Course Learning Outcomes for Unit III

Upon completion of this unit, students should be able to:

2. Analyze and compare approaches to diversity in the workplace in the United States and the legislation surrounding it.
   2.1. Discuss the complexities of the global-local dilemma facing multinational organizations.
   2.2. Determine the significance of political risks on the operations of multinationals.
   2.3. Evaluate basis and generic strategies multinationals use in competing locally and internationally.

5. Explain and discuss global thinking and the value of adaptation in an intercultural, multi-cultural, and multi-diverse business environment.
   5.1 Explain competitive advantage and value chain and their applications to multinational operations.
   5.2 Discuss the basics of multinational diversification.

7. Compare and contrast business practices from cultures around the world.
   7.1 Identify the different types of foreign country entry-mode strategies.
   7.2 Discuss how multinationals use offensive and defensive strategies.

Reading Assignment

Chapter 5:
Strategic Management in the Multinational Company: Content and Formulation

Chapter 6:
Multinational and Entry-Mode Strategies: Content and Formulation

Unit Lesson

Unit III of the course focuses on Chapters 5 and 6. In this unit, we begin to see how multinationals use different strategies to fight competition—particularly in the foreign markets. By understanding the different strategies applicable to foreign markets, formulating those strategies, and implementing them while addressing the complexities associated with them, multinationals gain an edge in the international marketing environment.

Successful multinational corporations are those able to deal with the ever-changing global environment characterized by rapid technological change, hypercompetitive market environment, demand for better quality, and better prices on products and services—just to mention a few. In addressing such challenges, multinationals must be able to formulate and implement basic strategies. An effective basic strategy addresses the business the company operates in, tools applicable to creating presence in the market, approaches that will be used to win customers, which target country to enter, and, finally, what products to produce or services to offer.

To create a competitive advantage, multinational and domestic companies apply generic strategies. The latter can be divided into two categories: differentiation strategy (creating value for customers using exceptional product quality, unique product features, product customization, and/or high-quality service) and low-cost strategy (producing products or delivering services most efficiently with lower costs, while maintaining high product and service quality standards). These strategies lead to higher profits and better customer satisfaction, as consumers pay higher prices for better value with companies’ bottom lines increasing from low costs of production. Based on its competitive scope, the extent to which a company targets its products and
services, a multinational company (MNC) may apply differentiation or a low-cost strategy to a narrow market using focus strategy. Interestingly, by carefully examining its value chain (all activities relating to product design, marketing, production, distribution, and support) and applying its distinctive competencies (unique competitive strengths), a company can also create competitive advantages. Some companies obtain cheap raw materials, cheap labor, and better distribution logistics than their competitors, creating unique advantages. In other cases, by outsourcing the non-crucial tasks of the company, MNCs can significantly reduce internal cost disadvantages. However, MNCs must be careful not to outsource crucial tasks so as not to create new competitors in the international business environment.

In addition to using basic strategies both domestically and internationally, MNCs also have in their weaponry two other categories of strategies: offensive and defensive competitive strategies and multinational diversification strategy. In using offensive competitive strategies, companies use direct attacks (price cutting, adding new features, comparison advertisements, etc.), end-run offensives (avoiding direct competition and targeting virgin territories), pre-emptive strategies (being the first in gaining some competitively advantageous position) and acquisitions (buying competitors’ firms). In a defensive strategy, the MNCs attempt to defend itself from being attacked. It is common to see an attacked firm sign exclusive distribution contracts with competitor's distributors or provide better product warranty for customers. In some other cases, MNCs may also counter-parry, fending off a competitor's attack in one country while attacking it in another—particularly in the competitor's home country. When performing in a single business (using business-level strategies) or multiple businesses (using corporate-level strategies), multinationals can use diversification strategies of two types: related diversification strategy (starting or acquiring a business similar to the company's original or core business) and unrelated diversification strategy (acquiring businesses in other industries).

The process of strategy implementation is preceded by strategy formulation. In order to formulate strategies in the highly-competitive international markets, managers must be able to analyze their industry competition dynamics, the opportunities and threats they face, and their organizations’ strengths and weaknesses. Fortunately, by using Michael Porter’s Five Forces Model, a firm can understand and identify its industry competitive forces and the industry’s degree of attractiveness. The five forces are degree of competition, threat of new entrants, bargaining power of buyers, bargaining power of suppliers, and threat of substitutes. Beyond the ability to identify and understand Porters' five forces, successful firms are those that possess key success factors (KSFs) mainly high-quality human resources, innovative technology, broad product lines, effective distribution logistics, a low cost of acquiring raw materials, low production costs, superior research and development, and financial assets.

This chapter has addressed the key basic and generic strategies multinationals used in competing domestically and internationally. Touching on the different entry modes, we conclude that MNCs must be able to choose a specific entry mode based on the function the entry mode serves and its parallelism with organizational strategic goals.

In the last chapter of the unit, we devoted a great deal of time to identifying different strategies multinationals use in the domestic and international markets. In Chapter 6 of this unit, we explore the use of those and other strategies multinationals use in introducing their companies to the international marketing environment while competing successfully.

In addressing the global-local dilemma, the multinational firm is torn between meeting the unique needs of the local market and finding appropriate solutions (local-responsiveness solution) and the demands of MNCs to meet global needs, reducing emphasis on meeting local market needs (global-integration solution). Suggested strategies include multi-domestic strategy (emphasis on local responsiveness), transnational strategy (use of locational advantages and economic efficiency by operating worldwide), international strategy (selling of global products and using similar marketing techniques worldwide) and regional strategy (managing raw material outsourcing, production, marketing, and support activities in a particular region). It is important to realize that most companies apply a combination of these strategies, in some cases, after making necessary alterations in response to the target market’s demands.

The key responsibility MNCs have is to identify and pay particular attention to globalization drivers (markets, costs, government, and competition). MNCs need to ask themselves a multitude of questions relating to these individual drivers while formulating competitive and entry-mode strategies. For example, the global market-relevant MNC managers should ask themselves a few questions.

- Are there (enough) global customers?
- Do the customers have common needs (that may limit/eliminate product/service customization)?
- Can marketing (brand name, advertising, distribution) be transferred?
- Relating to costs, relevant questions can be “Are there cheaper sources of highly skilled labor?”
- Can the company benefit from global economies of scale?
- Are sources of low-cost raw materials globally available?

While it is important for an MNC to determine the best strategies to use in addressing the global-market dilemma, it is equally important to choose how it will enter a foreign market. *Foreign market entry-modes* include exporting, licensing (franchising, turn-key operations, and contract manufacturing), strategic alliances, and foreign direct investments. However, foreign entry strategies cannot be formulated until management has seriously considered the functions each entry-mode strategy serves, the company’s strategic intent, and products and the globalization drivers identified previously.

Social upheavals, religious disturbances, and unfriendly government regulations as well as factors such as political instability and terrorism create a major political risk concern for multinationals. The successful MNC must have in its arsenal tools specifically designed to address this phenomenon. Finding solutions to political risk requires the ability to conduct sound political risk assessments. Multinationals, in their assessments, must ask themselves a few questions.

- How corrupt is the country based on the report of the Amnesty International Corruption Perception Index (CPI)?
- Does the country have a history of political instabilities?
- Is there a strong possibility of terrorist attack?
- Are government regulations foreign-investment friendly?
- Is there a strong possibility that the country can be hit by natural disasters?

In managing *political risks*, MNCs diversify their assets, employ host country staff, encourage host country governments to invest in company capital investments, purchase terrorism insurance, develop relationships with host country public officials, and participate in corporate social responsibility programs, amongst other things.

In this unit, we have seen how multinationals use different strategies in domestic and international markets to compete. We have been able to explore the complexities of global dilemmas in strategy formulation and implementation. We identified, briefly, the different entry-modes and discussed formulation of entry strategies. We concluded by stating that the effective management of political risks would be the distinguishing factor between successful and unsuccessful multinational corporations.

**Suggested Reading**

Click [here](#) to access the Chapter 5 Presentation in PowerPoint form.
Click [here](#) to access a PDF version of the presentation.

Click [here](#) to access the Chapter 6 Presentation in PowerPoint form.
Click [here](#) to access a PDF version of the presentation.
Key Terms

1. Competitive scope
2. Counter-parry
3. Differentiation strategy
4. Distinctive competencies
5. Focus strategy
6. Foreign market entry-modes
7. Global integration and local-responsiveness solutions
8. Globalization drivers
9. Key success factors
10. Low-cost strategies
11. Porter's five forces model
12. Multinational diversification strategy
13. Offensive and defensive competitive strategies
14. Political risk
15. Related and unrelated diversification