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Warren J. Keegan

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by
Warren J. Keegan, D.B.A.
Professor of International Business
and Marketing
Lubin Graduate School of Business
Pace University

THE LUBIN SCHOOLS OF BUSINESS

PACE UNIVERSITY

THE DECLINE AND FALL OF THE MULTINATIONAL CORPORATION: A TYPOLOGY OF STAGES OF CORPORATE DEVELOPMENT

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Dr. Warren J. Keegan is Professor of International Business and Marketing, Lubin Graduate School of Business, Pace University.

INTRODUCTION

The Multinational Corporation is obsolete. The company, which J.J. Servan-Schreiber in his best selling 1967 book, The American Challenge, predicted would in fifteen years become the world's third greatest industrial power after the United States and Russia, has been defeated and overtaken by its successor, the Global Corporation. The global corporation, unlike the Multinational, is not an exclusive American creation: global corporations operate with bases in the U.S., Japan, and Europe and are beginning to emerge in the developing countries of the second world and even in the less developed countries of the third world.

The death of the Multinational is not just a change in terminology. The global corporation as we shall demonstrate, is a distinctly different company: it has a different focus, vision, orientation, strategy, structure, R & D policy, human resource policy, operating style, communications pattern, financial policy, sourcing policy, new product development policy and investment policy.

The practice of global business has so out-distanced language and commonly understood meaning that we live today in a semantic jungle of terminology. There is no established, standardized usage of terms describing companies which are in different stages of evolution in their approach to identifying and serving world markets. Managers and executives need a set of clearly defined terms in order to communicate with each other and to clarify their own thinking on the issues surrounding the formulation and implementation of global strategy. This article presents a typology of four stages of corporate development which defines and describes each of the stages and clearly distinguishes the differences between each of the stages. The four stages of evolution from domestic to global and the characteristics of companies at each stage are summarized in the Appendix.

STAGE ONE

Stage one companies are domestic in their focus, vision, and orientation. The strategy is focused on domestic markets, domestic suppliers, and domestic competitors. Their scanning is limited to the geographic scope of the domestic market. The unconscious motto of these companies is that if its not happening in the home country, its not happening. The world's graveyard of defunct companies is littered with stage one companies which did not realize what had hit them until it was too late to do anything about it. They were sunk by the Titanic syndrome: the belief, often unconscious, that they were, on their own turf, invincible.

STAGE TWO

Stage two in the evolution of the global corporation is the domestic company focused on domestic market objectives, oriented toward operations in the home country market, with a structure and product strategy that reflect the strategic objectives and missions of the firm.

When such a company decides to pursue international opportunities, it evolves into a stage two category. The classic stage two international company is still focused on the home market, which it considers the center stage and the primary area of opportunity. The orientation of a stage two company is ethnocentric or home country oriented. The ethnocentric company unconsciously, if not explicitly and consciously, operates on the assumption that home country methods, approaches, people, practices and values are superior to those found elsewhere in the world.

Because there are few, if any, people in the stage two company with international experience, it typically relies on an International Division structure where people with international interest and experience can be concentrated to focus on international opportunity. The product strategy of the stage two company is extension: i.e., products that have been designed for the home country market are "extended" into markets around the world.

The international company stage is a rational beginning for a company that has decided to go international. With limited resources and experience, companies should at the beginning focus on what they do best. For the domestic company, that is serving their target customer segment with products that offer value at a competitive advantage. Going international means doing that in other countries, and it makes sense at the beginning to extend as much of the marketing mix (product, prices, promotion, and place or channels of distribution) as possible so that learning can focus on assembling a team of players who understand the target market and developing the ability to communicate with this team. The key to success is understanding reality, and this understanding must be present at the country operating level and at the world headquarters level. If the understandings at these two levels can communicate with each other, this creates a reality awareness that can be the basis for a creative and successful business strategy.

The stage two international, ethnocentric company is predictable. It will always extend its home country marketing mix. The stage three multinational, polycentric company is also predictable. It will always adapt its home country marketing mix to meet unique requirements and customs.

STAGE THREE

After a certain period of time, the stage two company discovers that the difference in markets around the world demands adaptation of the marketing mix in order to succeed. The company decides to respond to market differences and evolves into a stage three multinational which pursues a multi-domestic strategy. Each country formulates a strategy that responds to national competitive and market dynamics. The focus of this company is multinational (as opposed to home country) and its orientation is polycentric. The polycentric orientation is based on the assumption that markets around the world are so different and unique that the only way to succeed internationally is to adapt to the unique and different aspects of each national market. The polycentric company manages each country as if it were an independent city state. The stage three company relies upon an area structure where each country is part of a region which is part of a world organization. The product strategy, which we call adaptation, is to change or adapt products to meet local preferences and practices.

STAGE FOUR

I recently asked a panel of international experts to identify the top global marketing strategy companies. The top two companies selected by the panel were IBM and Coke. Both companies are mature and established global marketers who have demonstrated great skill in merging corporate vision and in depth market knowledge. In both companies, key functions such as finance, research and development, new product development, product management, and so on are integrated on a global basis. In IBM, for example, all R&D is part of a global effort. There is no such thing as U.S. or French R&D in IBM. Technology is universal, and the customer base served with the applied technologies is global. Therefore, the R&D is part of a single IBM program that is dispersed geographically but integrated functionally.

An outstanding example of a new or emerging global corporation is Rupert Murdoch's News Corporation Ltd. This company now spans three continents and is expanding from its strong base in newspaper and magazine and data base print products to establish a position as a major television broadcaster in Australia, the U.S. and Europe and a programming producer. Some observers believe Murdoch has demonstrated vision and an ability to see around corners. He recognizes that print's share of advertising revenue is declining, and this fact has led him to establish a major position in television broadcasting, and in the production of broadcast product for television stations.

His acquisitions have tapped world financial markets, have been supported by cross subsidization of investments (cash from the U.K. has been poured into the U.S., to finance the acquisition of television stations and 20th Century Fox) and by the transfer of experienced executives and editors across national boundaries.

Murdoch's ELLE, a joint venture with Hachette, is one of the most successful magazine launches in the U.S. fashion book market in 25 years. ELLE's success is based on the powerful combination that the global corporation assembles: Vision at the top in Rupert Murdoch who can see around corners and who retains the common touch and "feel" for customers and markets, experienced U.S. magazine editors and publishers and staff, financial resources and commitment to see the new launch through the early net negative cash flow years, and an editorial director from the French ELLE to assist in transferring the flavor and feel of the original ELLE to the new American ELLE.

Stage four is the global corporation which focuses on serving customers who may be nationally or regionally distinctive or who may be part of an emerging global market. A global market is one which can be reached with the same basic appeal and message and with the same basic product. Any or all of the elements of the marketing mix (product, price, promotion, and place (channels of distribution)) may require adaptation to local customs and practices. For example, cars sold in the U.S. must be equipped to drive on the right side of the road. Cars sold in Britain, Sweden, Australia, Japan and Bermuda - to mention only a few countries - must be equipped to drive on the left side of the road. Electrical products sold in North America must be capable of operating on 120V (60 cycles) whereas electrical appliances sold in other markets must be capable of operating on different voltages and cycles. These are minor but essential adaptations that must be made in the product.

On the other hand, there are products that require no adaptation or change whatsoever. BIC's line of pens, butane lighters, and razors, for example, is identical worldwide. The only changes BIC makes in its products are in the packaging to take advantage of local supplier materials and market preferences concerning quantity. Nevertheless, BIC finds that its success in a market depends critically on the marketing skill and talent of the local manager who must adapt BIC's pricing, promotion, and channel strategy to the competitive and market conditions in his country. Merely having the right product is not enough. The product must be priced, advertised and promoted, and distributed and this takes a competent local manager who knows the local market. It cannot be done by remote control because it requires adaptation and response.

The global corporation extends products when this is appropriate. When it does this, it is acting like a stage two international company. The global corporation adapts products and the marketing mix where appropriate. When it does this, it is behaving like the stage three multinational company. The essential difference between the global and the international and multinational corporation is that the global corporation consciously and deliberately seeks to identify and serve basically identical markets appearing in many countries around the world. The market focus of the global corporation is on identifying and serving global markets. The global measures its market and competitive performance on a national and a global basis.

The stage four global corporation develops product strategy on a case by case basis and will, if there is an opportunity, create greater value for its customers by eliminating product duplication. It does this by focusing its marketing, research and manufacturing resources on the task of creating global products for global markets.

The orientation of the global corporation is geocentric. The geocentric orientation is based on the assumption that markets around the world consist of similarities and differences <u>and</u> that it is possible to create a global strategy that recognizes similarities and takes advantage of opportunities to leverage experience, products, R & D, and appeals <u>and</u> which also recognizes differences and responds to differences whenever this response is cost effective.

The structure of the global company is mixed or matrix. The matrix structure is one in which there is overlapping product area and functional responsibility. A mixed structure combines two or more of the structural alternatives.

The product strategy of the stage four global enterprise is extension, adaptation, <u>and</u> creation. The global company serves a global market need by creating from scratch a product which is specifically developed to meet the identical needs of customers around the world, if it is possible to do this. In some industries, such as pharmaceuticals, the only justification for the enormous expenditures and long development and testing times for new products is a global market. A single country market, even if it is a large country like the U.S. is not big enough to pay back the cost of developing a new product. The global corporation also extends and adapts products developed for a national market if this is an effective way to serve customer needs.

The global does not have a national bias in the selection and assignment of people. Its rule is simple: pick the best person for the job. The same rule applies to development of human resources. The best people, regardless of nationality, are developed for key positions everywhere in the world.

Communications in the global corporation are intensive. They are top down, bottom up, and lateral. A good sign that a company is moving to become a global is the worldwide meeting of executives which gives managers a chance to become acquainted with company executives in other divisions and countries. These meetings establish a personal contact base that encourages information exchange and co-operation and creativity.

The global company sources its product from the lowest cost reliable source worldwide. This does not necessarily mean going to the lowest wage country. The lowest cost reliable source may be a factory located in a high wage advanced country that achieves world low cost producer status on the basis of automation and efficiency.

The global corporation is a global resource allocation system. It takes resources from mature markets and invests them in growth markets. The mature markets and the growth markets may be located in different countries and different continents. This cross subsidization is a hallmark of the global.

Finally, the global is open to forming global strategic partnerships. Indeed, the global avoids one-off ventures in favor of alliances that fit into a global strategic plan. Murdoch, for example, is in partnership with Hachette to launch a new ELLE in the U.S. and the U.K. Significantly, however, there is no Murdoch-Hachette joint ELLE venture in Australia (Murdoch's original home base) because the market there is not big enough to justify the minimum effort required for an ELLE launch. The successful global companies never operate out of a formula: it is customer and market driven.

The stage four global corporation is distinguished from each of its predecessors because it is not predicable. It is reality driven. It sees similarities and differences in markets and is fully open to the possibility of global markets. The stage four corporation will extend products where appropriate, adapt to local needs where appropriate, and in addition, will always be alert to opportunities to create products that are specifically developed for a global market.

IMPLICATIONS FOR MANAGEMENT

What should a company do when it becomes aware of the stages of corporate development? One response might be to take immediate steps to operate as a stage four global company. An obvious and highly visible action might be to scrap the international division organization and establish a matrix structure. Another step might be to shift the focus of new product development from home country target markets to a global market segment. Experience suggests that this would be unwise.

Companies, like children, need time to grow and develop. The experience of companies that have attempted to leap from an international division to a global matrix is not encouraging. The matrix is a complex structure which requires a certain understanding, shared experience and values. Companies which operate with a matrix have this shared understanding and experience. They are, in a phrase, organizationally robust. Less experienced companies rarely have this prerequisite for a successful matrix. Therefore, they should avoid adopting a form that they are not ready for. Westinghouse leapfrogged from an effective international division to a global matrix structure in the early seventies. The results were disastrous. Managers with no international experience were given worldwide responsibilities and told to go out into the world and establish global businesses. The results were predictable. A series of companies were acquired. The company selection, prices and terms, and integration into the Westinghouse organization reflected Westinghouses' lack of experience and inability to operate as a global enterprise.

Companies should recognize that it takes time to become a truly global company. In the meantime, every company should have a global strategy. A global strategy means that the framework for strategy formulation expands from the domestic or regional environment to the world environment. This means assessing global market potential, global competition, global economic, social, and political trends, etc. It means measuring market share performance on a global as well as a national and regional basis. It means thinking about opportunities to create greater value for customers by seeking people, money, and ideas from the entire world, and then transferring money and people and ideas across national and regional boundaries. It means a dedication to understanding the real nature of market similarities and differences, and a willingness to act on this understanding.

Every company should know where it is on the typology of stages of corporate development and it should know where it is going and what it is becoming. This corporate self-knowledge will pay big dividends in helping companies to gain a competitive advantage and in the process of doing a better job of creating value for customers. This is a noble and exciting challenge, and this is "where its at!" Companies who succeed and, indeed, even survive, are going to go global. Companies which remain locked into the international and multinational mold are, like their illustrious predecessor, the dinosaur, doomed to extinction.

APPENDIX

STAGES OF CORPORATE DEVELOPMENT: A TYPOLOGY

STAGE	COMPANY TYPE	FOCUS	VISION	ORIENTATION	STRATEGY	STRUCTURE	MARKETING STRATEGY
One	Domestic	Domestic market	Domestic Horizons	Domestic	Domestic	--	--
Two	International	Similarities in Foreign Markets	Self-Reference Criterion (SRC)	Ethnocentric/ Home Country	International	International Division	Extension
Three	Multinational	Differences in Foreign Markets	Sees Each Country as Unique (UN Model)	Polycentric	Multi-Domestic	Area/Worldwide Product Division	Adaptation
Four	Global	Reality - Similarities/ Unifying Influences and Differences in World Markets	Sees World Complexity	Geocentric	Global	Mixed/Matrix Structure	Extension Adaptation Creation

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