BUSINESS STRATEGIES OF THE MULTINATIONAL CORPORATIONS*

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Abstract: *The international strategic management facilitates the development of the international strategies that shape a large context for reaching the main goals of a multinational company. At a conceptual level, there are many similarities between designing a strategy that could be used only in one country and drawing up a strategy for a number of markets. Yet, it has to be mentioned that the development of an international strategy involves a more complex process than in the case of a national one. All these aspects, together with the determinants of the internationalization, will be largely argued in the present paper.*

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INTRODUCTION

The international operations management consists in those transforming activities, inside an international firm, meant to process different types of inputs in order to create final goods and services. This type of management involves the development of various international strategies that shape a large context in which a firm reaches its main objectives. At a conceptual level, there are many similarities between designing a strategy that could be used only in one country and creating a strategy for a number of markets. In both situations, those that make the strategic planning have to answer some fundamental questions related to what kind of products or services does the firm intend to sell, where and how will it make these products, where and how it will sell them, where it will obtain the necessary resources or how does it expect the competitors to react.

Considering all these aspects, it has to be mentioned that the development of an international strategy involves a much more complex process than the development of a national one. First of all, the managers responsible with the development of an international strategy will have to face many types of political and/or legal systems, various accounting regulations, cultures or languages and even many payment systems. Moreover, the managers of an international business have to

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coordinate and implement the firm's strategy in all its subsidiaries, located in different parts of the world, with different economic, social and cultural contexts. Despite all of these, the managers usually say that the aspects mentioned above are only some inherent problems when considering the opportunities of the global expansion.

The paper presents, with the help of some relevant examples from the Romanian and world-wide practice, the essential aspects that should be considered when choosing an international strategy. In the end, some characteristics are pointed out for the strategies implemented by the multinationals that have entered the Romanian market.

1. CHOOSING AN INTERNATIONAL STRATEGY

As B. Lovas and S. Goshal noted, the international business offers the possibility of exploiting three sources of the competitive advantage, unavailable for the national companies: global efficiencies, the multinational flexibility and worldwide learning process (Lovas and Ghoshal, 2000, pp. 875-896). The multinational firm can improve its efficiency either through its location advantages, or through the scope or scale economies. The first ones appear when locating the production subsidiaries in any place of the world, in order to have the lowest cost of production or distribution, or the highest quality of goods and services. For example, the production of toys is intensive in the labor factor and this is why Wal-Mart, as well as many other companies, has established its production in those countries where there is low-cost labor force. The same happened with Nokia that has chosen to locate in 2008 one of its production subsidiaries in a rural area of Romania, closed to Cluj, or with the American company Selectron, which has invested 20 million dollars in building a plant in Timişoara in 2003-2004. In a similar way, the multinationals may reduce their costs achieving scale economies. Moreover, by expanding the production lines in every country they enter, the companies may also enjoy scope economies. In this situation, not only do they cut the production and marketing costs, but also they intensify the lowest line-levels.

The international business might require a deeper degree of flexibility due to the fact that the political, economic, legal or cultural environment of a state is continually changing. For example, let us think about the case of Romania that, since 1989, is passing through a long and difficult transition process; during these 22 years, the economy was marked by many political and legislative changes and only the firms that were able to face these transformations have survived.

The various environments in which the multinationals choose to do their business may also improve the organizational learning process. The differences between the environments in which companies act may determine them to match their behavior to the specific of the host country. A good example for this is United States where there are various sub-cultures that belong to different ethnic and religious groups, each of them influencing the manner in which the businesses develop. This is why Campbell sells different types of tomato soup, according to the region it addresses: in Montana, for example, the soup is less spiced than that sold in Texas. Following the same reason, in order to penetrate various countries the well-known multinational firm, McDonald's, had to adapt its menu to the local food preferences and customs. In Israel, for example, the company uses "kosher" menus, while in the Arab countries the restaurants' chain is preparing "Halal" menus. In India, McDonald's offersthe Big Mac made with lamb, called the Maharaja Mac.

The practice shows that it is difficult to exploit simultaneously all these three factors. Yet, in order to reach equilibrium between the three objectives, the multinationals often adopts one of the four alternative strategies: the national, multidomestic, transnational or global strategy. In the case of the national strategy, the firm uses its specific advantages, obtained in the home country, in order to compete on the foreign markets it enters. For example, Chrysler counts on its well-known name and reputation when producing sport or elegant cars, well equipped and very safe at high speed. This is the niche that the company has chosen to exploit at an international level, although there are only few countries that have the infrastructure, the level of incomes and the speed required by these cars and permitted by law.

A second option for a company may be the multidomestic strategy. The multidomestic corporation is considered to be a sum of relative independent subsidiaries, each of them focusing on a well determined market. This multidomestic approach is advisable when there are significant differences between national markets, when the scale economies are reduced, or when the cost of coordinating the activity among the parent firm and the subsidiary is high. A multidomestic approach can be found in the case of the firm RSB-Roundtech that produces industrial material necessary for circular structures, for water, gas or telecommunications. The company, with headquarter closed to the Constance Lake, in the industrial area between Austria, Germany and Switzerland, has opened subsidiaries in Germany, Hungary, Japan and Switzerland. Due to the fact that it has only 20 people working into headquarter, it was vital for the firm to choose the proper strategy to enter each country. The main problem the managers confronted with was the fact that each market had its own specific characteristics, according to which each subsidiary of the company has lately developed its strategy and designed its products.

Adopting the global strategy, the firm approaches the world as a single market, the main scope being the development of standardized goods and services that answer the needs of the world-wide consumers. The company tries to achieve scale economies in marketing and production by concentrating its production activities in its most efficient subsidiaries and then, by developing some global marketing campaigns in order to sell them. Due to the fact that the global company has to coordinate the world-wide production and marketing strategies, it focuses the power and decisions' responsibility in the central location. At the beginning of the 1980, Ford wanted to create a car for all the tastes, from Detroit to Hong-Kong. So, it started to produce the Ford Escort model, which did not have a great success. This is why, after a few years, they created two versions of this model: Mondeo for Europe and Tempo in USA, which differed one from the other in a proportion of 25%. These new versions, due to the fact that they were more focused on the characteristics of the two continents, have brought a great success to the firm.

Ghoshal identifies three strategic objectives into any global strategy and also three main aspects of the competitive advantages, involved by the global strategy (Ghoshal, 1987, pp. 425-440). The results of such an approach are shown in the table 1.

Table 1 - Global strategy: organizational framework

	Sources of the competitive advantage		
Strategic objectives	**Differences between countries**	**Scale economies**	**Scope economies**
Efficiency in current operations	Differences in the cost of the factors of production	Scale economies in each activity	Common use of the resources and the capacities of markets or products
Risk management	Establishing the risk according to the country	Equilibrium between the strategic, operational and scale flexibility	Portfolio diversification
Learning and innovation	Learning from the cultural variety	Opportunities for reducing the technological costs	Spreading out the organizational learning process

Source**:** Ghoshal (1987)

As it results from the above table, the three main objectives of a global strategy – the efficiency, the risk management, learning and innovation – are correlated to three essential sources of the competitive advantage:

- Differences between nations: the competitive advantage may result from the exploitation of the differences related to the input and output market from various countries; the countries with low-wages are the most eloquent for this.
- The scale economies are a source of the competitive advantage if the firm is able to adopt a configuration of its activities which allows the lowest unitary cost per each activity.
- The scope economies appear when the resources used to produce or to sell a good in a country may be used for the same purpose in the case of other goods, from other countries.

Some analysts, like Theodore Levitt, consider that the globalization of the products will be the successful strategy for the future international business (Levitt, 1986). They give examples of global products such as Coca-Cola drinks, Sony TVs or McDonald's restaurants. But, it has to be mentioned that even these global products, with almost the same characteristics, were somehow changed before being sold on foreign markets. For example, in Germany, the McDonald's restaurants include beer in the menu and in France they offer wine.

The fourth strategic alternative for a multinational firm consists in the transnational strategy. In this situation, the firm tries to combine the benefits of the global efficiencies – also obtained by the global corporation – with the local advantages – a purpose also specific for the multidomestic firm. So, the transnational corporation does not centralize or decentralize the authority, but it settles responsibilities, for each organizational task, to that unit of the organization that could be able to reach out the purpose of efficiency and flexibility. A good example for this type of strategy can be found in the case of the Harley-Davidson, which has as a motto "Think global but act local". According to this marketing principle, Harley-Davidson not only adapts its products to the different continents, but also it operates changes when addressing different countries from the same continent.

2. IMPLEMENTING AN INTERNATIONAL STRATEGY

No matter what is the decision regarding the type of the international strategy, the managers have to point out the four main elements in the development of a strategy: the distinctive competences, the purpose of the operations, the resource development and the synergy (Griffin and Pustay, 2005, p. 490). The first aspect of an international strategy – the distinctive competences – may refer either to the last-minute technology, to the efficient red of distributors, to better organizational practices, or to the well-known brand name. Having a distinctive competence –

called by Dunning, in his eclectic theory, the “ownership advantage” – is considered, by many experts, a necessary condition for a firm to have success on a foreign market.

The second component of an international strategy – the scope of operations – generally refers to geographical regions such as countries, parts of a country of even a group of states. At the same time, the scope has to be focused on some markets or product’s niches from one or many regions. The scope is also related to the distinctive competences: if a firm has an advantage only in a specific region or only for a certain product line, then the scope has to be focused on that region where the company enjoys the distinctive competence.

The resource development process involves setting the priorities, especially in the case of firms with limited resources. Some multinationals, such as Nike, Wal-Mart or General Electrics, choose acting all-over the world. On contrary, other companies establish their production only in one country. It is the case of Boeing Company that does the final assembly of the commercial planes only in Seattle.

The role of synergy – the fourth component of an international strategy – is to create that situation when the whole is more profitably than the sum of the parts. A global synergy also occurs when the inputs of the multinational firm are shared between many activities. For example, Dolce&Gabbana used its global brand name from the fashion industry in order to produce, under the same name, perfumes and other cosmetics.

These four aspects, considered by Pustay and Griffin (2005) to be the main components of an international strategy, may also be found in the approach of Anil Gupta and Eleanor Westney (2003), but under a different name. They call them “countries’ comparative advantages” and “firms’ competitive advantages”.

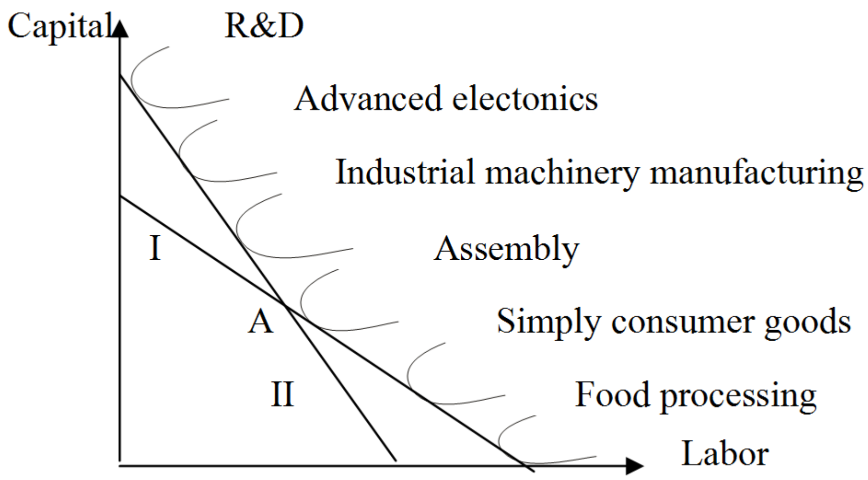
The comparative advantage, also called “location advantage”, is influencing the decision related to the position of the production subsidiaries because it underlines the low-cost factor of production from one country compared to that from another country. So, due to these differences between the costs of factors of production, the activities intensive in labor are located in the places where the cost of less qualified work is low, while the activities intensive in capital – including human capital – will be placed in those countries where the capital is cheap. Yet, there is one country – China – that hosts both types of production subsidiaries: labor intensive – it is the case of the subsidiaries of small and medium sized enterprises from the recently industrialized countries – and capital intensive – multinationals’ subsidiaries (Shi, 2001).

The competitive advantage, also known as “ownership advantage” of a firm, is influencing the decision regarding those activities and technologies on which the firm should concentrate its managerial resources and investments. The value-added chain is the process through which the technology is combined with the inputs - raw materials and labor - in order to create the final product that, lately, will be packed and delivered. A firm may have only one link of the process or it might be vertically integrated, having more links.

The competitive and comparative advantages are not totally independent one from the other. The firms may differ from the point of view of the location of the production subsidiaries and, in this way, they can obtain a competitive advantage with a superior exploitation of the comparative advantages that exists inside the states. Consequently, the differences between companies regarding the location of the subsidiaries may foster strategic advantages. So, it is important to distinguish between the strategies based on a comparative advantage and those based on a competitive advantage.

Some consequences of adopting international strategies may be observed into the model of comparative advantage and in the positioning of the economic activity, analyzed for the first time by Deardorff (1979). When talking about this model it is necessary to assume that there are competitive markets and all the firms have implemented the same technological process which is not characterized by scale economies. Moreover, it has to be mentioned that the model analyzes only two factors of production: labor and capital. In the figure 1 the countries are grouped according to a chain of competitive advantage, along the isocost line. This line shows the proportion of inputs of factors that are equal with one dollar (this is why it is also called “one-dollar cost line” (Deardorff, 1979, p. 9). For the country I, where the labor cost is relatively low, it is drawn the first isocost line. The country II, in which the capital is relatively cheap, has the second isocost line. So, the isocost lines for these countries are different because the cost of labor and capital is different in the two states. The isoquants, tangent to the isocost lines, show the proportions of labor and capital that can generate the same value of the output; this value is settled to be equal to one dollar, according to the figure no. 1 (this is why Deardorff calls the isoquants „one-dollar production curves” (Brown, Deardorff and Sterm, 2003).

Figure 1 - The value-added chain of comparative advantage



Source**:** Gupta and Westney (2003, p. 21)

The tangency of the isoquants to the isocost line implies the fact that the firms gain market returns. When the isoquant is inside the isocost line there is an excess of profits since the unitary cost of the factors of production is less than the unitary value of production, in dollars. Exceeding profits, also called “economic rents”, generate an increase in the competitiveness and a cost reduction; the lower the costs are, the higher must be the production in order to earn the same revenue, fact that involves an increase in the inputs amount. If the isoquants are outside the isocost line, than the cost of the production exceeds its value and, consequently, it is not profitable. The conclusion of this analysis is that, for the competitive products, the isoquants have to be tangent to the isocost line farthest from the origin. In the above figure the isoquants are drawn only for few economic activities, raw materials or intermediate products – such as research and development, intensive in human capital, or assembly, intensive in labor. Analyzing the value-added chain it may be established what kind of activity has to be placed where the comparative advantage is the most favorable. Only the goods for which the isoquants are situated below the point A will be produced in countries where the cheap, less qualified labor is abundant. On contrary, the goods that have the isoquants above the point A will be produced in countries with an advantage for the capital intensive production. Arranging the isoquants along the isocost line it can be obtained the so-called “chain of comparative advantage for countries” (Gupta and Westney, 2003). This chain reflects the differences in costs of the factors between countries and the differences in the intensities of the factors in the intermediary and final production.

Due to a large dispersion of the production activities of the American, Japanese and European firms, the competition on the international markets involves a mixture between the competitive advantages and the comparative ones. In a global industry, firms differ in the bets they place on different production locations and in the networks they create along the value-added chain. Moreover, due to the unfamiliarity between the main firms that act in these industries, there is often a lack of regulation for the competition. The competitive signals, if they are transmitted, are hardly detected when firms have to confront with different kinds of consumption models from various markets (Leechor, Kohli and Hur, 1983).

CONCLUSIONS

The process of designing the international strategies is a very complex one that has to consider the difficulty of its implementation and coordination in the different subsidiaries of the multinational firm, located in different parts of the world. Yet, once elaborated and implemented, the strategy offers the opportunity of exploiting some advantages that are not available for the national firms: the global efficiencies, the multinational flexibility and the world-wide learning process. As shown before, all these aspects have been fully exploited by the multinational firms that entered the Romanian market, starting with the supermarkets such as Carrefour, Plus, Metro, Kaufland etc. and finishing with services providers – Pricewatterhouse Coopers, KPMG, Ernst&Young etc. – or with goods suppliers – Nokia, Renault, Selectron etc.

Depending on the resources, objectives and the risk assumed, a firm may choose between the four types of strategies – national, multidomestic, global or transnational strategy. If we think about the multinational companies that have entered the Romanian market, we may see that most of them have adopted a transnational strategy, trying to benefit not only from the global efficiencies but also from the local advantages.

An essential element in formulating an international strategy consists in creating the incentives able to respond to the changes that occur in the economic parameters between countries. Moreover, it is critical to know that a successful international strategy requires a proper coordination and control framework, in accordance with the firm's objectives.

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