently balances the costs of inputs with the transportation costs of getting outputs to the desired markets. If this product has the same brand around the world, then marketing and promotion efforts are similarly focused on that single brand. On the other hand, even products like Coca-Cola, which appear to be ubiquitous, have different flavorings, packaging, and promotion constraints in each market. Some of these constraints are a function of local regulatory pressures, others reflect underlying differences in consumers' tastes, others represent a function of the competitive norms that have prevailed in the industry, either globally or locally.

Also, communicating exactly what you want to communicate, rather than more, less, or something altogether different, can be a challenge when the communication takes place within a single culture. Achieving the desired results cross-culturally can present special problems. Many of the difficulties encountered with cross-cultural communications stem from the fact that there are different languages involved and direct translation is not always feasible. So, in China, Coca-Cola becomes "bite the head of a dead tadpole". In some parts of Asia the familiar Coke advertising slogan "Coke adds life" is translated as "Coke brings you back from the death" (Ivancevich & Matteson, 1999).

Different cultures tend to differently approach business. For instance, American companies tend to assess performance in terms of profit, market share and specific financial benefits, while Japanese companies tend to firstly assess the degree in which operations lead to a stronger strategic position, by developing new capabilities (Daniels & Radebaugh, 2001).

The largest domestic market in the world is the European Union's single market. By removing obstacles and barriers have been simplified product development, research, manufacture, marketing in general, and distribution in particularly to generate a more severe competition which in turn will lead to lower prices, an increase in life style, increased competitiveness of European enterprises worldwide. The single market can be attacked everywhere with the same marketing methods, as comparable U.S. market, the same product can be sold using the same processes throughout the continent, without a trade or technical obstacle to oppose. On the other hand, in the European Union is evident difference languages, cultures and lifestyles.

Swiss specialist in industrial marketing, Christian Hassel Vries, said in 1990 that promotional campaigns for industrial products are those which linking together European sales. Thus, the need for an European campaign may be imposed by: the internationalization of a product, a product relaunch on new bases, attacking a dangerous competitor rising, increasing customer loyalty, customers reactivation which "sleeping" or regaining of the clients that go to competition, supporting for sellers, etc. Preparing an international campaign has three main points: the establishment of a "prior-campaign" in order to sell the campaign to managers and vendors of agencies and foreign subsidiaries; designing a campaign in order to represent a support for selling staff, defining target groups and their motivations of selling, and writing a sales argument adapted (Vries Hassel, 1990).

The international strategy configurations and local/global tradeoffs (tradeoffs between local responsiveness and global efficiency) are (Carpenter & Sanders, 2009):

- emphasize on local responsiveness;
- emphasize on global efficiencies with some local advantages;
- emphasize on global efficiencies;
- seeking to exploit local advantages and global efficiencies.

1. Emphasize Local Responsiveness

By definition, strategy must be internally consistent and externally oriented. However, management must make judgments as to what an external orientation means in terms of how the strategy takes competitive pressures and consumer preferences into account. At the same time, management must also make judgments about the firm's internal resources and capabilities to support a particular international-strategy configuration. This explains why firms with seemingly very different international-strategy configurations can coexist in the same industry.

This structural solution resembles a decentralized federation. Assets and resources are decentralized, and foreign offices are given the authority to respond to local needs when they differ from those of the home market. Control and coordination are managed primarily through the interactions of home-office corporate executives and overseas executives, who are usually home-country managers who've been dispatched to run foreign offices.

From the perspective of top-management, the corporation is a portfolio of relatively independent businesses located around the globe.

2. Emphasize Global Efficiencies with Some Local Advantages

Another configuration centralizes some resources, such as local brand and distribution capabilities, in order to achieve costs savings, but decentralizes others, such as marketing, in order to achieve some level of localization. This strategy is common among firms that have created something in their home market that they wish to replicate in foreign markets, allowing them the economies of scale and scope necessary to create and exploit innovations on a worldwide basis. Thus, though the products that the firms, which emphasizing global efficiencies with some local advantages, produce them are relatively standardized around the world, local marketing and distribution channels are different.

For example, foreign clothing companies which operating in Romania use as the main distribution channel the mall. In a study conducted by the company L & W Trade Group, a Belgian company which acting on the Romanian market since July 1996, with three major directions, namely fashion and trend with brands like Mango, casual - especially jeans wear, and the sports articles, was revealed the fact that the Romanian buyers tend to go to malls, hypermarkets. The paradox is that although we are in Europe, we feel closer to the American style, this represent a characteristic of Central and Eastern Europe, in view of new openings from Poland, Hungary, Czech Republic.

From this study resulted that a concentrated point with hypermarket with food, with everything you need for home, with places for fun and fast-foods catch good to Romanians. In all countries from Europe the central areas have shops, but the idea with malls did not catch so good.

The structure supporting this tradeoff reveals an organization that is a coordinated group of federations over which more administrative control is exerted by home-country headquarters.

Under this model, although resources, assets, and responsibilities are delegated to foreign offices, additional control – usually in the form of more formal management systems, such as centralized planning and budgeting – is exercised centrally. This control facilitates global account management, so that the quality and price of services provided to global clients can be made uniform. As a rule, top management regards overseas operations as appendages to the domestic firm. Local units, therefore, are highly dependent on home-office coordination of resource allocation, knowledge sharing, and decision approval.

3. Emphasize Global Efficiencies

This configuration focuses only on global efficiency. A tradeoff is made between local responsiveness and the lower costs associated with global efficiency. With this configuration, production and sourcing decisions are designed to achieve the greatest economies of scale. Firms following this configuration potentially sacrifice the higher prices that follow customization, but they are counting on the likelihood that their products or services will meet enough needs to be demanded without finely tuned customization. Typically, firms in commodity industries fall into this category. Because end customers make purchase decisions based on price alone, the firm is organized to realize the lowest possible production costs.

Ideally, firms adopting this configuration have a structure that is based on the centralization of assets, resources, and responsibilities. Foreign offices are used to access customers, but demand is filled by centralized production. This form of organization was pioneered by firms such as Ford, which exported standardized products around the globe, and was popular among Japanese companies undertaking globalization in the 1970s and 1980s. The global configuration affords much less autonomy to foreign offices or subsidiaries than the two preceding models. Operational control is tight and most decisions centralized. Top management views foreign operations as pipelines for distributing products to a global, but homogeneous, marketplace (Carpenter & Sanders, 2009).

4. Seek to Exploit Local Advantages and Global Efficiencies

This international - strategy configuration attempts to capitalize on both local responsiveness and global efficiency. When successfully implemented, this approach enables firms to achieve global economies of scale, cross-subsidization across markets, and the ability to engage in retaliatory and responsive competition across markets. This configuration is available to companies with high degrees of internationalization. However, as with any other strategic tradeoff, it is extremely difficult to find the balance between cost efficiencies and the ability to customize to local tastes and standards. Burger King, McDonalds, and even PepsiCo are often used as examples of firms that fit this configuration because they use their purchasing power to get the best prices on the global commodities they use for inputs, yet try to tailor their menu & drinks offerings to fit local tastes and cultural preferences.

For example, Burger King, McDonald's and PepsiCo have adapted their strategies in the early 2000s when they approached the Polish market. Knowing Polish appetite for fast food restaurants, American companies have learned the first lesson very quickly in order to resist the Polish market, namely that the Poles are nationalists. Thus, the Poles hamburgers were and are made from local ingredients. Burger King insists in his advertising message that is the first international company that uses Polish agricultural products, and McDonald's claims that 80% of the ingredients are bought from local farmers. As well as PepsiCo. That's because the Poles are proud of their products and believes that a foreign investor must first contribute to the economic development of Poland (Purcare & Ioan-Franc, 2000).

Each of the three preceding organizational models responds in a different strategic fashion to the challenge of balancing the two fundamental demands of managing across borders. The global efficiencies configuration, for example, is clearly designed to achieve maximum efficiencies, largely through scale economies derived from centralized production. Because decisions and resources are controlled locally, the first form is well-suited to respond to local needs. The second model attempts to meet local needs while retaining central control. This fourth configuration is designed to accommodate both demands.

This configuration was designed to achieve not only efficiency and local responsiveness but innovation, as well. Its structural characteristics enable firms – at least those that are able to manage it – to achieve multidimensional strategic objectives. The key functions in this multidimensional strategy are dispersion, specialization, and interdependence. Resources and capabilities are dispersed to local units, and a networked control system is designed to achieve both coordination and cooperation. Because geographically dispersed organizational units are strategically interdependent, large flows of products, resources, and personnel, as well as value-chain activities, are channeled through the structure.

5. Multinational Structure and Design

The success or failure of a firm is determined by how it uses marketing mix, especially human elements of the marketing program, study of the market, product strategy, advertising, distribution and development of prices. These factors influence the development and structure of the enterprise. Often it happens vice versa, namely company structure influences how are used elements of the marketing program. There is no doubt to the fact that the future belongs to the first alternative (Demetrescu, 1997).

Another problem is the choice which a firm should make when operating in several foreign markets, namely, between the adoption of a centralized structure or a decentralized structure. The option should lead to a balance between company' headquarters and local subsidiaries. Most researchers believe that authority can not be delegated entirely, because it would reach to a total waiver of authority. Authority should be delegated so that decisions can be taken where existing information are available and the existent experience are likely to produce the best answers to general problems of the company. Thus, the objective of the international marketing policy must be optimization of results on all geographic areas where operate, which could lead either to a diversified approach, or uniform one, depending on the branch circumstances.

The four design decisions (division of labor, delegation of authority, departmentalization, and span of control) shape the design of organizational structures. These decisions are affected by a variety of factors. Foremost among them are the social, political, cultural, legal, and economic environments in which the organization is operating. A multinational corporation may be categorized as consisting of a group of geographically dispersed organizations with different national subsidiaries (Ivancevich & Matteson, 1999).

One approach to setting up a foreign subsidiary is that of replication. That is, the same organization structure and operating policies and procedures that exist in the existing home organization are used. For example, when establishing its foreign subsidiaries, Procter & Gamble created an “exact replica of the United States Procter & Gamble organization” because they believed that using “exactly the same policies and procedures which have given our company success in the United States will be equally successful overseas” (Ivancevich & Matteson, 1999). The potential difficulty with such a practice is that it may result in the reliance upon organizational designs and management practices that are simply unsuitable for the environment of the host country. This may explain why there is a tendency for foreign subsidiary organizational structures to evolve over time as the company becomes more internationalized.

For multinational corporations, there are a number of factors that may have important implications for structure and design decisions, as well as general operating policies. These are (Rosenzweig & Singh, 1991):

- National boundaries are an important force in defining organizational environments. For many elements of structure, crossing national boundaries creates a necessity for carefully assessing the nature and extent of environmental differences.

- National boundaries are of varying importance for different elements of organizational structure and process. Not all effects are equal. Some aspects of an organization may be significantly affected by distinct aspects of the environment of the host country. Other aspects may be affected by global or local factors that are independent of a particular nation. Still other aspects may be relatively environment free.
- Subsidiaries of multinational corporations can act as conduits that introduce changes into the host country's environment. In some cases, this may mean the direct replication of elements of a particular structure heretofore not used in the host country. More often, however, it relates to operating procedures that emanate from the subsidiary organization.
- Subsidiaries of multinational corporations can act as conduits through which features of the host country's environment are introduced throughout the organization. This is the reverse of the previous point. It strongly suggests that beneficial changes can – and do – flow both ways. Organizations should be structured to facilitate both directions of change.

While there can be important cross-country differences that dictate making adaptations in structure, policy, and management practices, there can also be a great deal of similarity even between widely divergent countries. One of the challenges to organizational researchers is to provide data to help better understand the degree of similarity and difference across national boundaries that have implications for organizational operations.

Corporations that cross national boundaries must decide how to include foreign activity in the organization. The main issue is the coordination of international activities. In fact, foreign activities are but extensions of the domestic businesses, and how they're coordinated to achieve strategic outcomes involves issues not much different from those of local activities (Ivancevich & Matteson, 1999). Japanese corporations' outstanding success in international market has initiated great interest in the ways firms can and should organize if they're to compete with the Japanese. The issue is which departmental basis is appropriate under which circumstances (Lemak & Bracker, 1988).

The most prevalent departmental basis is territory. This arrangement has national and regional managers reporting to a headquarters in the same national or regional area. Each national or regional office has all the resources necessary to produce and market the product or service. This organizational form is suitable for organizations with limited product lines.

Also, large multiunit retail stores are often organized along territorial lines. Specific retail outlets in a geographic area will comprise units, often termed divisions, which report to a regional manager who in turn may report to a corporate manager.

In large organizations, territorial arrangements are advantageous because physical separation of activities makes centralized coordination difficult.

Territorial departmentalization provides a training ground for managerial personnel. The company is able to place managers in territories and then assess their progress in that geographic region. The experience that managers acquire in a territory away from headquarters provides valuable insights about how products and/or services are accepted in the field.

Organizations with diversified product line will find certain advantages in the product-based organization structure. This structure assigns worldwide responsibility for a product or product line to a single corporate office, and all foreign and domestic units associated with that product report to the corporate product office. The firms which use the product-based structure assign responsibility for worldwide research and development, manufacturing, marketing, and distribution of its products. This form of organization allows personnel to develop total expertise in researching, manufacturing, and distributing a product line. The basic product unit, termed a line of business, makes its own decisions and succeeds or fails accordingly.

Firms with very restrictive product lines such as, for example, firms in the mining industry will use the function approach. According with this structure, a corporate office for each business function such as production, marketing, and finance has authority over those functions wherever they take place throughout the world. Thus, production personnel in Europe and South America as well as North America will report to corporate officials in charge of production (Ivancevich & Matteson, 1999). Although the firms which use function approach share certain common managerial and organizational problems, manner in which they deal with them will reflect their own national culture as well as the local, host country culture.

The Japanese firms concentrate on a relatively narrow set of business activities, unlike their typical Western counterparts that enter several lines of business. One effect of this difference is that Japanese employees perform relatively fewer specialized jobs with relatively more homogeneous skills and experiences due to the fewer business specialties to be performed. The typical Japanese manufacturing job has less range than the typical Western manufacturing job. The authority associated with each job is relatively less in Japanese firms, although the Japanese practice of participative management enables individual workers to have a say in matters that immediately affect their own jobs. Middle management in Japanese firms are expected to initiate opportunities for workers to be involved and they are evaluated on this criterion as well as on economic and performance criteria.

Departments in Japanese firms are more often based on function and process than on product, customer, or location. The preference for the internal-oriented bases reflects again Japanese firms' preference to do business in fewer industries such that more complex divisional firms are not as likely to develop. There are many diversified organizations in Japan, but these firms typically follow holding company patterns of organization. The Japanese have developed the practice of creating close ties with supplier organizations and thus have avoided the necessity of vertical integration as is the case of many Western business organizations.

The differences between organization structures in Japan and in the West can be accounted for by differences in business practices. These business practices are no doubt due to national and cultural developments in how business is done, not in how organizations are structured (Ivancevich & Matteson, 1999).

Conclusions

The paper highlights the importance of awareness by companies of the need to configure international market strategies.

One reason that global strategy – and the four international strategy configurations, namely emphasize on local responsiveness, emphasize on global efficiencies with some local advantages, emphasize on global efficiencies, and seeking to exploit local advantages and global efficiencies – will become an increasingly important topic is the fact that more and more firms, even very small ones, have operations that bridge national borders very soon after their founding. A common characteristic of such firms is that their offerings complement the products or capabilities of other global players, take advantage of global IT infrastructure, or otherwise tap into a demand for a product or service that at its core is somewhat uniform across national geographic markets. Although many firms may fall into this category by virtue of their products, the operations and customers of “born-global” firms do actually span the globe. Born-global firms position themselves globally, exploiting a combination of exporting and FDI.

Also, in this context, it is important to mention the concept of global startups. One reason is because of their increasing prevalence, which is driven, in part, by globalizing consumer preferences, mobile consumers, large global firms, and the pervasiveness of the Internet and its effects. Another reason is that dynamic contexts typically give rise to the need for firms to strive for a global presence and to understand global markets early in their evolution.

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