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MARKETING STRATEGIES

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INTRODUCTION

The study and practice of marketing have broadened considerably, from an emphasis on marketing as a functional management issue, to a wider focus on the strategic role of marketing in overall corporate strategy (*e.g.*, Kotler, 2000; Sudharshan, 1995). This broadening of the marketing concept, to include strategic as well as operational decisions, has resulted in an overlap between marketing and strategic management. Managers around the globe are recognizing the increasing importance for the firm to develop marketing strategies to compete effectively in worldwide markets. The emergence of a more open world economy, the globalization of consumers' tastes, and the development of a worldwide commercial web all have increased the interdependency and interconnections of markets across the globe. In such a global environment, firms should develop their marketing strategy around three key-dimensions (Zou and Cavusgil, 2002): (1) standardization-adaptation, (2) configuration-coordination, and (3) strategic integration. Following Sudharshan (1995), we define a firm's marketing strategy as the development of and decisions about a firm's relationships with its key stakeholders, its offerings, resource allocation, and timing.

The first, and perhaps the most important dimension of a multinational corporation[1] (MNC)'s worldwide marketing strategy is related to the standardization or adaptation of marketing programs, such as product offering, promotional mix, price, and channel structure, across different countries (Jain, 1989; Keegan, 2000; Laroche *et al.*, 2001; Levitt, 1983; Ohmae, 1989; Samiee and Roth, 1992; Szymanski, Bharadwaj and Varadarajan, 1993; Yip, 2003; Zou and Cavusgil, 1996). The second dimension of a worldwide marketing strategy focuses on configuration and coordination of a firm's value chain activities across countries (Craig and Douglas, 2000; Hout, Porter and Rudden, 1982; Porter, 1986, 1990; Roth, Schweiger and Morrison, 1991). Finally, the third dimension is the strategic integration dimension, which is concerned with how a MNC's competitive battles are planned and executed across country

[1] Multinational corporations or MNCs are defined, following Dunning (1992) as firms that own and control value-adding activities in more than one country.

markets (Birkinshaw, Morrison and Hulland, 1995; Yip, 1989, 2003; Zou and Cavusgil, 1996). In this chapter, we focus our attention on these three worldwide marketing strategy dimensions and how they are combined by MNCs from different regions of the world to gain a competitive advantage.

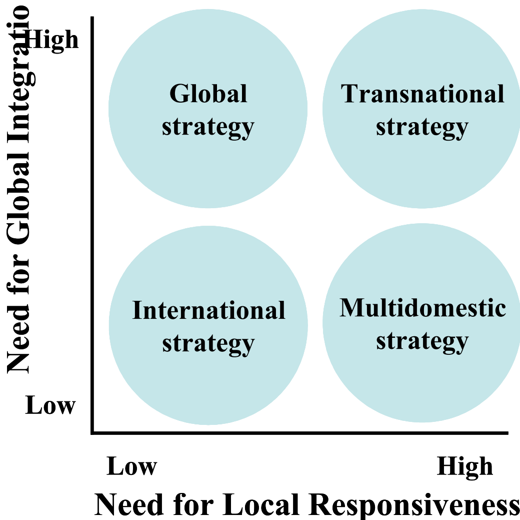
A dominant conceptualization for examining the configuration of these three dimensions within worldwide marketing strategies is the integration-responsiveness framework (*e.g.*, Bartlett, Ghoshal and Birkinshaw, 2004; Furrer, Sudharshan and Thomas, 2001; Ghoshal and Bartlett, 1998; Harzing, 2000; Jarillo and Martinez, 1990; Johnson, 1995; Perlmutter, 1969; Prahalad and Doz, 1987; Roth, 1992; Roth and Morrison, 1990; Taggart, 1997). This framework suggests that two salient imperatives simultaneously confront a business competing internationally. A MNC, to secure competitive advantages vis-à-vis the domestic firm, must exploit market imperfections that are derived through multi-country capacities. However, given that the MNC is operating in several countries, it must also be responsive to the demands imposed by local governmental and market forces in each country. A worldwide strategy is framed by the response to or management of these two imperatives: meeting local demands and capitalizing on worldwide competitive advantages. The framework, therefore, suggests that MNCs develop strategies across two dimensions: The first dimension, *integration*, refers to the standardization, coordination, and integration of activities across countries in an attempt to build efficient operations networks and take maximum advantage of similarities across locations. The second dimension, *responsiveness*, refers to the attempt to respond to specific needs within a variety of host countries.

Within this framework, Bartlett and Ghoshal (Bartlett, Ghoshal and Birkinshaw, 2004; Ghoshal and Bartlett, 1998) have identified four generic worldwide strategies: (1) an *international strategy*[2] which is a strategy in which strategic and operational decisions are developed in the home and only subsequently transferred abroad to be adapted to the local market; (2) a *multinational* (or multidomestic) *strategy* which is a strategy in which strategic and operational decisions are decentralized to the strategic business unit in each country so as to allow that unit to adapt products to the local market; (3) a *global strategy* which is a strategy through which a firm offers standardized products across country markets with

[2] It should be noted that the terms *international, multinational, global, and transnational* have been used very differently and sometimes interchangeably by various authors (*e.g.*, Levitt, 1983; Porter, 1986, 1990; Yip, 2003). In this chapter, following Ghoshal and Bartlett (1998), we give each term a *specific* and *different* meaning.

competitive strategy being dictated by the home office; and (4) a *transnational strategy* which is a strategy through which a firm seeks to achieve both global efficiency and local responsiveness by coordinating and integrating activities across countries.

Figure 1: The Four Generic Worldwide Strategies



In this main body of this chapter, following Bartlett and Ghoshal (Bartlett, Ghoshal and Birkinshaw, 2004; Ghoshal and Bartlett, 1998), we will present how MNCs from Europe, United States, and Japan, which are the three major trading blocs in international business referred to as the *triad* by Ohmae (1985), have traditionally, due to their administrative and cultural heritage, adopted different generic worldwide strategies: Typical *American MNCs* adopted an international strategy, typical *European MNCs* followed a multinational strategy, and typical *Japanese MNCs* adopted a global strategy. More recently, MNCs from all regions started to change their strategy to adopt a more effective, but more complex, transnational strategy.

In the reminder of this chapter, we first describe and further develop the four worldwide generic strategies. Then, we explore the consequences of adopting one of these strategies for three critical marketing operational strategies: (1) marketing decision-making processes; (2) innovation and new product development; and (3) service quality strategies. Because of their diversity and their particularities these three marketing operational strategies provide a wide range of experiences.

MARKETING STRATEGY DIMENSIONS

The three key-dimensions of an MNC's worldwide marketing strategy, as previously mentioned, are: (1) standardization-adaptation, (2) configuration-coordination, and (3) strategic integration (Zou and Cavusgil, 2002).

Standardization/Adaptation refers to the use of basically the same (standardization) or different (adaptation) product or service, advertising, distribution channels, and other elements of the marketing mix across countries (*e.g.*, Kotler, 2000; Levitt, 1983; Bharadwaj and Varadarajan, 1993; Zou and Cavusgil, 2002). MNCs following a standardization strategy believe that world markets are being homogenized by advances in communication and transportation technology (Jain, 1989; Levitt, 1983). Increasingly, customers in distant part of the world tend to exhibit similar preferences and demand the same products and services (Jain, 1989; Ohmae, 1985). Therefore, a major source of competitive advantage in worldwide markets is the ability to produce high-quality, low-price products (Levitt, 1983). To attain a low-cost position, the optimum worldwide marketing strategy is to sell standardized products and services using standardized marketing programs (Porter, 1986, 1990). For the MNCs following this strategy, major benefits of standardization include economies of scale in production and marketing (Levitt, 1983), consistency in dealing with customers across countries (Laroche *et al.*, 2001; Zou, Andrus and Norvell, 1997), and the ability to exploit good idea on a worldwide scale (Buzzell, 1968; Ohmae, 1989; Quelch and Hoff, 1986). Although the standardization approach has numerous advantages, its unconditional adoption has some severe drawbacks (Boddewyn, Soehl and Picard, 1986; Douglas and Wind, 1987), one of which is its cultural insensitivity (Usunier, 2000). Consumers in different countries have widely varied cultural backgrounds, needs and wants, spending power, product preferences and shopping patterns. Because these differences may be hard to change, some MNCs prefer to adapt their marketing programs to closely fit consumer desires and expectations in each country (Kotler, 2000).

Configuration is the way in which an MNC configures its upstream, downstream and internal value-adding activities. A firm may choose to concentrate its activities in one country and to export and market its products and services in a range of foreign countries. Alternatively, a firm may decide to disperse its value-adding activities to several countries. In both cases, the advantages of alternative locations for each activity will influence the architecture of value chain activities which is finally selected (Bartlett, Ghoshal and Birkinshaw, 2004; Porter, 1985). There are two broad directions of configuration of value-adding activities:

concentration or *dispersal*. In some industries there are advantages to be obtained from concentrating activities in a small number of countries and exporting to foreign markets. This is true when locational factors are important and regional advantages may be gained (Dunning, 1992, 1998; Porter, 1990). Competitive advantage may also arise from dispersing activities in several countries. Dispersed activities involve foreign direct investment. It is best to disperse activities when: (1) transportation, communication, or storage costs are high; (2) factors like exchange rates and political risk are important; (3) national markets differ because of culture; and (4) governments exert influence via tariffs, subsidies and nationalistic purchasing (governments tend to favor location of whole value chain in their country) (Dunning, 1992, 1998; Porter, 1990). In addition to adopting the optimum configuration, competitive edge can be gained by efficient and effective *coordination* of diverse activities, which could be located in a number of different countries. Coordination involves sharing information, allocating responsibility, and aligning efforts (Porter, 1990). It is differing linguistic, cultural, political, legal, technological and economic factors, coupled to geography and distance, which pose the problems that require worldwide coordination.

Strategic Integration is concerned with how an MNC's competitive battles are planned and executed across country markets (Jayachandran, Gimeno and Varadarajan, 1999; Zou and Cavusgil, 2002). A key to worldwide marketing strategy success is participation in all major world markets to gain competitive leverage and effective integration of the firm's competitive campaigns across these markets (Birkinshaw, Morrison and Hulland, 1995; Yip, 1989, 2003; Zou and Cavusgil, 1996, 2002). MNCs may manage their markets and operations in different countries independently or interdependently. Some MNCs fight their competitors one country at a time in separate contests, even though it may face another MNC in many of the same countries (Yip, 2003). However, when markets and operations are perceived as interdependent, an MNC could subsidize operations in some markets with resources generated in others (Bartlett, Ghoshal and Birkinshaw, 2004; Birkinshaw, Morrison, and Hulland, 1995; Hamel and Prahalad, 1985) and respond to competitive attacks in one market by counterattacking in others (Jayachandran, Gimeno and Varadarajan, 1999; Yip, 1989, 2003). It is therefore important to integrate the firm's competitive moves across the major markets in the world (Bartlett, Ghoshal and Birkinshaw, 2004; Birkinshaw, Morrison, and Hulland, 1995; Zou and Cavusgil, 2002). The same type of move may be made in different countries at the same time or in some systematic sequence (Douglas and Craig, 1989), or a competitor may be attacked in one country in order to drain its resources for another country, or a

competitive attack in one country could be countered in a different country (Jayachandran, Gimeno and Varadarajan, 1999). Perhaps, the best example is the counterattack in a competitor's market as a parry to an attack on one's own home market (Yip, 2004).

MNCs' ADMINISTRATIVE AND CULTURAL HERITAGE

A firm's worldwide strategy is shaped not only by its current external environment but also by its past internal management biases. In particular, MNCs are influenced by the path by which they developed and the values, norms, and practices of their management. Firms are, to a significant extent, captives of their past (*i.e.*, their *administrative and cultural heritage*) (Ghoshal and Bartlett, 1998). MNCs as any organizations are symbolic entities; they function according to implicit models in the minds of their members, and these models are culturally determined (Hofstede, 2001). There is strong evidence that culture plays an important and enduring role in shaping the assumptions, beliefs, and values of individuals (Hofstede, 1980b, 1991, 2001; Hall, 1976, 1983; Trompenaars and Hampden-Turner, 1998; Usunier, 2000) (*cf.* box 1).

Box 1: Hofstede's Cultural Dimensions

Perhaps the most celebrated effort to date to describe and categorize these differences in the orientations and values of people in different countries is Hofstede's (1980b, 1991, 2001; Bond *et al.*, 1987) study (Questionnaire data from 116,000 IBM employees in 72 countries across seven occupations.) that described national cultural differences along five key dimensions: *Power Distance* (PDI), *Individualism* (IDV), *Masculinity* (MAS), *Uncertainty Avoidance* (UAV), and *Long-Term Orientation* (LTO).

Power Distance is the extent to which the less powerful members of organizations and institutions accept and expect that power is distributed unequally. The basic problem involved is the degree of human inequality that underlies the functioning of each particular society.

Individualism on the one side versus its opposite *collectivism* is the degree to which individuals are supposed to look after themselves or remain integrated into groups, usually around the family. Positioning itself between these poles is a very basic problem all societies face.

Masculinity versus its opposite, *femininity*, refers to the distribution of emotional roles between genders, which is another fundamental problem for any society to which a range of solutions are found; it oppose "tough" masculine to "tender" feminine societies.

Uncertainty Avoidance is the extent to which a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. Unstructured situations are novel, unknown, surprising, different from usual. The basic problem involved is the degree to which a society tries to control the uncontrollable.

Long-Term versus Short-Term Orientation refers to the extent to which a culture programs its members to accept delayed gratification of their material, social, and emotional needs. Cultures with a long-term orientation exhibit a pragmatic future-oriented perspective (fostering virtues like perseverance and thrift), rather than a conventional historic or short-term point of view.

Country scores on each of the dimensions are provided

Country	PDI	IDV	MAS	UAV	LTO
Australia	36	90	61	51	31
Brazil	69	38	49	76	65
Canada	39	80	52	48	23
China	80	15	55	40	114
France	68	71	43	86	—
Germany	35	67	66	65	31
Great Britain	35	89	66	35	25
Hong Kong	68	25	57	29	96
India	77	48	56	40	61
Japan	54	46	95	92	80
Netherlands	38	80	14	53	44
Singapore	74	20	48	8	48
South Korea	60	18	39	85	75
Switzerland	34	68	70	58	—
United States	40	91	62	46	29

In the next paragraphs, we review the four worldwide generic strategies and their adoption by international firms has been influenced by the administrative and cultural heritage.

FOUR GENERIC WORLDWIDE STRATEGIES

Bartlett and Ghoshal (Bartlett, Ghoshal and Birkinshaw, 2004; Ghoshal and Bartlett, 1998) have identified four generic worldwide strategies: (1) an *international strategy*; (2) a *multinational strategy*; (3) a *global strategy*; and finally (4) a *transnational strategy*.

International Strategy

In the earliest stages of a firm's internationalization, managers tend to think of the overseas operations as some kind of distant outposts whose main role is to support the domestic parent company in different ways such as contributing incremental sales of the domestic product, or supplying raw materials or components to the domestic manufacturing operations. Bartlett and Ghoshal (Bartlett, Ghoshal and Birkinshaw, 2004; Ghoshal and Bartlett, 1998) have labeled this generic strategy, *international strategy*. The international terminology derives directly from Vernon (1966)'s international product cycle theory (*cf.* box 2), which states that products are first developed for a firm's domestic market, and only subsequently sold abroad. This strategy is primarily based on transferring and adapting the parent company's knowledge or capabilities to foreign markets. The parent retains considerable influence and control over the foreign subsidiaries, but less than with the global strategy (*see* below) and the foreign subsidiaries can adapt to the needs and preferences of their local markets products and ideas

coming from the center, but have less independence and autonomy than with a multinational strategy (Ghoshal and Bartlett, 1998).

Box 2: Vernon's International Product Cycle Theory

This theory suggests that the starting point for the internationalization process is typically an innovation that a firm creates in its home country. In the first phase of exploiting the innovation, the firm will build production facilities in its home market not only because this is where its main customer base is located, but also because of the need to maintain close linkages between research and production in this phase of the development cycle. In this early stage, some demand may also be created in other countries where consumer needs and market development are similar to the home country. These requirements would normally be met out of home production, thereby generating exports for the firm.

As the product matures and production processes become standardized, the firm enters a new stage. By this time, demand in the foreign countries may have become quite sizable and export sales, from being a marginal side benefit, are now an important part of the revenues from the new business. Furthermore, competitors will probably begin to see the growing demand for the new product as a potential opportunity to establish themselves in markets served by exports. To prevent or counteract such competition and also to meet the foreign demand more effectively, the innovating firm typically sets up production facilities in the importing countries, thereby making the transition from being an exporter to becoming a true MNC.

Finally, in the third stage, the product becomes highly standardized and many competitors enter the business. Competition now focuses on price and, therefore, on cost. This activates a resource-seeking motive, and the firm moves production to low-wage developing countries, both to meet local demand that has by now sprung up in these countries, and also to meet the demands of its customers in the developed markets at a lower cost. (Source: Vernon, 1966)

Traditionally, a firm following an international strategy can choose between one of three basic marketing adaptation options (Keegan, 2000): (1) product standardization-communication adaptation, (2) product adaptation-communication standardization, or (3) product adaptation-communication adaptation. The first option, product standardization-communication adaptation, is often chosen when reasons for buying a product differ from country to country, but the usage conditions and standards remain identical. In this case, the same product can be marketed but with a change in the communications strategy. This strategy is quite cost-effective, because communications adaptation is less expensive than tailoring a product to the local market. The second option, product adaptation-communication standardization, is appropriate when the physical event surrounding product usage varies but the sociocultural event is the same as in the firm's home country. Kotler (2000) mentions the example of Kraft that blends different coffees for the British (who drink their coffee with milk), the French (who drink their coffee black), and Latin Americans (who want a chicory taste). Finally, the third option of dual adaptation of product and communication is generally favored for a product when both usage conditions and sociocultural concerns vary among markets.

Many U.S. MNCs, such as Kraft, Pfizer, Procter & Gamble, and General Electric, enjoyed their fastest international expansion in the 1950s and 1960s (*cf.* Ghoshal and Bartlett, 1998). At that time, their main strength laid in the new technologies and management processes they had developed as a consequence of being located in the world's largest, richest, and most technologically advanced market. After the war, their foreign expansion focused primarily on leveraging this strength. The management approach in most these U.S. firms was built on a willingness to delegate responsibility, while retaining overall control through sophisticated management systems and specialist corporate staffs (Ghoshal and Bartlett, 1998; Taggart, 1997). Foreign subsidiaries were often free to adapt products or marketing strategies to reflect local differences, but their dependence on the parent company for new products, processes, and ideas dictated a great deal of coordination and control by headquarters. The main handicap such companies faced was that parent-company management often adopted a parochial and even superior attitude toward international operations, perhaps because of the assumption that new ideas and developments all came from the parent. Nonetheless, the approach was highly successful in the postwar decades. While these companies built considerable strengths out of their ability to create and leverage innovations and marketing knowledge, many suffered from deficiencies of both efficiency and flexibility since they did not develop either centralized and high-scale operations, or a very high degree of local responsiveness. Even until recently, it is not infrequent for a U.S. firm to start its internationalization process with an international strategy (*cf.* box 3)

Box 3: McDonald's in India

The McDonald's formula, hugely successful as it is, was always going to have to be adapted to a place such as India where killing cows is sacrilege. But burger joints are not the only ones that need to be careful, Western firms tempted by India's growing middle class, have to be sensitive to the country's definite tastes. McDonald's, which now has 56 restaurants in India, was launched there in 1996. It has had to deal with a market that is 40% vegetarian, with the aversion to either beef or pork among meat-eaters, with hostility to frozen meat and fish, and with the general Indian fondness for spice with everything. To satisfy such tastes, McDonald's has discovered that it needs to do more than provide the right burgers. Customers buying vegetarian burgers want to be sure that these are cooked in a separate area in the kitchen using separate utensils. Sauces like McMasala and McImli are on offer to satisfy the Indian taste for spice. McDonald's promises to introduce a spiced version of its fries soon.

Although its expansion has been faster in India than some other Asian countries such as Indonesia, it has hardly been rapid. Yet, at least, the firm has avoided the disasters of some other big American names. In the mid 90s', violent protests in Bangalore in southern India over the quality of its food temporarily closed KFC which sells fried chicken. In 1995, Kellogg made a splash pitching breakfast cereals as a healthier alternative to the heavy Indian breakfast. Indians were unimpressed. Kellogg facing mounting losses is now selling to a westernized niche market instead.

Most of U.S. companies have got three things wrong in India with their international strategy. They overestimated the size and disposable income of the much-touted Indian middle class. They

underestimated the strength of local products in the markets they were entering and they overestimated the value of their reputation. Indian consumers seem unimpressed by the glamour of the western brands, food companies are scaling down their plans accordingly (Source: *The Economist*, 1997)

Multinational Strategy

A *multinational strategy* is adopted when managers recognize and emphasize the differences among national markets and operating environments. Forces for localization include culture-driven differences in national tastes and preferences; government policies that demand high levels of local content; technological developments such as flexible manufacturing that have dramatically reduced the minimum efficient scale of production for some products; and the greater role of maintenance, financing and other services as tools of competition as customers become more demanding. The multinational strategic approach focuses primarily on national differences to achieve most of its strategic objectives. Firms following a multinational strategy adopt a more flexible approach to their international operations by modifying their products and marketing strategies country by country in response to national differences in customer preferences, industry characteristics, and government regulations.

Many European companies such as Unilever, ICI, Philips, and Nestlé have traditionally followed this strategic model (*c.f.* Ghoshal and Bartlett, 1998). In these companies, assets and resources historically were widely dispersed, allowing overseas subsidiaries to carry out a wide range of activities from development and production to sales and services. Their self-sufficiency was typically accompanied by considerable local autonomy (Jarillo and Martinez, 1990; Taggart, 1997). But, while such independent national units were unusually flexible and responsive to their local environments, they inevitably suffered problems of inefficiencies and an inability to exploit the knowledge and competencies of other national units.

The emerging configuration of distributed assets and delegated responsibility fit well with the ingrained management norms and practices in many European companies (Ghoshal and Bartlett, 1998). Because of the important role of owners and bankers in corporate-level decision-making, European companies, particularly those from the United Kingdom, the Netherlands, and France, developed an internal culture that emphasized personal relationships rather than formal structures, and financial controls more than coordination of technical or operational detail. This management style, philosophy, and capability tended to reinforce companies' willingness to delegate more operating independence and strategic freedom to

their foreign subsidiaries. Highly autonomous national companies were often managed more as a portfolio of offshore investments rather than as a single international business.

Global Strategy

While a multinational strategy typically results in very responsive marketing approaches in the different national markets, it also gives rise to an inefficient manufacturing infrastructure within the company (Levitt, 1983). Local production plants are often built more to provide local marketing advantages or to improve political relations than to maximize production efficiency (Dunning, 1992). Similarly, the proliferation of products designed to meet local needs also contributes to a general loss of efficiency in design, production, logistics, distribution, and other marketing tasks. In an operating environment of improving transportation and communication infrastructures and falling trade barriers, some MNCs adopted a very different strategic approach in their international operations. These firms, many of them of Japanese origin, think in terms of creating products for a world market and marketing them on global scale, often at the corporate center. They try to gain a competitive advantage through building global efficiencies through economies of scale and economies of scope (Chandler, 1990).

Scale efficiency is used as a competitive tool primarily because it has the potential to yield reduction in production costs by spreading the fixed costs over a higher volume of output. Further cost reduction from scale arises from the learning curve effect (Lieberman, 1984; Pattison and Teplitz, 1989). This is because as production volume increases, the employees involved in the production process accumulate experience and learning, which result in steady reduction in costs as the firm moves down its learning curve. Global efficiencies are influenced not only by the scale economies of its various activities, but also by the presence of cost saving across functions or units. Economies of scope exit when "it is less costly to combine two or more products lines in one firm than to produce them separately" (Panzar and Willig, 1981, p. 268). The strategic importance of scope economies arises from a diversified MNC's ability to share investments and costs across the same or different value chains. Such sharing can take place across segments, products, or markets. Sony is an example of a firm that has captured scope economies through the exploitation of a single brand name across diverse markets and Matsushita have benefited considerably from its ability to market a wide range of products (radios, TVs, tape recorders, VCRs) through the same distribution channel. Another important component of scope economies is shared knowledge. NEC, for example, is

seeking global efficiency through the combination of its competencies in computer and communication technologies.

Globally standardized products can increase competitive leverage by providing low-cost products that can be the basis for invading markets (Yip, 2003). When they first entered world markets, most Japanese firms lacked the resources to develop and support different products for different countries. Turning this weakness into a strength, they focused on a small number of globally standardized products that initially via low cost, then via superior quality, allowed them to conquer market after market (Yip, 2003).

This strategy is defined as a *global strategy* because it views the world as its unit of analysis. The underlying assumption is that national tastes and preferences are more similar than different, or that they can be made similar by providing customers with standardized products with adequate cost and quality advantages over those national varieties that they have been used to (Jain, 1989; Levitt, 1983; Ohmae, 1989; Samiee and Roth, 1992). This strategic approach requires considerably more central coordination and control than the others. In such companies, research and development, manufacturing, and marketing activities are typically managed from the headquarters, and most strategic decisions are also taken at the center. For firms adopting a global strategy, a competitive advantage depends primarily on the search for global efficiency. Such MNCs use all the different means to achieve the best cost and quality positions for their products and services (*i.e.*, Johnson, 1995; Roth and Morrison, 1990). This has been the typical approach of many Japanese companies such as Toyota, Canon, Komatsu, and Matsushita (*cf.* Ghoshal and Bartlett, 1998). Such a global strategy, with its focus on cost control, requires a tight central control of product development, procurement, manufacturing, and marketing. Such an approach fit the cultural background and organizational values in many Japanese MNCs. At the foundation of the internal processes were the strong national cultural norms that emphasized group behavior and valued interpersonal harmony. By keeping primary decision-making and control at the center, Japanese companies could retain their culturally dependent management system that is communications-intensive and people-dependent.

Alternative Global Strategies

Porter (1990) developed a model global strategy based upon the generic strategy framework (Porter, 1980, 1985). He argued that the generic cost leadership or differentiation strategies can be operated on a global scale as either global cost leadership or global differentiation, targeting either an entire global market or a particular global segment. In other words, the scope of the strategy can be either broad or

narrow but on a global scale. Each of these archetypical strategies represents a fundamentally different conception of how to compete. In shipbuilding, for example, Japanese firms follow the *differentiation* strategy, offering a wide array of high-quality vessels at premium prices. Korean shipyards pursue the *cost leadership* strategy, also offering many types of vessels at lower cost that can Japanese firms. Successful Scandinavian yards are *focused differentiators*, concentrating on specialized types of ships such as icebreakers and cruise ships that involve specialized technology and which commend prices high enough to offset higher Scandinavian labor costs. Finally, Chinese shipyards (*cost focus*), the emerging competitors in the industry, offer relatively simple, standard vessel types at even lower costs (and prices) than the Koreans (Porter, 1990, p. 39).

As several companies have found, however, such efficiency comes with some compromise of both flexibility and learning. For example, concentrating manufacturing to capture global scale may also result in a high level of inter-country product shipments that can raise risks of policy intervention, particularly by host governments in major importer countries. Similarly, companies that centralize R&D for efficiency reasons often find they are constrained in their ability to capture new developments in countries outside their home markets or to leverage innovations created by foreign subsidiaries in the rest of their worldwide operations (Ghoshal and Bartlett, 1998).

Transnational Strategy

Throughout the 1970s and 80s, many of the firms pursuing a global strategy were very successful (Ghoshal and Bartlett, 1998). In a rapidly globalizing environment, they dominated, not only local companies, but international and multinational competitors as well. Their very success, however, created and strengthened a set of countervailing forces of localization. Customers contributed to the strengthening of the localizing forces by rejecting homogenized global products and reasserting their national preferences, albeit without relaxing their expectation of high-quality and low costs that global products had offered (Holt, Quelch and Taylor, 2004; Quelch, 2003). As a result, many global firms recognized that the demands to be responsive to local market and the pressures to develop global-scale competitive efficiency were simultaneous (Ghoshal and Bartlett, 1998; Holt, Quelch and Taylor, 2004) (*cf.* box 4). Under these conditions, the either/or attitude reflected in both the multinational and the global strategic strategies were increasingly inappropriate. The emerging requirement was for companies to become more responsive to local needs while retaining their global efficiency, an emerging approach to worldwide management that Bartlett and Ghoshal (Bartlett, Ghoshal and Birkinshaw, 2004; Ghoshal and Bartlett, 1998) call the *transnational strategy*.

Box 4: Global Brands

“Although Levitt (1983) did not explicitly discuss branding, managers interpreted his ideas to mean that [MNCs] should standardize products, packaging, and communication to achieve a least-common-denominator positioning that would be effective across cultures. From that commonsense standpoint, global branding was only about saving costs and ensuring consistent customer communication. The idea proved to be popular in the 198s, when several countries opened up to foreign competition and American and Japanese corporations tried to penetrate those markets with global brands and marketing programs. While the world economy continued to integrate, experiments with global branding soon slowed. Consumers in most countries had trouble relating to the generic products and communications that resulted from companies’ least-common-denominator thinking. Executives therefore rushed to fashion hybrid strategies. They strove for global scale on backstage activities such as technology, production, and organization but made sure product features, communications, distribution, and selling techniques were customized to local consumer tastes. Such “glocal” strategies have rule marketing ever since” Holt, Quelch and Taylor, 2004, p. 68.

In such firms, key activities and resources are neither centralized in the parent company, nor decentralized so that each subsidiary can carry out its own tasks on a local-for-local basis. Instead, the resources and activities are dispersed but specialized, so as to achieve efficiency and flexibility at the same time. Furthermore, these dispersed resources are integrated into an interdependent network of worldwide operations. In contrast to the global model, the transnational strategy recognizes the importance of flexible and responsive country-level operations (Jarillo and Martinez, 1990; Taggart, 1997). Compared to the multinational strategy, the transnational strategy provides mechanisms for linking and coordinating foreign subsidiaries’ operations to retain competitive effectiveness and economic efficiency.

Customizing Global Marketing

According to Quelch and Hoff (1986), how far a company can move toward global marketing depends a lot on its evolution and traditions (*i.e.*, its administrative and cultural heritage). To support their argument, the provide two examples:

(1) Although the Coca-Cola Company had conducted some international business before 1940, it gained true global recognition during World War II, as Coke bottling plants followed the march of U.S. troops around the world. Management in Atlanta made all strategic decisions then, and still does now. The brand name, concentrate formula, positioning, and advertising theme are virtually standard worldwide, but the artificial sweetener and packaging differ across countries. Local managers are responsible for sales and distribution programs, which they run in conjunction with local bottlers.

(2) The Nestlé approach also has its roots in history. To avoid distribution disruptions caused by wars in Europe, to ease rapid worldwide expansion, and to respond to local consumer needs, Nestlé granted its local managers considerable autonomy from the outset. While the local managers still retain much of that decision-making power today, Nestlé headquarters in Vevey has grown in importance. Nestlé has transferred to its central marketing staff many former local managers who had succeeded in their Nestlé businesses and who now influence country executive to accept standard new product and marketing ideas. The trend seems to be toward tighter marketing coordination.

Conclusion

In terms of marketing strategy, George Yip's (2003) view is that a worldwide marketing strategy must be part of a worldwide business strategy. A global strategy will be appropriate when customer needs are globally common, when there are global customers and channels, and when marketing is globally transferable. In addition, cost drivers are likely to favor a global approach to marketing by creating economies of scale and scope. There are also competitive advantages of global marketing, through, for example, global branding. Yip did not advocate a marketing strategy which is global in every detail, rather one which is global where there are evident advantages and local where necessary: So global marketing is not a blind adherence to standardization of all marketing elements for its own sake, but a different, global approach to developing marketing strategy and programs that blends flexibility with uniformity (Yip 2003). In essence, then, a transnational marketing strategy is concerned with devising a strategy which is global in scope and which is globally coordinated. The extent of globalization of each element of the strategy will be dependent upon the organization's transnational strategy and the relative advantages of globalization or localization based on factors such as customers needs.

In the first section of this chapter, we have presented the four generic strategies that a MNC can follow to gain a competitive advantage in worldwide markets: the international, multinational, global and transnational strategies. We have also explain that firms are, to a significant extent, captives of their administrative and cultural heritage and that, due to this heritage, typical American MNCs have tended to follow an international strategy, typical European MNCs have tended to follow a multinational strategy, and typical Japanese MNCs have tended to adopt a global strategy. Finally, we have shown that more recently, due to a convergence phenomenon, MNCs from all regions are now adopting a transnational strategy. In the next section, we present how these four generic strategies at corporate-level influence marketing strategic decision-making.

DECISION-MAKING ABOUT MARKETING ACTIVITIES

Within the general framework introduced in the first section of this chapter, decision-making about marketing activities in a MNC has two important dimensions: (1) decision-making *configuration*, which refers to the location of various marketing decision centers through the world (geographically centralized or decentralized); and (2) decision-making *coordination*

and *integration*, which refers to the extent of standardization or adaptation of marketing decisions internationally.

When centralized decision-making is in place, most important decision are made at the top; if decentralized decision making is in place, decision are delegated to operating personnel. Another issue is how decision-making is used to help the subsidiary respond to the economic and political demands of the country. Sometimes, these decisions are heavily economic in orientation and may concentrate on things such as return on investment for overseas operations. Other times, decisions are a result of cultural differences. For example, the performance evaluation decisions of local personnel by expatriate managers are greatly affected by the expatriate's cultural values (*cf.* Hofstede, 1980b, 1991, 2001). The best way to illustrate differences in decision-making styles in the international arena is to give some comparative examples (*cf.* box 5).

Box 5: The Impact of Culture on Decision-Making Processes

Given the differences in value orientations, Hofstede has long questioned whether American theories could be applied abroad and discussed the consequences of cultural differences in terms organization and decision-making processes (Hofstede, 1980a). He argued, for example, that firms in countries with high power distance would tend to have more levels of hierarchy (vertical differentiation), a higher proportion of supervisory personnel (narrow span of control), and more centralized decision-making. In countries with high uncertainty avoidance, firms would tend to have more formalization evident in a greater amount of written rules and procedures. Also there would be greater specialization evident in the importance attached to technical competence in the role of staff and in defining jobs and functions. In countries with a high collectivist orientation, there would be a preference for group as opposed to individual decision-making. Consensus and cooperation would be more valued than individual initiative and effort. In countries ranked high on masculinity, the management style is likely to be more concerned with task accomplishment than nurturing social relationships.

Two particularly important cultural dimensions are power distance and uncertainty avoidance: power distance is involved in answering the question of who decides what (headquarters or subsidiaries), and uncertainty avoidance is involved in answering the question how one (the headquarters) can assure that what should be done will be done (Hofstede, 1980a, 2001; Pugh and Hickson, 1976). Latin countries that are high both on power distance and uncertainty avoidance are more *mechanistic* (Burns and Stalker, 1961) (*i.e.*, bureaucratic). Nordic countries, and to a lesser extent, the Anglo countries, that rank low both on power distance and uncertainty avoidance are more *organic* (Burns and Stalker, 1961) (*i.e.*, less hierarchic, more decentralized, having less formalized rules and procedures). In Germanic societies where power distance is low but uncertainty avoidance is high, organizations where hierarchy is downplayed, decisions are decentralized, but where rules and regulations are more formal, and task roles and responsibilities are more clearly defined. Thus there is no need for a boss, as the organization runs by routines. In Asian organizations where power distance is high but uncertainty avoidance is low, organizations resemble families or tribes. Here, headquarters are the boss, and the relationship between headquarter and subsidiaries may be described as paternalistic. Subsidiaries do not have clearly defined task roles and responsibilities (formalization), but instead social roles.

Douglas and Craig (1989) emphasized the importance of coordination and integration issues by relating changes in marketing strategic decisions to the evolution of a firm's worldwide

strategy over time. They identified three main phases in the evolution of worldwide marketing strategy with each stage presenting new strategic challenges and decision priorities to the firm.

- *Phase one*: Phase one represents the initial stage of international market expansion where the main strategic decisions facing the business include the choice of country to enter, the mode of entry adopted and the extent of product standardization or adaptation.
- *Phase two*: Once the company has established a 'beachhead' in a number of foreign markets, it then begins to seek new directions for growth and expansion, thus moving to phase two of internationalization. The focus in this stage is mainly on building market penetration in countries where the company is already located. In consequence, the expansion effort is mainly directed by local management with marketing strategy being determined on a country-by-country or nationally responsive basis.
- *Phase three*: It is the third evolutionary phase which is the most important in the context of global marketing. In phase three the business moves towards a global orientation. The country-by-country approach to marketing is replaced by one in which markets are viewed as a set of interrelated and interdependent entities. These are increasingly integrated and interlinked worldwide and coordination and integration of global marketing becomes essential to fully exploit the competitive advantages to be derived from the company's global scope. According to Douglas and Craig (1989) there are two key strategic thrusts in phase three.

  First, the drive to improve the efficiency of worldwide operations through coordination and integration. This will cover both marketing activities such as product development, advertising, distribution and pricing; but also related production, sourcing and management. Standardization of product lines globally, for example, will facilitate the development of a globally integrated production and logistics network.

  The second key strategic thrust is the search for global expansion and growth opportunities. This will involve a range of activities including opportunities for transferring products, brand names, marketing ideas, skills and expertise between countries; the identification of global market segments and target customers; and worldwide product development aimed at global markets.

After having presented and shown the importance of the two dimensions of decision-making that are configuration and coordination, we need to explain, now, how these dimensions are

combined in four different types of decision-making processes consistent with the international, multinational, global and transnational strategies.

International Decision-Making

First, we present decision-making in MNCs having adopted an international strategy. As we have mentioned earlier, an international strategy is primarily based on transferring and adapting the parent firm's knowledge or capabilities to foreign markets. In firms following this strategy, the parent retains considerable influence and control over decisions related to its core competencies and the foreign subsidiaries have responsibility over the decisions on how to leverage these competencies by adapting products and other marketing activities to the needs and preferences of their local markets (Ghoshal and Bartlett, 1998). Carrefour, the French retailer, for example, uses a standardized hypermarket format, it adapt from country to country (*cf.* box 6).

Box 6: Carrefour's Internationalization

Carrefour has become the first retailer in Europe, second largest worldwide, leader in nine countries and has more than 9200 stores in 30 countries. More than 50 percent of its revenues came from its international stores. Carrefour international strategy is based on the hypermarket format with local adaptability. For example, while the store format is the same anywhere around the world, the company sells hot meals to French customers in France, Pasta in Argentina and Italy, and it has sushi bars in most Asian countries. The success of Carrefour export of its hypermarket concept is due, at least in part, to its careful choice of countries and the ability to adapt its format to local business environments. The internationalization concept of Carrefour is based on: (1) A simple and clear idea – people in major cities prefer to do all their shopping under one roof. Carrefour's logic is based on the belief that choice, self-service, free parking and low prices have universal appeal. Although these principles might seem simple, the introduction of free parking in South Korea and Singapore was considered revolutionary given the high cost of land in these countries; (2) Evolving ideas – each hypermarket around the world should keep reinventing itself to meet the demands of local customers. For instance, the company has recently introduced organic food in France, optical shops and tire installation in Taiwan and gas stations in Argentina. Different formats are present in different countries; while the hypermarket model is the only format in emerging economies in South America and Asia; different formats exist in European countries. In addition, in contrast to its standard entry mode by ownership, Carrefour entered several countries – the United Arab Emirates, Madagascar, Qatar, Romania, Santo Domingo, Tunisia through a franchise partnership. (**Source:** www.carrefour.com)

Multinational Decision-Making

As we already mentioned, a multinational strategy is adopted when managers recognize and emphasize the differences among national markets and operating environments. Firms following such a strategy focus primarily on national differences and adopt a more flexible approach to decision-making and marketing strategies country by country in response to

national differences in customer preferences, industry characteristics, and government regulations. To better sense and exploit local opportunities, decision-making is decentralized. Furthermore, decisions related to the foreign operations tend to be made in an opportunistic or ad hoc manner (*cf.* box 7).

Box 7: Heineken's First Foreign Markets

The internationalization history of Heineken, the Dutch brewer, provides a classic example of choices made on the basis of stand-alone attractiveness. Heineken's first foreign markets were Egypt, Ceylon, Singapore, Indonesia, the West Indies, and the Congo. What did these six countries have in common? Heineken chose the first five countries because they were either former Dutch colonies or on shipping routes to them. These factors made those markets very attractive to Heineken, even though each country had little effect on Heineken's global position. The last country on the list, the Congo, came about because a Belgian brewer, which also had business in the Congo, had been sold to a Belgian bank, which then asked Heineken to take care of the company. **Source:** Presentation at the Annual of the Strategic Management Society in Amsterdam on October 19, 1988 by G, van Schaik, vice chairman and executive board director, Heineken N.V. quoted by Yip (2003, p. 65).

Global Decision-Making

A global strategy requires considerably more central coordination and control than the international or the multinational strategies. In MNCs following such a global strategy, research and development, manufacturing, and marketing activities are typically managed from the headquarters, and most strategic decisions are also taken at the center. The role of the subsidiaries is mainly to implement headquarters' decisions.

In such firms, decision about the internationalization process is highly integrated, market are selected and entered according to a well-crafted global plan (*cf.* box 8).

Box 8: Japanese Firms' Expansion Path

Japanese firms often use a global strategic approach to market selection. Kotler, Fahey and Jatusripitak (1985) identified three typical path of expansion used by Japanese firms, each with a clear global plan. The most common was to move from Japan to developing countries to developed countries. This occurred in steel, automobiles, petrochemicals, consumer electronics, home appliances, watches, and cameras. In this path the Japanese companies built up experience and capacity in the smaller and easier developing countries. Typically, the United States was then the first developed country to be penetrated, because of its large size; its relative closeness to Japan; and the lower level of tariff, cultural, and language barriers than in Europe. The second expansion path, going straight to developed countries, particularly the U. S., occurred in high-technology industries such as computers and semiconductors. In this expansion mode the Japanese also sometimes used countries similar to the United States as trial markets. Fujitsu used Australia this way in computers. A third expansion path was to start directly with developed countries. This happened with products for which the Japanese home market was still not developed or too small (for example, videotape recorders, color televisions, and sewing machines).

Transnational Decision-Making

In firms following a transnational strategy, decisions that need corporate management supervision or protection from corporate espionage are usually concentrated at the home country corporate headquarters. These include decisions such as on basic research underpinning the firm's core competencies, treasury function and international management development responsibility. Some other strategic decisions are concentrated in different subsidiaries in a configuration described by Ghoshal and Bartlett (1998) as *excentralization* rather than decentralization. *Excentralisation* requires the distribution and specialization of decision-making in such a way that the MNC is able to exploit the comparative advantages of the different countries where it has operations and at the same time attain scale efficiency in these operations (Dunning, 1992; Ghoshal and Bartlett, 1998). An MNC, advertising and Marketing decisions may be centralized in London, when decisions about production coordination are concentrated in South West Asian, and when decisions concerning new product development are made in Silicon Valley. Other decisions, such as advertising campaigns and media planning, are distributed in individual subsidiaries because the benefits of flexible local responsiveness exceed those of economies of scale. The loss of coordination arising from this distribution of decisions is compensated by its potentials for responsiveness to specific national needs and political interests, flexibility, labor disputes, natural calamities and other localized disruptions, and reduction of coordination costs. The result is a complex configuration of assets, resources, and capabilities that centralizes some decisions at home, excentralizes some abroad, and distributes yet others among the MNC's many national operations.

Nestlé's Brand Strategy

It is evident that the decision to brand globally or locally is not simple. Many MNCs therefore adopt a hierarchy of global, regional and local brands (Kotabe and Helsen, 2004) to combine the benefits of global and local branding. The Swiss company Nestlé has, for example: 10 global corporate brands including Nestlé, Carnation, Perrier; 45 global strategic brands including Kit Kat, Polo, Smarties, After Eight; 140 regional strategic brands including Macintosh, Vittel, Contadina; and 7500 local brands including Texicana, Rocky, etc.

Conclusion

In this section, we have shown the influence of culture on MNCs decision-making and presented the four generic decision-making processes used by MNCs having adopted an international, multinational, global or transnational strategy. We have also provided examples of marketing decision-making from MNCs following these different strategies. In the next sections, we present how these four generic decision-making strategies are implemented in two important marketing decisions: innovation and new product development and service quality strategies.

INNOVATION AND NEW PRODUCT DEVELOPMENT

The development and launch of new products or services is one of the most important marketing decisions. In competitive worldwide markets, to sustain growth and maintain profitability over the longer term, MNCs must develop a steady stream of new products or services (Kotler, 2000). Innovation and new product development are particularly important because of the rapid changes in customer tastes, technology and competition.

Traditionally, MNCs' innovative capabilities were dominated by one of two classic processes: *center-for-global* and *local-for-local* (Ghoshal and Bartlett, 1998). In a *center-for-global* innovation model, the new opportunity or risk that triggered an innovation was usually sensed in the home country, the centralized resources and capabilities of the parent company were brought to create the new product or process, and implementation involved driving the innovation through subsidiaries whose role was to introduce it to their local market. In contrast, *local-for-local* innovation relies on subsidiary-based knowledge development. Responding to perceived local opportunities, these local entities use their own resources and capabilities to create innovative responses that are then implemented in the local market. While most MNCs have tried to develop elements of both models of innovation, the tension that exists between the knowledge management processes supporting each usually means that one dominates (*cf.* box 9). Not surprisingly, the center-for-global innovation tends to dominate in firms following a global strategy, and the local-for-local innovation in firms following a multinational strategic model.

Box 9: Comparing U.S. and Japanese R&D Strategies

On national comparisons, Johnson (1984) compared the R&D strategies of Japanese and U.S. companies to determine whether differences in these had contributed to different competitive positions. He noted

that Japanese businesses: (1) invested more heavily in applied research and product development (and less in basic research projects); (2) invested more on building on preexisting products and technologies developed by other companies in the same or related industries, rather than in the development of new, unproven products or technologies; and (3) tended to follow the products or technologies of other businesses, rather than trying to be first.

This pattern of difference is by now well established, of course, and Johnson (1984) showed that over the period 1965-1981, Japanese companies pursuing such strategies had a substantially higher private rate of return than their U.S. counterparts. In seeking explanations for this, he emphasized the importance of differential government subsidiaries and tax incentives for R&D in the two countries. He also indicated that the U.S. government's strict enforcement of the patent system has deterred many U.S. companies from taking advantage of opportunities to build on the products and technologies of their foreign competitors.

In recent years, these traditional innovation processes have been evolving into new ways of developing and diffusing knowledge and innovative ideas. These new transnational innovation processes fall into two broad categories that Bartlett and Ghoshal (Bartlett, Ghoshal and Birkinshaw, 2004; Ghoshal and Bartlett, 1998) describe as *locally leveraged* and *globally linked*. The former involves ensuring that the special resources and capabilities of each national subsidiary are available not only to that local entity, but also to other MNC subsidiaries worldwide. The latter process of innovation pools the resources and capabilities of many different units-at both the parent company and subsidiary level-to jointly create and manage an activity. Both processes are associated with a transnational strategy.

International New Product Development

Firms following an international strategy do not have an international new product development strategy *per se*, but following Vernon (1966)'s international product cycle theory (*cf.* box 2), they first develop new products for their domestic market, and only subsequently sold these products abroad, usually with minimal adaptations. The process is primarily based on transferring and adapting the parent company's products characteristics to the foreign markets preferences. (*cf.* box 10)

Box 10: Xerox and Fuji Xerox

Fuji Xerox, the 50/50 joint venture established by Fuji Photo Film and Rank in 1962, was originally intended to be a marketing organization to sell xerographic products manufactured by Fuji Photo Film. When the Japanese government refused to approve a joint venture intended solely as a sales companies, however, the agreement was revised to give Fuji Xerox manufacturing rights. Fuji Xerox, not Fuji Photo Film, then became the contracting party with Rank Xerox, and received exclusive right to xerographic patents in Japan. As part of its technology licensing agreements with Rank Xerox, Fuji Xerox had exclusive rights to sell the machines in Japan, Indonesia, South Korea, the Philippines, Taiwan, Thailand, and Indochina. In return, Fuji Xerox would pay Rank Xerox a royalty of 5% on revenues from the sale of

xerographic products. Rank Xerox would also be entitled to 50% of Fuji Xerox's profits. A board of directors consisting of representatives from Rank Xerox and Fuji Photo Film was established to decide policy matters, while day-to-day operations were left to the Japanese management. Although Fuji Xerox adopted a number of business practices from Xerox, including organizational structure and the rental system, it remained distinctly Japanese throughout its history. At the establishment of the joint venture, a specific schedule was agreed upon, calling first for the sale of imported machines, then the assembly of imported knocked-down kits, and finally the domestic production of copiers. In 1971, Fuji Photo Film transferred its copier plants to Fuji Xerox. The same year, Fuji Xerox competed the construction of a 160'000 square-foot manufacturing and engineering facility. The transfer of production facilities to Fuji Xerox and the direct relationship established between Fuji Xerox and Xerox contributed to a continued strengthening of Fuji Xerox technical capabilities. Fuji Photo Film engineers had already been making modifications to Xerox designs in order to adapt the copiers to the local market; Japanese offices, for example, used different sized paper than American Offices. Fuji Xerox's CEO, however, advocated the development of long-term R&D capabilities that would enable the company to develop its own products. In particular, he envisioned a high-performance, inexpensive, compact machine that could copy books. At the time, Xerox's priorities were different. In addition to developing small machines for its local market, Fuji Xerox tried to stem the competitive onslaught with more aggressive strategies. The company began to offer two- and three-year rental contract as well as its standard one-year contract, and provided price incentives that were tied to contract length. During the 1970s, competition in the U.S. and European copier markets changed radically. Prior to that period, Xerox had had a virtual monopoly because of its xerography patents. But beginning in 1970, one competitor after another entered the industry, often with new and improved technologies. About 1978, Fuji Xerox offered to sell its small copiers to Xerox and Rank Xerox to help them counter Japanese competition in the U.S. and Europe. In 1979, largely because of Rank Xerox's success with Fuji Xerox products, Xerox began to import Fuji Xerox products too. Typically, in the year that the products were introduced in the U.S. Market, the machines were assembled by Fuji Xerox before export. Then, acceding to union demand in the U.S., Fuji Xerox exported them as knock-down units to be assembled at Xerox. Fuji Xerox developed its technological capabilities further in the 1980s, investing heavily in R&D. While it continued to rely on Xerox for basic research on new technologies, by the late 1980s very few of the models sold by Fuji Xerox in Japan had been designed by Xerox (Source: adapted from McQuade and Gomes-Casseres, 1992)

Global New Product Development

The key strength on which many Japanese firms built their global leadership positions during the 1970s and 80s in a diverse range of businesses, from zippers to automobiles, lies in the effectiveness of their center-for-global innovations (Ghoshal and Bartlett, 1998). This is not to say that they do not use some of the other operative modes, but in general, the Japanese are today's champion managers of centralized activities and tasks (Yip, 2003). In a center-for-global innovation model, the new opportunity or risk that triggered an innovation is usually sensed in the firm's home country, the centralized R&D department of the firms are brought to create the new product, and implementation involved driving the innovation through subsidiaries whose role is to introduce it to their local market.

Three factors stand out as the most important explanations of Japanese MNCs outstanding success in managing the center-for-global process: (1) gaining the input of subsidiaries into centralized activities, (2) ensuring that all functional tasks are linked to market needs, and (3) integrating value chain functions such as development, production, and marketing by

managing the transfer of responsibilities among them. For example, at Matsushita, the integrative systems rely heavily on the transfer of people. First, the career paths of research engineers are structured so as to ensure that a majority of them spend about five to eight years in the central research laboratories engaged in pure research, then another five years in the product divisions in applied research and development, and finally in a direct operational function, such as production or marketing, wherein they take line-management positions for the rest of their working lives. More important, each engineer usually makes the transition from one department to the next along with the transfer of the major project on which he has been working (Bartlett, 2002).

Multinational New Product Development

European MNCs rather prefer to develop local-for-local innovation processes, which rely on subsidiary-based knowledge development. For reasons related to their unique administrative and cultural heritage, European companies have a track record of local adaptation and functional excellence unmatched by other companies of comparable size, diversity, and maturity, to the extent that many European MNCs are often thought to be a domestic company in the countries in which they operate. Responding to perceived local opportunities, these local entities use their own resources and capabilities to create innovative responses that are then implemented in the local market. Of the many factors that facilitate local-for-local innovations, there are three that are the most significant: (1) the ability to empower local management in the different national organizations; (2) to establish effective mechanisms for linking the local managers to corporate decision-making processes; and (3) to force tight cross-functional integration within each subsidiary (*cf.* box 11).

Box 11: Philips's Multinational Innovation

Since it was founded in 1891, Philips has recognized the need to expand its operations beyond its small domestic market, but the successive barriers-poor transport and communication linkages in the early decades of the century, protectionist pressures in the 1930s, and the disruption of World War II—encouraged the company to build national organizations with a substantial degree of autonomy and self-sufficiency. Such dispersed managerial and technological resources, coupled with local autonomy and decentralized control over the resources, enable subsidiary managers to be more effective in managing local development, manufacturing, and other functional tasks, such as marketing (Source: adapted from Bartlett, 2002).

Transnational New Product Development

The complexity of the innovation and new product development processes in a MNC is significantly enhanced by the fact that the location of an opportunity is often different from the location where the complementary capability of the company is located. For example, while a company's hardware technology and main research laboratories may be in Japan, and its most-skilled software engineers may be in the United States, its fastest growth market opportunities may be in Europe (Johnson, 1995; Roth and Morrison, 1990). To tackle this challenge, firms following a transnational strategy have developed a two-pronged approach described by Bartlett and Ghoshal (Bartlett, Ghoshal and Birkinshaw, 2004; Ghoshal and Bartlett, 1998), as *locally leveraged* and *globally linked*. The locally leveraged and globally linked processes use linkages among different units of the firm to leverage existing resources and capabilities, regardless of their locations, to exploit opportunities that arise in any part of the firm's worldwide operations. This involves building an integrated network configuration featuring a combination of centralized, specialized and distributed assets and capabilities, to ensure that knowledge developed in headquarters or subsidiary units become available throughout the firm and that the special capabilities available in different units are pooled to tackle tasks in any part of the firm's worldwide operations. The two aspects of this approach ensure high levels of knowledge creation, diffusion, and worldwide learning within the MNC.

The first aspect of the approach is centralized knowledge development and diffusion. In this case, knowledge is developed in the centralized operations but also incorporating inputs from different subsidiaries to ensure that the centralized knowledge development process is market driven. The developed knowledge is diffused through transfer of personnel involved in the process to other units thereby broadening the scope for knowledge sharing. The second aspect of the approach is localized knowledge development in which empowered subsidiaries develop special knowledge based on creative responses to local environmental demands made possible by tight cross-functional integration.

Conclusion

While the two more sophisticated processes that result in transnational innovations are becoming more widespread, they have supplemented rather than replaced the traditional central and local innovation processes. In a competitive environment, most companies recognize the need to engage their resources and capabilities in as many ways as they can. In other words, they must maximize the number of processes through which they can develop

new knowledge, build new capabilities, and deploy new ideas rapidly around the globe. The challenge is to build an organization that can simultaneously facilitate all four processes of innovation and learning.

SERVICE QUALITY STRATEGIES

Beside innovation and new product development, another important strategic decision for MNCs is the one related to the quality of its products and services. Because, this decision is more complicated and more important in the case of services compared to the case of product (Zeithaml, Berry and Parasuraman, 1985, 1988), we will focus our attention, in the chapter, on service quality strategies. In services marketing, the concept of service quality plays a central role in understanding customer satisfaction and retention (Parasuraman, Zeithaml, and Berry 1985).

Typical services differ from physical products in four key ways: (1) they are *intangible* as they cannot be stored or readily displayed or communicated; (2) production and consumption of services are *inseparable*; (3) services cannot be inventoried, and production lines do not exist to deliver standardized products of consistent quality, therefore, delivered services are *heterogeneous* in nature; finally (4), because services cannot be stored, they assume a *perishable* nature (*e.g.*, Zeithaml, Parasuraman and Berry, 1985; Zeithaml and Bitner, 2003)[3]. These characteristics have a strong impact on the internationalization strategies of service firms as well as on the standardization or segmentation of service quality (Furrer, Liu, and Sudharshan, 2000; Lovelock and Yip, 1996; Vandermerwe and Chadwick, 1989). There are fewer opportunities to realize economies of scale with services than with physical products and guaranteeing service quality worldwide is more difficult (Gillespie, Jeannet and Hennessey, 2004).

However, not every service is equally affected by these characteristics. Lovelock and Yip (1996) distinguish between three categories of services: (1) *people-processing services*, that involve tangible actions to customers in person; (2) *possession-processing services*, that involve tangible actions to physical objects; and (3) *information-based services*, that depend on collecting, manipulating, interpreting, and transmitting data to create value. People-processing services necessarily involve a high degree of contact with service personnel and

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[3] Another important characteristic is the *absence of ownership* (Judd, 1964; Lovelock and Gummesson, 2004; Rathmell, 1966, 1974). This characteristic is, however, less relevant in the internationalization context we are discussing in this chapter.

facilities (Lovelock and Yip 1996); therefore, there is a need for segmentation to adapt these services to local cultures (Furrer, Liu and Sudharshan, 2000). On the contrary, possession-processing and information-based services have the potential to be much lower contact in nature (Lovelock and Yip 1996), so they can be standardized at the global level. That is, it is when services involve a high degree of interaction between customers and service personnel, that cultural elements have the greatest influence (Furrer, Liu and Sudharshan, 2000). Culture affects a number of aspects of the service experience, including customer expectations, the waiting experience, and the recruitment and behavior of service personnel (Gillespie, Jeannet and Hennessey, 2004) (*cf.* box 12). One element of service marketing that is particularly influenced by culture is service quality (Donthu and Yoo, 1998; Furrer, Liu and Sudharshan, 2000; Mattila, 1999; Winsted, 1997)

Box 12: Influence of Culture on the Service Experience

Customer Expectations: Customers may exhibit different expectations concerning service levels. Department stores in Japan still employ women in kimonos to bow and greet customers as they arrive at the store. Service personnel are available and solicitous. In the U.S., consumers tend to be willing to forgo high levels of service in favor of low prices. They are more accustomed to self-service and may even feel nervous in the presence of hovering salespeople (Gillespie, Jeannet and Hennessey, 2004).

The Waiting Experience: Time is always an aspect of services, and attitudes toward the time it takes to be served vary across cultures (Trompenaars and Hampden-Turner, 1998). For example, waiters in European restaurants take care not to hurry patrons. Eating a meal is supposed to be an enjoyable experience most often shared with friends. Servers also wait to be asked to deliver the bill for the meal. Diners may wish to sit for hours. Americans would wonder what had happened to their waiter. Americans expect fast service at restaurants and like the bill to be dropped promptly on the table. What would be a good service experience for a European diner would be a bad one for an American (Gillespie, Jeannet and Hennessey, 2004).

Service Personnel: In many cultures, such as the Middle East, working in a service occupation is often considered akin to being a servant. This social stigma can make it hard to recruit qualified personnel for some positions, especially those that require higher levels of education as well as technical and interpersonal skills. Until relatively recently, stewardesses for many airlines from the Middle East had to be imported from Europe, and nursing has never achieved the status in the Middle East as in the West. Men as well as women feel the stigma. It is not uncommon for well-paid technical repairmen, such as those in work in air conditioning, to dress in a suit and tie and carry their tools in a briefcase (Gillespie, Jeannet and Hennessey, 2004).

Service quality is one of the most important issues for service firms (Fisk, Brown and Bitner, 1993). Parasuraman, Zeithaml, and Berry (1985, 1988; Zeithaml, Berry, and Parasuraman 1988) identified five dimensions of service quality (SERVQUAL): *Reliability*, *Responsiveness*, *Assurance*, *Tangibles*, and *Empathy* that have been widely used by service firms. Of these five dimensions, reliability is the ability to perform the promised service dependably and accurately. Responsiveness is the willingness to help customers and provide

prompt service. Assurance is the knowledge and courtesy of employees and their ability to convey trust and confidence. Empathy is the caring individualized attention provided to the customer, and tangibles are the appearance of physical facilities, equipment, personnel, and communication materials.

However, the development of these service quality dimensions was based on research conducted across multiple contexts only within the U.S. (Zeithaml and Bitner, 2003) As a general rule, reliability comes through as the most important dimension of service quality in the U.S., with responsiveness also being relatively important when compared to the remaining three dimensions. But what happens when we look across culture? Are the service quality dimensions still important? Which ones are most important? (Furrer, Liu and Sudharshan, 2000). Recent studies by Winsted (1997), Donthu and Yoo (1998), Mattila (1999) and Furrer, Liu and Sudharshan (2000) have established a strong link between cultural dimensions and service quality.

For example, Furrer, Liu and Sudharshan (2000) used Hofstede's (1980b, 1991, 2001) cultural dimensions to assess whether service quality importance would vary across different cultural orientations. They found, in cultures with a large power distance, significant negative relationships between power distance and empathy, responsiveness, and reliability. In such cultures with a large power distance, customers are more likely to tolerate failure when service providers are perceived as experts. In cultures with a high degree of individualism, customers are more independent and self-centered. Individualists, due to their drive and self-responsibility ethic, demand that others be efficient and therefore demand a high level of service quality. During their relationships with a service provider, individualists also prefer to maintain a distance between themselves and the service provider. Due to their self-confidence and self-responsibility, Individualists do not expect to be assured by service providers. In cultures with a high degree of masculinity, customers expect a female service provider to be more feminine than professional. This is supported by the significant negative relationships between masculinity and responsiveness. In cultures with a high degree of masculinity, it is important for female service employees to have feminine appearance, which is supported by a significant positive relationship between masculinity and tangibles. In frequent service situations, uncertainty from the possibility of failure has to be reduced by the guarantee of a quick solution to problems. This hypothesis is supported by the significant positive relationships between uncertainty avoidance and responsiveness, assurance, empathy, and reliability. On the other hand, in frequent service situations, tangibles are less important

because they do not help reducing perceived risk of service failure. In cultures with a long-term orientation, long-term relationships with service providers are expected. In these cultures, reliability, responsiveness, and empathy are extremely important. Also significant are the negative relationships between long-term orientation and assurance and between long-term orientation and tangibles are also significant (*cf.* box 13). Furthermore, a study by Liu, Furrer and Sudharshan (2001) also showed that service customers from different cultures react differently when faced with poor quality services, if customers from cultures with lower individualism or higher uncertainty avoidance tend to complain less, customers from cultures with higher individualism or lower uncertainty avoidance tend to switch provider, engage in negative word of mouth, and complain.

Box 13: Cross-Cultural Preferences in Luxury Hotels

In the context of luxury hotels, customer with a Western cultural background (individualism, small power distance) rely more on the tangible cues from the physical environment and their Asian counterparts (collectivism, large power distance) are more likely to rely on deportment of service personnel staff. The hedonic dimension of consumption experience is also more important for Western consumers than for Asian ones (Source: Adapted from Mattila, 1999).

This relationship between culture and customers' perceptions of quality being stronger for service experiences than for the purchase of a tangible product, MNCs in service industries had to adapt their worldwide marketing strategies. Most service firms having started their internationalization later than most product firms, they learned from the experience of these firms (Vandermerwe and Chadwick, 1986). Recognizing that an international or a global strategy would be difficult due to the intangible nature of most services and the various cultures of their world customers and recognizing that a multinational strategy would be to costly to implement and to manage due to the large number of differences within and across cultures, they often adopted a transnational strategy as soon as they started their internationalization process. Service firms following such a transnational strategy have two leviers to achieve both global efficiency and local responsiveness by coordinating service quality across countries and cultures: (1) cross-cultural segmentation and (2) the standardization of the core service and the adaptation of supplementary services.

The traditional approach to worldwide marketing segmentation was to segment a market on a country basis to take account of national differences in demand conditions. Kale and Sudharshan (1987), however, suggested a different approach for segmenting worldwide markets, which is more compatible with the requirement for transnational marketing strategy.

The approach makes customers and their needs the basis for segmentation. It has the advantage of being consumer orientated, while allowing worldwide coordination of marketing, since it focuses on similarities rather than differences across groups of consumers in different countries or cultures. The basis of this approach is the identification of transnational segments of consumers, with similar needs, who will respond similarly to a given marketing mix. Furrer, Liu and Sudharshan (2000) identified five different customer segments based on differences in the importance of service quality and cultural dimensions (*cf.* box 13).

Box 13: Five Transnational Service Customer Segments

Followers: Large power distance, high collectivism, high masculinity, neutral uncertainty avoidance, arid short-term orientation.

Balance seekers: Small power distance, high collectivism, neutral masculinity, high uncertainty avoidance, and medium-term orientation.

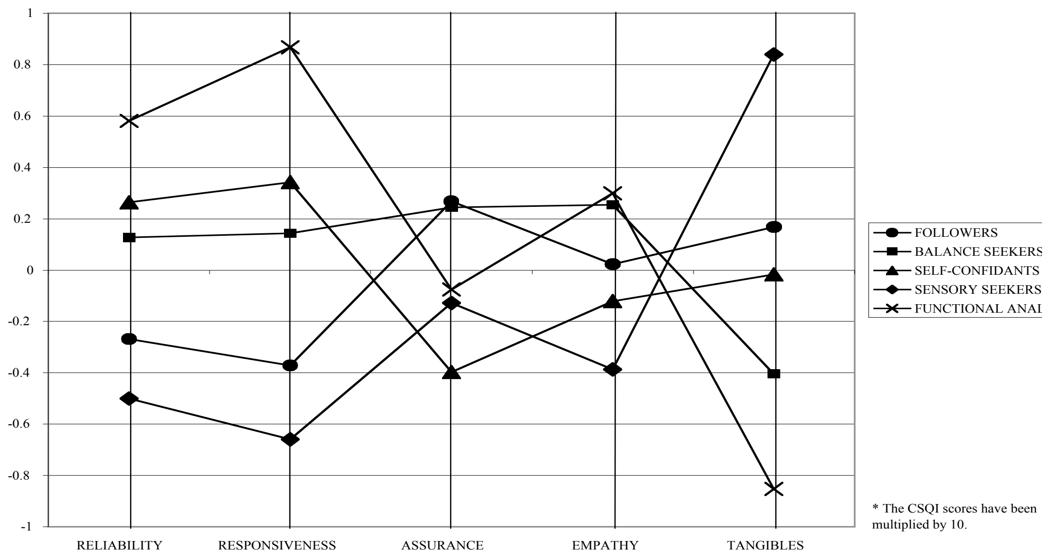
Self-confidents: Small power distance, high individualism, medium femininity, low uncertainty avoidance, and long-term orientation.

Sensory seekers: Large power distance, medium individualism, high masculinity, low uncertainty avoidance, and short-term orientation.

Functional analyzers: Small power distance, medium individualism, high femininity, high uncertainty avoidance, and long-term orientation.

Figure 2 graphically presents the relative importance given by each of these five segments to the different dimensions of service quality. From figure 2 it is clear that the service quality dimensions are important across cultures, but their relative importance varies depending on cultural value orientation. For example, small power distance cultures with high to medium individualism and long-term orientation (self-confidents and functional analyzers) rate reliability and responsiveness as most important. On the other hand, cultures with large power distance and high masculinity (followers and sensory seekers) rate these same dimensions as less important. The tangibles dimension shows the widest variation, with sensory seekers rating it most important and functional analyzers rating it least important.

Figure 2: Transnational Service Customer Segments



Furrer, Liu and Sudharshan (2000) also suggest a number of implications for companies serving multiple cultures. For example, if the target market has a follower cultural profile, service providers may want to emphasize training their employees to have professional knowledge and be trustworthy to gain the trust of these customers, combined with tangibles and empathy to convey service quality. On the other hand, to serve self-confidents, providers should emphasize equipping and empowering the employees so they are capable of providing reliable, responsive service.

A second element of a transnational strategy for service firms, proposed by Lovelock and Yip (1996), is the standardization of the core service and the cultural adaptation of the supplementary services. Most services comprise a core service (*e.g.*, a bed for the night, restoring a defective computer to good working order, or a bank account) and a variety of supplementary or supporting services (Furrer, 1997, 1998, 1999; Lovelock, 1994; Lovelock and Yip, 1996). In the core service may benefit to be standardized, increasingly, the supplementary elements not only add value, but also provide the needed local adaptation. There are potentially dozens of different supplementary services, although they can be grouped into eight categories: information, consultation, order-taking, hospitality, care-taking, exceptions, billing, and payment (Lovelock, 1994) (*cf.* box 14). Many of these services are based on informational processes that can be located in one part of the world and delivered electronically to another. Those may benefit to be standardized, other are involve a personal interaction between the customer and the service provider and should be customized. In developing a transnational strategy, service firms must decide which supplementary elements

should be consistent and have the same level of quality across all markets and which might be tailored to meet local needs and expectations. This is the essence of the transnational strategy, but services offer much more flexibility in this respect than do tangible goods (Lovelock and Yip, 1996).

Box 14: Eight Categories of Supplementary Services

Information: To obtain full value from any service, customers need relevant information about it, ranging from schedules to operating instructions, and from user warnings to price. Internationalization affects the nature of that information (including the languages and format in which it is provided).

Consultation: Consultation and advice involve a dialogue to probe customer requirements and then develop a tailored solution. Customers' need for advice may vary widely based of their culture.

Order-Taking: Once the customers are ready to buy, suppliers need to make it easy for them to place orders or reservations in the language of their choice, through telecommunications and other channels.

Hospitality: Well-managed businesses try to treat customers as guests when they have to visit the supplier's facility. Cultural definitions of appropriate hospitality may differ widely from one culture to another, such as the tolerable length of waiting time.

Care-Giving: When visiting a service site, customers often want assistance with their personal possessions, ranging from car parking to packaging and delivery of new purchase. Expectation may vary by culture.

Exceptions: Exceptions fall outside the routine of normal service delivery. They include special requests, problem solving, handling of complaints/suggestions/compliments, and restitution.

Billing: Customers need clear, timely bills that explain how charges are computed. Bills could be converted in the customer's home currency.

Payment: Ease and convenience of payment (including credit) are increasingly expected by customers when purchasing a broad array of services. Major credit cards solve the problem of paying in foreign funds for many retail purchasers.

(Source: Adapted from Lovelock, 1994 and Lovelock and Yip, 1996

CONCLUSION

In this chapter, we have presented worldwide marketing strategies as framed by the response to or management of two imperatives: meeting local demands and capitalizing on worldwide competitive advantages. Within this framework, we have identified four generic worldwide strategies: the international, multinational, global, and transnational strategy. We have also shown that these four strategies could be distinguished by their different positioning on three key-dimensions that are: standardization-adaptation, configuration-coordination, and strategic integration. We have also shown that, constrained by their administrative and cultural heritage, MNCs from different regions of the world tend to follow a particular generic strategy: Typical American MNCs tend to follow an international strategy, typical European

MNCs tend to follow a multinational strategy, and typical Japanese MNCs tend to adopt a global strategy. More recently, MNCs from all regions have started to converge toward a transnational strategy. After the presentation of these four generic strategies, we have explored the consequences of their adoption for three critical marketing operational strategies: (1) marketing decision-making processes; (2) innovation and new product development; and (3) service quality strategies.

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