

FACTFILE: GCE BUSINESS STUDIES

A22 THE COMPETITIVE BUSINESS ENVIRONMENT – GLOBAL BUSINESS STRATEGY



Global Business Strategy

Learning outcomes

Students should be able to:

- Demonstrate and apply knowledge and understanding of the concept of foreign direct investment including the Bartlett and Ghoshal model



Content

Definition:

A global business is one which operates across many different countries, typically serving the needs of customers on an international basis. To compete effectively and meet business objectives, the business needs a strategy which documents various aspects of its business operations, including the type of business model which may be employed.

Operating in an international environment presents a business with challenges which are different in nature to those which are present in a domestic market – e.g. multiple competitors, different cultures, pressure of profits.

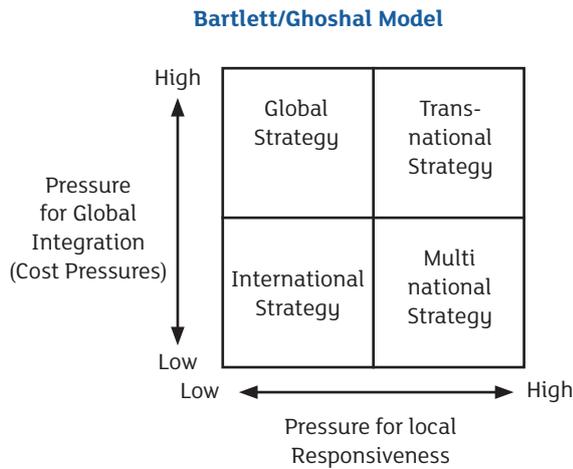
A business which operates on an international scale will typically undertake investments in different countries located outside the domestic market.

This is referred to as Foreign Direct Investment (FDI). Examples of FDI include the acquisition of a subsidiary company in a foreign country, setting up a franchise in a foreign country, or setting up a joint venture with a different business partner in a foreign country.

A business which operates across multiple locations and foreign countries is often referred to as a Multinational Enterprise (MNE). However, Bartlett and Ghoshal (1991) identify four distinct types of business model strategies typically employed by multinational enterprises:-

- Multi-domestic
- International
- Global
- Transnational

These are shown diagrammatically:



The model demonstrates two key factors (or pressures) facing multinational enterprise – the pressure for cost reductions (i.e. be cost efficient) and the pressure for local responsiveness (i.e. meet the needs of local customers) – extending this analysis further, this would indicate the nature of FDI to be undertaken by the MNE.

The model suggests that in order to respond to each type of pressure, a MNE should ideally choose the strategic model which achieves business objectives. The choice of a specific strategic model should be made through an evaluation of strategic forces pushing the MNE towards global integration, global differentiation or both.



Using the diagrammatic representation, the business model employed by the MNE is likely to be summarised as follows:

Transnational:

The aim of this strategic model is to maximise local responsiveness and gain potential benefits from

integration on a global basis. The pressure for cost efficiencies is high – this requires mass production of a single item, but which is also modified in each market to meet local tastes. The sharing of experience across all staff is likely to be widespread. Examples of businesses which employ this strategy include Toyota (cars sold in UK may differ in name/ colour compared to those sold in Japan but are essentially the same model) and Starbucks (coffee – egg-nog flavour only available in certain locations at certain times of the year).

Global:

The model implies a focus on efficiencies (i.e. economies of scale), and employs a highly centralised organisational structure. There appears to be little sharing of expertise on a local basis. The product does not require differentiation between geographical markets. Examples include Tata Steel (Sheet steel) and Caterpillar (excavators/diesel generators).

Multi-domestic (multinational):

This strategy is based on responsiveness to the needs of customers in the local market. Managers have a degree of autonomy to make decisions. There is little scope for economies of scale, however the business can respond very quickly to changes in the local/domestic market, e.g. new product lines introduced by competitors, or price changes in products. An example of a business of this nature includes Kraft/Cadbury.

International:

This strategic model is based on home country expertise. It implies that the few production benefits available are compensated by the few local pressures for differentiation. Therefore a global market does exist, but the business cannot entirely benefit from production economies of scale, however since production costs are likely to be low the emphasis will be on increased marketing activities. In terms of meeting customer needs – these can be met with very little adaptation to the product. Examples of businesses of this nature include McDonalds and UPS Courier Services. Bartlett and Ghoshal suggest that in terms of organisational structure, the following is prevalent:

A highly centralised structure is present in companies which are global or international in nature.

A fully decentralised structure is present in companies which are multinational or transnational in nature.

The nature and and/or amount of funding required to support each strategy employed will be dependent on the individual strategy adopted. Thus a decentralised structure might be 'hands on' (with full involvement by parent company) with investment including acquisitions and complex reporting structures; however a more centralised structure might imply a 'hands off' approach (with little involvement of the parent company) with investment limited to funding only and reporting undertaken to a local management team (i.e. joint venture).

Summary:

A global business strategy is of importance to a business engaged in global trading.

The model demonstrates two key pressures facing a multinational enterprise – the pressure for cost reductions and the pressure for local responsiveness.

Bartlett and Ghoshal (1991) identify four distinct types of business model strategies typically employed by multinational enterprises:-

- Multi-domestic
- International
- Global
- Transnational

The type of strategy employed will guide the type, extent and amount of foreign direct investment undertaken by the global business as it seeks to compete effectively in a global market.

? Revision Questions

1. Explain what is meant by the term 'globalisation'.
2. Explain 2 types of pressures facing a multinational enterprise in a global market.
3. List 4 different global business strategies which are prevalent in business.
4. With reference to businesses operating in the Northern Ireland economy, discuss the application of the Bartlett and Ghoshal model to each of the 4 types of strategy adopted by your chosen business (you should choose one business which fits each one of the four categories specified by Bartlett & Ghoshal).

