1 Strategic and Management Issues in Global and Transnational Business

Learning objectives

After studying this chapter students should be able to:

- define the key terms used in the study of international business;
- describe the changes in international business behaviour in the second half of the 20th and early 21st century;
- explain the causes, nature and problems of globalization;
- describe some of the key issues in global and transnational business management;
- define and distinguish between the 'big controversies' in strategic management in relation to global business;
- explain the management processes involved in successful global and transnational business management.

Global and transnational business – an introduction

Some important definitions

Globalization is pehaps the single most important force at work in contemporary society, business, management and economics. For this reason, it is strategic management in a global context that forms the central theme of this book. Globalization is a complex phenomenon, and this chapter explores its causes, nature, effects and implications for managers in modern business organizations. Alongside the exploration of globalization, this chapter examines recent developments in strategic management and identifies their impact on transnational management, setting out the analytical frameworks which will form the core of the subsequent chapters.

It is useful to begin by clarifying some of the terminology used in the literature of international business. The terms *international*, *multinational*, *transnational* and *global* business are often used interchangeably. This can be a cause of serious confusion, so it is important to define and distinguish between the terms. A spectrum of international business activity can be identified depending on the nature and extent of a business's involvement in international markets and the degree of co-ordination and integration of geographically dispersed operations. The importance of making this distinction lies in the fact that the strategic and management issues facing an organization will vary considerably depending on the breadth of its international presence.

International, multinational, global and transnational business

The term *international business* simply implies that an organization is operating in more than one country or, to put this another way, organizations from different countries are trading across their national boundaries. In this sense it is a generic term. A business that is *multinational* is one conducting international business and operating in several countries; but, in addition, Bartlett and Ghoshal (1989) suggested the term implies some decentralization of strategy and management decision making to overseas subsidiaries, with little co-ordination of activities and subsidiaries across national boundaries. In other words subsidiaries operating in different countries are allowed considerable autonomy in terms of their strategies, which are largely determined by local conditions. In contrast, a *global business* is one conducting its activities in a large range of countries across the world with a single strategy that is highly co-ordinated and integrated throughout the world. Company strategy is determined centrally and subsidiaries have little autonomy in their operations. Finally, the term *transnational business* describes the situation when an organization conducts its activities across national boundaries, with varying degrees of co-ordination, integration and local differentiation of strategy and operations, depending on market and business conditions.

Globalization

One of the most used yet complex terms in international business is *globalization*. The word is used to describe a range of related but distinct, sociological, economic, political and business phenomena. In general terms, globalization refers to the development of global or worldwide business activities, competition and markets and the increasing global interdependence of national economies.

In economic terms, globalization refers to the increasing interdependence between national economies and markets. From a sociological perspective, it describes an increasing degree of cultural interaction and convergence between the countries of the world. From the standpoint of business, globalization describes the increasingly global nature of markets, the tendency for transnational businesses to configure their business activities on a worldwide basis, and to co-ordinate and integrate their strategies and operations across national boundaries.

Definitions of globalization

Globalization of economies – increasing interdependence between national economies throughout the world.

Globalization of markets – increasing homogenization of consumer tastes and product preferences in certain markets, as evidenced by the popularity of global brands in certain markets, like Armani, Hugo Boss and Calvin Klein in fashion clothing, McDonald's, Burger King and Pizza Hut for fast food, and Coca-Cola and Pepsi-Cola for soft drinks.

Globalization of industries – the increasing globalization of the productive process, with firms choosing to concentrate or disperse value-adding activities around the world according to the locational advantages to be obtained.

Globalization of strategy – the extent to which an international business configures and co-ordinates its strategy globally. A global strategy will normally include a global brand name and products, presence in major markets throughout the world, productive activities located so as to gain maximum advantage, and co-ordination of strategy and activities throughout the world.

Although the origins of globalization can be traced back to the early history of international business, its rapid acceleration in the 19th and 20th centuries can be attributed to relatively recent developments in:

- *manufacturing technology*, which began during the industrial revolution, making mass production possible;

- *transportation technology*, like railways, motor transport, steam shipping and aeroplanes, allowing the movement of people, materials and finished products from country to country and continent to continent more quickly and cheaply;
- *information and communications technology*, like the telephone, computers, the Internet, satellite television, which have together contributed to both the globalization of markets and the global co-ordination of worldwide business activities;
- *trade liberalization*, through GATT (the General Agreement on Tariffs and Trade) and its successor, the WTO (the World Trade Organization), which have reduced tariff and other barriers to trade between countries;
- *rising real term incomes*, which have contributed to an increase in demand for products and services worldwide.

GATT and the WTO

The most prominent international trade agreements are the *General Agreement on Tariffs and Trade* (GATT) and its successor, the *World Trade Organization* (WTO). The GATT agreement began life as the Havana Charter 1948 when 23 countries acted as signatories to what they hoped would become an international trading organization (ITO). As negotiations progressed, it became clear that such a worldwide trading block was too ambitious and so a 'general agreement' was arrived at. The main points of the agreement were as follows:

- tariffs should not be increased above current levels;
- quotas should be reduced and eventually abolished;
- each signatory was a 'most favoured nation' (this meant that trading privileges extended by one member nation to another must be widened to include all of the others);
- the general agreement recognized that other trading blocks may exist, such as the EU and NAFTA (North American Free Trade Area), but these were encouraged to be outward-looking rather than insular as far as trading restrictions were concerned.

The WTO has evolved over the years through the staging of several 'rounds' of lengthy and complicated negotiation. The number of countries subscribing to the WTO has grown as the various rounds have progressed. With over 100 members, the WTO now accounts for about 80% of international trade. Overall, the WTO has succeeded in generally reducing import tariffs and significantly cutting down on quotas. Recent rounds have focused on attempting to reduce the stark variations in prosperity between wealthy and poorer countries – the 'north–south dialogue'.

Globalization and business

From the perspective of business, interest in globalization centres on two major facets: the globalization of markets and the globalization of production and the supply chain. Levitt's seminal work of 1983, 'The globalization of markets' (Levitt, 1983), suggested that technological change, social, political and economic developments have, in recent decades, driven the world toward a 'global village' or 'converging commonality' – a homogenized, unified global market in terms of consumer tastes and product preferences. For Levitt, the main beneficiaries of this convergence would be global organizations producing globally standardized products in order to achieve world economies of scale. Such global businesses are able (because of scale economies) to undercut the prices of more nationally orientated competitors. Levitt concluded that a global strategy must be based on standardization of product, branding and advertising.

While there is strong evidence that many markets are becoming increasingly global in certain respects, an approach to strategy that concentrates almost exclusively on standardization and costs represents an oversimplification of the situation. The global environment is becoming increasingly complex and requires more sophisticated approaches to strategy. There are important variations in consumer needs regionally and locally, as well as globally. At the same time as markets become more global, consumers are becoming more sophisticated, demanding products (goods and services) that are differentiated rather than standardized. Thus, although the market may be essentially global, the sophistication of consumers' needs and wants will dictate that strategy must be flexible and responsive, rather than rigidly standardized.

A further complexity is that globalization is not confined simply to consumer markets but also relates to the global scope of all of an organization's business operations and its ability to compete on a global scale (Yip, 1992). Yip used the term 'total global strategy' to describe an approach to strategy that embraces the worldwide scope of an organization's activities, a view that the whole world is a potential market. Yip, however, recognized the need to adapt aspects of strategy where local conditions dictate.

Porter (1990) focused on the globalization of an organization's value-adding activities. Globalization has given business the opportunity to configure its activities so as to take account of locational and other advantages arising from differences in resources, skills and economic conditions in different parts of the world. By configuring its activities to take advantage of these differences and by co-ordinating its global activities effectively, an organization can gain global competitive advantage. Bartlett and Ghoshal (1989) used the word *transnational* to describe the configuration, co-ordination and control of global business activities across national boundaries in the pursuit of global competitiveness, at the same time as encompassing local adaptation and differentiation of organizational strategy and structures. Such an approach to business allows an organization to take advantage of both global and local advantages and opportunities.

Both markets and the ways in which international businesses configure and co-ordinate their activities are becoming increasingly *global in scope* and *transnational in nature*. It is the process of developing global and transnational strategies, and the management and co-ordination of world-wide operations that provide the main focus to this text.

It should be obvious that definitions of the term globalization that are either overly prescriptive or vague are not particularly useful. Few markets and industries are fully global although many display global characteristics (Yip, 1992). A global strategy of complete world standardization is therefore unlikely to be successful and, as a result, very few (if any) organizations adopt such strategies. Otherwise 'global' corporations like McDonald's and Coca-Cola make minor adjustments to their strategies as national circumstances demand. Using the term 'globalization' to describe the strategy of any company expanding abroad is too wide in scope since it would encompass all businesses with any interests overseas, and clearly not all such organizations are global.

Globalization – is it a blessing or a curse?

Globalization has become one of the most contentious political and economic issues of modern times. It is the subject of debate, demonstrations and even violence. So what is it that gives rise to such passions and are there any answers to the problems?

There is no single form of globalization; rather there are many. Globalization of markets is the development of products satisfying customer needs that are common throughout the world ('market' in this context refers to the demand side of an economic system of exchange). This may be the need for fast food, soft drinks, films, popular music, sport, fashion clothing, fragrances, computers, consumer electronics and so on. In these circumstances consumer needs throughout the world appear to have grown more similar, perhaps based on cultural convergence (i.e., national cultures growing more similar to each other). The advantage to consumers is that their choice of products has widened and that prices have fallen. The advantage to producers is that they are able to earn much higher revenues, which in turn finance research and development of new products, and that they are able to achieve economies of scale, which then reduce unit costs of production. Sony, the Japanese electronic giant, is able to introduce a constant stream of new and improved products, financing the development out of global sales revenues and keeping prices low on the basis of the huge economies of scale obtained.

The second form of globalization relates to the way in which firms organize their value-adding activities on a worldwide basis, according to availability of resources, cost levels, skills, quality and so on. The firms benefit from much lower unit cost levels and often higher quality manufacturing. Consumers benefit from lower prices and increased choice, together with better quality. Designer clothing, including labels like Ralph Lauren, Calvin Klein, Armani and Yves St Laurent, is produced in the Far East and thus made affordable to consumers because of low production costs (because labour costs are often cheaper in the Far East than in the West).

Both the globalization of markets and production have led to the development of huge transnational organizations or global companies whose revenues exceed the national incomes of many medium-sized countries. Such organizations produce and sell throughout the world. Organizations like General Electric, Microsoft, Procter and Gamble, Unilever, Sony, Ford, General Motors, Toyota and their activities span the globe.

At the same time technological developments like the Internet and air travel have considerably increased the interdependence between the countries of the world. Increased travel and improved communications have increased awareness of ethnic products and of political, social and economic events and changes. Satellite television, films and package holidays have all increased consumers' awareness of and demands for foreign products.

The blessings

Many people argue that these types of globalization have brought many benefits. Consumers have access to a much wider range of products, which are constantly being updated, and at relatively low prices. Increased global trade has made people wealthier and allowed them to lead more diverse lifestyles. Companies benefit from access to global markets and low cost production in developing countries. Developing countries like Thailand, Vietnam and Cambodia, it is argued, benefit from increased levels of employment and increasing wage levels. Transnationals like Nike pay wages well above the local average but well below those in the USA.

Globalization is not entirely a new phenomenon, however. Trade between nations goes back centuries and even millennia, but the extent of globalization and its rate of increase have been most marked in the years following World War II (1939–45). There are many reasons that may account for this change. Rising real term (i.e., after inflation) incomes and living standards have led to a dramatic increase in demand for consumer products while international travel and communications have introduced consumers to products from other countries. Western democracies have played an important role by placing increasing emphasis on the market economy as a vehicle for economic growth and by building and strengthening international ties as a way of fostering trade and good international relations.

The developing of international ties, increasing travel and the development of the Internet have diminished the importance of national borders and brought about greater interdependence and fusing of individual national markets. At the same time the reduction in protectionist barriers, resulting from the work of organizations like GATT and its successor, the WTO, has stimulated free movement of products and capital and paved the way for the development of transnational organizations with centres throughout the world.

So, globalization has been welcomed by consumers and by capitalists who believe in international free trade between nations as a matter of principle. For consumers, international trade has increased competition, driven down prices, given greater choice in High Street stores, and these factors have, in turn, resulted in greater spending, rising living standards and increased international travel. In addition, sympathizers with globalization say it has increased information flows between countries, assisted cross-cultural understanding, promoted democracy and furthered world peace. The fall of communism in Eastern Europe and the absence of a major war in Western Europe since 1945 are all attributed, at least in part, to increased international trade and understanding between the nations of the world.

The curses

In the face of all these economic, social and political benefits, it may be difficult to understand why several anti-globalization demonstrations have taken place. What is it that arouses such anti-globalization passions? The groups of demonstrators who protested against globalization in Seattle in November 2000 at the World Trade Organization conference in London, at the G8 meeting in Genoa, and in Prague at the annual meetings of the International Monetary Fund and the World Bank clearly believe that globalization is essentially a harmful phenomenon.

The demonstrators argue that the gains in living standards in the developed countries has been at the expense of the developing countries. While living standards have risen for many as a result of globalization, more than a billion people live in extreme poverty throughout the world. Globalization has brought no benefits for these people. In fact, the share of the global income of the poorest people in the world fell throughout the 1990s. The already impoverished countries are becoming even poorer. The gap between rich and poor is becoming ever wider. They argue that although transnational organizations may have brought employment to some developing countries, some are accused of employing child labour, condoning inhumane working conditions and paying slave wages among producers in developing countries. In addition to this, what of the underdeveloped countries in Africa that have enjoyed little or no investment by transnationals and whose economies show little or no sign of development?

Even in the developed economies, globalization has been the cause of problems. In developed countries there have been huge job losses among unskilled workers as transnationals shift production to low-wage economies in the developing world. Some small businesses in developed countries are afraid of transnationals, fearing that they may be forced out of business if they are unable to emulate the economies of scale and low costs of these global juggernauts.

Globalization brings threats to the national cultures and identities of developing and developed countries alike through the spread of satellite TV, the development of international media networks and increased personal travel. Some traditional customs, industries and languages are disappearing.

Huge transnational companies are seen as a threat to democracy as they have greater economic power than the governments of the developing countries in which they are operating. They may fatally damage the economy of a country by attaching greater importance to shareholder value than to social, cultural and national economic concerns. It is suggested that they threaten human rights through their selfish pursuit of profit.

The transnationals are also accused of damaging the ecological environment in the pursuit of profits. Developing countries contribute little to the world's pollution problems while the developed countries contribute much. Transnationals may bring the problem to the developing countries as they seek ever increasing levels of low-cost production. Increasing levels of global consumption also threaten the world's non-renewable resources. Our living standards today may be at the expense of future generations. Our growth in living standards may not be sustainable.

The opposition groups

The protesters who have gathered in Seattle, London, Genoa and Prague to highlight these fundamental issues represent a disparate group of causes, unified only by their opposition to globalization. They are an unlikely coalition of environmentalists, anti-poverty campaigners, trade unionists, anti-capitalist groups and anarchists who tend to view globalization and transnational companies as a major threat to people, the developing countries and the environment. One umbrella group that sought to unite these anti-globalization groups in Prague was the Initiative Against Economic Globalization (INPEG). It provided the campaigning groups with training in demonstration management, making human chains, first aid, tree climbing, street theatre and communicating with the media. INPEG described itself as 'a loose coalition of various Czech environmental, human rights and autonomist/

anarchist groups, organizations and individuals who are ready to stand up critically against the summit of the world financial oligarchy.'

The record of these demonstrations is not itself good. They have been marred by violence, death and destruction of property. These acts may only be perpetrated by a small minority of demonstrators, but they feature heavily in the portrayal of the demonstration by the world's media. The heavy media coverage of these acts of violence tends to cloud the basic issues of social justice, sustainability and ecology that underpin the globalization debate. It is ironic, however, that it is the world's media, the epitome of globalization itself, that allows the debate to take place across national and continental boundaries. Perhaps this is indicative of the fact that the global village, predicted by Marshall McLuhan, has already arrived.

Can globalization be managed?

If globalization is a trend that can be traced back far into our history and that is inextricably intertwined with so many people's lives, can its march be halted? Indeed, is it desirable to halt its march? It is likely that it is impossible to halt the driving forces behind globalization. The vast majority of people throughout the world, especially in developed countries, are addicted to consumerism and actively seek new products at low prices. They may well be concerned about the conditions under which the products are produced, but are unwilling to completely boycott their purchase. Nevertheless, companies like Nike have been forced to monitor and improve the conditions under which the workers producing their products are employed. They have sought to eliminate child labour, raise wage levels and provide social and medical benefits to workers in the factories producing the products as a result of the pressure of public opinion.

People in developing countries lived in poverty before globalization, and it is unlikely that poverty can be meaningfully tackled without the assistance of foreign governments and without investment from transnationals. The wages paid by transnationals in developing countries may be well below those paid to workers in developed countries but they are, nevertheless, often well above average wage levels throughout the developing world.

The answer to the problems posed by globalization may therefore not be to try to prevent change, but to seek to ameliorate and eliminate its harmful consequences. In other words governments, international bodies like the WTO, IMF and World Bank, and transnational businesses must work together to create conditions under which the potential benefits of globalization are realized while its potentially damaging outcomes are eradicated.

Free trade between countries is often presented as necessary for global business. Yet free trade need not mean a complete absence of regulation. The dangers of the monopoly power of developed countries and huge transnationals must be controlled. Developing countries must be assisted in achieving economic prosperity. Free trade need not be unregulated trade. Bodies like the WTO seek to develop rules through which developing countries and their populations are protected. The problem is that developing countries are a majority of the WTO's members and can dominate its proceedings. This is not surprising when half the least developed countries have no representation at the WTO headquarters in Geneva. The WTO must find mechanisms for representing the opinions of developing countries and for implementing rules that prevent developed countries and transnational businesses from striking deals that harm the developing world. Furthermore, the WTO must set and achieve development targets that reduce poverty, create sustainable development and protect the environment.

The world's governments have agreed to targets like halving the number of people living in poverty by 2015, universal primary education in all countries by 2015, gender equality, a reduction of two-thirds in infant mortality rates by 2015, improved primary health care and the implementation of national strategies for sustainable development in all countries by 2005.

The reduction of poverty is not simply a social and moral issue it is also economic and political. Globalization means increasing interdependence between nations. If the poorer countries become richer then they become markets for the products and services of transnationals. If developing countries have social and political problems then they also affect developed countries. As a consequence it is in the interests of developed countries to assist their development. The uneven spread of the benefits of globalization, as illustrated by the development of East Asian countries compared with the failure to improve the lives of millions of people in rural Africa, remains an issue.

It remains a challenge for the governments of poorer countries to create domestic conditions that attract foreign investment. This means the elimination of corruption, the development of education, the regulation of working conditions and the provision of primary health care. These governments cannot achieve these goals on their own and must be assisted by developed countries and by international bodies. There are many causes of poverty, but it is widely accepted that education is an important factor in its reduction. Recent research suggests that investing in primary education, particularly for girls, is the most effective path to economic development and the elimination of poverty. Education creates a skilled and adaptable workforce that attracts inward investment and rising levels of income. At the present time (2003) it is estimated that worldwide 113 million children of primary school age have never gone to school and a further 150 million drop out before achieving basic literacy and numeracy skills.

Transnational businesses can themselves play a much greater role in reducing poverty and creating sustainable development. They can insist on best practice in relation to child labour, corruption, corporate governance, human rights, health and safety, and the environment, so creating employment, eliminating poverty and improving conditions in poor countries. Many companies have already realized the benefits to their reputations and productivity levels that can be achieved by investing and setting standards in poor countries.

Developed countries might also set a better example in terms of protecting the environment, reducing pollution and preserving natural resources. Developing countries might then, in turn, ensure that their newly emerging industries conform to global environmental agreements (such as the Rio and Kyoto Protocols).

A key way in which developed countries can assist the poorer nations is through aid. Developing countries have already been given huge amounts of aid, but it has often been given unwisely and used equally as badly. Lending governments have often tied aid to contracts for their countries' products. The governments of developing countries have often not made the best use of the money that they have received. It is generally accepted that aid should be used to create conditions in developing countries which not only help the poor but also attract inward investment that assists in promoting economic growth.

Globalization cannot be prevented but can be managed by governments, international bodies and global businesses to raise living standards for all.

Global and transnational strategy

Yip (1992) used the term *total global strategy* more broadly than many other writers, arguing that '*a* [global] *strategy can be more or less global in its different elements.*' To avoid confusion with more limited definitions of global strategy this book uses the term *transnational strategy*. A transnational strategy is one that combines a global configuration and co-ordination of business activities with local responsiveness, based on continuous organizational learning, and consists of:

- global knowledge-based core competences giving access to global markets;
- extensive participation in major world markets;
- global configuration of value-adding activities which exploits both national similarities and differences;
- global co-ordination and integration of activities;
- local responsiveness where required;
- differentiated structure and organization.

The definition of globalization and transnational strategy above provide the focus of this book.

Table 1.1 shows how international business has developed over recent decades. Note how the configuration of international activities has increased over time.

Structure of the book

The emphasis of this book – on global and transnational strategy, rather than international or multinational strategy and management – reflects the major changes that have taken place in the environment of international business since the early 1980s. These changes accelerated in the 1990s and have continued into the 21st century (see Chapter 2). The overarching theme is the link between the trend toward globalization of competition, markets and products, and the consequent imperative to adopt global and transnational strategies and approaches to management.

Competition in many industries and markets has become increasingly global rather than international in scope (Porter, 1990; Yip, 1992). As a consequence, many established international businesses have replaced their traditional country-centred multidomestic strategies with ones that involve closer co-ordination and integration of geographically dispersed

Table 1.1 The evolution of international and global strategy (1950–21st century)

Period	International strategy of the period
1950s/1960s	Multinational expansion through the establishment of miniature replica subsidiaries abroad. Predominance of multidomestic strategies, with largely autonomous foreign subsidiaries supplying local/regional markets. Limited global co-ordination or integration of geographically dispersed operations.
1970s	Multinationals in retreat: divestments, rationalizations and host country plant closures.
1980s	Shift toward co-ordinated and integrated global strategies by established MNEs (multinational enterprises); focus on global competitiveness and use of global scope as a competitive weapon in global industries involving plant specialization and national interdependency.
1990s	Transition to global and transnational strategies. Businesses focus on developing core competences with outsourcing of other non-core activities. This results in the development of global networks and strategic alliances that are both horizontal and vertical. Increasing emphasis on knowledge as an asset and early forms of learning organization begin to develop.
2000s	The era of the 'virtual corporation' and the 'intelligent organization'.

operations. In other words organizations and strategies are no longer best described as multinational but as global and transnational.

The extent of globalization, however, varies both within and between industries and markets and its effects vary from country to country. Indeed, there are still many industries and markets where local conditions dictate local adjustments to strategy and management. These factors raise major implications for management within businesses. It is therefore necessary to adopt a co-ordinated approach to global production, technology, marketing, financial, human resource management and so on, combined with differentiated structures and strategies where and when local conditions require. A global or transnational strategy, therefore, implies taking advantage of both global and local conditions through a differentiated, rather than standardized, approach to business.

Part II of the book (Chapters 2–5) is concerned mainly with developing an understanding of global business and the globalization of the business environment. The implications of globalization for business strategies are examined in Part III (Chapters 6–8). Part IV (Chapters 9–14) examines global and transnational business management. The remainder of this chapter develops the concept of globalization further and explains the approach adopted to the processes of strategic management.

Increasing global co-ordination in Philips Electronics

In 1991, Philips of the Netherlands – one of the world's largest electronics multinationals – celebrated its one-hundredth anniversary. The celebrations coincided with the announcement of a major change in Philips' corporate mission and strategy for the 1990s aimed at improving global competitiveness.

Although operating on a global scale with a very large number of geographically dispersed activities, Philips was not a global company. Historically, the company had adopted a multidomestic or country-centred strategy with national subsidiaries being responsible mainly for the domestic markets in which they operated and with a lack of global co-ordination and integration of activity in different countries. By the late 1980s, it had become obvious to senior executives that this multidomestic strategy was becoming increasingly inappropriate given the rapid changes taking place in the world's electronics industry. The most important of these were:

- the globalization of the market and the emergence of strong global competitors, especially from the Far East;
- rapid technology change leading to a stream of new product developments and closer convergence between consumer and professional electronics;
- changes in production processes (e.g., CADCAM) that were becoming much less labour-intensive;
- new patterns of industry competition and co-operation through strategic alliances; and
- fluctuating exchange rates.

In response to these changes, electronics companies required global sales to achieve economies of scale and learning curve effects. They also needed to spread R&D costs and to justify new product developments.

The major change in Philips' corporate strategy and mission was the adoption of a global orientation or strategic vision with the objective of becoming a leading global electronics company with strengths in the major 'triad' markets of the USA, Europe and the Far East. The adoption of a global philosophy and a reorientation of strategy toward global markets was to be achieved through the implementation of several changes in the worldwide strategy and management of the company. The major measures included:

- the adoption of globalization and an orientation to global markets;
- restructuring of product development and production for global market distribution through the establishment of international production centres (IPCs) as manufacturing centres for products aimed at world markets;
- centralization of product policy and planning aimed at achieving a coherent, integrated global marketing strategy covering product planning, design, development, etc. (national marketing, sales and service programmes should complement the overall global product strategy);
- organizational restructuring to conform to global orientation;
- production restructuring, especially a shift from local production for local markets to highly efficient factories for large-volume production for world markets through IPCs;
- improving the management of resources through decentralizing the organization through the establishment of business units and project teams;
- an effective human resource management development programme;
- greater attention paid to the management of external relationships; and
- improving the management of operating systems.

These changes were aimed at achieving a balance between global integration and national responsiveness (i.e., a balance between centralization to achieve global integration and decentralization to achieve national responsiveness).

Global and transnational strategies and management – the issues

The Philips' case illustrates many of the complex strategic and management issues involved in global business including:

- the importance of organizational learning in a turbulent international business environment (industry globalization had made Philips' traditional country-centred strategy inappropriate);

- global strategies involving co-ordination and integration of geographically dispersed operations were becoming essential to maintain competitiveness in global electronics;
- the adoption of global strategies requires an underlying global philosophy or strategic vision;
- the shift from country-centred to global strategies required major changes in the internal management of Philips – especially in production, logistics, R&D, human resource management and development, etc.;
- the shift to global strategies implied significant changes in organization and control.

In this complex area we need to draw a distinction between the conception of strategy and that of management. Strategy concerns organizational learning about the business and its environment and the development of knowledge that produces core competences which position the organization favourably with regard to the variables in the environment (which in the case of international business are usually very complex and turbulent environments). Management is concerned with how the company configures and oversees its internal value-adding and support activities to implement its strategy and achieve competitive advantage. The key issues surrounding global and transnational strategy and management are summarized in Table 1.2.

A framework for global and transnational strategic management

The controversies in strategic management

Strategic management is a comparatively young discipline and, in consequence, there is considerable debate over which approach managers should adopt in devising their strategies. The alternative approaches are considered here before the frameworks used in this book are developed. McKiernan (1997) identified four well-established approaches to strategic management. The approaches can be broadly identified as:

1. *the prescriptive approach* (also called the deliberate or planned approach);
2. *the emergent (or learning) approach*;
3. *the competitive positioning approach*;
4. *the resource, competence and capability approach*.

Table 1.2 Global and transnational business strategy and management: the issues

	Issues involved
(a) *Global and transnational strategy*	
Global transnational strategy (how the organization positions itself with regard to the global business environment and how it formulates its strategies).	Knowledge, global core competence and capability. Global generic/hybrid strategy. Competence and strategy relationships. Global, transnational, regional and multidomestic strategies. Collaborative network strategies – the virtual corporation. Learning organizations – knowledge-based competition.
Global/transnational marketing servicing (how the global organization sets about responding to and servicing its markets – its groups of customers in various parts of the world).	Market-servicing strategies – the alternatives: exporting; contractual agreements; joint ventures strategies, foreign direct investment (FDI); cross-border mergers, acquisitions and strategic alliances.
Subsidiary strategies (how the organization deals with its subsidiaries in other parts of the world).	Types of subsidiaries – subsidiary and global strategies. Evolution of subsidiary strategies. Subsidiary strategies and management.
(b) *Global and transnational management*	
Human resource management (how the global organization manages its people).	Transformational leadership. Staffing and expatriate policies. Cross-cultural management and global management development.
Production and logistics management (how the organization manages its main value-adding activities, such as manufacturing and distribution).	Global production. Global logistics. Plant location. Global procurement (purchasing).
Technology management (how the organization invests in and employs all technologies).	Technology accumulation, development, diffusion and deployment. Technology and competitiveness.
Marketing management (how the organization understands and communicates with its customers).	Role of marketing in global strategy. Global marketing. Global marketing strategies. Segmentation and positioning for global markets. Global marketing mix.
Financial management (how the organization raises funds for global activity and how it manages its financial resources in a complex environment).	Financing international development. Strategies for managing exchange rate risk. Transfer pricing. Financial strategies for global competitiveness.
Organizational structure and global control (how the organization is structured and controlled to achieve its global objectives).	Organizational structures – types and evolution of. Organizational culture. Decision making and control. Global strategy, structure and competitiveness.

More recently the focus in the literature has shifted to a *knowledge-based approach* to competitive advantage (Nonaka et al., 2000; Stonehouse and Pemberton, 1999). This approach combines elements of the various methodologies of strategic management, particularly learning and resource-based strategy and is the basis of this book.

Each of these approaches to strategic management has its distinct characteristics and emphases. Equally, however, the approaches are interlinked and share certain concepts. No single approach presents a prescription for a complete methodology of strategic management. As a consequence, we draw on certain of the frameworks developed by each school of thought, in order to develop a methodology for devising transnational strategies. Global strategic management is by its nature an eclectic academic discipline.

The prescriptive or deliberate approach to strategy

This approach focuses on long-term planning aimed at achieving a 'fit' between an organization's strategy and its environment (Ansoff, 1965; Learned et al., 1965; Argenti, 1974; Andrews, 1987). Internal competences are matched to opportunities and threats in the environment. Strategic management is presented as a highly systematized and deterministic process, from the setting of objectives through external and internal analysis, to the formulation and implementation of a grand organizational strategy aimed at achieving a 'fit' between the organization and its environment. Each stage of the process is highly structured and prescribed.

The major advantage of such systematized planning is that it structures complex information, defines and focuses business objectives, establishes controls, and sets targets against which performance can be measured.

There are, however, dangers inherent in an approach that is overly prescriptive. The business environment (particularly complex international environments) can be very chaotic and complex. The information on which planning is based can accordingly be uncertain and often inaccurate. To adopt rigidly defined plans based on incomplete information may result in flawed decision making. Accordingly, strategies must be adapted to take advantage of unanticipated opportunities and to deal with unanticipated threats.

The emergent or learning approach to strategy

The complexity and dynamism of modern business organizations and their environments has led many writers to suggest that strategy will emerge and evolve incrementally over time (Lindblom, 1959; Mintzberg and Waters, 1985; Mintzberg et al., 1995). It has been suggested that organizations simply 'muddle through' in the face of complexity. The research of Quinn (1978), however, suggests that, rather than 'muddling through', many organizations continually adapt their strategies to changing circumstances. He termed this approach *logical incrementalism*. In other words strategy evolves rationally in response to changes in the environment.

Mintzberg argued that strategy is a combination of deliberate plans and emergent adjustments over time. There is likely to be a substantial difference between planned (or intended) strategy and the strategy that is actually realized by an organization. Some aspects of intended strategy will not be realized, while other elements of emergent strategy, will evolve as the strategy is carried out. Logical incrementalism is therefore a fusion of planning and the incremental adaptation of plans.

The competitive positioning approach to strategy

Strategic management thinking in the 1980s was dominated by the work of Michael Porter at the Harvard Business School whose *five forces*, *generic strategy and value chain* frameworks (1980 and 1985) added considerably to the tools available to the business strategist. In essence, Porter's approach to strategic management begins with analysis of the competitive environment using the five-forces framework. This serves two major purposes. It indicates the potential profitability of the industry and assists in identifying the appropriate generic strategy for acquiring competitive advantage. External analysis is followed by value chain analysis, which examines the value-adding activities of the organization and the linkages between them. The final stage is selection of a generic strategy, supported by the appropriate configuration of value-adding activities. This, Porter argued, will position the business in its competitive environment in such a way that it achieves competitive advantage. McKiernan (1997) suggested that this approach can be termed *outside-in* as the initial focus is on the competitive environment rather than the resources of the organization.

Porter's approach has been criticized on the grounds that:

- it is prescriptive and static;

- differences in industry profitability do not necessarily determine the profitability of the organizations within them (Rumelt, 1991);
- it highlights (and presupposes) competition rather than collaboration;
- it emphasizes the environment rather than the competences of the corporation.

Despite these criticisms, Porter's work provides tools that are invaluable to managers seeking to make sense of complex environments and activities.

The resource, competence and capability approach to strategy

Just as the 1980s were dominated by the competitive positioning school of thought, the 1990s saw the rise of resource-based theories of strategic management. These emphasized the importance not of the organization's position in relation to its industry but rather the way in which it manages its resource inputs in developing *core competences and distinctive capabilities* (Prahalad and Hamel, 1990; Stalk et al., 1992; Kay, 1993; Heene and Sanchez, 1997). Research in the late 1980s and early 1990s (Rumelt, 1991; Baden-Fuller and Stopford, 1992) suggests that choice of industry is not a major factor in determining business profitability. The core competence of the organization is of greater importance. This indicates an 'inside-out' approach to strategic management based on the premise that competitive advantage depends on the behaviour of the organization rather than its competitive environment.

Competence-based theories are not new; they came to prominence in the 1990s. Prahalad and Hamel (1990) argued that an organization must identify and build on its core competence:

> *Core competencies are the collective learning of the organisation, especially how to co-ordinate diverse production skills and integrate multiple streams of technologies.*

The organization may then exploit these competences in a wide variety of markets. The emphasis on organizational learning as a source of competitive advantage has resulted in renewed interest in knowledge as an organizational competence (Quinn, 1992; Demarest, 1997; Grant, 1997; Sanchez and Heene, 1997). The resource-based approach also emphasizes the potential advantages of collaboration between organizations whose competences are mutually complementary (Sanchez and Heene, 1997).

To give an example of collaboration, let us consider the UK retailer Marks & Spencer whose core competences have traditionally lain in retailing and related activities and not in manufacturing. For this reason the manufacturing of the products sold in Marks & Spencer stores is outsourced to chosen manufacturers. Marks & Spencer collaborate with such manufacturers at home and abroad in the design and manufacture of the clothing, furniture and food products sold in the stores. There are advantages to both sides in such relationships. For Marks & Spencer there are advantages in terms of quality and cost control, input to the design process, freedom to concentrate on marketing and retailing activities. For the collaborating manufacturers there are the advantages of the St Michael brand name, access to a large number of retail outlets, long-term supply agreements, etc. Both sides benefit from collaboration by being able to concentrate on their respective areas of core competence. Furthermore, collaborative relationships are much more difficult for competitors to emulate. In this way, the ability of both Marks & Spencer and its suppliers to compete with other retailers and manufacturers is enhanced by the collaborative relationships. The recent recovery of Marks & Spencer after a difficult period has been highly dependent on a refocusing of its core competences and the development of new global strategic relationships with suppliers.

Developments in information and communications technology have transformed collaborative relationships so that co-operating organizations can be characterized as what have become known as 'virtual' corporations (Davidow and Malone, 1992; Alexander, 1997). It is therefore no longer sufficient to analyse the strategies of individual organizations. The dynamics of linked organizations and their strategies must be examined.

Despite the insight that the competence-based approach provides, two criticisms can be levelled at it:

1. It suffers from a lack of well-developed analytical frameworks – McKiernan (1997) pointed out that it is ironic that it is Michael Porter who 'developed one of the most useful tools for internal resource analysis in the value chain' when the major focus of the resource-based view is on internal activities.
2. It tends to overlook and even neglect the importance of the competitive environment – research by McGahan and Porter (1997) revived the

view that industry is an important determinant of profitability as well as the business itself.

An increasing body of evidence (Hamel and Prahalad, 1994; Narver and Slater, 1990; Greenley and Oktemgil, 1996) suggests that business must be market-driven and sensitive to customer needs. The organization must therefore analyse those markets in which its competences can be exploited. It is evident that the competence-based approach is far from being a complete methodology of strategic management in these respects.

The knowledge-based approach to strategy

Increasingly in the field of strategic management, *knowledge* is viewed as being the only sustainable source of competitive advantage. Organizational knowledge can be defined as *a shared collection of principles, facts, skills, and rules which inform organisational decision-making, behaviour and actions forming the basis of core competences* (Stonehouse and Pemberton, 1999). Knowledge can be categorized as:

- *know-how* (practical knowledge);
- *know-why* (theoretical knowledge);
- *know-what* (strategic knowledge).

For an organization to gain competitive advantage through knowledge it is necessary to create new knowledge through processes of *organizational learning* and manage and utilize existing knowledge through processes of *knowledge management*, so that organizational knowledge is embodied in the firm's core competences and value-adding activities. In many ways, the knowledge-based approach to strategic management is a natural development from the learning and core competence-based approaches. It is the approach to strategy that is largely adopted in this book. Organizations must seek to create new knowledge that is grounded in organizational learning and that underpins core competences and value-adding activities, through which competitive advantage is achieved.

The approach to global strategy in this book

The framework for global strategic management adopted by this book is derived from each of the schools of thought in the field of strategic management discussed in the previous sections. In reviewing the foregoing discussion, we propose the following conclusions:

1. competitive advantage is based on superior organizational knowledge embodied in core competences and value-adding activities;
2. knowledge is created through the process of organizational learning – organizations must seek to learn and create new knowledge more quickly than their rivals;
3. strategy will inevitably be both planned and emergent;
4. competitive advantage can result from both competitive and collaborative behaviour;
5. the complexity and unpredictability of change in both the business environment and in businesses themselves means that businesses must be intelligent or 'learning' organizations.

The implications of these conclusions shape the approach to global strategy adopted in this book.

Assumption 1 *Competitive advantage arises from new and superior knowledge*

Knowledge is the basis of competitive advantage and it is new knowledge that allows organizations to outperform their competitors.

Assumption 2 *Organizational learning and knowledge management are vital to creating and sustaining competitive advantage*

Chaos and complexity require that businesses are flexible and responsive. Such flexibility and responsiveness are critically linked to the ability of organizations to learn. Organizational learning both increases responsiveness and improves competitive performance through the creation of new knowledge. Equally, organizations must manage their knowledge assets effectively to create superior performance.

Assumption 3 *Strategy is both planned and emergent*

We base our discussion of strategy on the working premise that both prescriptive and emergent understandings of strategy are valid in part and that it is possible to construct a model which includes elements of both.

Some *planning* of strategy is necessary so as to:

- set objectives and targets against which performance can be measured;
- organize activities in a meaningful way based on prespecified objectives;
- guide actions and ensure consistency of behaviour.

Equally, a strategy will always be *adapted* (and hence continually emerged) when:

- there are major or minor unanticipated changes in the global business environment;
- goals and targets are not being met (and hence must be continually redefined);
- there are changes in the resources or competences of the organization.

The pace and unpredictability of change means that strategy must be flexible. It is essential that strategic management is not viewed as a one-off planning activity but as a continuous series of iterations constituting organizational learning and the subsequent adaptation of strategy. Such learning must be focused on the core competences of the organization and the changes taking place in its environment. This book attempts to reflect the need for both planning and adaptation of strategy.

Assumption 4 *Competitive advantage results from both internal knowledge-based core competence development and from changing conditions in the business environment*

The implication of this assumption is that both external analysis of the business environment and internal analysis of business competences, resources, activities, etc. are essential to organizational learning. The sequencing of external and internal analyses are not viewed as critical and, in reality, both types of analysis are likely to be undertaken simultaneously. Learning must be viewed as a holistic and continuous process and it is critical, however, that both analyses are undertaken on a continuous basis through external scanning of the environment and through constant monitoring of business performance, activities and competences. Equally, it is critical that the results of internal and external analysis are linked together as they will define the critical strategic issues facing the business at any point in time.

Assumption 5 *It is important to distinguish between industries and markets*

Industries and markets are separate but linked concepts. Whereas industries are defined in terms of competences, technologies and products, markets are defined in terms of customers and customer needs. It is necessary to understand both the concepts and the relationships between them as they will affect strategy. The nature of the industry will affect both the competence development and organization of value-adding activities. Similarly, market and customer needs will determine the ultimate success of any strategy.

Assumption 6 *Competitive advantage results from both competitive and collaborative behaviour*

There is ample evidence that competitive advantage results from the way that individual businesses leverage, develop and deploy their resources and competences. Equally, there is evidence that competitive advantage can be enhanced by the development of collaborative business networks that are often difficult for competitors to emulate. The potential for such collaboration has been increased by developments in information and communications technology that have resulted in the potential for formation of a virtual corporation.

A summary of the frameworks

The frameworks employed in this book have been developed by a number of different researchers and are drawn from each of the schools of strategic management. The frameworks employed are summarized in Figure 1.1.

The global and transnational strategic management process

The management process matrix

The process of global strategic management is best represented as a series of learning loops which constantly iterate. The function of these 'learning loops' is to augment organizational learning so as to continuously develop and improve the transnational strategy of the organization. There is a strategic process that is both formal and informal, planned and emergent.

Figure 1.1 Global/transnational strategy and management – a conceptual summary
STEP = sociological, technological, economic, political; SWOT = strength, weaknesses, opportunities, threats

The process is both 'inside-out' and 'outside-in' as strategy is inevitably shaped by both the environment and by the resources, competences and capabilities of the organization. The global strategic management process therefore forms a matrix that is indicative of the complex series of relationships between the various elements of the framework employed in this book (Figure 1.2).

The major elements in the process matrix

Each chapter of this book examines one or more elements of the process matrix. The order in which the elements occur is not necessarily indicative of the order of analysis. For example, analysis of the global business, its resources, competences and capabilities is covered before analysis of the global business environment, even though in reality the two key stages (internal and external analyses) are usually carried out concurrently. The elements are briefly outlined below and then explored in detail in the remainder of the book.

Globalization and the need for a global mission and objectives
Globalization means that managers must adopt a global strategy underpinned by a global vision and global objectives.

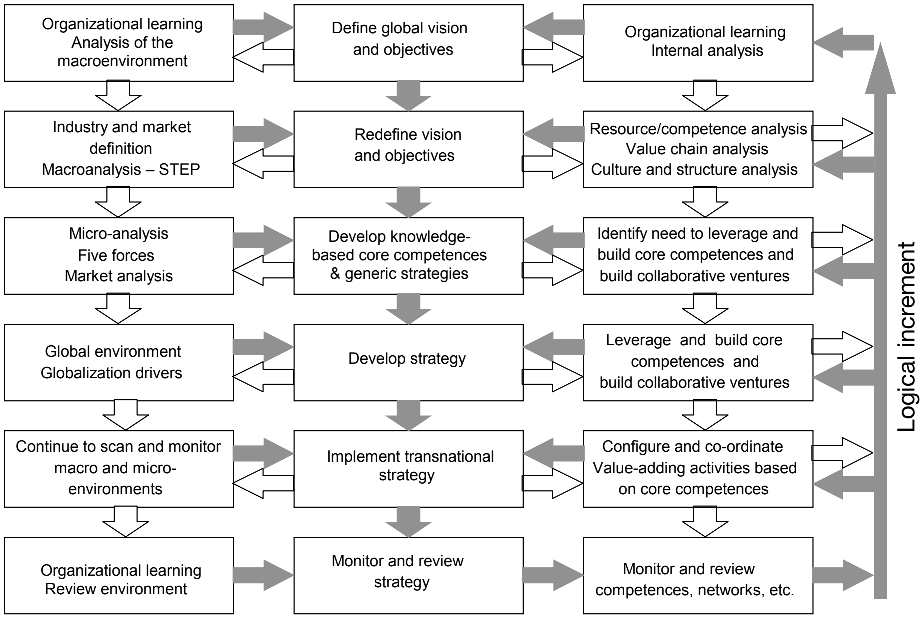

Figure 1.2 The process matrix (global strategic management) used in transnational strategy
STEP = sociological, technical, economic, political

The overall strategic vision or mission of the company must be based on the resources and competences of the organization and the extent of industry and market globalization. Globalization to a large extent is a business philosophy or way of thinking that emphasizes the similarities between national markets rather than the differences. The philosophy also highlights the potential for globalization of organizational activities whether through geographical concentration or dispersion. A transnational strategy will be based on a global vision, but will also involve appropriate local variations.

Organizational learning – analysis of global resources, competences and value-adding activities

Analysis of the business (internal analysis) is concerned with identification of its current and potential strengths and weaknesses in terms of its resources, competences and global activities. Globalization necessitates changes in the way that the value-adding activities of the business are organized, changes in working practices and therefore changes in an organization's structure and culture. Such analysis is aimed at identifying the nature and extent of the changes that are required to support a strategy which is both global and transnational. It will help to determine the global configuration and co-ordination of value-adding activities.

Organizational learning – analysis of the global business environment
Environmental analysis is concerned with understanding the macro and microenvironments in which the business operates (external analysis). Its aim is to establish the key influences on the present and future well-being of the organization and therefore on the choice of strategy. These influences include environmental threats and opportunities. It is to be emphasized that strategy is determined by *both* the competences of the organization and its environment.

In global business there are three particularly important aspects of environmental analysis. First, analysis of the global business environment enables identification of global opportunities and threats. Second, it increases understanding of the competitive environment in the form of the industry and associated markets so that critical success factors can be identified. Third, it establishes the nature and extent of sectoral globalization. The outcome of this analysis is essential in determining the precise nature of the global or transnational strategy of the organization.

Developing knowledge-based global and transnational competences and strategies
This element is concerned with the generation of global strategic options. Such options will be dependent on the development and leveraging of those core competences and distinctive capabilities that support global and transnational strategies.

Various typologies of international business strategy have been developed (Porter, 1986; Bartlett and Ghoshal, 1989; Yip, 1992) that address the issues of global configuration and co-ordination, local responsiveness and differentiated organizational structure. These are blended with recent developments in mainstream strategic management thinking relating to core competences, collaboration and organizational learning. This chapter should be viewed as central to the rest of the book since the type of strategy adopted will have major implications for the global and transnational management, organization and control examined in subsequent chapters. The type of global strategy adopted will also have major implications for strategy at the level of overseas subsidiaries, with Chapter 7 examining the link between subsidiary and corporate strategy in global business.

Global and transnational management is concerned with the implementation of the chosen strategy in the context of a global organization. Issues relating to organizational structure and culture, marketing, finance, logistics, resource allocation, management of technology, location of value-adding activities and human resource management within global businesses are explored.

Conclusion

The rapid growth of international business over the last few decades and the increasing globalization of many industries has led to a proliferation of publications on the subject. The purpose of this book is to provide a review of the work of leading authors in the field and to present this within the context of an integrative framework that establishes clear linkages between global strategy, global management and global competitiveness.

This book is intended as a core text for courses in international and global business at advanced undergraduate, postgraduate and executive levels. It can be differentiated from the competition in at least three main ways. First, many of the currently available texts are intended as basic introductions to international business. This book, in contrast, is both comprehensive and up to date in its coverage of both strategic management and the major issues of global business. Second, this book has a much clearer focus on global and transnational business (strategy and management) than its competitors. Third, the book can be differentiated from the competition in the high level of integration of global and transnational strategy, management and competitiveness throughout the text.

Review and discussion questions

1. Distinguish between globalization and internationalization.
2. Identify and discuss the major stages in the development of international and global strategy.
3. Do you agree with the view that a global strategy implies standardization of products, services, advertising and brand names?
4. Why are the activities involved in strategic management best represented as a matrix?
5. What are the major similarities and differences between the positioning and resource-based schools of strategic management? What are the major limitations of each approach?

6. Discuss the view that strategies cannot be planned because of the complexity and turbulence of the global business environment.
7. Why must strategies be both global and transnational?

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