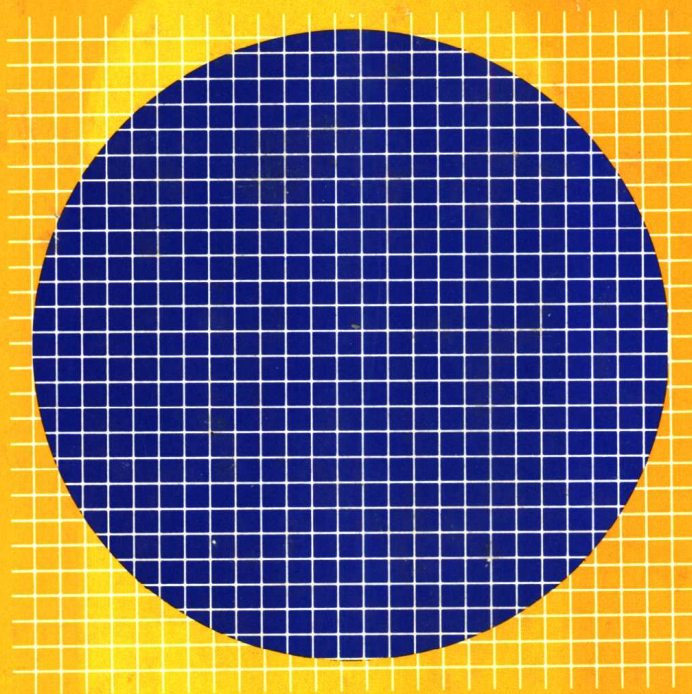


MULTINATIONAL CORPORATE STRATEGY

PLANNING FOR WORLD MARKETS

James C. Leontiades



Multinational Corporate Strategy

Planning for World Markets

James C. Leontiades
Manchester Business School
University of Manchester



Lexington Books

D.C. Heath and Company/Lexington, Massachusetts/Toronto

Library of Congress Cataloging in Publication Data

Leontiades, James C.

Multinational corporate strategy.

Bibliography: p.

Includes index.

1. International business enterprises—Management.

2. Corporate planning. I. Title.

HD62.4.L46 1985 658.4'012 83-48686

ISBN 0-669-07381-4

Copyright © 1985 by D. C. Heath and Company

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording, or any information storage or retrieval system, without permission in writing from the publisher.

Second printing, June 1985

Published simultaneously in Canada

Printed in the United States of America on acid-free paper

International Standard Book Number: 0-669-07381-4

Library of Congress Catalog Card Number: 83-48686

Foreword

Jim Leontiades' book is a timely and needed addition to the literature on multinational strategy formulation. It is timely because, more than ever, each business firm must plan its strategy within a multinational perspective. This applies to firms that seek their opportunities in nations and regions new to them. But as Jim so insightfully points out, an ever-growing number of industries are becoming multinational and global in scope. This means that firms that have no ambitions for multinational expansion must nevertheless take account of multinational competitive forces in planning their domestic strategy.

The book is a needed addition to the literature because it joins an unfortunately small number of books that take a comprehensive perspective of the key elements of a multinational strategy. In a clear expository style, Jim combines significant lessons to be learned from experiences of successful multinationals with insight into the variables that determine success in multinational competition, and with practical suggestions for formulation of a multinational strategy.

Successful multinational firms will find in this book a well-organized summary of the variables and relationships that they take into account in their daily management.

Firms that have burned their fingers in their initial efforts to become multinational will almost certainly find an explanation for their difficulties and suggestions for overcoming them. The book is "must" reading for managers who are planning to launch their firms on the turbulent seas of multinational competition.

H. Igor Ansoff
Distinguished Professor of Strategic Management
U.S. International University
San Diego, California

Preface

This book is directed at managers and students of management interested in the international aspects of strategy, particularly with reference to multinational companies. The immediate stimulus behind the material presented here stems from my involvement with the project method of teaching employed at the Manchester Business School. This brought me into contact with a large number of companies grappling with problems associated with international expansion and competition.

The gap between the published material dealing with decision making in this context and the managerial task at hand was very noticeable. For problems falling squarely within the prescribed boundaries of established disciplines, such as international economics, international finance, and marketing, powerful analytical tools are provided. But only a relatively small proportion of the major international business decisions seemed to fall into this category.

Finding an optimal solution within a narrowly defined discipline is seldom the issue. In practice, a major problem is often one of determining whether a problem, in the sense of a genuine need or opportunity, actually exists. If it does, a wide number of options are generally available, of which only a few are known at the outset. Discovering and identifying others is a crucial part of the overall task. Inevitably much of the necessary information is missing. Guidance is needed on gathering and integrating additional data. Gradually progress is made toward a compromise solution that reconciles the requirements of the problem at hand with the often-conflicting needs of other parts of the organization and commitments made under previous decisions.

All of this will have a familiar ring to those already acquainted with the growing body of work developed under the heading of corporate strategy. The emphasis is on the relationship of the firm to its external environment. It does not pretend to provide theory-based solutions for finding the right answer. Prescriptive comments are directed at providing guidelines for what is essentially a search process.

This stress on the firm's external environment and the firm's adjustment to it lends itself to decision making within international and multinational companies.

Operating as they do across very different national territories, the relevance and need for such adjustment is obvious.

One aim of this book is to apply the latest methods and techniques of corporate strategy to the special situation of multinational firms. The geographic mobility of such companies means that environment itself becomes a variable and thus part of management's strategic decision making. Also, by definition, multinationals are sited in multiple national environments. Both of these points raise options and issues quite different from those found in purely domestic firms. Another aim has been to focus the material presented around a number of decision areas particularly relevant to the management of such companies.

The organization of the material presented here seeks to avoid the confusion that stems from the different perception of what constitutes a firm's environment. Although it is easy to slip into the habit of seeing companies as decision-making entities, this can be very misleading. The collection of individuals comprising any organization inevitably will have different roles and responsibilities in the decision-making process, and this will condition their perception of the company, its environment, as well as their priorities as to what is best. In multinational companies, these differences are accentuated by geographic distance, national loyalties, and barriers. It is noticeable that management in the multinational firms' international headquarters has a different view of the world than is generally to be found in its individual operating units abroad, that is, the firm's national subsidiaries.

These differences are not accidental; they are part of the specialization of decision-making labor in multinationals. Both points of view are important. Failing to make the distinction between the more global interpretation of strategic decision making at headquarters and the more nationally oriented interpretation within the firm's national operating units can be a source of misunderstanding. Not a little of the friction among managers in such companies may be traced to these differing perspectives. Making this distinction explicit is useful at arriving at a fuller understanding of decision making in this form of enterprise.

Part I begins with an examination of the growing internationalization of industry and the forces behind this trend. A framework is provided in chapter 2 for interpreting the relationship between strategy and various control relationships in multinational firms. Chapter 3 provides a step-by-step examination of the evolution of strategy and structure within one multinational firm.

Part II concentrates on regional and global strategy—that is, strategy as seen from international headquarters. International portfolio strategy, as well as competitive, marketing, and logistics strategy for the multinational firm, are treated at length.

Part III presents an analysis of the international aspects of strategic decision making at the national level. This includes appraisal of new national environments, entry strategy, and new product introduction from a national subsidiary.

The final chapter in this part deals with political risk appraisal and strategies for managing national political risk.

Part IV examines various methods for coordinating strategic decision making within multinational firms. A number of coordinating mechanisms are considered, including annual cycle planning, capital budgeting, strategic planning systems, and various organization structures.

I am indebted to the many managers at Ford of Europe who gave so generously of their time in providing the material used in the several examples based on that organization—in particular, Robert A. Lutz, Erick Reickert, Peter Smith, John Waddell, Bill Hayden. Also, Peter Slater, Ford Motor Company Limited.

I also thank Valerie Acton for deciphering my notes and preparing the manuscript.

Contents

Figures xiii

Foreword xvii

H. Igor Ansoff

Preface xix

Part I The Multinational in a Changing Environment 1

1. The Internationalization of Business and Business Strategy 3

Internationalized Industries 4

Forces of Change 5

Corporate Strategy 7

International Strategy 8

2. Differing Approaches to Multinational Strategy 11

Early Experience 11

Planning in the Multinational 12

Strategic Planning Modes 13

Levels of Strategic Planning 19

3. The Practice of Strategic Planning in a Multinational Company: An Evolutionary View 21

Early Internationalization 22

The International Division 23

Regional Coordination 24

Strategic Planning at Ford of Europe 25

Planning Development 31

Nature of Strategy 31

Conclusion 35

Part II Strategy at the Regional/Global Level 37

4. International Portfolio Strategy 39

Portfolio Strategy 40

International Resource Allocation 46

Assessing International Portfolio Performance 48

Portfolio Interdependence 49

5. Global and National Competitive Strategies 51

Four Generic International Competitive Strategies 52

Competitive Strategy and Structure 56

Geopolitical Aspects 56

6. Implementing Strategic Change 59

The Competitors 59

Changing Conditions 61

Implementing a Global Niche Strategy 62

Market Share and Return on Investment 63

Areas of Vulnerability 63

International Sources of Competitive Advantage 66

7. Marketing Strategy: The International Headquarters Role 69

Headquarters Functions 70

Market Intelligence and Data Gathering 70

Marketing Strategies 77

8. International Marketing Policies 85

International Product Policy 85

International Pricing Policy 89

International Distribution Policy 92

International Promotion Policies 93

9. International Plant Location and Logistics 95

Foreign Investment Decision Process 95

Screening National Locations 96

Plant Location and Regional/Global Logistics 101

Conclusion 107

Part III Strategy at the National Level 109

10. National Entry Strategy Appraisal 111

Strategic Appraisal—Objectives 112

Environmental Appraisal 113

Resource Appraisal 124

Company Values, Tradition, and Philosophy 126

11. National Entry Strategy Decisions and Options 129

Planning Entry Strategy 129

Generic Entry Strategies 130

Logistics Methods for Market Entry 133

Investment in Foreign-Based Facilities 134

Low-Equity Foreign-Based Operations 135

Strategy Evaluation and Selection 136

12. National New Product Introduction 141

New Product Introduction at Kellogg's 141

Comparative Market Analysis 145

Time Shift Comparisons 149

Special Situations in Developing Countries 150

Summary 152

13. Anticipating and Managing Political Risk 153

Political Risk: A Definition 154

Forecasting Political Risk 155

Managing Political Risk 161

Conclusion 166

Part IV Coordinating Strategy across National Borders 167

14. Strategic Planning Systems and Other Coordinative Mechanisms 169

Annual Planning Cycle 170

Formal and Informal Planning 171

Resource Allocation: Capital Budget Planning 171

Beyond Capital Budgeting 174

Discretionary Coordination 175

International Policy 177

Strategic Planning in a Highly Integrated Multinational 177

Developing a Multinational Company Culture 181

15. Changing the Organizational Structure 185

Export Organizations 185

Early Multinational Organizations 188

Global Structures 193

Matrix Structures 196

Hybrid Structures 198

Strategy and Structural Change 198

Implementing Organizational Change 200

International Coordination: The Broader Context 201

Notes 203

Index 215

About the Author 229

Figures

Figures

- 1-1. Definitions of Strategy and Strategy Formulation 8
- 1-2. International Strategy: Matching the Firm to Its International Environment 10
- 2-1. Planning Scope of Railroad Administrative Units 13
- 2-2. Control and Strategy in the Multinational: Three Alternative Modes 15
- 3-1. Composition of the Worldwide Car Market 27
- 4-1. Strategic Business Units Defined by Product and Geography 42
- 4-2. International Growth/Share Portfolio 43
- 4-3. Political Risk/Profitability Portfolio 45
- 4-4. International Comparison of Changes in Relative Market Share 46
- 4-5. Growth/Share Matrix 47
- 4-6. Regional/Global Portfolio 48
- 4-7. Border Effects Influencing Perception of Firm's International Portfolio 50
- 5-1. Four Generic International Competitive Strategies 53
- 5-2. Conceptual View of the Distribution of Global and National Competitive Strategies in an Industry 58
- 7-1. Product Life Cycle 74
- 7-2. Product Life Cycles in Different Countries 74

- 7-3. Global View of Product Life Cycles 76
- 7-4. Stages of International Product-Market Development, World Automobile Markets 78
- 7-5. Leader and Follower Strategies 81
- 8-1. International Product Development Policies 87
- 8-2. Experience Curve Pricing 91
- 8-3. Experience Curve Pricing Strategy 91
- 9-1. Rating Scale for Screening National Environments 97
- 9-2. Portfolio Screening of National Location Opportunities 100
- 9-3. International Change in Product Cycle and Plant Location 106
- 10-1. Entering a New National Environment: Areas of Strategic Appraisal 113
- 10-2. Checklist for General National Business Conditions and Investment Climate 115
- 10-3. Comparative Product-Market Analysis 116
- 10-4. Mapping 123
- 10-5. Appraising the Business Environment in New National Product-Markets 124
- 11-1. Four Generic National Market Entry Strategies 131
- 11-2. Entry Strategy Planning Process 139
- 12-1. Marketing Interaction and Transfer in a Multinational 146
- 12-2. International Comparison for New Product Introduction 148
- 13-1. Typology of Political Risk 155
- 13-2. Checklist of Political Risk Indicators 161
- 13-3. Hedging Strategies 163
- 14-1. Planning Cycles in a Multinational 170
- 14-2. Format for Capital Appropriation Request 173
- 15-1. Domestic Functional Organization with Export Department 186
- 15-2. Mother-Daughter Structure 190
- 15-3. Divisional Structure 192

- 15-4. Global Product Structure 194
- 15-5. Global Area Structure 195
- 15-6. Matrix Structure 197
- 15-7. Multinational Company Strategy and Structure 199
- 15-8. International Coordination Mechanisms 201

Part I

The Multinational in a Changing Environment

