International Management Strategy: An Empirical Study

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Abstract- In multinational firms, strategies are initiated at the corporate/headquarter level and the subsidiary level. Each of the two levels of strategy has an important and distinct role to play in achieving and sustaining competitive advantage, although key elements of the multinational firm strategy are formulated at the corporate level, strategies dealing with the implementation of the strategy are typically done at the subsidiary level. The multinational firm has to strike a balance between having a single global strategy, such as a single website for the whole company, or have mini-replicas around the world, each developing its subsidiary strategy. After reading this paper you should be able to identify and describe levels of global strategy; identify and describe subsidiaries strategic roles; discuss the advantages and disadvantages of the different subsidiary roles; identify and discuss the generic strategies.

GJMBR-A Classification: JEL Code: M16, M19

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International Management Strategy: An Empirical Study
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Abstract - In multinational firms, strategies are initiated at the corporate/headquarter level and the subsidiary level. Each of the two levels of strategy has an important and distinct role to play in achieving and sustaining competitive advantage; although key elements of the multinational firm strategy are formulated at the corporate level, strategies dealing with the implementation of the strategy are typically done at the subsidiary level. The multinational firm has to strike a balance between having a single global strategy, such as a single website for the whole company, or have mini-replicas around the world, each developing its subsidiary strategy.

II. Global Strategy Levels

In multinational firms, strategies are initiated at two different levels. There is a strategy for the multinational firm and all its subsidiaries which is called headquarter or corporate strategy. And there is a strategy for each subsidiary which we refer to as subsidiary level strategy. We will use the terms ‘headquarter’ and ‘corporate-level strategy’ interchangeably. At both corporate level and subsidiary level there are several sub-strategies dealing with specific management functions such as finance, human resources, marketing and operations. This paper focuses on the subsidiary-level strategy. The corporate level strategy revolves around the definition of businesses, in which the multinational firm wishes to compete, and the acquisition and allocation of resources to its different subsidiaries. In contrast, subsidiary-level strategy refers to the game plan of each subsidiary. It is concerned with the question of how a subsidiary positions itself among local and international rivals to achieve its strategic goals. It also deals with the integration of subsidiary-level strategy with the corporate-level strategy. Toward this end, the subsidiary level strategy is concerned principally with crafting a strategy that is congruent with the overall corporate-level strategy, and at the same time addressing specific strategic issues facing the subsidiary in its particular industry and or geographical location. We broadly define the strategic role of subsidiaries as the significance of the subsidiaries’ contribution to the overall global success of the multinational firm. The strategic role of subsidiaries in multinational firms varies from simply meeting the challenges of implementing the global headquarter-level strategy to taking the lead in developing a specific strategy for the subsidiary. Some subsidiaries may be given the authority to make strategic and operating decisions autonomously, whereas others may be passive implementers of headquarters-developed strategy. The degree to which subsidiaries are actively involved in the formulation and implementation of corporate strategy, and the degree to which they are creators or passive users of knowledge within the multinational firms, varies from one multinational firm to another.
another, and sometimes from one subsidiary to another within the same multinational firm.

Three key factors determine the level of a subsidiary’s strategic role. First, corporate-level managers should give the authority to subsidiaries to make strategic decisions when the subsidiary faces conditions of high environmental uncertainty. Second, corporate-level managers should give the authority to subsidiaries when the subsidiary production technologies are non-routine and require complex and specific knowledge located at the subsidiary level. Corporate-level managers should keep interference in the strategy of the subsidiary to a minimum because they are not well equipped to respond adequately to local exigencies facing these subsidiaries. A third major factor determining the degree of autonomy is how much the multinational firm needs to adapt its overall strategy to local conditions. At one extreme are multinational firms which use a standardized strategy worldwide with little or no modification. At the other extreme are multinational firms that give absolute power to subsidiaries to tailor their strategy to their local business environment. However, in practice it is not a case of all or nothing, but a matter of degree.

III. Subsidiary Strategy

Multinational firms have a dominant corporate-level strategy, and the job of the subsidiary is to implement the corporate-level strategy. The centre in this case controls most of the multinational firm’s activities and makes most strategic decisions. In brief, a dominant corporate-level strategy occurs when a subsidiary produces a component or a product under assignment from the parent for the multinational firm as a whole. Since the subsidiary is simply making an ‘assigned’ product, very little strategizing is required at the subsidiary level. This is an appropriate strategy in industries where consumers worldwide have roughly the same preference. In these industries, firms should avoid the pressure and temptation to produce completely different products for different geographical markets. Extreme customization is a very expensive strategy, and often the returns do not justify the high cost. Instead, firms are advised to produce variations on the basic products. This will obviously increase design, production, and marketing cost, but will have the advantage of greater acceptability by customers in different geographical locations and therefore higher returns. The support and implementation role is also appropriate when little strategizing is needed at the subsidiary level in cases where, for example, subsidiaries in different countries face similar competitive environments and use standard processes.

The role of subsidiary managers in this case is devoted primarily to improving the efficiency of their existing operations. The success of the subsidiary, therefore, requires an internal focus, specifically on achieving operating efficiencies. Another minor but critical role of subsidiaries is localization of products. Note that under the support and implementation role, the subsidiary is involved more in localization than in adaptation. ‘Localization’ refers to ‘the changes required for a product or service to function in a new country’. Adaptation, however, refers to changes that are made to customer tastes or preferences. A subsidiary localizes its products by, for example, making adjustments to its electrical equipment to make it compatible with local technical requirements such as electrical voltage. It adapts its products to local preferences when, for example, it produces shapes and colors that are popular in that country. Subsidiaries pursuing a support and implementation role are involved more in localization than in adaptation.

One must point out that a support and implementation role should not be taken to mean total centralized authority at the parent or corporate level, where the parent acts as the sole command and control. Some strategic elements of global corporate strategy are and, according to many, should be dispersed across multiple subsidiaries. Multinational firms adjust the level of delegation to the subsidiary level by weighing the trade-off between the virtues and the vices of decentralization. A support and implementation strategy, like most strategic business alternatives, involves trade-offs. The benefits of pursuing a support and implementation strategy must be weighed against possible drawbacks. Most multinational firms would prefer to have a single standard corporate strategy if their products and services are accepted around the world. Subsidiary managers in this case would not need to redesign their products to suit different customer needs and expectations, or develop a new strategy to compete in their local markets. Further, from the corporate-level perspective, a sense of unity among its subsidiaries, a willingness to act as part of a single global strategy, is a strategic resource of enormous value, often more valuable than giving subsidiaries the flexibility to design their own strategy with little reference to the global corporate strategy. Having a global corporate strategy means that strategic disagreements and rivalries between subsidiaries are resolved within the context of the global strategy, and once a decision on the direction of a firm has been reached, it will be honored by all subsidiaries.

A support and implementation strategy has many advantages. Key advantages are that multinational firms perform better when subsidiary strategies are integrated with corporate-level strategy; A standard global design strategy with a common standard design for the entire market eliminates the sources of additional costs through economies of scale; A standard global design strategy with a common standard design for the entire market creates a cost
advantage through faster organizational learning; A standard global design strategy can enhance efficiency for the multinational firm by producing fewer product varieties in longer production runs in different national plants; When subsidiaries focus on implementing and supporting the corporate-level strategy they are likely to gain strengths in pursuing operational efficiencies. The support and implementation strategy has several disadvantages. The strategy is not suitable in industries or regions where customers are increasingly more demanding and less willing to accept standard global products and compromise their specific needs and wants. Also, the strategy is not adequate when subsidiaries face conditions of high environmental uncertainty, or when they use non-routine production technologies that require complex and specific knowledge located at the subsidiary. In a truly mini-replica role, the subsidiaries are able not only to select their own strategies in the matters allocated to them but to define their own goals with little interference from the corporate headquarters. In this approach, while subsidiaries have the authority to design their own subsidiary-level strategy unconstrained by corporate dictates, they must do so within recognized boundaries set by the corporate parent. The key challenge here is how to decentralize the strategy making process to the subsidiary level without breaking the umbilical cord between the corporate parent and the subsidiaries.

Generally, the mini-replica role is appropriate when subsidiaries operate in highly uncertain business environments, use non-routine processes, and/or require complex and specific knowledge located at the subsidiary. The mini-replica strategy is sometimes also motivated by a basic lack of corporate unity, primarily in a highly diversified company, and by the unwillingness of some subsidiary managers to submit to centralized corporate parent control. This happens when subsidiary managers feel that they will be discriminated against in the larger unit; that resources within the geographical region or particular industry they inhabit will not be used for the benefit of their subsidiary; that policies will be imposed on them that they find intolerable or damaging; or simply that they want to retain their own identity. When implemented properly, the mini-replica strategy has several important advantages. The first and most obvious advantage is that the more power subsidiaries have, the more opportunity they have to develop a strategy that fits their unique business environment. Another advantage of the mini-replica approach is that it frequently leads to better decisions at the subsidiary level, since managers at subsidiary levels are likely to have a clearer view of the business environment in which they operate. In a highly dynamic business environment, when the strategy has to be constantly reviewed, the mini-replica approach speeds up decision-making. Often valuable time is lost when subsidiary managers must wait for decisions to arrive from the centre. The mini-replica approach also causes subsidiaries to accept responsibility and be accountable for their strategy and action. This may help subordinate managers take initiatives to capitalize on local opportunities that otherwise would be lost.

There are costs associated with moving key activities away from the corporate centre. Multinationals following a mini-replica strategy may produce too many product varieties in sub-optimally small production runs. The mini-replica strategy raises the cost of operations because it is more expensive to hold an inventory of multiple items with each item requiring a minimum level of safety stock. The mini-replica strategy involves promoting multiple products for different segments of the market. In several industries, continued global convergence of customer preferences means that “multinational firms can no longer maintain their high cost mini-replica structure. Global or world product mandates are defined as the full development, production, and marketing of a product line in a subsidiary of a multinational firm. A global or world product mandate gives the subsidiary global responsibility for a single product line, including development, manufacturing, marketing, and exporting. The global product mandate grants subsidiaries the power and authority to undertake high value-added activities in the subsidiary, as well as providing subsidiary management with the opportunity to develop and grow the mandate over time. In other words, under the global product mandate, the subsidiary acts more like an equal partner of the corporate parent than a subordinate entity. It can also expect a much higher level of operational autonomy under the world mandate arrangement than under dominant corporate-level strategy.

Multinational firms grant subsidiaries a global product mandate when tariffs to operate in certain countries are prohibitively high, or when firms wanting to sell products in particular markets have to make them locally. Because the global product mandate gives the subsidiary the power and responsibility to act beyond its market, the subsidiary has to have an externally oriented strategy in that it must continually search for untapped or emerging market opportunities for its product. The subsidiary should have relatively great freedom to enter and leave markets in a timely fashion. The global product mandate has several implications for the multinational firm. First, under the global product mandate functions such as R&D, production, marketing, and strategic management will be located at subsidiary level. Second, because subsidiaries with a global product mandate may have unique control within the multinational corporation (MNC) of certain products, they are both integrated within the MNC, because they export finished goods to other MNC subsidiaries, and autonomous, because they have a high degree of independence over strategic product-related decisions.
The global product mandate is similar to the mini-replica strategy. In fact it is a mini-replica strategy but with a mandate to develop, produce, and market a specific product or family of products. The mini-replica strategy, however, grants subsidiaries a broader mandate, which may include different products and/or different markets. Given the similarities between the mini-replica strategy and the global product mandate strategy, the advantages and disadvantages of the global product mandate are the same as those of the mini-replica strategy.

IV. Global Generic Strategies

No matter which type of subsidiary-level strategy is used, the key question for the headquarters is how a subsidiary creates value for the organization as a whole. Understanding how value is created can help executives in developing a strategy for achieving competitive advantage. The two basic types of competitive strategy are known as ‘generic strategies’, because they can be employed in any type of business in any industry. They can be employed either at corporate level or subsidiary level, or at both in a coordinated fashion. In a multinational firm which has many subsidiaries with diverse strategies, they are the greatest importance at the subsidiary level.

The subsidiary of the multinational firm, or the corporate level when the multinational has a single standardized strategy, first has to decide what it wants to accomplish with the particular product it offers. The multinational firm and its subsidiaries must decide whether to offer their product to a broad segment of the market or to target a niche market. Ford, for example, produces cars that appeal to, and can be afforded by, a large segment of the population. In contrast, Ferrari produces cars with unique features for mainly young customers with high disposable income. The competitive scope of Ford's products is much larger than the competitive scope of Ferrari's products. Therefore, a firm's relative position within an industry is given by its choice of competitive advantage, i.e. cost leadership or differentiation, and its choice of competitive scope, i.e. broad target or narrow target. Based on these two distinctions, Michael Porter has distinguished four generic strategies that firms can pursue cost leadership, differentiation, focused low cost, and focused differentiation.

Both internal and external factors determine the choice of competitive strategies at the subsidiary level. Externally, the choice of the competitive strategy is determined by conditions in the subsidiary's competitive market, such as rivalry intensity, and by host country resources and infrastructure. Internally, the choice of the subsidiary's competitive strategy is shaped by the role of the subsidiary as set at the corporate level, and by the distinctive resources and capabilities of the subsidiaries that can be deployed overseas. Subsidiaries pursuing a cost leadership strategy appeal to price-sensitive customers. The strategy involves setting out to become the lowest-cost producer relative to local or other foreign rivals in the same market. The subsidiary's goal in pursuing a cost leadership strategy is to outperform competitors in its market by producing goods and services at a lower cost. As a result, when all competitors in the market charge the same price for their products, the cost leader makes higher profits because its costs are lower. Furthermore, if price wars develop and competition increases, then it is most likely that high-cost companies will be driven out of the industry before the cost leader. This strategy requires the subsidiary to be fully and continually devoted to cutting costs throughout the value chain. Thus, the subsidiary must vigorously pursue cost minimization activities by tightly controlling overhead costs, and by minimizing costs in activities such as R&D, marketing and advertising, and process innovation. The cost leadership strategy also requires achieving cost advantages in ways that are hard for competitors to copy or match.

Multinational firms and subsidiaries must be careful when pursuing a cost leadership strategy. The subsidiary must reduce cost without compromising product features and services that buyers consider essential. Compromising essential product features in the quest to minimize cost may lead to poor-quality products rather than value-for-money products. Skoda is a case in point here. Cost leadership is appropriate when the industry's product is perceived by buyers to be much the same from one producer to another; when the marketplace is dominated by cut-throat price competition, with highly price-sensitive buyers; when there are few ways to achieve product differentiation that have much value to buyers; and when switching costs for buyers are low. Subsidiaries pursuing a cost leadership strategy produce a large volume of fairly standardized products that appeal to large price-sensitive segments of the market. They are often internally focused, and their main concern is cost reduction. The parent and other subsidiaries assist the subsidiary to achieve its cost leadership strategy by supporting activities that lead to cost reduction, such as scale economy in sourcing and cost-effective management skills. For example, by sourcing globally the parent is able to obtain scale economy in purchasing. The high volume of raw materials or parts purchased by the parent allows the subsidiary to take advantage of volume discounts. Further, the parent is better positioned to scan the international market for the least expensive raw materials or parts. The parent can also shift labor-intensive operations from subsidiaries in countries where labor cost is high to countries where it is low. The subsidiary can also benefit from sharing knowledge and value chain functions with other subsidiaries. For example, a subsidiary located in a country where certain skills for carrying out a specific
process are abundant and inexpensive, performs the process for all subsidiaries, further, when a single global brand name is used worldwide, the subsidiary makes savings in advertising costs and sales efforts. This support enables the subsidiary to produce and market its product at a lower cost, and thereby gain a competitive advantage.

A subsidiary employing a differentiation strategy seeks to be unique in its industry along some dimensions that are perceived widely as unique and valued by customers. While differentiation typically involves higher costs, the uniqueness associated with its products allows the subsidiary to compensate by appealing to a broad cross-section of the market willing to pay premium prices. While a subsidiary pursuing a low-cost strategy such as Volkswagen's Skoda may produce a car that is safe, reliable, and durable, Volkswagen's Audi subsidiary follows a differentiation strategy and produces cars with extra-quality features such as expensive leather seats, expensive wood in the dashboard, and so on. In contrast to the cost leadership strategy, subsidiaries pursuing a differentiation strategy must focus on continuously investing in and developing features that differentiate their products in ways that customers perceive as unique and valuable. When a subsidiary pursues differentiation, it seeks to distinguish itself along as many dimensions as possible. These dimensions can include brand image, innovation, physical characteristics of the product such as quality or reliability, customer service, or distribution network. For example, in addition to providing high quality and reliability in its production Rolex, the Swiss-based watch manufacturer, has created a global network of specialist who alone are qualified to guarantee to Rolex owners the authenticity of their watch and the dependability of the features that ensure its longevity in order to safeguard its reputation. Uniqueness may also relate to the psychological need of customers, such as status of prestige.

Subsidiaries pursuing a differentiation strategy require strong support from the parent and other subsidiaries in terms of sharing technology, process innovation, and product development and marketing. The quality of the product produced by the subsidiary is likely to be thoroughly tested by the parent. Because differentiation requires constant innovation in order to produce unique products suited to local customers' demand preferences, subsidiaries must share knowledge, processes, and technologies with one another. That is, subsidiaries following a differentiation strategy are likely to depend more on support from the parent and continued resources sharing within the corporate group than subsidiaries following a cost leadership strategy. Note that while in both cost leadership and differentiation strategies the subsidiary requires the support of the parent and other subsidiaries, the type of support the subsidiary need is different. Subsidiaries following a cost leadership strategy require support that helps them lower cost. In contrast, subsidiaries pursuing a differentiation strategy need support that helps them acquire capabilities necessary for producing differentiated products.

A subsidiary following a focus strategy puts emphasis on a niche market segmented by geographical region, income level, and/or product specialization. Focused low-cost strategy is a market niche strategy, concentrating on a narrow, specific, and recognizable customer segment and competing with lowest prices, a strategy which requires the subsidiary to the cost leader in its niche. This strategy works well when the firm is able significantly lower cost to a well-defined customer segment. Because subsidiaries following a focused low-cost strategy concentrate on a small segment of the market and offer specific products, using well-defined technology and processes, they need only a small degree of support from the corporate parent. Further, the link with other subsidiaries may also be weak because subsidiaries following a focused low-cost strategy tend to focus on their local market, which may be served differently from one country to another. A second market niche strategy is focused differentiation strategy. The subsidiary here concentrates on a narrow customer segment and competes through differentiating features. To be successful, the subsidiary must be able to offer its target market something they value highly and which is better suited than other firms' products to their specific and unique requirements. Further, the strategy must have a strong brand and the subsidiary must have a thorough understanding of its targeted market's unique tastes and preferences, and the ability to offer products with world-class attributes.

In contrast to focused low-cost strategy, subsidiaries following a focused differentiation strategy need strong support from the parent and peer subsidiaries. Producing products with world-class features requires specific resources and competencies that develop from cooperating and sharing information with the parent and other subsidiaries. Also, it is imperative that the parent assist subsidiaries to acquire the necessary resources and competencies in order for them to produce and/or offer products that consistently conform to the highest standards. Although the costs associated with the extensive sharing of information and coordination between the parent and subsidiaries and within subsidiaries are quite high, customers are willing to pay a high premium for the product. Multinational firms sometimes adopt a hybrid strategy also known as integrated strategy balancing the emphasis on cost reduction against an emphasis on differentiation. The hybrid or integration strategy seeks to provide customers with the best cost/value combination. This strategy has a dual strategic emphasis, appealing to value-conscious customers who are sensitive to both
price and value. While accepting that each generic strategy has pitfalls and that there are different risks inherent in each strategy, argue that a hybrid strategy leads to mediocrity. The two basic generic strategies cost leadership and differentiation are incompatible and fundamentally contradictory, requiring different sets of resources and competencies and appealing to different customers; that any firm attempting to combine them would eventually end up ‘stuck in the middle; and that, as a result, such a firm will be outperformed by competitors who choose to excel in one of the basic strategies.

One of the key reasons for adopting an integrated strategy is the turbulent global business environment, which requires multinational firms to adopt flexible combinations of strategies. To multinational firms such as Volkswagen, a hybrid strategy combining elements of cost leadership and differentiation is not only possible but is the most successful strategy for them to pursue. The hybrid strategy deals with the many inherent disadvantages of cost leadership and differentiation strategies. When properly employed in the right target market, it is likely to have higher performance than a pure cost leadership or differentiation strategy. Nonetheless, Porter’s generic strategies make a valuable contribution by emphasizing that firms need to make strategic choices between pursuing a certain type of strategy. For instance, when Volkswagen decided to increasingly differentiate its products in China, its costs invariably increased due to extra features offered in its cars. Therefore, firms need to weigh up the benefits of spending more money on more differentiated products as opposed to cutting costs in order to offer customers a low-cost product.

V. Summary

In multinational firms, strategies are initiated at two distinct levels. Strategies for the whole multinational firm are formulated at the headquarters level and called ‘headquarter-level’ or ‘corporate-level’ strategies. Strategies for each subsidiary are formulated at the subsidiary level, and are termed ‘subsidiary-level strategies’. Corporate-level strategy deals with the question of what business or businesses to compete in, and the overall game plan of the multinational firm. Subsidiary-level strategy is concerned with the question of how a subsidiary positions itself among local and international rivals to achieve its strategic goals, and deals with the integration of subsidiary-level strategy with the corporate-level strategy. As far as the relationship between headquarters and subsidiaries is concerned, we identified three types of subsidiary-level strategy: support and implementation, mini-replica, and global product mandate. Each strategy has advantages and pitfalls. The role of managers is to weigh the advantages against the disadvantages of each strategy before selecting the most appropriate strategy for their organization. Multinationals cannot, and should not, target all customers in a particular market or country. They need to target a specific segment, large or small, using three specific strategies called generic strategies cost leadership, differentiation, and focus. The subsidiary can also combine, or integrate, cost leadership strategy and differentiation generic strategies. The integrated strategy is a challenging strategy and has several risks. However, if implemented properly and successful, such integrated strategy enables the subsidiary to enjoy superior performance and enhance its competitive position.

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