

Multinational Corporations: International business strategies

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Textbooks

- Chapter 8, 9, 10 Simon Collinson, Rajneesh Narula, Alan M. Rugman and Amir Qamar, *International Business*, 9th Edition, Pearson Education, 2024

Optional reading:

- Chapter 12, John D. Daniels, Lee H. Radebaugh and Daniel Sullivan, *International Business, Global Edition*, 17th Edition, Pearson Education, 2021

- Multinational strategy
 - Strategic orientations
 - Strategic formulation
 - Strategic implementation
 - Control and evaluation
- Organising strategy
 - Organization structures
 - Strategic management
 - Organizing strategy.
- Corporate strategy and national competitiveness
 - The single diamond
 - The double diamond
 - Integration and responsiveness.

Objectives:

- Define strategic planning and explain key strategic orientations.
- Explain strategy formulation and implementation, including environmental assessment, location, ownership, and functional decisions.
- Discuss how MNEs control and evaluate their strategies.
- Examine organizational structures used by firms at different stages of international expansion, including international division and global structures.
- Analyze key structural variables and organizational processes that ensure effective and efficient international operations.
- Examine Porter's "diamond" model and critique its application; introduce the "double-diamond" model for non-triad countries.
- Define economic integration and national responsiveness and relate them to MNE global strategies.

Multinational strategy

Strategic planning: The process of evaluating the enterprise's environment and its internal strengths, identifying long- and short-range objectives, and implementing a plan of action for attaining these goals.

- **Ethnocentric predisposition:** The tendency of a manager or multinational company to rely on the values and interests of the parent company in formulating and implementing the strategic plan.
- **Polycentric predisposition:** The tendency of a multinational to tailor its strategic plan to meet the needs of the local culture.
- **Regiocentric predisposition:** The tendency of a multinational to use a strategy that addresses both local and regional needs.
- **Geocentric predisposition:** The tendency of a multinational to construct its strategic plan with a global view of operations.

Typical strategic orientations of MNEs

MNE orientation	Ethnocentric	Polycentric	Regiocentric	Geocentric
Company's basic mission	Profitability	Public acceptance (legitimacy)	Both profitability and public acceptance	Both profitability and public acceptance
Type of governance	Top down	Bottom up (each local unit sets objectives)	Mutually negotiated between the region and its subsidiaries	Mutually negotiated at all levels of the organisation
Strategy	Global integration	National responsiveness	Regional integration and national responsiveness	Global integration and national responsiveness
Structure	Hierarchical product divisions	Hierarchical area divisions with autonomous national units	Product and regional organisation tied together through a matrix structure	A network of organisations (in some cases this includes stockholders and competitors)
Culture	Host country	Home country	Regional	Global
Technology	Mass production	Batch production	Flexible manufacturing	Flexible manufacturing
Marketing strategy	Product development is determined primarily by the needs of the home-country customers	Local product development based on local needs	Standardised within the region, but not across regions	Global products with local variations
Profit strategy	Profits are brought back to the home country	Profits are kept in the host country	Profits are redistributed within the region	Redistribution is done on a global basis
Human resource management practices	Overseas operations are managed by people from the home country	Local nationals are used in key management positions	Regional people are developed for key managerial positions anywhere in the region	The best people anywhere in the world are developed for key positions everywhere in the world

Source: Adapted from 'Strategic Planning for a Global Business', Columbia Journal of World Business, summer 1985. Copyright © Elsevier Science Technology

- **Strategy formulation:** The process of evaluating the enterprise's environment (opportunities) and its internal strengths (resources).
- **External environmental assessment:**
 - information gathering;
 - information assessment.
- **Internal environmental assessment:**
 - physical resources and personnel competencies;
 - value chain analysis.

Conducting an environmental scan

- Four of the most common methods for conducting an environmental scan are as follows:
 - **Asking experts in the industry to discuss industry trends and to make projections about the future.**
 - **Using historical industry trends to forecast future developments.**
 - **Asking knowledgeable managers to write scenarios describing what they foresee for the industry over the next two to three years.**
 - **Using computers to simulate the industry environment and to generate likely future developments.**

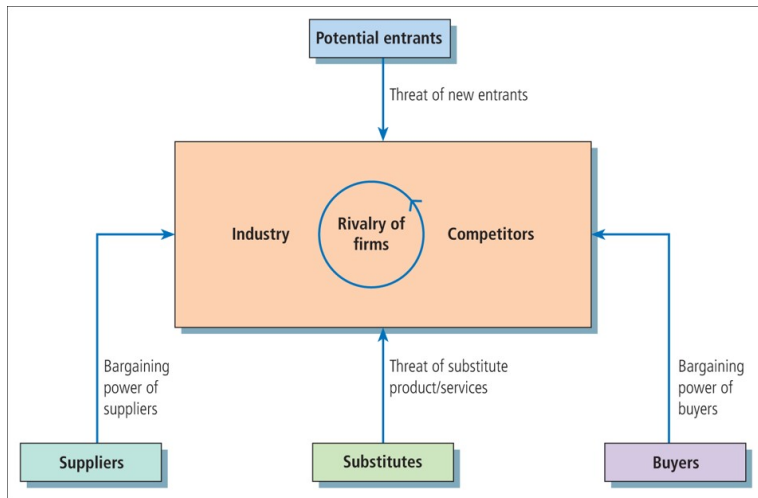
In order to understand the competitive constraints placed on firms in terms of the micro-economic environment in which they operate it is essential to **understand the way firms interact with other firms.**

Interactions are characterized in two ways:

- **Horizontal:** Interactions with firms at the same stage in the production process. Typical concerns include the level of competition and the way firms compete with each other.
- **Vertical:** these are interactions with firms 'upstream' or 'downstream' in the 'supply chain' – concerns here typically concern the distribution of bargaining power in any relationship.

Examining the five forces that determine industry competitiveness: Porter's Model

One of the most common approaches to make an overall evaluation is based on the five forces that determine industry competitiveness:



Source: Adapted from The Free Press, an imprint of Simon Schuster Adult Publishing Group, from *Competitive Advantage: Creating and Sustaining Superior Performance* by Michael E. Porter

Porter's Five Forces: Rivalry (horizontal)

- How do the firms present in the market compete against each other? How can we draw differences over the nature of competition?
- Market shares and concentration
- Degree of innovation
- Attempts at product differentiation
- Industry growth
- Presence of exit barriers (why?)



Porter's Five Forces: Potential entrants (horizontal)

- The market entry by additional competitors poses a threat to profitability of incumbent firms.
- The threat of entry is determined by potential barriers to entry.
- Economies of scale
- Product differentiation
- Capital requirements
- Cost advantage of incumbents
- Access to distribution channels

Porter's Five Forces: Substitutes (horizontal)

- Substitute products can affect the demand for a given good and may even render entire industries redundant.
- Understanding the degree of substitutability for the products of an industry helps understand the threat by potential substitutes.
- The threat of substitutes can be minimised by:
 - Ensuring cost advantage in the core product
 - Continued product innovation and differentiation

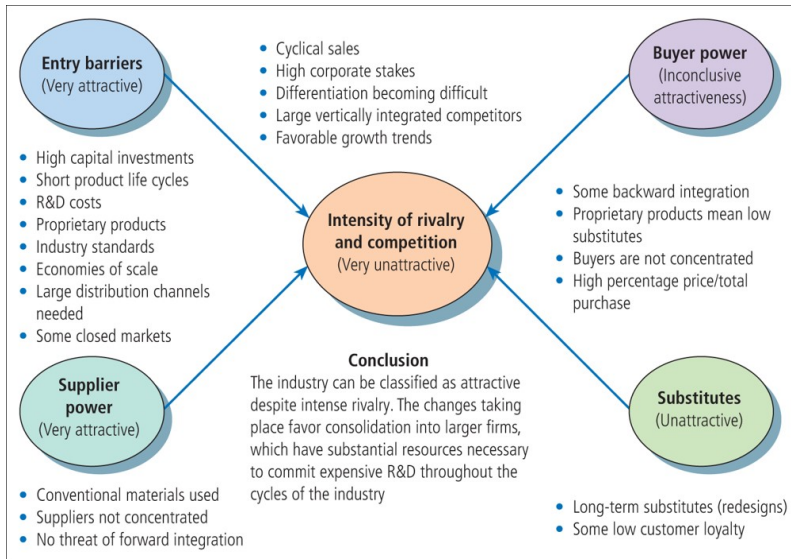
Suppliers' Bargaining Power

- Bargaining power associated with suppliers will affect the probability that the cost of inputs might increase, or the quality of inputs decreases (both negative changes in the terms of trade). It will be determined by:
 - Relative importance of a particular input in production
 - Substitutability of input goods
 - Level of competition in upstream markets
- It may also be affected by exclusivity agreements suppliers make with horizontal firms (input foreclosure).

Buyers' Bargaining Power

- Bargaining power associated with buyers will affect the probability that a buyer can 'squeeze' an industry and force it to accept a lower price for its product:
 - Relative importance of industry product in downstream production
 - Substitutability of industry product in downstream production
 - Level of competition in downstream markets (market concentration etc.)
- It may also be affected by exclusivity agreements buyers make with horizontal rivals (customer foreclosure).

The five-forces model applied to the semiconductor industry



Source: Scott Beardsley and Kinji Sakagami, "Advanced micro devices: poised for chip greatness," unpublished student paper, Sloan School of Management, MIT, 1988. Reported in Arnaldo C. Hax and Nicolas S. Majluf, *The Strategy Concept and Process: A Pragmatic Approach* (Englewood Cliffs, NJ: Prentice Hall, 1991), p. 46

Analysis of value chains can also help a company determine the type of strategy that will be most effective. In all, there are three generic strategies: cost, differentiation and focus.

- **Cost strategy:** A strategy that relies on low price through the pursuit of cost reductions.
- **Differentiation strategy:** A strategy directed toward creating something that is perceived as being unique.
- **Focus strategy:** A strategy that concentrates on a particular buyer group and segments.

Competitive scope

In addition, the firm will determine its competitive scope, **which is the breadth of its target market within the industry**. Figure provides an example of these generic strategies as applied to the worldwide shipbuilding industry.

		Competitive Advantage	
		Cost	Differentiation
Competitive Scope	Broad	Lower cost, volume production, wide range of models/options e.g. S. Korea	Higher cost, higher quality, wide range of models/options e.g. Japan
	Narrow	Low cost, lower quality, volume production, fewer models/options e.g. China	High cost, high quality, specialist and customised models/options e.g. Norway

Competitive strategies in global shipbuilding

What type of generic strategy does Vodafone employ?

What type of generic strategy does Vodafone employ?

- **Focus Strategy:** Vodafone targets selected market niches, concentrating on specific customer segments (e.g., mobile customers in key markets).
- **Minority to Majority Ownership:** Initially comfortable with minority stakes (e.g., 35% in Verizon), Vodafone shifted post-2014 to majority control in most European markets.
- **Equity-Funded Acquisitions:** Vodafone paid for acquisitions via equity, insulating itself from financial shocks like the 2000s tech crash.
- **Low-Risk, Innovative Approach:** Vodafone strategically enters markets with lower risk and competes by offering innovative products at competitive prices.

Typical goals of an MNE

Profitability	Marketing	Production	Finance	Human resource management
Level of products	Total sales volume	Ratio of foreign to domestic production share	Financing of foreign affiliates – retained earnings or local borrowing	Development of managers with global orientation
Return on assets, investment, equity, sales	Market share – worldwide, region, country	Economies of scale via international production integration	Taxation – minimising the burden globally	Management development of host-country nationals
Annual profit growth	Growth in sales volume	Quality and cost control	Optimum capital structure	
Annual earnings per share growth	Integration of country markets for marketing efficiency and effectiveness	Introduction of cost-efficient production methods	Foreign exchange management – minimising losses from foreign fluctuations	

Source: Collinson et al (2024)

- **Strategy implementation** is the process of attaining goals by using the organizational structure to execute the formulated strategy properly.

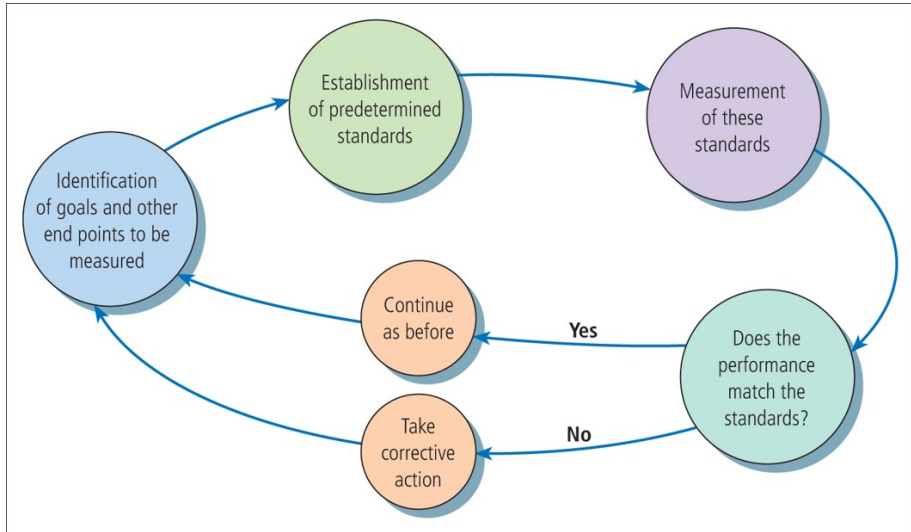
There are many areas of focus in this process, some of the most important are as follows:

- Location
- Ownership decisions
 - A **strategic alliance** is an agreement between two or more competitive MNEs for the purpose of serving a global market.
 - An **international joint venture (IJV)** is an agreement between two or more partners to own and control an overseas business (setting up a new business entity).
- Functional area implementation
 - Marketing, manufacturing, finance, procurement, technology, and human resources.

- **The strategy formulation and implementation processes are a prelude to control and evaluation.**
- This process involves an examination of the MNE's performance for the purpose of determining:
 - **how well the organization has done;**
 - **what actions should be taken in the light of this performance.**

- Six of the most common methods of measurement used for control and evaluation purposes:
 - return on investment (ROI)
 - sales growth and/or market share
 - costs
 - new product development
 - MNE/host-country relations
 - management performance.

Common methods of measurement (Continued)



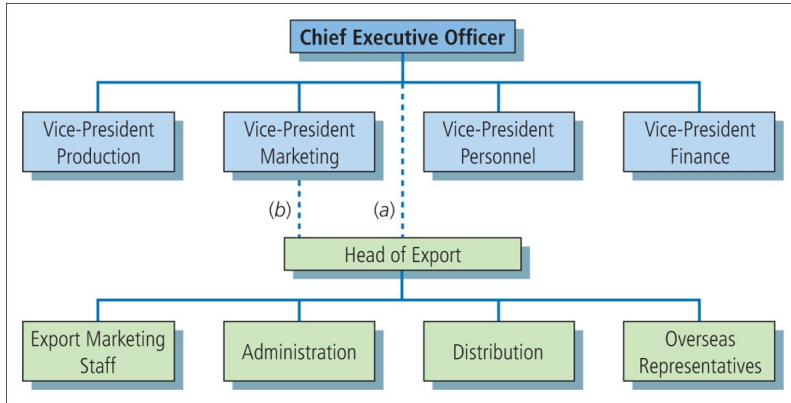
The control and evaluation process

- Firms **also measure their performance in terms of Corporate Social Responsibility (CSR), ethics and sustainability.**
- CSR: Managing the business to ensure that it has an overall positive impact on society and the environment. Putting stakeholders first, rather than shareholders.
- **Triple Bottom Line (TBL)**, for example is an accounting framework which includes **social and environmental (or ecological) accountability measures alongside financial.**
- Some organizations have adopted this approach to evaluate their performance to create greater business value. The three pillars are also referred to as: **people, planet and profits.**

- **Organizations that have decided to expand internationally do it in a number of ways.**
 - When a company first begins international operations, it is typical for these activities to be extensions of domestic operations.
 - Some companies ship their goods to a foreign market and have a third party handle sales activities.
- **If the firm's international market continues to grow, the enterprise will need to review this strategy and decide whether to play a more active role in the distribution and sale of its products.** As this happens, the company's organizing strategy will change.
 - Primary focus continues to be the local market.
- As international operations increase, however, the MNE will take steps to address this growth structurally.
 - For instance, by having a marketing or **export department** handle international sales or by using an overseas subsidiary.
- Major MNEs such as IBM, GM, and Mitsubishi have sophisticated global structures that form the basis of their organizing strategies. Sometimes these firms will also have subsidiaries or affiliates that are integrated into the overall structure.

Early organization structures

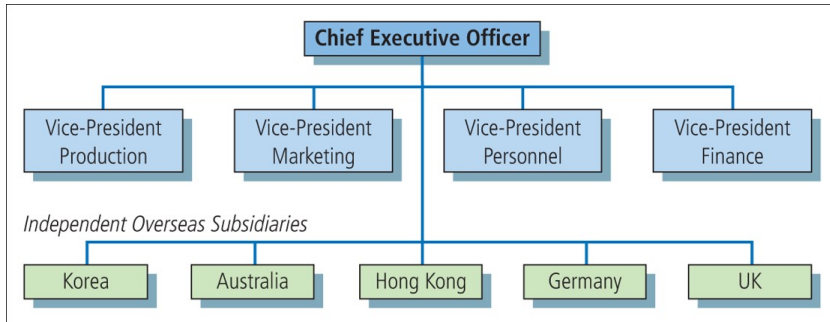
SMEs today: Many medium-sized German Mittelstand firms use this structure when they begin exporting high-tech components abroad but are not yet multinational in scale. Italian fashion SMEs or Spanish wineries often start with an export department before forming international subsidiaries.



An export department structure: This structure is suitable when: Foreign sales are less than 20% of total revenue. The company has limited customization needs for foreign markets. It needs to test the waters of international demand before deeper commitment.

Early organization structures (Continued)

Eg. Coca-Cola (early expansion phases). For decades, Nestlé operated as a decentralized multinational, with independent country subsidiaries making localized decisions — especially in developing markets like India and Brazil.



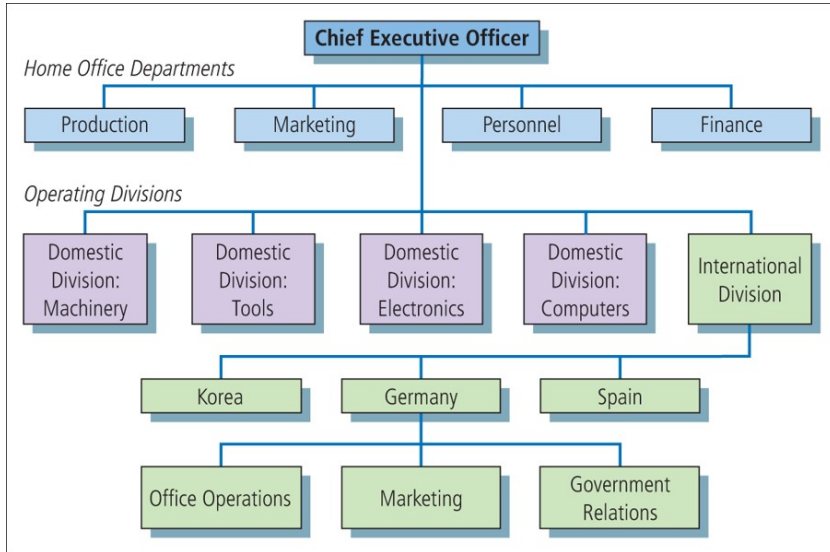
Use of subsidiaries during the early stages of internationalization. **Strengths:** Allows for local responsiveness. Facilitates decentralized decision-making, which is crucial in culturally and economically diverse markets. **Weaknesses:** Risk of duplication of efforts. May lead to inefficiencies or loss of control from HQ. Coordination difficulties across markets.

- The **international division structure** centralizes all the international operations.

Advantages:

- It reduces the CEO's burden of direct operation of overseas subsidiaries and domestic operations.
- It raises the status of overseas operations to that of the domestic divisions.
- Eg. General Motors (GM) – historically, before adopting a more global matrix structure. IBM – mid-20th century. Early Procter & Gamble (P&G).

The international division (Continued)

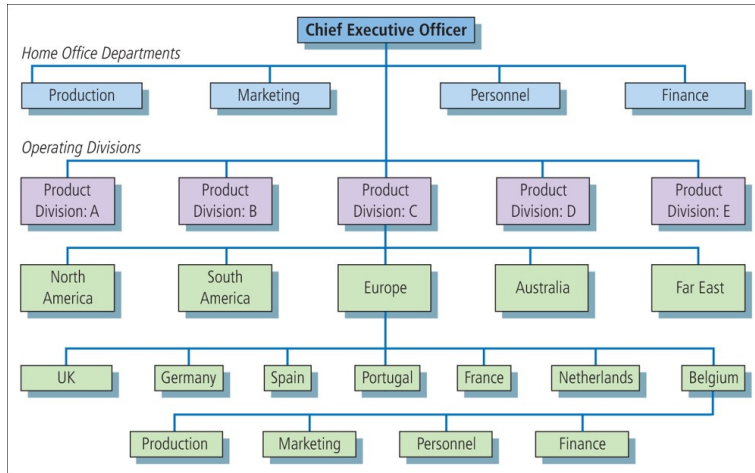


An international division structure (Any disadvantages of this?)

- As MNEs generate more and more revenues from their overseas operations, their strategies and the structures used to implement these strategies become more global in focus.
- There are six basic types of global structures.
 - (1) global product;
 - (2) global area;
 - (3) global functional;
 - (4) matrix;
 - (5) mixed;
 - (6) transnational network

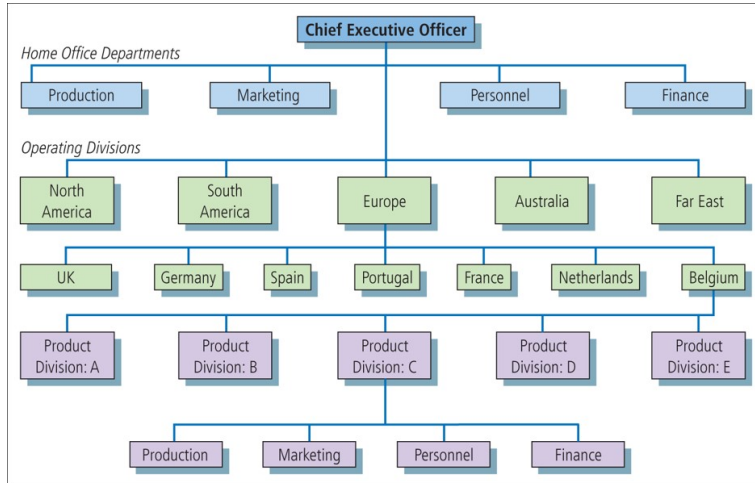
1. Global product structure

- An arrangement in which domestic divisions are given worldwide responsibility for product groups. Eg, Sony (global product divisions for Electronics, Entertainment, and Financial Services), Apple (Separate global divisions for iPhone, iPad), Coca-Cola.



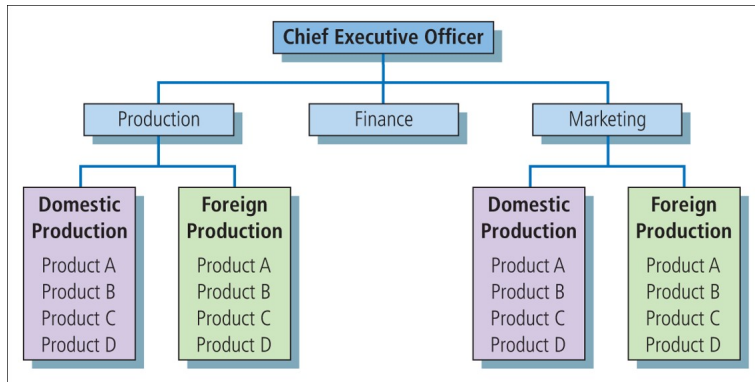
2. Global area structure

- Primary operational responsibility is delegated to area managers, each of whom is responsible for a specific geographic region. Eg. Nestlé (pre-2000s), Toyota, McDonald.



3. Global functional structure

- Builds around the basic tasks of the organization. For example, in manufacturing firms, production, marketing, and finance are the three primary functions that must be carried out for the enterprise to survive. Eg. Intel, Pfizer (early stages), Accenture (Structured by functions: Strategy, Consulting, Operations, etc.)



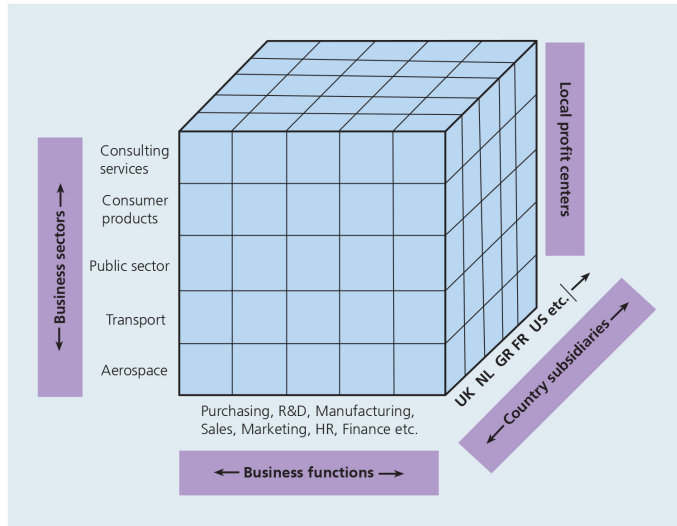
4. Matrix structure (eg. below, a geographic matrix structure)

An organizational arrangement that blends two organizational responsibilities such as functional and product structures or regional and product structures. Eg, Philips (Netherlands), Had a product–country matrix (e.g., Consumer Electronics in China reports to both product and country heads). Shell, Matrix balancing product units with geographic business lines.

Regions Products	Country A	Country B	Country C
Product 1			
Product 2			
Product 3			

A geographic matrix structure

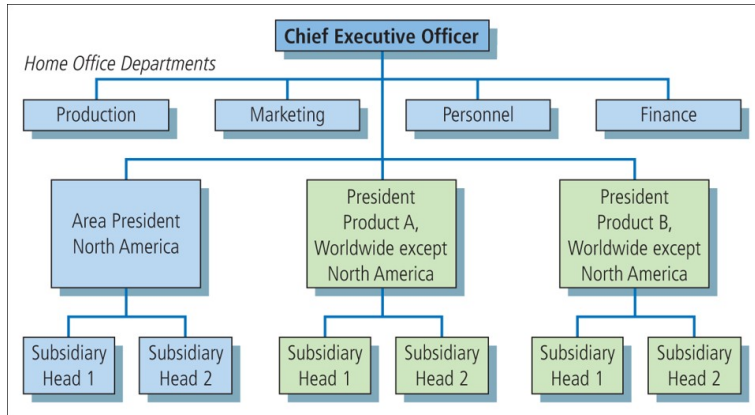
A multinational matrix structure (function, product and geography)



A geographic matrix structure

5. Mixed structure

A hybrid organization design that combines structural arrangements in a way that best meets the needs of the enterprise. Samsung, Product divisions (semiconductors, electronics) with regional arms. PepsiCo, Mix of product categories and geographic business units. Nestlé, Product divisions (e.g., Beverages, Infant Nutrition) are global, but operations in each region have considerable autonomy.



A mixed structure

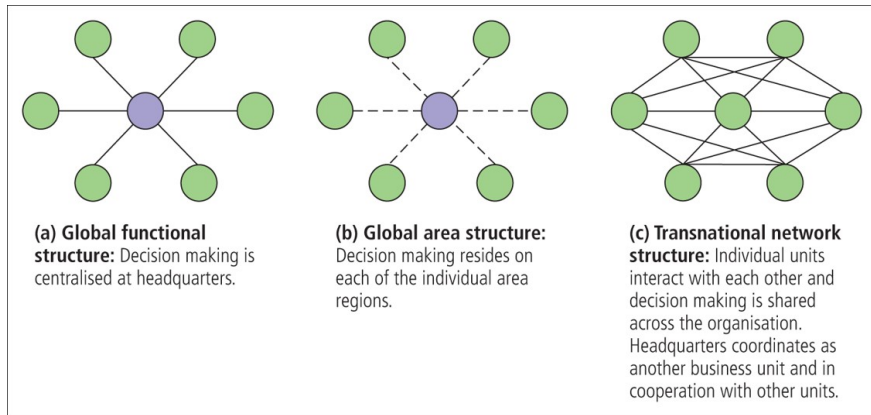
6. Transnational network structure

- Designed to help MNEs take advantage of global economies of scales while also being responsive to local customer demands.
 - Relies on a network arrangement to link the various worldwide subsidiaries.
- Three components:
 - **Dispersed subunits**
 - **Specialized operation**
 - **Interdependent relationships.**

At the center of the transnational network structure are **nodes**, which are **units charged** with coordinating product, functional, and geographic information.

6. Transnational network structure (Continued)

This structural design combines elements of functional, product and geographic designs, while relying on a network arrangement to link the various worldwide subsidiaries. Eg. Unilever (current strategy), Encourages knowledge sharing across subsidiaries, with global brands adapted locally (e.g., Dove, Lifebuoy). L'Oréal Centralized innovation; decentralized marketing and distribution.



A transnational network structure. **Strength:** Dynamic learning and responsiveness. **Weakness:** High coordination costs, complexity.

Strategic management and organizing strategy

- In **determining the best structure, three questions must be answered:**
 - Can the company **operate efficiently** with domestic divisions or are international divisions also necessary?
 - On what basis should the **organization be structured**: product, area, function, mixed, or matrix?
 - How can the **necessary coordination and cooperation** be most effectively achieved?
- These answers are usually determined through a careful analysis of five key variables.
 - The relative importance of international operations at the present time and what the projected situation **might be within three to five years.**
 - The firm's **past history and experience** in the international arena.
 - The company's **business and product strategy.**
 - The management's **philosophy of operating.**
 - The firm's ability **to adjust** to organizational changes.

Analysis of key structural variables

- The structure is designed to answer the question: What is to be done?
- The organizational processes— decision making, communicating, and controlling—**help to make the structure work efficiently.**
- **Decision making:** The process of choosing from among **alternatives.**
- **Communication:** The process of transferring meanings from sender to receiver.
- **Controlling:** The process of determining that **everything goes according to plan.**

Decision-Making

Encourage centralisation of decision making	Encourage decentralisation of decision making
Large enterprise	Small enterprise
Large capital investment	Small capital investment
Relative importance of the unit to the MNE	Relative unimportance of the unit to the MNE
Highly competitive environment	Stable environment
Strong volume-to-unit-cost relationship	Weak volume-to-unit-cost relationship
High degree of technology	Moderate to low degree of technology
Low level of product diversification	High level of product diversification
Homogeneous product lines	Heterogeneous product lines
High interdependence between the units	Low interdependence between the units
Few highly competent managers in the host country	Many highly competent managers in the host country
High experience in international business	Low experience in international business
Small geographic distance between home office and subsidiary	Large geographic distance between home office and subsidiary

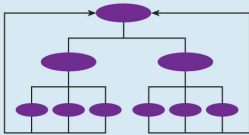
Factors that encourage centralization or decentralization of decision making in multinational operations

- For example, **British organisations are said to have more decentralised decision making**, while French and German subsidiaries tend to be fairly centralised in their decision-making approaches.
- But these can be unhelpful stereotypes; **there is likely to be as much or more variation between British firms as there is between British, French and German firms.**

Communication (organisational epigrams):

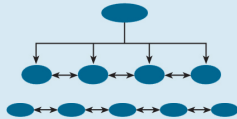
United States

Americans believe that they all have a link to the top of the organisation and, if need be, can drop by and talk to the president, regardless of their position in the hierarchy.



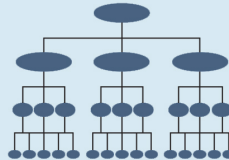
England

In England top managers and workers communicate among themselves, but there is no communication link between the two groups.



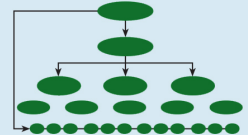
China

In China everyone is a small cog in a giant machine. As a result, there is a massive bureaucracy, with each person directly controlling a small number of subordinates.



Norway

In Norway the chain of command runs from the top to the middle management. Those at the bottom do not receive information from their boss; instead, they get it from the chief executive officer (CEO) who violates the chain of command and comes down the line. The person to whom the CEO passes this information then conveys it to all the other workers.



Source: Adapted from Simcha Ronen (1986), *Comparative and Multinational Management*, John Wiley Sons, Inc.

Controlling: The process of determining that everything goes according to plan.

- It consists of three steps:
 - ① **establishing standards;**
 - ② **comparing performance against standards;**
 - ③ **and correcting deviations.**
- Controlling is closely linked to communication since it is **virtually impossible to evaluate performance and make changes without communicating information.**
- **US managers tend to use explicit control mechanisms, financial bonuses and sanctions whereas the Japanese tend to rely on implicit control, social pressure and team-based rituals.**
- Some firms rely on reports and **'transactional' control mechanisms**, for example using targets and performance data to apply rewards via formal personal review processes.
- Others tend towards behavioural or social and hierarchical mechanisms **or may focus on team recognition and rewards.**

Corporate strategy and national competitiveness

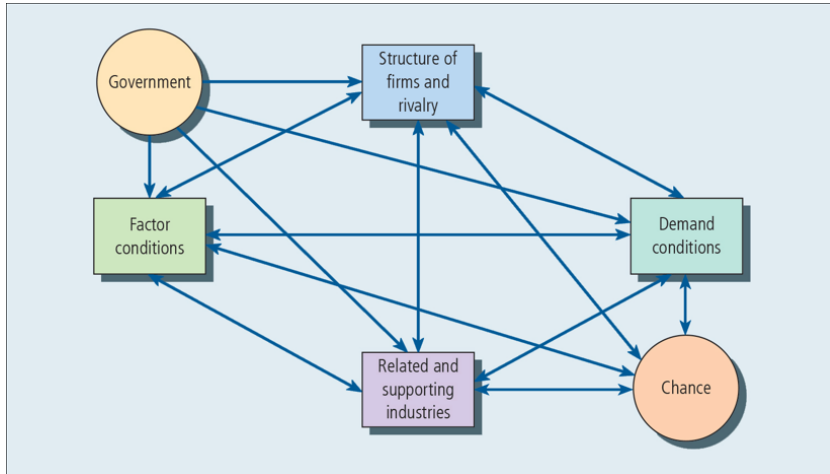
The primary objective of this part is to develop two frameworks for understanding how both nations and MNEs must fashion their strategies to achieve international competitiveness.

Corporate strategy and national competitiveness

- MNEs can no longer rely exclusively on the competitive advantage that they hold at home to provide them with a sustainable advantage overseas.
- Small countries realize that they must rely on export strategies to ensure the growth of their economies.
- In the future, many more MNEs from small countries are going to link into the economies of triad members.
- Determinants:
 - factor conditions
 - demand conditions
 - related and supporting industries
 - firm strategy, structure, and rivalry
- External variables:
 - the role of chance
 - the role of government

Porter's single diamond framework

The Porter model was constructed based on statistical analysis of aggregate data on export shares for ten countries: Denmark, Italy, Japan, Singapore, South Korea, Sweden, Switzerland, the UK, the USA and West Germany.



Source: Adapted from The Free Press, an imprint of Simon Schuster Adult Publishing Group, from The Competitive Advantage of Nations by Michael E. Porter.

4 Country-Specific Determinants

- **Factor conditions:** Skills, cost of labour; quality, access and cost of physical resources; infrastructure; capital and knowledge resources.
- **Demand conditions:** Home market size, growth, and sophistication; ability to anticipate global trends.
- **Related and supporting industries:** Competitive suppliers and related sectors providing inputs and coordination benefits.
- **Firm strategy, structure, and rivalry:** Management practices, firm goals, and intensity of local competition.

2 External Variables

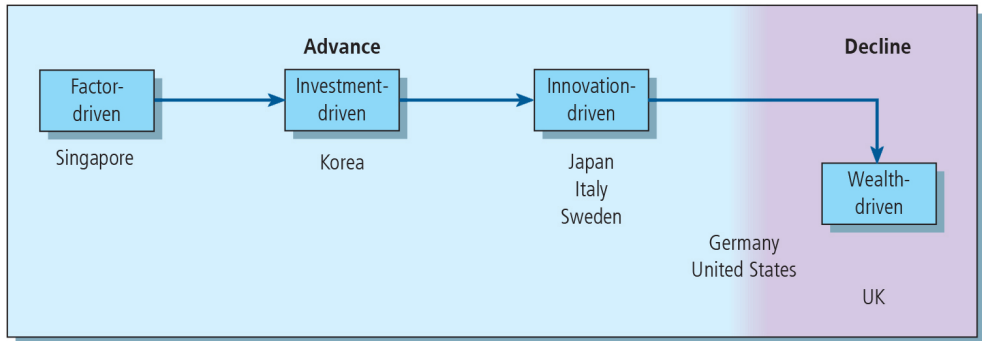
- **Chance:** Unexpected events such as technological breakthroughs, wars, or financial crises that reshape competitiveness.
- **Government:** Policy instruments including subsidies, education and training, regulations, and trade policies that influence the diamond's elements.

Key critiques of Porter's model:

- Based on affluent countries — less applicable to developing nations.
- Underestimates the critical role of government in shaping competitiveness.
- The role of chance is acknowledged but difficult to predict and manage.
- Relies on national-level analysis, but business success is often company-specific.
- Porter's stages of national development: factor-driven, investment-driven, innovation-driven, wealth-driven — may oversimplify reality.
- Focuses on outward FDI; dismisses inbound FDI as a solution.
- Reliance on natural resources is viewed as insufficient for competitiveness.
- Fails to adequately account for the role of multinational enterprises (MNEs).

The four stages of national development and the historical position of select nations

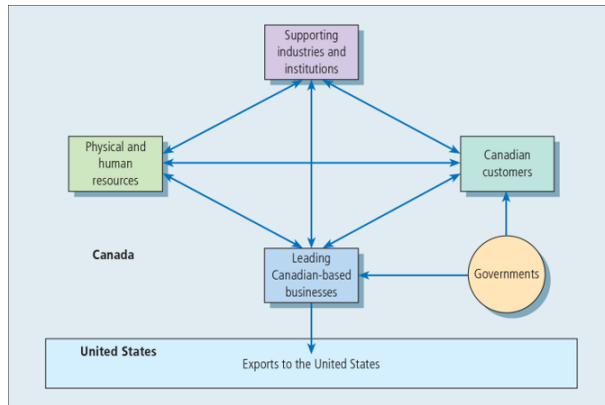
Reliance on natural resources (the factor-driven stage) is viewed by Porter as insufficient to create worldwide competitive stature. Countries like Canada and the oil producing nations have historically shown this to be questionable. It is likely, however, that natural resources will provide only temporary competitive advantage and countries need to evolve other forms of advantage to sustain growth.



Source: Adapted from The Free Press, an imprint of Simon Schuster Adult Publishing Group, from The Competitive Advantage of Nations by Michael E. Porter

Canada and the single-diamond view

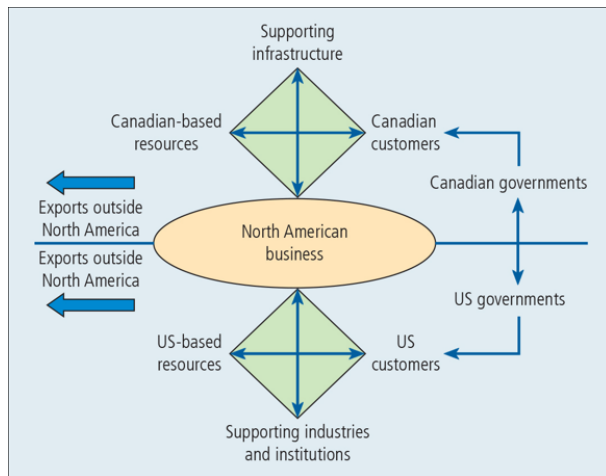
Historically, Canada followed a single diamond strategy emphasizing export promotion for its natural resource industries and import substitution for domestic manufacturing. Given its small domestic market, Canadian policy focused on scaling resource-based sectors for export—often supported by U.S. trade preferences—while protecting nascent industries at home through tariffs and subsidies. This inward-looking approach relied heavily on the country's rich natural resources as the foundation for economic development.



Source: Adapted from Alan M. Rugman and Joseph R. D'Cruz, *Fast Forward: Improving Canada's International Competitiveness* (Diane Publishing Co., 1991), p. 35

Canadian–US double diamond

The Canadian–US double diamond model reflects Canada's strategic shift toward North American integration. Through the USA–Canada Free Trade Agreement, Canadian firms gained scale advantages and began competing directly with U.S. firms, requiring stronger innovation and cost competitiveness. This model promotes cross-border strategic clusters—such as Ontario's auto sector—where flagship firms (e.g., Magna, Bombardier) and their partners collaborate across both domestic and U.S. business environments to gain global advantage.



Source: Adapted from Alan M. Rugman and Joseph R. D'Cruz, 'The "Double Diamond" Model of International Competitiveness: the Canadian Experience', *Management International Review*, vol. 33, Special Issue 2 (1993), p. 32.

Integration/national responsiveness

- **Globalization:** the production and distribution of products and services of a homogeneous type and quality on a worldwide basis.
- **National responsiveness:** the ability of MNEs to understand different consumer tastes in segmented regional markets and to respond to different national standards and regulations imposed by autonomous governments and agencies.

		National Responsiveness (differentiation)	
		Low	High
Global integration (consolidation)	Low	2	4
	High	1	3

High and low levels of integration vs. diversification. Figure is designed to help MNE managers cope with the trade-offs between integration and national responsiveness

Key points:

- The framework helps MNEs manage trade-offs between global integration and national responsiveness.
- Quadrant 1: High integration, low responsiveness — economies of scale, price competition, mergers/acquisitions common.
- Quadrant 2: Low integration, low responsiveness — limited benefits from scale or customization.
- Quadrant 3: High integration, high responsiveness — most challenging; transnational MNEs succeed here.
- Quadrant 4: Low integration, high responsiveness — firms adapt products/services to meet diverse local demands.
- The framework helps analyse policy shocks and trends affecting industries, firms, banks, and institutions.