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GLOBAL STRATEGY: AN ORGANIZING FRAMEWORK

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Global strategy has recently emerged as a popular concept among managers of multinational corporations as well as among researchers and students in the field of international management. This paper presents a conceptual framework encompassing a range of different issues relevant to global strategies. The framework provides a basis for organizing existing literature on the topic and for creating a map of the field. Such a map can be useful for teaching and also for guiding future research in this area. The article, however, is primarily directed at managers of multinational corporations, and is aimed at providing them with a basis for relating and synthesizing the different perspectives and prescriptions that are currently available for global strategic management.

Over the past few years the concept of global strategy has taken the world of multinational corporations (MNCs) by storm. Scores of articles in the *Harvard Business Review*, *Fortune*, *The Economist* and other popular journals have urged multinationals to 'go global' in their strategies. The topic has clearly captured the attention of MNC managers. Conferences on global strategy, whether organized by the Conference Board in New York, *The Financial Times* in London, or Nomura Securities in Tokoyo, have invariably attracted enthusiastic corporate support and sizeable audiences. Even in the relatively slow-moving world of academe the issue of globalization of industries and companies has emerged as a new bandwagon, as manifest in the large number of papers on the topic presented at recent meetings of the Academy of Management, the Academy of International Business and the Strategic Management Society. 'Manage globally' appears to be the latest battlecry in the world of international business.

MULTIPLE PERSPECTIVES, MANY PRESCRIPTIONS

This enthusiasm notwithstanding, there is a great deal of conceptual ambiguity about what a 'global' strategy really means. As pointed out by Hamel and Prahalad (1985), the distinction among a global industry, a global firm, and a global strategy is somewhat blurred in the literature. According to Hout, Porter and Rudden (1982), a global strategy is appropriate for global industries which are defined as those in which a firm's competitive position in one national market is significantly affected by its competitive position in other national markets. Such interactions between a firm's positions in different markets may arise from scale benefits or from the potential of synergies or sharing of costs and resoures across markets. However, as argued by Bartlett (1985), Kogut (1984) and many others, those scale and synergy benefits may often be created by strategic actions of individual firms and may

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not be 'given' in any *a priori* sense. For some industries, such as aeroframes or aeroengines, the economies of scale may be large enough to make the need for global integration of activities obvious. However, in a large number of cases industries may not be born global but may have globalness thrust upon them by the entrepreneurship of a company such as Yoshida Kagyo KK (YKK) or Procter and Gamble. In such cases the global industry–global strategy link may be more useful for ex-post explanation of outcomes than for ex-ante predictions or strategizing.

Further, the concept of a global strategy is not as new as some of the recent authors on the topic have assumed it to be. It was stated quite explicitly about 20 years ago by Perlmutter (1969) when he distinguished between the geocentric, polycentric, and ethnocentric approaches to multinational management. The starting point for Perlmutter's categorization scheme was the world-view of a firm, which was seen as the driving force behind its management processes and the way it structured its world-wide activities (see Robinson, 1978 and Rutenberg, 1982 for detailed reviews and expositions). In much of the current literature, in contrast, the focus has been narrowed and the concept of global strategy has been linked almost exclusively with how the firm structures the flow of tasks within its world-wide value-adding system. The more integrated and rationalized the flow of tasks appears to be, the more global the firm's strategy is assumed to be (e.g. Leontiades, 1984). On the one hand, this focus has led to improved understanding of the fact that different tasks offer different degrees of advantages from global integration and national differentiation and that, optimally, a firm must configure its value chain to obtain the best possible advantages from both (Porter, 1984). But, on the other hand, it has also led to certain dysfunctional simplifications. The complexities of managing large, world-wide organizations have been obscured by creating polar alternatives between centralization and decentralization, or between global and multidomestic strategies (e.g. Hout *et al.*, 1982). Complex management tasks have been seen as composites of simple global and local components. By emphasizing the importance of rationalizing the flow of components and final products within a multinational system, the importance of internal flows of people, technology, information, and values has been de-emphasized.

Differences among authors writing on the topic of global strategy are not limited to concepts and perspectives. Their prescriptions on how to manage globally have also been very different, and often contradictory.

1. Levitt (1983) has argued that effective global strategy is not a bag of many tricks but the successful practice of just one: product standardization. According to him, the core of a global strategy lies in developing a standardized product to be produced and sold the same way throughout the world.
2. According to Hout, *et al.* (1982), on the other hand, effective global strategy requires the approach not of a hedgehog, who knows only one trick, but that of a fox, who knows many. Exploiting economies of scale through global volume, taking pre-emptive positions through quick and large investments, and managing interdependently to achieve synergies across different activities are, according to these authors, some of the more important moves that a winning global strategist must muster.
3. Hamel and Prahalad's (1985) prescription for a global strategy contradicts that of Levitt (1983) even more sharply. Instead of a single standardized product, they recommend a broad product portfolio, with many product varieties, so that investments on technologies and distribution channels can be shared. Cross-subsidization across products and markets, and the development of a strong world-wide distribution system, are the two moves that find the pride of place in these authors' views on how to succeed in the game of global chess.
4. If Hout, *et al.*'s (1982) global strategist is the heavyweight champion who knocks out opponents with scale and pre-emptive investments, Kogut's (1985b) global strategist is the nimble-footed athelete who wins through flexibility and arbitrage. He creates options so as to turn the uncertainties of an increasingly volatile global economy to his own advantage. Multiple sourcing, production shifting to benefit from changing factor costs and exchange rates, and arbitrage to exploit imperfections in financial and information markets are,

according to Kogut, some of the hallmarks of a superior global strategy.

These are only a few of the many prescriptions available to MNC managers about how to build a global strategy for their firms. All these suggestions have been derived from rich and insightful analyses of real-life situations. They are all reasonable and intuitively appealing, but their managerial implications are not easy to reconcile.

THE NEED FOR AN ORGANIZING FRAMEWORK

The difficulty for both practitioners and researchers in dealing with the small but rich literature on global strategies is that there is no organizing framework within which the different perspectives and prescriptions can be assimilated. An unfortunate fact of corporate life is that any particular strategic action is rarely an unmixed blessing. Corporate objectives are multidimensional, and often mutually contradictory. Contrary to received wisdom, it is also usually difficult to prioritize them. Actions to achieve a particular objective often impede another equally important objective. Each of these prescriptions is aimed at achieving certain objectives of a global strategy. An overall framework can be particularly useful in identifying the trade-offs between those objectives and therefore in understanding not only the benefits but also the potential costs associated with the different strategic alternatives.

The objective of this paper is to suggest such an organizing framework which may help managers and academics in formulating the various issues that arise in global strategic management. The underlying premise is that simple categorization schemes such as the distinction between global and multidomestic strategies are not very helpful in understanding the complexities of corporate-level strategy in large multinational corporations. Instead, what may be more useful is to understand what the key strategic objectives of an MNC are, and the tools that it possesses for achieving them. An integrated analysis of the different means and the different ends can help both managers and researchers in formulating, describing, classifying and analyzing the content of global strategies. Besides, such a framework can relate academic research, that is often partial, to the totality of real life that managers must deal with.

THE FRAMEWORK: MAPPING MEANS AND ENDS

The proposed framework is shown in Table 1. While the specific construct may be new, the conceptual foundation on which it is built is derived from a synthesis of existing literature.

The basic argument is simple. The goals of a multinational—as indeed of any organization—can be classified into three broad categories. The firm must achieve efficiency in its current activities; it must manage the risks that it assumes in carrying out those activities; and it must develop internal learning capabilities so as to be able to innovate and adapt to future changes. Competitive advantage is developed by taking strategic actions that optimize the firm's achievement of these different and, at times, conflicting goals.

A multinational has three sets of tools for developing such competitive advantage. It can exploit the differences in input and output markets among the many countries in which it operates. It can benefit from scale economies in its different activities. It can also exploit synergies or economies of scope that may be available because of the diversity of its activities and organization.

The strategic task of managing globally is to use all three sources of competitive advantage to optimize efficiency, risk and learning simultaneously in a world-wide business. The key to a successful global strategy is to manage the interactions between these different goals and means. That, in essence, is the organizing framework. Viewing the tasks of global strategy this way can be helpful to both managers and academics in a number of ways. For example, it can help managers in generating a comprehensive checklist of factors and issues that must be considered in reviewing different strategic alternatives. Such a checklist can serve as a basis for mapping the overall strategies of their own companies and those of their competitors so as to understand the comparative strengths and

Table 1. Global strategy: an organizing framework

Strategic objectives	Sources of competitive advantage		
	National differences	Scale economies	Scope economies
Achieving efficiency in current operations	Benefiting from differences in factor costs—wages and cost of capital	Expanding and exploiting potential scale economies in each activity	Sharing of investments and costs across products, markets and businesses
Managing risks	Managing different kinds of risks arising from market or policy-induced changes in comparative advantages of different countries	Balancing scale with strategic and operational flexibility	Portfolio diversification of risks and creation of options and side-bets
Innovation learning and adaptation	Learning from societal differences in organizational and managerial processes and systems	Benefiting from experience—cost reduction and innovation	Shared learning across organizational components in different products, markets or businesses

vulnerabilities of both. Table 1 shows some illustrative examples of factors that must be considered while carrying out such comprehensive strategic audits. Another practical utility of the framework is that it can highlight the contradictions between the different goals and between the different means, and thereby make salient the strategic dilemmas that may otherwise get resolved through omission.

In the next two sections the framework is explained more fully by describing the two dimensions of its construct, viz. the strategic objectives of the firm and the sources of competitive advantage available to a multinational corporation. Subsequent sections show how selected articles contribute to the literature and fit within the overall framework. The paper concludes with a brief discussion of the trade-offs that are implicit in some of the more recent prescriptions on global strategic management.

THE GOALS: STRATEGIC OBJECTIVES

Achieving efficiency

A general premise in the literature on strategic management is that the concept of strategy is relevant only when the actions of one firm can affect the actions or performance of another. Firms competing in imperfect markets earn different 'efficiency rents' from the use of their resources (Caves, 1980). The objective of strategy, given this perspective, is to enhance such efficiency rents.

Viewing a firm broadly as an input–output system, the overall efficiency of the firm can be defined as the ratio of the value of its outputs to the costs of all its inputs. It is by maximizing this ratio that the firm obtains the surplus resources required to secure its own future. Thus it differentiates its products to enhance the exchange value of its outputs, and seeks low cost factors to minimize the costs of its inputs. It also tries to enhance the efficiency of its throughput processes by achieving higher scale economies or by finding more efficient production processes.

The field of strategic management is currently dominated by this efficiency perspective. The generic strategies of Porter (1980), different versions of the portfolio model, as well as overall strategic management frameworks such as those proposed by Hofer and Schendel (1978) and Hax and Majluf (1984) are all based on the underlying notion of maximizing efficiency rents of the different resources available to the firm.

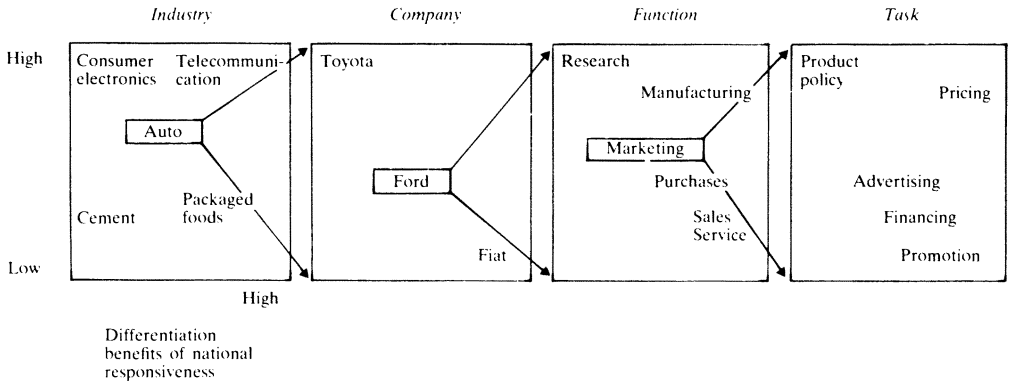

Figure 1. The integration–responsiveness framework (reproduced from Bartlett, 1985)

In the field of global strategy this efficiency perspective has been reflected in the widespread use of the integration–responsiveness framework originally proposed by Prahalad (1975) and subsequently developed and applied by a number of authors including Doz, Bartlett and Prahalad (1981) and Porter (1984). In essence, the framework is a conceptual lens for visualizing the cost advantages of global integration of certain tasks *vis-à-vis* the differentiation benefits of responding to national differences in tastes, industry structures, distribution systems, and government regulations. As suggested by Bartlett (1985), the same framework can be used to understand differences in the benefits of integration and responsiveness at the aggregate level of industries, at the level of individual companies within an industry, or even at the level of different functions within a company (see Figure 1, reproduced from Bartlett, 1985). Thus the consumer electronics industry may be characterized by low differentiation benefits and high integration advantages, while the position of the packaged foods industry may be quite the opposite. In the telecommunications switching industry, in contrast, both local and global forces may be strong, while in the automobile industry both may be of moderate and comparable importance.

Within an industry (say, automobile), the strategy of one firm (such as Toyota) may be based on exploiting the advantages of global integration through centralized production and decision-making, while that of another (such as Fiat) may aim at exploiting the benefits of national differentiation by creating integrated and autonomous subsidiaries which can exploit strong links with local stakeholders to defend themselves against more efficient global competitors. Within a firm, research may offer greater efficiency benefits of integration, while sales and service may provide greater differentiation advantages. One can, as illustrated in Figure 1, apply the framework to even lower levels of analysis, right down to the level of individual tasks. Based on such analysis, a multinational firm can determine the optimum way to configure its value chain so as to achieve the highest overall efficiency in the use of its resources (Porter, 1984).

However, while efficiency is clearly an important strategic objective, it is not the only one. As argued recently by a number of authors, the broader objective of strategic management is to create value which is determined not only by the returns that specific assets are expected to generate, but also by the risks that are assumed in the process (see Woo and Cool (1985) for a review). This leads to the second strategic objective of firms—that of managing risks.[1]

Managing risks

A multinational corporation faces many different kinds of risks, some of which are endemic to all firms and some others are unique to organizations

[1] In the interest of simplicity the distinction between risk and uncertainty is ignored, as is the distinction between systematic and unsystematic risks.

operating across national boundaries. For analytical simplicity these different kinds of risks may be collapsed into four broad categories.

First, an MNC faces certain *macroeconomic risks* which are completely outside its control. These include cataclysmic events such as wars and natural calamities, and also equilibrium-seeking or even random movements in wage rates, interest rates, exchange rates, commodity prices, and so on.

Second, the MNC faces what is usually referred to in the literature as political risks but may be more appropriately called *policy risks* to emphasize that they arise from policy actions of national governments and not from either long-term equilibrium-seeking forces of global markets, nor from short-term random fluctuations in economic variables arising out of stickiness or unpredictability of market mechanisms. The net effect of such policy actions may often be indistinguishable from the effect of macroeconomic forces; for example, both may lead to changes in the exchange rate of a particular currency. But from a management perspective the two must be distinguished, since the former is uncontrollable but the latter is at least partially controllable.

Third, a firm also faces certain *competitive risks* arising from the uncertainties of competitors' responses to its own strategies (including the strategy of doing nothing and trying to maintain the status quo). While all companies face such risks to varying extents (since both monopolies and perfect competition are rare), their implications are particularly complex in the context of global strategies since the responses of competitors may take place in many different forms and in many different markets. Further, technological risk can also be considered as a part of competitive risk since a new technology can adversely affect a firm only when it is adopted by a competitor, and not otherwise.[2]

Finally, a firm also faces what may be called *resource risks*. This is the risk that the adopted strategy will require resources that the firm does not have, cannot acquire, or cannot spare. A key scarce resource for most firms is managerial talent. But resource risks can also arise from lack of appropriate technology, or even capital (if managers, for reasons of control, do not want to use capital markets, or if the market is less efficient than finance theorists would have us believe).

One important issue with regard to risks is that they change over time. Vernon (1977) has highlighted this issue in the context of policy risks, but the same is true of the others. Consider resource risks as an example. Often the strategy of a multinational will assume that appropriate resources will be acquired as the strategy unfolds. Yet the initial conditions on which the plans for on-going resource acquisition and development have been based may change over time. Nissan, for instance, based its aggressive internationalization strategy on the expectation of developing technological, financial, and managerial resources out of its home base. Changing competitive positions among local car manufacturers in Japan have affected these resource development plans of the company, and its internationalizing strategy has been threatened significantly. A more careful analysis of alternative competitive scenarios, and of their effects on the resource allocation plans of the company, may have led Nissan to either a slower pace of internationalization, or to a more aggressive process of resource acquisition at an earlier stage of implementing its strategy.

The strategic task, with regard to management of risks, is to consider these different kinds of risks *jointly* in the context of particular strategic decisions. However, not all forms of risk are strategic since some risks can be easily diversified, shifted, or shared through routine market transactions. It is only those risks which cannot be diversified through a readily available external market that are of concern at the strategic level.

As an example, consider the case of currency risks. These can be classified as contractual, semi-contractual and operating risks (Lessard and Lightstone, 1983). Contractual risks arise when a firm enters into a contract for which costs and revenues are expected to be generated in different currencies: for example a Japanese firm entering into a contract for supplying an item to be made in Japan to an American customer at a price fixed in dollars. Semi-contractual risks are assumed when a firm offers an option denominated in foreign currencies, such as a British

[2] This assumes that the firm has defined its business correctly and has identified as competitors all the firms whose offerings are aimed at meeting the same set of market needs that the firm meets.

company quoting a firm rate in guilders. Operating risks, on the other hand, refer to exchange rate-related changes in the firm's competitiveness arising out of long-term commitments of revenues or costs in different currencies. For example, to compete with a Korean firm, an American firm may set up production facilities in Singapore for supplying its customers in the United States and Europe. A gradual strengthening of the Singapore dollar, in comparison with the Korean won, can erode the overall competitiveness of the Singapore plant.

Both contractual and semi-contractual currency risks can be easily shifted or diversified, at relatively low cost, through various hedging mechanisms. If a firm does not so hedge these risks, it is essentially operating as a currency speculator and the risks must be associated with the speculation business and not to its product-market operations. Operating risks, on the other hand, cannot be hedged so easily, [3] and must be considered at the strategic rather than the operational level.

Analysis of strategic risks will have significant implications for a firm's decisions regarding the structures and locations of its cost and revenue streams. It will lead to more explicit analysis of the effects of environmental uncertainties on the configuration of its value chain. There may be a shift from ownership to rental of resources; from fixed to variable costs. Output and activity distributions may be broadened to achieve the benefits of diversification. Incrementalism and opportunism may be given greater emphasis in its strategy in comparison to pre-emptive resource commitments and long-term planning. Overall strategies may be formulated in more general and flexible terms, so as to be robust to different environmental scenarios. In addition, side-bets may be laid to cover contingencies and to create strategic options which may or may not be exercised in the future (see Kogut, 1985b; Aaker and Mascarenhas, 1984; and Mascarenhas, 1982).

Innovation, learning and adaptation

Most existing theories of the multinational corporation view it as an instrument to extract additional rents from capabilities internalized by the firm (see Calvet, 1981, for a review). A firm goes abroad to make more profits by exploiting its technology, or brand name, or management capabilities in different countries around the world. It is assumed that the key competencies of the multinational always reside at the center.

While the search for additional profits or the desire to protect existing revenues may explain why multinationals come to exist, they may not provide an equally complete explanation of why some of them continue to grow and flourish. An alternative view may well be that a key asset of the multinational is the diversity of environments in which it operates. This diversity exposes it to multiple stimuli, allows it to develop diverse capabilities, and provides it with a broader learning opportunity than is available to a purely domestic firm. The enhanced organizational learning that results from the diversity internalized by the multinational may be a key explanator of its ongoing success, while its initial stock of knowledge may well be the strength that allows it to create such organizational diversity in the first place (Bartlett and Ghoshal, 1985).

Internal diversity may lead to strategic advantages for a firm in many different ways. In an unpredictable environment it may not be possible, ex ante, to predict the competencies that will be required in the future. Diversity of internal capabilities, following the logic of population ecologists (e.g. Hannan and Freeman, 1977; Aldrich, 1979), will enhance the probability of the firm's survival by enhancing the chances that it will be in possession of the capabilities required to cope with an uncertain future state. Similarly, diversity of resources and competencies may also enhance the firm's ability to create joint innovations, and to exploit them in multiple locations. One example of such benefits of diversity was recently described in the *Wall Street Journal* (April 29, 1985):

> P&G [Procter and Gamble Co.] recently introduced its new Liquid Tide, but the product has a distinctly international heritage. A new ingredient that helps suspend dirt in wash water came from the company's research center near P&G's Cincinnati headquarters. But the formula for Liquid Tide's surfactants, or cleaning agents, was developed by P&G technicians in Japan.

[3] Some market mechanisms such as long-term currency swaps are now available which can allow at least partial hedging of operating risks.

> The ingredients that fight mineral salts present in hard water came from P&G's scientists in Brussels.

As discussed in the same *WSJ* article, P&G's research center in Brussels has developed a special capability in water softening technology due, in part, to the fact that water in Europe contains more than twice the level of mineral content compared to wash water available in the United States. Similarly, surfactant technology is particularly advanced in Japan because Japanese consumers wash their clothes in colder waters compared to consumers in the US or Europe, and this makes greater demands on the cleaning ability of the surfactants. The advantage of P&G as a multinational is that it is exposed to these different operating environments and has learned, in each environment, the skills and knowledge that coping with that environment specially requires. Liquid Tide is an example of the strategic advantages that accrue from such diverse learning.

The mere existence of diversity, however, does not enhance learning. It only creates the potential for learning. To exploit this potential, the organization must consider learning as an explicit objective, and must create mechanisms and systems for such learning to take place. In the absence of explicit intention and appropriate mechanisms, the learning potential may be lost. In some companies, where all organizational resources are centralized and where the national subsidiaries are seen as mere delivery pipelines to supply the organization's value-added to different countries, diverse learning may not take place either because the subsidiaries may not possess appropriate sensing, analyzing, and responding capabilities to learn from their local environments, or because the centralized decision processes may be insensitive to knowledge accumulated outside the corporate headquarters. Other companies, in which the subsidiaries may enjoy very high levels of local resources and autonomy, may similarly fail to exploit global learning benefits because of their inability to transfer and synthesize knowledge and expertise developed in different organizational components. Local loyalties, turf protection, and the 'not invented here' (NIH) syndrome—the three handmaidens of decentralization—may restrict internal flow of information across national boundaries which is essential for global learning to occur. In other words, both centralization and decentralization may impede learning.

THE MEANS: SOURCES OF COMPETITIVE ADVANTAGE

Most recent articles on global strategy have been aimed at identifying generic strategies (such as global cost leadership, focus or niche) and advocating particular strategic moves (such as cross-subsidy or pre-emptive investments). Underlying these concepts, however, are three fundamental tools for building global competitive advantage: exploiting differences in input and output markets in different countries, exploiting economies of scale, and exploiting economies of scope (Porter, 1985).

National differences

The comparative advantage of locations in terms of differences in factor costs is perhaps the most discussed, and also the best understood, source of competitive advantage in international business.

Different nations have different factor endowments, and in the absence of efficient markets this leads to inter-country differences in factor costs. Different activities of the firm, such as R&D, production, marketing, etc., have different factor intensities. A firm can therefore gain cost advantages by configuring its value-chain so that each activity is located in the country which has the least cost for the factor that the activity uses most intensely. This is the core concept of comparative advantage-based competitive advantage—a concept for which highly developed analytical tools are available from the discipline of international economics. Kogut (1985a) provides an excellent managerial overview of this concept.

National differences may also exist in output markets. Customer tastes and preferences may be different in different countries, as may be distribution systems, government regulations applicable to the concerned product-markets, or the effectiveness of different promotion strategies and other marketing techniques. A firm can augment the exchange value of its ouput by tailoring its offerings to fit the unique require-

ments in each national market. This, in essence, is the strategy of national differentiation, and it lies at the core of what has come to be referred to as the multidomestic approach in multinational management (Hout *et al.*, 1982).

From a strategic perspective, however, this static and purely economic view of national differences may not be adequate. What may be more useful is to take a dynamic view of comparative advantage and to broaden the concept to include both societal and economic factors.

In the traditional economics view, comparative advantages of countries are determined by their relative factor endowments and they do not change. However, in reality one lesson of the past four decades is that comparative advantages change and a prime objective of the industrial policies of many nations is to effect such changes. Thus, for any nation, the availability and cost of capital change, as do the availability of technical manpower and the wages of skilled and unskilled labor. Such changes take place, in the long run, to accommodate different levels of economic and social performance of nations, and in the short run they occur in response to specific policies and regulations of governments.

This dynamic aspect of comparative advantages adds considerable complexity to the strategic considerations of the firm. There is a first-order effect of such changes—such as possible increases in wage rates, interest rates or currency exchange rates for particular countries that can affect future viability of a strategy that has been based on the current levels of these economic variables. There can also be a more intriguing second-order effect. If an activity is located in an economically inefficient environment, and if the firm is able to achieve a higher level of efficiency in its own operations compared to the rest of the local economy, its competitive advantage may actually increase as the local economy slips lower and lower. This is because the macroeconomic variables such as wage or exchange rates may change to reflect the overall performance of the economy relative to the rest of the world and, to the extent that the firm's performance is better than this national aggregate, it may benefit from these macro-level changes (Kiechel, 1981).

Consistent with the discipline that gave birth to the concept, the usual view of comparative advantage is limited to factors that an economist admits into the production function, such as the costs of labor and capital. However, from a managerial perspective it may be more appropriate to take a broader view of societal comparative advantages to include 'all the relative advantages conferred on a society by the quality, quantity and configuration of its material, human and institutional resources, including "soft" resources such as inter-organizational linkages, the nature of its educational system, and organizational and managerial know-how' (Westney, 1985: 4). As argued by Westney, these 'soft' societal factors, if absorbed in the overall organizational system, can provide benefits as real to a multinational as those provided by such economic factors as cheap labor or low-cost capital.

While the concept of comparative advantage is quite clear, available evidence on its actual effect on the overall competitiveness of firms is weak and conflicting. For example, it has often been claimed that one source of competitive advantage for Japanese firms is the lower cost of capital in Japan (Hatsopoulos, 1983). However, more systematic studies have shown that there is practically no difference in the risk-adjusted cost of capital in the United States and Japan, and that capital cost advantages of Japanese firms, if any, arise from complex interactions between government subsidies and corporate ownership structures (Flaherty and Itami, 1984). Similarly, relatively low wage rates in Japan have been suggested by some authors as the primary reason for the success of Japanese companies in the US market (Itami, 1978). However, recently, companies such as Honda and Nissan have commissioned plants in the USA and have been able to retain practically the same levels of cost advantages over US manufacturers as they had for their production in Japan (Allen, 1985). Overall, there is increasing evidence that while comparative advantages of countries can provide competitive advantages to firms, the realization of such benefits is not automatic but depends on complex organizational factors and processes.

Scale economies

Scale economies, again, is a fairly well established concept, and its implications for competitive advantage are quite well understood. Microeconomic theory provides a strong theoretical and

empirical basis for evaluating the effect of scale on cost reduction, and the use of scale as a competitive tool is common in practice. Its primary implication for strategy is that a firm must expand the volume of its output so as to achieve available scale benefits. Otherwise a competitor who can achieve such volume can build cost advantages, and this can lead to a vicious cycle in which the low-volume firm can progressively lose its competitive viability.

While scale, by itself, is a static concept, there may be dynamic benefits of scale through what has been variously described as the experience or learning effect. The higher volume that helps a firm to exploit scale benefits also allows it to accumulate learning, and this leads to progressive cost reduction as the firm moves down its learning curve.

The concept of the value-added chain recently popularized by Porter (1985) adds considerable richness to the analysis of scale as a source of competitive advantage. This conceptual apparatus allows a disaggregated analysis of scale benefits in different value-creating activities of the firm. The efficient scale may vary widely by activity—being higher for component production, say, than for assembly. In contrast to a unitary view of scale, this disaggregated view permits the firm to configure different elements of its value chain to attain optimum scale economies in each.

Traditionally, scale has been seen as an unmixed blessing—something that always helps and never hurts. Recently, however, many researchers have argued otherwise (e.g. Evans, 1982). It has been suggested that scale efficiencies are obtained through increased specialization and through creation of dedicated assets and systems. The same processes cause inflexibilities and limit the firm's ability to cope with change. As environmental turbulence has increased, so has the need for strategic and operational flexibility (Mascarenhas, 1982). At the extreme, this line of argument has led to predictions of a re-emergence of the craft form of production to replace the scale-dominated assembly form (Piore and Sabel, 1984). A more typical argument has been to emphasize the need to balance scale and flexibility, through the use of modern technologies such as CAD/CAM and flexible manufacturing systems (Gold, 1982).

Scope economies

Relatively speaking, the concept of scope economies is both new and not very well understood. It is based on the notion that certain economies arise from the fact that the cost of the joint production of two or more products can be less than the cost of producing them separately. Such cost reductions can take place due to many reasons—for example resources such as information or technologies, once acquired for use in producing one item, may be available costlessly for production of other items (Baumol, Panzer and Willig, 1982).

The strategic importance of scope economies arise from a diversified firm's ability to share investments and costs across the same or different value chains that competitors, not possessing such internal and external diversity, cannot. Such sharing can take place across segments, products, or markets (Porter, 1985) and may involve joint use of different kinds of assets (see Table 2).

A diversified firm may share physical assets such as production equipment, cash, or brand names across different businesses and markets. Flexible manufacturing systems using robots, which can be used for production of different items, is one example of how a firm can exploit such scope benefits. Cross-subsidization of markets and exploitation of a global brand name are other examples of sharing a tangible asset across different components of a firm's product and market portfolios.

A second important source of scope economies is shared external relations: with customers, suppliers, distributors, governments, and other institutions. A multinational bank like Citibank can provide relatively more effective service to a multinational customer than can a bank that operates in a single country (see Terpstra, 1982). Similarly, as argued by Hamel and Prahalad (1985), companies such as Matsushita have benefited considerably from their ability to market a diverse range of products through the same distribution channel. In another variation, Japanese trading companies have expanded into new businesses to meet different requirements of their existing customers.

Finally, shared knowledge is the third important component of scope economies. The fundamental thrust of NEC's global strategy is 'C&C'—

Table 2. Scope economies in product and market diversification

	Sources of scope economies	
	Product diversification	Market diversification
Shared physical assets	Factory automation with flexibility to produce multiple products	Global brand name
	(Ford)	(Coca-Cola)
Shared external relations	Using common distribution channel for multiple products	Servicing multi-national customers world-wide
	(Matsushita)	(Citibank)
Shared learning	Sharing R&D in computer and communications businesses	Pooling knowledge developed in different markets
	(NEC)	(Procter and Gamble)

computers and communication. The company firmly believes that its even strengths in the two technologies and resulting capabilities of merging them in-house to create new products gives it a competitive edge over global giants such as IBM and AT&T, who have technological strength in only one of these two areas. Another example of the scope advantages of shared learning is the case of Liquid Tide described earlier in this paper.

Even scope economies, however, may not be costless. Different segments, products or markets of a diversified company face different environmental demands. To succeed, a firm needs to differentiate its management systems and processes so that each of its activities can develop *external consistency* with the requirments of its own environment. The search for scope economies, on the other hand, is a search for *internal consistencies* within the firm and across its different activities. The effort to create such synergies may invariably result in some compromise with the objective of external consistency in each activity.

Further, the search for internal synergies also enhances the complexities in a firm's management processes. In the extreme, such complexities can overwhelm the organization, as it did in the case of EMI, the UK-based music, electronics, and leisure products company which attempted to manage its new CT scanner business within the framework of its existing organizational structure and processes (see EMI and the CT scanner, ICCH case 9–383–194). Certain parts of a company's portfolio of businesses or markets may be inherently very different from some others, and it may be best not to look for economies of scope across them. For example, in the soft drinks industry, bottling and distribution are intensely local in scope, while the tasks of creating and maintaining a brand image, or that of designing efficient bottling plants, may offer significant benefits from global integration. Carrying out both these sets of functions in-house would clearly lead to internalizing enormous differences within the company with regard to the organizing, coordinating, and controlling tasks. Instead of trying to cope with these complexities, Coca-Cola has externalized those functions which are purely local in scope (in all but some key strategic markets). In a variation of the same theme, IBM has 'externalized' the PC business by setting up an almost stand-alone organization, instead of trying to exploit scope benefits by integrating this business within the structure of its existing organization (for a more detailed discussion on multinational scope economies and on the conflicts between internal and external consistencies, see Lorange, Scott Morton and Ghoshal, 1986).

PRESCRIPTIONS IN PERSPECTIVE

Existing literature on global strategy offers analytical insights and helpful prescriptions for

Table 3. Selected references for further reading

Strategic objectives	Sources of competitive advantage		
	National differences	Scale economies	Scope economies
Achieving efficiency in current operations	Kogut (1985a); Itami (1978); Okimoto, Sugano and Weinstein (1984)	Hout, Porter and Rudden (1982); Levitt (1983); Doz (1978); Leontiades (1984); Gluck (1983)	Hamel and Prahalad (1985); Hout, Porter and Rudden (1982); Porter (1985); Ohmae (1985)
Managing risks	Kiechel (1981); Kobrin (1982); Poynter (1985); Lessard and Lightstone (1983); Srinivasulu (1981); Herring (1983)	Evans (1982); Piore and Sabel (1984); Gold (1982); Aaker and Mascarenhas (1984)	Kogut (1985b); Lorange, Scott Morton and Ghoshal (1986)
Innovation, learning and adaptation	Westney (1985); Terpstra (1977); Ronstadt and Krammer (1982)	BCG (1982); Rapp (1973)	Bartlett and Ghoshal (1985)

almost all the different issues indicated in Table 1. Table 3 shows a selective list of relevant publications, categorized on the basis of issues that, according to this author's interpretations, the pieces primarily focus on.[4]

Pigeon-holing academic contributions into different parts of a conceptual framework tends to be unfair to their authors. In highlighting what the authors focus on, such categorization often amounts to an implicit criticism for what they did not write. Besides, most publications cover a broader range of issues and ideas than can be reflected in any such categorization scheme. Table 3 suffers from all these deficiencies. At the same time, however, it suggests how the proposed framework can be helpful in integrating the literature and in relating the individual pieces to each other.

[4] From an academic point of view, strategy of the multinational corporation is a specialized and highly applied field of study. It is built on the broader field of business policy and strategy which, in turn, rests on the foundation of a number of academic disciplines such as economics, organization theory, finance theory, operations research, etc. A number of publications in those underlying disciplines, and a significant body of research carried out in the field of strategy, in general, provide interesting insights on the different issues highlighted in Table 1. However, given the objective of suggesting a limited list of further readings that *managers* may find useful, such publications have not been included in Table 3. Further, even for the more applied and prescriptive literature on global strategy, the list is only illustrative and not exhaustive.

From parts to the whole

For managers, the advantage of such synthesis is that it allows them to combine a set of insightful but often partial analyses to address the totality of a multidimensional and complex phenomenon. Consider, for example, a topic that has been the staple for academics interested in international management: explaining and drawing normative conclusions from the global successes of many Japanese companies. Based on detailed comparisons across a set of matched pairs of US and Japanese firms, Itami concludes that the relative successes of the Japanese firms can be wholly explained as due to the advantages of lower wage rates and higher labor productivity. In the context of a specific industry, on the other hand, Toder (1978) shows that manufacturing scale is the single most important source of the Japanese competitive advantage. In the small car business, for example, the minimum efficient scale requires an annual production level of about 400,000 units. In the late 1970s no US auto manufacturer produced even 200,000 units of any subcompact configuration vehicle, while Toyota produced around 500,000 Corollas and Nissan produced between 300,000 and 400,000 B210s per year. Toder estimates that US manufacturers suffered a cost disadvantage of between 9 and 17 percent on account of inefficient scale alone. Add to it the effects of wage rate differentials and exchange rate movements, and Japanese success in the

US auto market may not require any further explanation. Yet process-orientated scholars such as Hamel and Prahalad suggest a much more complex explanation of the Japanese tidal wave. They see it as arising out of a dynamic process of strategic evolution that exploits scope economies as a crucial weapon in the final stages. All these authors provide compelling arguments to support their own explanations, but do not consider or refute each other's hypotheses.

This multiplicity of explanations only shows the complexity of global strategic management. However, though different, these explanations and prescriptions are not always mutually exclusive. The manager's task is to find how these insights can be combined to build a multidimensional and flexible strategy that is robust to the different assumptions and explanations.

The strategic trade-offs

This, however, is not always possible because there are certain inherent contradictions between the different strategic objectives and between the different sources of competitive advantage. Consider, for instance, the popular distinction between a global and a multidomestic strategy described by Hout *et al.* (1982). A global strategy requires that the firm should carefully separate different value elements, and should locate each activity at the most efficient level of scale in the location where the activity can be carried out at the cheapest cost. Each activity should then be integrated and managed interdependently so as to exploit available scope economies. In essence, it is a strategy to maximize efficiency of current operations.

Such a strategy may, however, increase both endogenous and exogenous risks for the firm. Global scale of certain activities such as R&D and manufacturing may result in the firm's costs being concentrated in a few countries, while its revenues accrue globally, from sales in many different countries. This increases the operating exposure of the firm to the vicissitudes of exchange rate movements because of the mismatch between the currencies in which revenues are obtained and those in which costs are incurred. Similarly, the search for efficiency in a global business may lead to greater amounts of intra-company, but inter-country, flows of goods, capital, information and other resources. These flows are visible, salient and tend to attract policy interventions from different host governments. Organizationally, such an integrated system requires a high degree of coordination, which enhances the risks of management failures. These are lessons that many Japanese companies have learned well recently.

Similarly, consideration of the learning objective will again contradict some of the proclaimed benefits of a global strategy. The implementation of a global strategy tends to enhance the forces of centralization and to shift organizational power from the subsidiaries to the headquarters. This may result in demotivation of subsidiary managers and may erode one key asset of the MNC—the potential for learning from its many environments. The experiences of Caterpillar is a case in point. An exemplary practioner of global strategy, Cat has recently spilled a lot of red ink on its balance sheet and has lost ground steadily to its archrival, Komatsu. Many factors contributed to Caterpillar's woes, not the least of which was the inability of its centralized management processes to benefit from the experiences of its foreign subsidiaries.

On the flipside of the coin, strategies aimed at optimizing risk or learning may compromise current efficiency. Poynter (1985) has recommended 'upgrade', i.e. increasing commitment of technology and resources in subsidiaries, as a way to overcome risk of policy interventions by host governments. Kogut (1985b), Mascarenhas (1982) and many others have suggested creating strategic and operational flexibility as a mechanism for coping with macroenvironmental risks. Bartlett and Ghoshal (1985) have proposed the differentiated network model of multinational organizations as a way to operationalize the benefits of global learning. All these recommendations carry certain efficiency penalties, which the authors have ignored.

Similar trade-offs exist between the different sources of competitive advantages. Trying to make the most of factor cost economies may prevent scale efficiency, and may impede benefiting from synergies across products or functions. Trying to benefit from scope through product diversification may affect scale, and so on. In effect these contradictions between the different strategic objectives, and between the different means for achieving them, lead to trade-offs between each cell in the framework and practically all others.

These trade-offs imply that to formulate and implement a global strategy, MNC managers must consider all the issues suggested in Table 1, and must evaluate the implications of different strategic alternatives on each of these issues. Under a particular set of circumstances a particular strategic objective may dominate and a particular source of competitive advantage may play a more important role than the others (Fayerweather, 1981). The complexity of global strategic management arises from the need to understand those situational contingencies, and to adopt a strategy after evaluating the trade-offs it implies. Existing prescriptions can sensitize MNC managers to the different factors they must consider, but cannot provide ready-made and standardized solutions for them to adopt.

CONCLUSION

This paper has proposed a framework that can help MNC managers in reviewing and analyzing the strategies of their firms. It is not a blueprint for formulating strategies; it is a road map for reviewing them. Irrespective of whether strategies are analytically formulated or organizationally formed (Mintzberg, 1978), every firm has a realized strategy. To the extent that the realized strategy may differ from the intended one, managers need to review what the strategies of their firms really are. The paper suggests a scheme for such a review which can be an effective instrument for exercising strategic control.

Three arguments underlie the construct of the framework. First, in the global strategy literature, a kind of industry determinism has come to prevail not unlike the technological determinism that dominated management literature in the 1960s. The structures of industries may often have important influences on the appropriateness of corporate strategy, but they are only one of many such influences. Besides, corporate strategy may influence industry structure just as much as be influenced by it.

Second, simple schemes for categorizing strategies of firms under different labels tend to hide more than they reveal. A map for more detailed comparison of the content of strategies can be more helpful to managers in understanding and improving the competitive positions of their companies.

Third, the issues of risk and learning have not been given adequate importance in the strategy literature in general, and in the area of global strategies in particular. Both these are important strategic objectives and must be explicitly considered while evaluating or reviewing the strategic positions of companies.

The proposed framework is not a replacement of existing analytical tools but an enhancement that incorporates these beliefs. It does not present any new concepts or solutions, but only a synthesis of existing ideas and techniques. The benefit of such synthesis is that it can help managers in integrating an array of strategic moves into an overall strategic thrust by revealing the consistencies and contradictions among those moves.

For academics this brief view of the existing literature on global strategy will clearly reveal the need for more empirically grounded and systematic research to test and validate the hypotheses which currently appear in the literature as prescriptions and research conclusions. For partial analyses to lead to valid conclusions, excluded variables must be controlled for, and rival hypotheses must be considered and eliminated. The existing body of descriptive and normative research is rich enough to allow future researchers to adopt a more rigorous and systematic approach to enhance the reliability and validity of their findings and suggestions. The proposed framework, it is hoped, may be of value to some researchers in thinking about appropriate research issues and designs for furthering the field of global strategic management.

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