

Chapter 2

The Integration/Responsiveness-Framework

MNCs are exposed to two sets of strategic forces to which they must respond, but which are at least partly conflicting, namely forces for global integration and forces for local responsiveness. In the Integration/Responsiveness-framework (I/R-framework), a four-fold typology of MNCs has been proposed based on the differing strength of the two forces. This framework is described in detail in this Chapter.

Forces for Global Integration and Forces for Local Responsiveness

One of the most influential typologies of MNCs results from the studies by Doz, Prahalad, Bartlett and Ghoshal in the 1970s and 1980s. The tension between external forces towards adaptation to the local environment in the different host countries (“local responsiveness”) and the forces towards a standardised approach, leading to global efficiency by a worldwide integrated behaviour (“global integration”) are the basis of this typology (Doz 1980; Prahalad/Doz 1987; Bartlett/Ghoshal/Beamish 2008):

- *Global integration* means interconnecting the international activities of the MNC across all countries, looking for the strengths of the large company, and trying to achieve synergy effects. Thus, the different countries in which a MNC operates can be linked to each other. This could be, e.g., because economies of scale are particularly high in a specific industry, leading to the necessity of internationally standardised products. Alternatively, it could result from comparative cost advantages of a country that offer an incentive to specialise the activities of certain foreign subsidiaries, leading to interdependence between the worldwide activities. Necessity for worldwide learning, in order to exploit knowledge companywide that has been created in a particular country, or the situation in which relevant actors around the MNC (e.g. customers, competitors, suppliers) are the same in different foreign markets, enhance the requirement and the potential to coordinate closely the different international activities. These interdependencies between countries are called “forces for global integration”.
- At the same time, a MNC operates under heterogeneous conditions in many different host countries. In each country the local unit is con-

*Global
Integration*

*Local
Responsiveness*

fronted with different local customers and host governments, different market and distribution structures, different competitors and substitution products. Multinational flexibility, i.e., the ability of a company to exploit the opportunities that arise from this heterogeneity, is necessary. This contingency condition for MNC is called “forces for local responsiveness” and the pressure to adapt varies by industry.

Forces for Global Integration

Global Integration

In a global industry, a firm’s competitive position in one country is strongly affected by its position in other countries. The forces for global integration, also called industry globalisation drivers, can be divided into four categories (Yip 1989; Bartlett/Ghoshal/Beamish 2008, pp. 88-91):

- market drivers
- cost drivers
- governmental drivers
- competitive drivers.

Market Drivers

First of all, *homogenous customer needs* in the different markets may create opportunities to sell standardised products. With common customer needs, marketing becomes transferable across countries and the *culture convergence thesis* by Levitt (1983) suggested that different cultures become more similar, and lifestyles and tastes are converging worldwide. However, this thesis is discussed very critically. Meanwhile, more and more often, in particular in B2B markets, companies also meet *global customers*, i.e., companies (or sometimes private consumers) who are their customers in different country markets, e.g. different subsidiaries of the same MNC. Similarly, *global channels* emerge in certain industries, like large international retailers as *Wal-Mart*, *Tesco* or *Media-Markt*, or global e-commerce channels like *Amazon*. All these aspects enhance the need for globalisation in an industry.

Cost Drivers

From a cost perspective, different industries have different incentives to standardise. For example, *economies of scale* at a particular production plant can be increased with standardised products that are exported to different country markets. Economies of scale and scope as well as *experience curves* differ from industry to industry, however. This can be caused by different production technologies. The greater the potential economies of scale and the steeper the experience curve, the more likely an industry is to turn global. Furthermore, industries where *product development is expensive* and at the same time *product lifecycles are short* or technology is fast-changing usually try to use global scale effects. *Global sourcing efficiencies* might be given in an industry, leading to concentration in supply and manufacturing, and

intercountry differences in labour costs and factor endowments might make concentration of production useful. Over the last few decades, logistics costs have generally been going down, making globalisation easier to realise. How energy prices, climate change but also technological innovations, will influence logistics and, consequently, location strategies remains to be seen.

Many governmental drivers also have an influence on the need for globalisation in an industry. For example, compatible *technical standards* are necessary for product standardisation, *liberal trading regulations* with low tariff and non-tariff barriers to trade and common market regulations are drivers for globalisation, making cross-border trade easier. Inversely, high trade barriers are obviously reducing the forces towards globalisation, protecting local particularities. *Deregulation* of formerly protected industries (like energy, telecommunications, transport) also pushes industries towards globalisation, in combination with the privatisation of formerly state-owned companies.

As the most important competitive driver, the presence of *global competitors* enhances the need for globalisation. Only companies that manage their worldwide operations as interdependent units can implement a coordinated strategy and use a competitive strategy that is sometimes called “*global chess*” (Bartlett/Ghoshal/Beamish 2008, p. 90), that is, responding to threats in one market by reactions in other markets. In addition, large multinational companies offering the same products and brands around the world also promote the convergence of tastes and customer demand. With the presence of many MNCs, international networks appear, e.g. in production, that also enhance the interdependence of countries and markets.

The overall level of globalisation of an industry can be measured, for example, by the ratio of cross-border trade to total worldwide production, by the ratio of cross-border investment to total capital investment, by the percentage of sales of worldwide standardised products or by the proportion of industry revenue generated by large MNCs.

Forces for Local Responsiveness

On the other hand, and depending on the industry, companies are facing another set of influence factors, which make local responsiveness necessary (see, e.g., Hollensen 2007, p. 19).

The dominant reason for a need for local responsiveness is a strong difference in *customer demand*. This might be caused by profound cultural differences in tastes, by different environmental conditions (climate, topography, etc.), by different income levels and income distribution, or many other factors. A different *structure of the distributive sector* might make adaptations of the distribution strategy necessary. A different *competitive situation* in dif-

*Governmental
Drivers*

*Competitive
Drivers*

*Differences
in Demand*

*Differences in
Country
Conditions*

ferent markets might also force a company to change its strategy and adapt it to the local market conditions. Similarly, *protectionism* by governments often leads to the need to produce locally and/or to adapt products to specific markets. While the need for adaptation occurred on the country level in the past, it now occurs more and more often on the level of regional integration areas such as the EU (see Chapter 5).

Local responsiveness can also become necessary or beneficial due to different labour conditions, e.g. labour cost or skill level, that require adaptation of production processes to optimise efficiency, or due to the availability or non-availability of good suppliers. A low number of potential suppliers might make a higher level of vertical integration of production steps more or less efficient due to a lack of alternatives. Different work attitudes that may be rooted in different cultures (see Chapter 7) might make different leadership styles more or less effective in different countries.

The I/R-Framework as Matrix

While both forces are interconnected, they are not seen as opposing extremes of a continuum of possible situations but as two separate dimensions.

Figure 2.1

The Integration/Responsiveness-Framework



Source: Adapted from Bartlett/Ghoshal 1989, p. 438.

While the full independence of both dimensions is sometimes doubted in the literature (see, e.g., Engelhard/Dähn 2002; Morschett 2007), the assumption has the advantage that one can try to distinguish between both sets of forces

more clearly and that the potential external situations that a MNC faces can be illustrated in a matrix. The typology of Bartlett/Ghoshal (1989) that builds on this two-dimensional framework is the most commonly used. In their model, MNCs are grouped regarding their strategic orientation. The framework has been very influential in IB literature, in particular regarding the transnational MNC. In the following part of the text, the four strategy types are described in more detail (see, among many other authors, Harzing 2000, and Bartlett/Ghoshal/Beamish 2008, for a more comprehensive description).

International Organisations

MNCs with an “international” strategic orientation tend to think of their foreign activities as remote outposts whose main role is to support the parent company by contributing incremental sales. This strategy type can be linked to the international life-cycle model by Vernon (1966), since the focus is on exploiting knowledge, new products or processes of the parent company by transferring them to foreign markets. These are rather seen as a source of short-term and incremental profits. Accordingly, the company does not adapt to the specific host country and the foreign activities are also not systematically integrated in the MNC. This strategy type is ethnocentric since the foreign activities only secure the home-country company. A strong dependence of the foreign subsidiary on the resources of the home country is a consequence.

Global Organisations

Companies with a “global” strategic orientation focus their organisation on achieving economies of scale. They are usually to be found in industries where forces for global integration are strong and forces for local responsiveness rather low. *Price competition* in global industries is high, thus, the dominant strategic need is *global efficiency*. The most relevant resources are concentrated in the headquarters and decisions are *highly centralised*. The MNCs attempt to rationalise their production by producing *standardised products* in concentrated production plants that fulfil a worldwide demand volume. Usually these production plants are located in the home country, and the most relevant task of the foreign subsidiary is to act as a “*pipeline*” for the parent company, selling products in its local market. R&D and innovation is also concentrated in the home country. Information flows and product flows are *unidirectional*, the MNC follows a *centralised hub model* (see Chapter 1).

*Focus on
Economies
of Scale*

*Focus on
National
Differences*

Multinational Organisations

The multinational organisation, being in the lower right corner of the matrix in Figure 2.1, focuses primarily on *national differences* to achieve its strategic objectives. In many characteristics, it is the *reverse of the global organisation*. Products, processes, strategies, even management systems, might be *flexibly modified* to each country to *adapt to local needs* and sometimes to *local governmental regulations*. This adaptation to the local markets is facilitated by *local production* and *local R&D*. The main task of subsidiaries is to identify and fulfil local needs and the foreign subsidiary is also provided with the necessary local resources to respond to the local needs. The subsidiaries are independent of the headquarters and they are also not linked to peer subsidiaries in other countries. The organisation takes the form of a *decentralised federation*.

Transnational Organisations

While global organisations and multinational organisations emphasise either global efficiency and integration or multinational flexibility and local responsiveness, the transnational organisation tries to respond *simultaneously to both strategic needs*. Thus, in particular in industries where both forces are equally strong, transnational organisations reach for the benefits of combining characteristics of both global and multinational companies.

*Responsive AND
Integrated*

Accordingly, a transnational strategy refers to becoming strongly responsive to local needs while still achieving the benefits of global integration. As has been described in Chapter 1, the underlying model is the *integrated network*, where key activities and resources are neither centralised in the headquarters nor fully decentralised into each country. Instead, resources and activities are *geographically dispersed but specialised*, leading to *scale economies and flexibility*. A certain level of product adaptation to local needs is combined with *cross-border production processes* that still concentrate production, such as for specific common components, in single locations. This leads to *reciprocal and horizontal product flows*. Large flows of products, people, capital, and knowledge between subsidiaries are characteristic of transnational organisations. Innovation occurs in different locations and is subsequently diffused worldwide, foreign subsidiaries can serve in strategic roles, such as for producing specific products, or as centres of excellence.

*Ideal Type in
Specific
Situations*

While this strategy type is often seen as an *ideal-type* in literature, it is highly complex, costly and difficult to implement and very ambitious. Empirical studies often show that few MNCs actually represent this type, and while many recent textbooks and management consultants promote the transnational organisation as the “best” MNC type, without differentiation, it

should be analysed carefully. The original authors recommend the complex transnational organisation only for MNCs that are confronted with a complex environment with simultaneously high forces for integration and responsiveness. *“Organizational complexity is costly and difficult to manage, and simplicity, wherever possible, is a virtue”* (Ghoshal/Nohria 1993, p. 24). On the other hand, more and more industries are currently developing into this situation of complexity.

Comparison of the Four MNC Types

Table 2.1 summarises and compares a number of different characteristics for the four MNC types.

Selected Characteristics of the Four MNC Types

Table 2.1

	International	Global	Multinational	Transnational
Role of Subsidiary	sale of HQ products	implementation of HQ strategies	identification and exploitation of local opportunities	differentiated contribution to the worldwide competitive advantages of the MNC
Decentralised Federation	low	low	high	low
Centralised Hub	high	high	low	low
Integrated Network	low	low	low	high
Vertical Product Flows	high, sequential	high, sequential	low	bidirectional
Inter-subsidiary Product Flows	low	low	low	high
Centralisation of Decisions	high	high	low	medium (decentralised centralisation)
Management Transfers, Visits, Joint Working Teams	low	high	low	high
Centres of Excellence	low	low	low	high
Product Modification	low	low	high	high
Local Production	low	low	high	medium
Dependency	strong dependence	strong dependence	in-dependence	inter-dependence

Source: Summarised and adapted from Macharzina 1993, pp. 83, 102; Harzing 2000, p. 113; Bartlett/Ghoshal/Beamish 2008, pp. 202-206.

Perlmutter's EPRG Concept

A similar typology of MNCs which is also prominent in International Business research has been proposed by Perlmutter (Perlmutter 1969; Wind/Douglas/Perlmutter 1973). Perlmutter developed the EPRG scheme, distinguishing between ethnocentric, polycentric, regiocentric and geocentric

attitudes. In this scheme, he recognises that managers of MNCs have different strategic orientations or a different “*state of mind*”, i.e., assumptions upon which key decisions in the MNC are made.

Ethnocentric In the ethnocentric state of mind, the *home country* is implicitly considered to be *superior*. Key positions in foreign subsidiaries are staffed with *expatriates* from the home country and decisions are taken in the headquarters. Foreign activities are seen as less relevant than home-country activities and exports are the main entry mode. The subsidiary is highly dependent on headquarters.

Polycentric Polycentric firms start with the assumption that host-country cultures are strongly different and *adaptation is necessary*. They acknowledge that local employees are more effective for this task and that *decentralised decisions* help to exploit local differences effectively.

Geocentric While the polycentric attitude strives for optimal local solutions, this might be sub-optimal for the total organisation. As a further development, the geocentric attitude emphasises *interdependencies* and aims for a *collaborative approach* between headquarters and subsidiaries as well as among subsidiaries. An optimal allocation of resources and synergy effects is aimed for.

Regiocentric The regiocentric approach is a *mix* between the polycentric and the geocentric approach. Strategies, products, processes, etc. are closely coordinated within different regions (e.g. Europe, North America) while the regions operate relatively independently from each other.

Differences and Similarities to the I/R-framework

While the similarity to the I/R-framework is obvious, and both approaches can be linked via the three network models, with the centralised hub model being ethnocentric, a decentralised federation model being polycentric and the integrated network being the organisational response in the case of a geocentric state of mind, there are two major differences: While the I/R-framework offers contingency conditions under which external industry forces influence a MNC strategy in a particular way, Perlmutter offers a more qualitative explanation which is based on the management style or on the *state of mind*. Second, Perlmutter’s EPRG scheme is not systematically based on describing characteristics. The “regiocentric” approach, however, which is very common in modern MNCs and is also very prominent in recent IB literature (see, e.g. Rugman/Verbeke 2004), was identified by Perlmutter but is not considered in the I/R-framework.

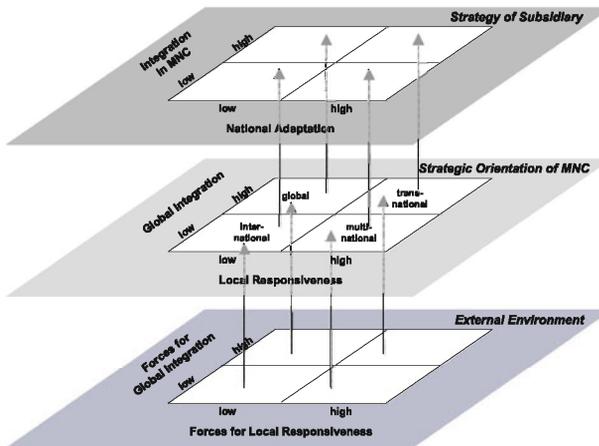
Different Levels of Integration and Responsiveness

The I/R-framework is a *contingency framework* that derives MNC strategies from a given external context. The main assumption is that a MNC in a cer-

tain industry which is exposed to a certain configuration of forces for global integration and forces for local responsiveness needs to develop a strategy in accordance with the external context. However, while the original framework clearly emphasises that MNCs have complex sets of options and that not only industry characteristics determine company strategies, management literature has often applied the framework in a deterministic manner, implying that MNCs in a certain cell of the matrix *have* to use a specific strategy. From a categorisation of industries, consequences were immediately drawn on the company level: “the primary use of the ‘I-R grid’ was to map industries, and therefore to indicate what strategy a firm should pursue” (Westney/Zaheer 2001, pp. 356-357).

Three Levels of the I/R-Framework

Figure 2.2



Source: Morschett 2007, p. 396; Zentes/Morschett/Schramm-Klein 2008, p. 201.

For a more detailed analysis of integration and responsiveness, Figure 2.2 shows an extended model, consisting of three levels:

- the *external environment*, where the forces for global integration and the forces for local responsiveness reach different levels, depending on the industry

- the MNC's *strategic orientation*, where some MNCs prefer to use a global strategy, and others a more multinational approach, i.e., to display different levels of global integration and local responsiveness
- the *strategy of the subsidiary*, which can differ and be more or less integrated in the MNC and which can be more or less adaptable in its behaviour to the local market, as becomes evident in the role typologies (Chapter 3).

Industry Forces as External Environment

In the original concept, the I/R-framework was used "to classify MNC environments in terms of the twin demands of global integration and national responsiveness" (Ghoshal/Nohria 1993, p. 25). With the dimensions "forces for global integration" and "forces for local responsiveness", a matrix can be constructed with four different context situations, a "multinational environment", an "international environment", a "global environment" and a "transnational environment" (Ghoshal/Nohria 1993, p. 27). Which industry characteristics exert a certain force has been discussed above.

Strategic Orientation of the MNC as Internal Context

Many authors use the I/R-framework to describe not the external environment but different MNC *strategies* ("internationalisation strategies") or *organisational types* ("MNC organisations"). Kutschker (1999, p. 110) labels the four I/R-strategies "archetypes of international companies". Here, *instead of forces*, the *degree* of integration and the *degree* of localisation of the MNC are used. In this case, as has been described above, the four strategy alternatives are seen as typical *bundles of strategy elements*, consisting of specific coordination mechanisms, product flows, product modifications, etc. This perspective on the strategic orientation characterises it as the *vision*, philosophy and value system of the management which characterises a specific position of the MNC (Devinney/Midgley/Venaik 2000, pp. 675-678).

Externally Determined Strategy

In a normative or at least contingency-oriented perspective, these strategies are often derived from the context but most authors do not explicitly mention the distinction between context and strategy. Instead, the model is based on the assumption of environmental contingencies and that a certain match between the external forces and the company strategy is more efficient than a mismatch (De la Torre/Esperanca/Martínez 2003, pp. 67-69). Yip (1989) pointed out that, to reach balanced global and national competitive advantages, the *globalisation of the strategy* has to be aligned with the *globalisation potential of the industry*.

On the other hand, companies have a certain level of freedom in the development of a strategy, which is called *strategic choice* (Child 1972). The terminology of “state of mind” or “strategic orientation” of the management clearly indicates that the industry characteristics are important, but MNCs can choose alternative strategies, based on their internal resources, strategic priorities, and other considerations. Clearly, external characteristics are only one part of the influence factors on the company strategy and internal influences also play an important role in the determination of the strategy.

*Strategic
Choice*

Strategy of a Specific Subsidiary

Similarly, it has to be recognised that a MNC strategy does not necessarily lead to uniformity on the level of the subsidiaries. The fact that the MNC follows a global strategy or a multinational strategy alone does not fully determine the subsidiary level (Jarillo/Martinez 1990; Birkinshaw/Morrison 1995). The level of local responsiveness and the level of integration may widely differ within a particular MNC. One reason is that the forces for global integration and the forces for local responsiveness not only differ by industry but may also *vary from country to country*. For example, trade barriers might be low, technological standardisation high and consumer demand similar for most nations, but the reverse might be true for a few countries.

*Different Sub-
subsidiary Strategies
in the same MNC*

Differentiation between subsidiaries, while most prominent in the transnational organisation, is to some degree used in all types of MNCs. Thus, in the perspective of the “differentiated network” (Nohria/Ghoshal 1997) the level of the subsidiary must be planned separately. While it is evident that multinationally-oriented MNCs have a relatively high percentage of independent subsidiaries with high autonomy to exploit local market opportunities (Harzing 2000, p. 107), and most subsidiaries of a MNC with a global strategy will be dependent on the headquarters and merely implement the global strategy, heterogeneity between subsidiaries is common.

*Contingency
but not
Determination*

Subsidiaries have different value-added chains, different resources, different local contexts, different capabilities and different performance. All these heterogeneous subsidiary characteristics will have an influence on the concrete strategy of the subsidiary. There are at least four groups of *influence factors* on the strategy of a particular subsidiary:

*Different
Subsidiary
Characteristics*

- influence of the industry (as reflected in the I/R-framework)
- influence of the MNC strategy (e.g. in the I/R-framework)
- influence of the specific host country
- influence of the subsidiary’s own characteristics, e.g. its resources.

As a consequence, even in globally-oriented MNCs, some subsidiaries will have higher degrees of freedom and might even take over strategic roles. Even in multinationally-oriented MNCs, some subsidiaries will merely be responsible for producing products for a specific market without the autonomy to change their strategy or be pipelines for production from a centralised location. In particular in transnational organisations, it is obvious that the role of *each* subsidiary is planned separately (see Chapter 3). This may lead to highly dependent units in transnational organisations with very low autonomy and, in parallel, to units which might benefit from decentralisation and whose only task is to exploit local market opportunities in addition to specialised units which contribute to the MNC's competitive advantage by playing a strategic role.

Conclusion and Outlook

The I/R-framework builds on a *tension* that is usually considered the most relevant particularity of international management: the *dual forces* for global integration and for local responsiveness. Global efficiency on the one hand and multinational flexibility on the other hand are considered primary objectives of the MNC that are difficult to achieve simultaneously. Furthermore, worldwide learning is considered crucial for the innovation capacity of a MNC and a certain level of integration is beneficial for MNC learning.

In the I/R-framework, *four MNC strategy types* are proposed, each being suggested for a specific external context. While the transnational strategy is the dominant strategy recommendation in literature, most empirical studies show that few MNCs actually follow this strategy. Thus, it is an "idealized MNC model" (Birkinshaw/Morrison 1995, p. 737) rather than a common phenomenon and the exception rather than the rule.

It should be kept in mind that all of the strategy types are considered adequate – under given *circumstances*. And that the complexity of a transnational strategy is ambitious and only justified if the requirements of the external environment are complex, with simultaneously high need for global integration and local responsiveness. Unfortunately, this situation occurs more and more often and, thus, the transnational strategy will likely become more common in the future.

Finally, it has to be emphasised that the *three levels of external environment*, *MNC strategy* and *subsidiary strategy* have to be clearly distinguished. While the three levels are closely linked to each other, the integration and the responsiveness on the three levels can vary. With more and more MNCs as differentiated networks, heterogeneity between subsidiaries of the same MNC is likely to increase.

*Transnational
Strategies the
Exception Rather
than the Rule*

*Complexity only
if necessary*

Further Reading

YIP, G. (1989): Global Strategy - In a World of Nations?, in: Sloan Management Review, Vol. 31, No. 1, pp. 29-41.

HARZING, A. (2000): An Empirical Analysis and Extension of the Bartlett and Goshal Typology of Multinational Companies, in: Journal of International Business Studies, Vol. 31, No. 1, pp. 101-120.

Case Study: Retailing

The Retail Industry

Retailing is one of the world's largest industries (Zentes/Morschett/Schramm-Klein 2007, p. 1). The top 10 retailers in the world alone have combined sales above 1 trillion USD. The world's largest retailer, *Wal-Mart*, employs more than 2 million people around the world and has sales of about 400 billion USD.

The Top 10 Global Retailers

Rank	Company	Country of Origin	Retail Sales 2008 (in million USD)	Main Store Formats	No. of Country Markets (2008)
1	Wal-Mart	USA	401,244	Supercenters, Discount Department Stores, Hypermarkets	15
2	Carrefour	France	127,958	Hypermarkets, Supermarkets, Discount Stores	36
3	Metro AG	Germany	99,004	Cash & Carry, Electronics Speciality, Hypermarkets, Department Stores	32
4	Tesco	United Kingdom	96,210	Superstores, Supermarkets, Convenience Stores	13
5	Schwarz Group	Germany	79,924	Discount Stores (Lidl), Discount Hypermarkets (Kaufland)	24
6	Kroger	USA	76,000	Supermarkets	1
7	Home Depot	USA	71,288	Home Improvement Stores	7
8	Costco Wholesale	USA	70,977	Warehouse Clubs, Cash & Carry	8
9	Aldi	Germany	66,063	Discount Stores	18
10	Target	USA	62,884	Discount Department Stores	1

Table 2.2

Source: Deloitte 2010, p. G14.

While retailing has traditionally been a very local business and internationalisation lagged significantly behind the manufacturing sector, the last two decades have seen a remarkable change. A wave of internationalisation has resulted in a high level of internationalisation of the largest retailers (Swoboda/Foscht/Pennemann 2009). Companies like *IKEA*, *Benetton*, *Zara*,

Carrefour or *The Body Shop* are known around the world. The largest retailers and their international activities are displayed in Table 2.2.

Forces for Global Integration and Forces for Local Responsiveness

Over the last few decades, strong forces for global integration have been influencing the retail industry:

Converging Consumer Needs

- In different retail sectors, consumer needs became more *homogeneous* around the world. This has partly been driven by cultural convergence. For example, international TV series and media have led to a convergence in the fashion industry and cross-national target segments (e.g. in fashion styles) have emerged. The convergence of consumer needs has also been pushed by the global activities of the consumer goods manufacturers, though. The products of *Apple* or *Sony* in consumer electronics and communications, of *Nike* and *Adidas* in sports fashion, of *Electrolux* or *General Electric* in appliances, and so on, are in demand by consumers around the globe. While this trend is less strong in the food retail sector (where national and regional brands still have a high market share), food multinationals like *Nestlé*, *Unilever* and *Procter & Gamble* gain market shares and also push towards globalisation.

Costs

- Given that retailing is an increasingly complex business with high costs for infrastructure (stores, warehouses, IT-systems, etc.), *economies of scale* play a major role. International companies can more easily afford the necessary investments and IT-standardisation has become common – making at least an international harmonisation of IT-systems viable. Also, in many retail sectors, retail companies are confronted with the same suppliers in different countries. Integration of activities – in particular of *procurement activities* – is necessary to gain economies of scale in procurement and to gain negotiation power towards the supplier. The necessity of international procurement leads to purchasing organisations in China or India – something which can also be realised more easily when being globally integrated (Zentes/Morschett/Schramm-Klein 2007, pp. 266-275).

Trade Liberalisation

- Governmental drivers have facilitated international integration in a number of industries. Trade barriers for textiles have been drastically reduced. Within the EU, *free trade* allows retailers to transport goods from central warehouses to their stores in different countries without custom tariffs and other hindrances. Another governmental driver, the deregulation of the telecommunications sector, has caused the emergence of shops

for mobile communications across Europe, as well as in other parts of the world.

- Furthermore, since many retailers have started to internationalise, more and more often, the different actors are confronted with global competition. Whether in home improvement retailing (with the internationalisation of *Kingfisher*, *OBI*, *The Home Depot* and others), in food retailing (with most large competitors now being internationally active), in consumer electronics (with companies like *Media-Markt* and *DSG*), more and more often the same companies meet in different foreign markets as competitors. To play “global chess” effectively, a certain level of coordination is obviously necessary. The relevance of global competitors becomes evident when observing the fashion industry. Companies like *H&M*, *Zara*, *Benetton*, etc. have changed this retail sector tremendously over the last decade.

On the other hand, while for many different consumer goods a trend towards convergence can be observed, consumer demand is still *heterogeneous*. This is the case due to highly *disparate incomes*. Even within the industrialised world, per capita income is still very heterogeneous, and when considering the new markets for retailers, like Eastern Europe, China or even India, the differences are enormous. Consequently, expenditure for clothing, for electronics, for appliances, etc., also differs widely. In addition, consumer tastes differ for *cultural reasons*. Whether food tastes (which obviously differ strongly between countries such as France, the USA and India, for instance) or the taste concerning interior design which influences furniture retailers and home improvement stores, consumers around the world still differ.

Global Competitors

Heterogeneous Demand

External Environment: Forces for Global Integration and Local Responsiveness in Different Retail Sectors

Figure 2.3

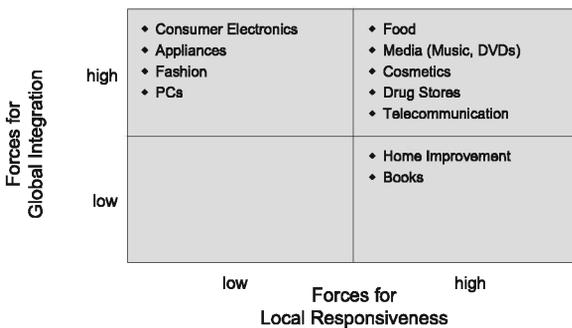


Figure 2.3 represents an attempt to categorise different retail sectors by the different I/R-forces. For example, in *consumer electronics*, consumer demand is rather similar worldwide and the standardisation of products and the existence of only a few suppliers worldwide leads predominantly to the need for global integration. On the other hand, supply for many product categories in *home improvement* is still rather local, as are consumer tastes. With “transnational” requirements, *food retailing* is experiencing enormous cost pressure and the emergence of global competitors, leading to the need for global integration. At the same time, disparate consumer income and consumer tastes, as well as remaining trade barriers (including the relevance of freshness, which hinders long logistics chains), lead to the necessity to adapt activities to the local markets. Similarly, when looking into *drug stores* and *cosmetics*, suppliers are more and more often the same (e.g. the large manufacturers of cosmetics and body-care products like *Nivea*, *Johnson & Johnson*, *L’Oréal* and *Procter & Gamble*) but consumer behaviour regarding cosmetics still differs greatly. For example, while tanning creams are sold in Western countries, whitening creams are sold in cosmetic stores in Asia. The existence of different skin types, hair colours, etc. in the human population globally requires simultaneously high global integration and local responsiveness.

Strategic Orientation of Retail Companies

External influences, like those depicted above, are not the only influence on a retail company’s strategy. In addition, companies seem to have inherently different strategic orientations – even within the same industry sector. In Figure 2.4, a number of retail companies are categorised based on their dominant strategic orientation.

Global Orientation

As an example of a generally global orientation, the world’s largest furniture retailer, *IKEA*, can be used. At *IKEA*, 95 % of the retail offer is the same around the world, including the famous *Billy shelf*. The company uses the same store format (large speciality stores) – big blue boxes with large car parks and a family-friendly set of services (like a children’s club, restaurant, etc.). Concerning the communication strategy, *IKEA* attempts to use the same advertising messages and styles worldwide, as the catalogues from different countries reveal (see Figure 2.5).

As another example, *Media-Markt*, Europe’s largest retailer of consumer electronics, follows a global strategy, where most elements of the company’s business are rather standardised in the different markets in which the company is active. Currently, the company has about 700 outlets in 15 countries. The aggressive advertising focuses on the large selection within *Media-Markt*’s assortment and low prices. The German slogan, “Media-Markt – Ich

bin doch nicht blöd!" (Media-Markt – because I'm not dumb!), is used in a similar tonality in most of its foreign markets. For example, the slogan is reproduced as "Media-Markt – Parce que je ne suis pas fou!" (French), "Media-Markt – Ik ben toch niet gek!" (Dutch), "Media-Markt – Nie dla idiotów!" (Polish), or "Media-World – Non sono mica scemo!" (Italian).

Strategic Orientation of MNCs: Global Integration and Local Responsiveness of Selected Retail Companies

Figure 2.4

Global Integration	high	<ul style="list-style-type: none"> • Media-Markt • Ikea • Zara, The Gap, Benetton • Aldi • Cartier • Hornbach 	<ul style="list-style-type: none"> • Carrefour, Rewe, Wal-Mart, Tesco • Kingfisher • DSG • AS Watson
	low		<ul style="list-style-type: none"> • Ahold • Delhaize • Tengelmann
		low	high
		Local Responsiveness	

Some of the fastest growing chains in fashion apparel (like *H&M* and *Zara*) can also be considered to follow a global strategy. While some slight changes in the assortment are made, the general positioning, the store design and layout, the assortment, the advertising, the business processes, etc. are standardised across all markets internationally.

IKEA Catalogues from Selected Countries

Figure 2.5



**Transnational
Orientation**

As an example of a different strategic orientation in the same retail sector, *DSG International plc* can be used. *DSG International* is Europe's second largest specialist electrical retailer, best known for its *Currys* stores in the UK. It also has a strong market position in other markets, with retail brands like *Electro World* (e.g. Greece and Central Europe), *Elkjøp* (in the Nordic countries), *UniEuro* (Italy), and *PC City* (Spain). Those chains adapt to the local market needs while some value-chain activities are still strongly integrated, for instance, by a central purchasing organisation. In the current strategy, the company seeks to strengthen global integration by simplifying processes, sharing of best practices and still more group buying.

Similarly, *Kingfisher* (with retail brands like *B&Q* in the UK and some other countries and *Castorama* in France) or the Chinese *AS Watson* (with *Watson* drug stores in Asia, *Rossmann* in Germany and Eastern Europe, *Superdrug* in the UK, *Kruidvat* in the Netherlands, *DC* in Ukraine and several other brands), use different retail brands and formats in different countries while trying to exploit synergy effects by joint purchasing and financial activities. These can be considered MNCs with a *transnational orientation*.

In food retailing, a number of companies follow a transnational orientation, having similar activities globally. For example, *Carrefour* operates – among other formats – hypermarkets with a very similar merchandise structure worldwide. This means that the number of articles is similar, the product categories that are being sold are similar, a certain share of store brands are sold, the store layout is somewhat similar, etc. At the same time, the assortment itself, i.e., the concrete products being offered, differs considerably around the world. Local brands are offered, local tastes in food are considered, the presentation of certain product categories (e.g. fish or other fresh food) is tailored to the local customers' habits', etc. Group purchasing for global brands and often for store brands is combined with a rather high percentage of local purchasing in the respective country. For a food retailer, at least 60-70 % of the assortment has to be procured locally to be cost-competitive.

On the other hand, *Aldi*, as a discounter, follows a more global approach. Since its offer consists mainly of store brands, there is no necessity to add local brands to the assortment. While procurement still has to be local to a certain degree and the assortment is slightly adapted (for example, in Switzerland, one-third of the assortment is Swiss products), the overall strategy, the number of stock keeping units (SKUs), the strict policies and the business model are transferred to most foreign markets without major adaptations.

**Multinational
Orientation**

It is also in food retailing, however, where pure *multinational strategies* by retail companies can be found. For example, the German retail company *Tengelmann* operates – among other activities – supermarkets in Germany

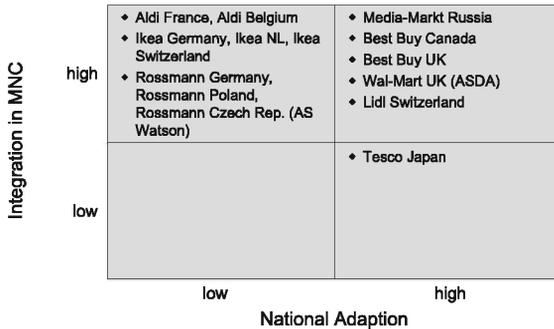
(Kaiser's and Tengelmann) and supermarkets and superstores in the USA (A&P). Both concepts are strongly adapted to each local market and joint activities, i.e., integration, are almost non-existent. Similarly, the Delhaize group operates Delhaize supermarkets in Belgium, Alfa-Beta supermarkets in Greece, Mega Image markets in Romania, Food Lion (and some other supermarket brands) in the USA and Super Indo supermarkets in Indonesia. The activities are only loosely coupled and in some cases (like Super Indo), Delhaize does not own the activity as a wholly-owned subsidiary but only holds a stake in the subsidiary. Obviously, then, a full integration would not be possible and local responsiveness is much more likely.

Strategies for Specific Retail Subsidiaries

Even if the strategic orientation of a MNC is clear, specific country subsidiaries might follow the same or a deviating strategy (see Figure 2.6). The reasons for this can be manifold. There can be reasons internal to the company or factors in the external environment.

Strategy of Subsidiaries: Integration and Adaptation of Specific Retail Subsidiaries

Figure 2.6



Best Buy, overall, follows a transnational approach. It seeks to expand its speciality "big-box" retail format (e.g. in Mexico, Canada, China) but it tries to exploit the markets even better by adding other, country-specific formats to its store portfolio. This is an interesting implementation of a transnational strategy. For example, in Canada, *Best Buy* bought the market leader, *Future Shop*, in 2001, and the stores continue to operate under this name. In addition, *Best Buy* started to open *Best Buy* stores all over Canada. As of the beginning of 2009, there are about 50 *Best Buy* stores and 130 *Future Shop* stores,

Best Buy Canada

indicating that the market potential is still mainly exploited with the *Future Shop* retail brand.

Best Buy UK

In a very different but also transnational approach, *Best Buy* entered the United Kingdom in 2008 by establishing a joint venture with a local partner, *The Carphone Warehouse*. This company is the largest independent European retail chain for mobile phones and linked services. It now focuses on “the wireless world” and operates small stores with a focus on mobile phones, subscription services, notebooks (also linked to subscriptions), etc. As a main reason for the cooperation, *Best Buy* mentions the complementary skills in products, in particular the sale of subscriptions, and retail formats, but also *The Carphone Warehouse’s* knowledge of the European markets. Hence, in the UK, *Best Buy* now operates small stores under the retail brand *The Carphone Warehouse*. In Spring 2010, it also started to open large speciality stores in the UK with the retail brand *Best Buy*.

Media-Markt in Russia

Considering *Media-Markt*, the rather global approach has been described above. However, when *Media-Markt* entered Russia in 2006, a Russian competitor had copied the advertising concept, the corporate colours, etc. to establish a barrier to market entry. *Media-Markt* had to react and change its concept for this local market. Now, *Media-Markt* uses magenta instead of its usual corporate colours and has had to adapt other parts of its market appearance as well.

Tesco Japan

Tesco uses a rather standardised store format (hypermarkets or superstores) in most of its international operations. This, in general, is already a transnational strategy, since the assortments, logistics strategies, etc. are adapted to the local market. In Japan, however, a more *local strategy* is followed, with a very high responsiveness to the market. Since Japanese customers prefer to shop for small amounts of very fresh food daily, convenience stores are a very popular format there and *Tesco’s* hypermarket format is not likely to suit the local needs. In 2003, *Tesco* acquired 78 discount convenience stores that are concentrated in and around Tokyo. These stores mainly operate under the name *Tsurukame*. Further acquisitions followed and *Tesco* now operates 125 stores in the Tokyo area. The format is mainly convenience stores and the main retail brand is still *Tsurukame*. Overall, *Tesco Japan’s* competitive strategy is to compete on price in the Japanese convenience store market

ASDA by Wal-Mart

To consider a final example of a subsidiary that is tightly integrated with the rest of the MNC and still adapts closely to the local market, *ASDA*, the subsidiary of *Wal-Mart* in the UK, can be mentioned. *Wal-Mart* acquired this subsidiary and found that many elements of the existing business concept were very successful. Hence *Wal-Mart* maintained major elements (like the store fashion brand “*George*”, and even the name *ASDA*) while integrating

other elements (like IT) with its other operations. Following the idea of transnational organisations that specific subsidiaries can serve as competence centres, some aspects of ASDA's business have been adopted in other Wal-Mart subsidiaries and even in the USA. The acquisition of 193 rather small food stores from Netto Dansk in the UK, announced in May 2010, further demonstrates Wal-Mart's intention to adapt to local conditions. These stores with an average surface of only 750 sqm, compared to ASDA's 4,300 sqm, are a part of Wal-Mart's announced plan to grow in the UK by opening smaller supermarkets.

AS Watson's subsidiaries may serve as an example of "global" subsidiaries in a multinationally-oriented MNC. Usually, AS Watson uses local retail brands in each country market. In most cases, these retail brands have been acquired and are maintained since the consumers know these local retailers and have developed loyalty to them. However, in several markets, a rather standardised approach is followed. Together with the German retail company Rossmann (in which AS Watson holds a major stake), AS Watson operates a 50:50 joint venture called "Rossmann Central Europe". This joint venture runs a chain of more than 500 drug stores by the name "Rossmann" in Poland, Hungary and the Czech Republic which largely follow the store model that has been developed in Germany and which strongly integrates the international activities (like purchasing and store brand development) of this group of subsidiaries.

*Rossmann
Central Europe*

Summary and Outlook

Retailing is becoming increasingly international and retail MNCs are now a common phenomenon. Overall, a trend towards global integration can be observed in many retail sectors, partly pushed by the globalisation of consumer goods manufacturers and partly by the increasing global competition. At the same time, however, strong international heterogeneity remains and "retail is local". Thus, in many retail sectors, local responsiveness is a necessary success factor.

"Retail is local!"

Overall, the dual needs of global integration and local responsiveness are posing a strong challenge, in particular in the retail industry because retailers are in daily direct customer contact – leading to the need for flexible market reactions – but they are also distribution channels for global suppliers, resulting in the requirement of a certain level of coordination. Which balance between the dual needs is optimal differs between retail sectors and is not stable over time. Thus, a dynamic development of the I/R-strategy on all relevant levels is necessary.

Questions

1. For a particular retail sector, fashion, very different strategic orientations can be observed. Analyse the strategies of *Zara*, *H&M* and *C&A* in Europe regarding the I/R-framework and discuss why the different strategies are applied.
2. Compare *Media-Markt's* strategy with *DSG International's* strategy, regarding the I/R-framework.
3. *Aldi* and *Lidl*, both of German origin, are hard discounters. Evaluate their strategic I/R orientation, then investigate their operations in the United Kingdom. To what degree are their British activities integrated with the MNC's activities, to what degree are they adapting to the local context?