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Frameworks for Global Strategic Analysis

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1. Introduction

Strategic analysis in a global setting involves competition in industries that extend across national boundaries and among firms with different national home bases that may tap into strategic resources in more than one location. This note provides frameworks for global strategic analysis at four levels: the geographic scope of the industry, the competitiveness of various locations, the geographic reach of the firm, and the global integration vs. local focus of specific activities. This multilevel approach makes it possible to "zoom in" on a particular strategic setting, taking into account the most important factors at each level.

2. Levels of Analysis: Issues, Frameworks, and Actions

This note introduces the principal frames of reference required for strategic thinking and action in an international context. These include those required for defining the geographic scope of industries, the competitive advantage of countries (regions) and its implications for the location of activities, and the appropriate tradeoffs between local responsiveness and global integration of different activities in the value chain. Strategic thinking in any context involves the identification of a set of issues, the selection and/or development of an appropriate conceptual framework for assessing these issues and identifying potential courses of action, measuring key variables, and selecting courses of action.

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1. Epoch Foundation Professor of International Management, MIT Sloan School of Management. This note is adapted from an MIT Sloan School teaching note that reflects the "multi-level" approach to IM developed together with Eleanor Westney over the years. While I have attempted to cite the prior works I draw on directly, this note does not attempt to provide a complete bibliography of the extensive IM literature underlying these key concepts. For an excellent early bibliography see Kogut (1989).

International strategic management involves competition in industries that extend across national boundaries, among firms with different national home bases, and with firms that operate across national boundaries and may tap into strategic resources in more than one location. As a result, in addition to the "standard" strategic frameworks for assessing the desirability of an industry or business and the firm's capabilities that give it a competitive advantage in particular businesses, international strategic thinking requires frameworks for the following levels of analysis:

- the geographic scope of the relevant industry,
- the attractiveness of various locations as markets, sources of factor inputs or strategic competencies, and the overall competitive advantage afforded by various locations,
- the sustainability of internationalization as a (dimension of) competitive strategy for a particular firm,
- the degree of global integration and local focus of activities or processes.

While each of these levels is complex, we find it useful to caricature each of these frameworks graphically, much as Porter has done with the "five forces" model of industry and the "diamond" model of national/regional competitiveness. These caricatures are drastic oversimplifications and omit many relevant variables and feedbacks, but they call to mind the various dimensions that should be considered.

The goal is not to master the framework, but to use it to master the strategic issue at hand. This will require modifying the frameworks, often adding or changing dimensions, as the most relevant simplifications will vary from application to application. The basic frameworks and the definition of the various forces are presented below, together with the key references for each.

All of the levels of analysis identified above play a role in the overall strategic process. Often, this process is depicted hierarchically, "zooming in" from the most macro to the most micro perspectives or temporally from positioning to implementation. In practice, the process is more simultaneous and chaotic, since changes in opportunities or threats may appear at any of the levels, triggering a new round of strategic assessment. Nevertheless, it is useful to present the frameworks as a simple hierarchy from industry structure, location-based advantage, and the various dimensions of internationalization of the firm.

3. Geographic Scope of Industry

Industry analysis is a critical element in virtually every strategic question. It includes the assessment of industry attractiveness (e.g. Porter's five forces), as well as the firm's own actual or potential strength in the industry (growth/share, strengths and weaknesses relative to other firms, core competencies).

Doz, Bartlett, and Prahalad (1981) and Prahalad and Doz (1987), in their seminal analysis, map industries along two dimensions - global integration and local responsiveness, reflecting the pressures for and benefits of integration and responsiveness and the competencies that are required to exploit each. While both are important for determining how a firm can compete in a given industry, the global dimension is most important in defining the relevant geographic scope of the industry.

In the international context it is necessary to define the geographic scope of the industry and those factors that may change industry scope. For example, if an entrepreneur is thinking of setting up a new taxicab firm in Cambridge. Mass. with existing technology (old State police cars, radios that hardly work, etc.), he or she can confine the “industry scan” to firms operating elsewhere in the greater Boston area. Of course, she may examine how firms operate in different cities, but this “benchmarking” goes beyond the standard industry analysis. On the other hand, if the entrepreneur is planning a new approach to taxi services based on, for example, global positioning systems and automatic dispatching, with the associated scale and skill requirements, he or she should consider creating as a national or even a global firm, although possibly though local operating franchises like McDonalds. Therefore, the industry scan must include actual or potential entrants on a global basis.

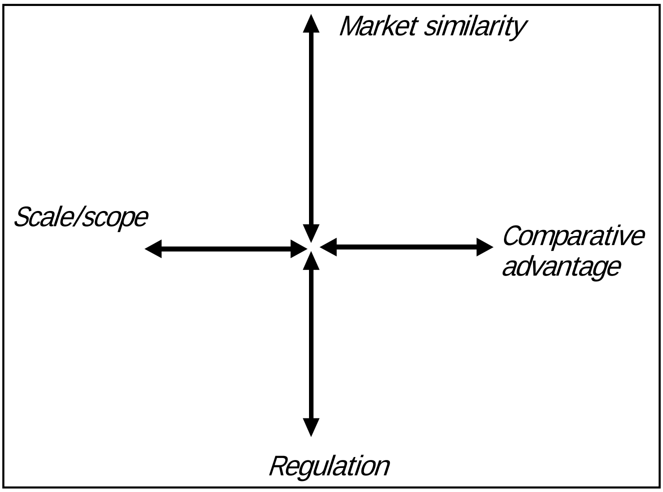
A more realistic case would be defining the ideal scope of upstream or downstream petroleum operations, in for example, South America. Should the industry analysis be limited to the country, the continent, or should it be global? Is the relevant scope the same for all stages, etc.?[2]

Prahalad and Doz provide a comprehensive list of pressures for global integration. Yip (2001, Chapters 2 and 3) discusses at considerable length the factors that lead to the internationalization of competition and reduces them to four primary categories. We modify these slightly as shown in Figure 1: market factors, scale factors, comparative advantage, and regulatory factors.

The upper vertical dimension in this “radar” chart refers to *market conditions*, whether the market is effectively one or several geographically-defined segments because of similarities or differences in tastes, requirements, channels, etc.[3]

2. See e.g. Smith (2003).

Figure 1: Globalization Drivers



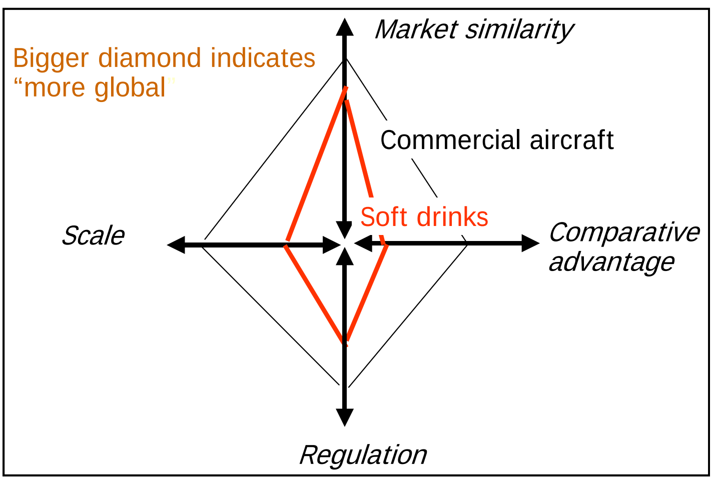
The left horizontal dimension refers to various sources of *increasing returns to scale in the production process*. The right horizontal scale refers to the comparative and/or competitive advantages of particular locations. These include "dynamic" advantages resulting from experience, especially in periods of significant technological change.[4] The lower vertical dimension refers to *regulatory interventions* that limit the geographic scope of the industry such as tariffs and non-tariff barriers to trade and limits on cross-border investment.

Application to sample of industries. Figure 2 maps the globalization drivers for two industries - commercial aircraft and soft drinks. The commercial aircraft industry is global in terms of sales by virtue of market integration and very large scale economies and knowledge advantages. Soft drinks are much lower on all these dimensions, but Coca-Cola dominates as a global player in sales as well through its mastery of advertising, rapid transfer of knowledge among operating units, and financial strength. Local players also exist, although typically with very different strategies (e.g., me-too products, little advertising, lower price). Even for Coca-Cola, though, most of

3. Of course, there could be many segments based on differences in taste, income, and other factors even in the absence of geographically-based segmentation. See e.g. Levitt (1983) and Yip (2001).
4. For discussion of the relation between comparative and competitive advantage see Kogut (1985).

its value added is local. The pharmaceutical industry has features in common with both commercial aircraft and soft drinks, with research and brand name-based firms that are highly internationalized coupled with firms producing and selling generics that are local or regional in scope. Thus globalization takes on very different characteristics depending on production scale economies and transportation costs, with firms in some industries such as commercial aircraft characterized by globally integrated sales and highly concentrated production - often referred to as international firms - whereas firms in soft drinks and other consumer products are likely to have global brands together with highly dispersed production and distribution activities - typically referred to as multinational firms.

Figure 2: Globalization of Commercial Aircraft and Soft Drinks Industry



Even among those industries that are most "global," the reality is that they are at best partially global, characterized by firms that are dominant in their home region (continent) and selectively expand outside of that region.[5]

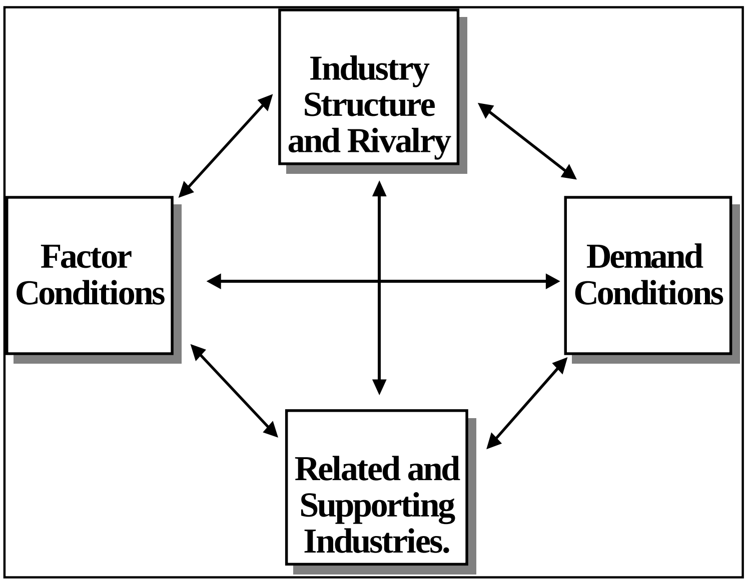
4. Competitiveness/Attractiveness of Countries/Regions

Porter (1990) summarizes the competitive advantages afforded by a particular location into four dimensions or factors in a diamond as shown in Figure 3.

5. See, e.g. Rugman (2001) and Ghemawat (2003).

While it typically is applied to countries, it also applies to industrial regions that are smaller than countries, and to some extent to economic zones that are larger than nations (e.g., the EC, North America).

Figure 3: National (Regional) Advantage



While many authors have suggested enhancements to Porter's diamond, e.g. Dunning (1992) points out that the presence of trans (multi) national corporations serves to "extend" the diamond, while Rugman and D'Cruz (1993) argue that most regions are nested within national or continental diamonds, it remains the most widely used framework for addressing the advantage of operating from a particular location.

5. Internationalization of the Firm

The core question in strategy in an international context is whether a firm should internationalize its activities along a variety of dimensions including where it sells its products or services, where it produces these products or services, where it outsources key inputs and where it obtains the know-how or technology to produce these products or services. In the early international strategy literature of the 1960s and 70s, which corresponded to a major expansion of multinationals from the U.S. and Europe, the emphasis was on entry strategies - whether a firm should enter a market by exporting, either through an independent distributor or its own network, or through direct foreign direct investment (FDI) with dedicated local facilities, either on a wholly-owned or joint-venture basis.[6] The motive for expansion, by and large, was taken to be to tap additional markets in order to exploit firm-specific capabilities developed in the home market as explained in a seminal article by Vernon (1966). This emphasis remains relevant for new firms expanding abroad, but by the end of the 1970s, Vernon (1979), for example, argued that the product life-cycle explanation of entry was no longer relevant for established firms which have moved well down the internationalization learning curve. Rather, the more central question is how they should (re) configure their activities across the world to maximize their competitive advantage, a point we return to in Section 6 below.

Regardless of the motive - to tap new markets, to gain scale economies, to arbitrage cost differences, or to access and/or develop new technology, the key questions are: Does internationalization represent a sustainable competitive strategy and, if so, how should a firm internationalize? The answer, of course, will depend on their industry, their positioning within the industry, the competitive position of their home base, etc.? In an industry that is quite global in nature due to market similarities, scale economies, and/or comparative advantage, internationalization will be an imperative unless the firm can identify a business model that differs from the norm. On the other hand, if an industry is primarily domestic in character, internationalization is probably a trap, again unless the firm has some very unique advantages that it can exploit through internationalization. For most firms, the answer will be more ambiguous. Internationalization will at best represent an opportunity for those firms that possess some unique capabilities that can be exploited internationally[7]. For this to be the case, these capabilities must pass the RATs test, they must be *relevant, transferable, and appropriable*. The conditions for sustainable competitive advantage from internationalization are perhaps best summarized by Dunning’s (1981) OLI framework: where O refers to ownership, i.e., firm-specific capabilities, L refers to advantages associated with specific locations, and I refers to advantages that can best be exploited through internalization, e.g. directly controlled activities involving cross-border transfers of tangibles and intangibles *inside* the firm.

Regarding *why* firms internationalize. Bartlett and Ghoshal (1989) identify three “leverage points” that can be gained through different types of

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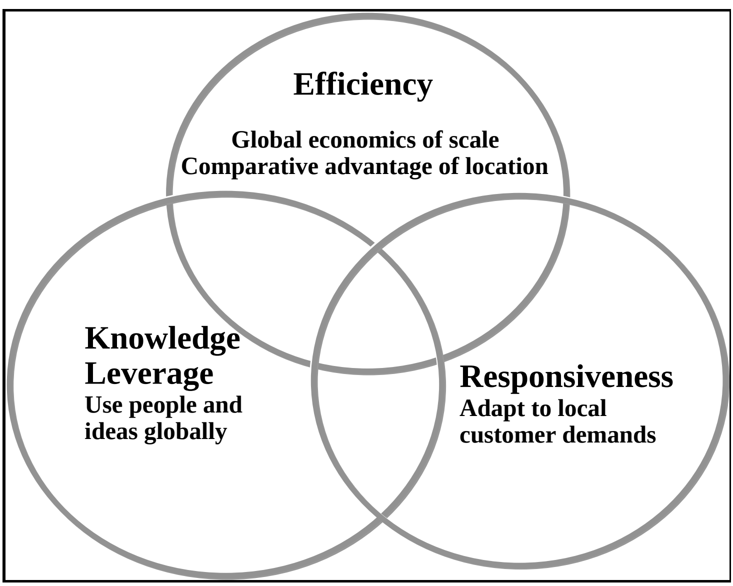
6. See, e.g. Root (1987). While FDI is often equated with investment in manufacturing plant, investment in a dedicated distribution network or even brand building is a form of FDI as well.
7. Two good discussions of why internationalization may not be effective are Rangan (2000) and Ghemawat (2001).

internationalization. These are efficiency resulting from performing specific activities at the right scale in the right place, market access or customer responsiveness that often requires localization of some production or service dimensions, and learning/knowledge leverage as illustrated in Figure 4.[8] A key element of Bartlett and Ghoshal's argument is that different organizational forms are particularly well adapted to one or another of these dimensions of performance, but that addressing all three is extremely difficult. The traditional European multinational, they argue, was extremely good at responding to varying needs, while the Japanese firm of the 1980s did extremely well in terms of efficiency.

Figure 4: Global Leverage Points



6. International Configuration and Coordination

Porter (1987) provides a useful two dimensional framework (Figure 5) in which he categorizes internationalization as involving configuration - where and at what scale are primary activities conducted, and coordination - to what extent and how are activities coordinated, knowledge shared, etc.

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Figure 5: Configuration and Coordination

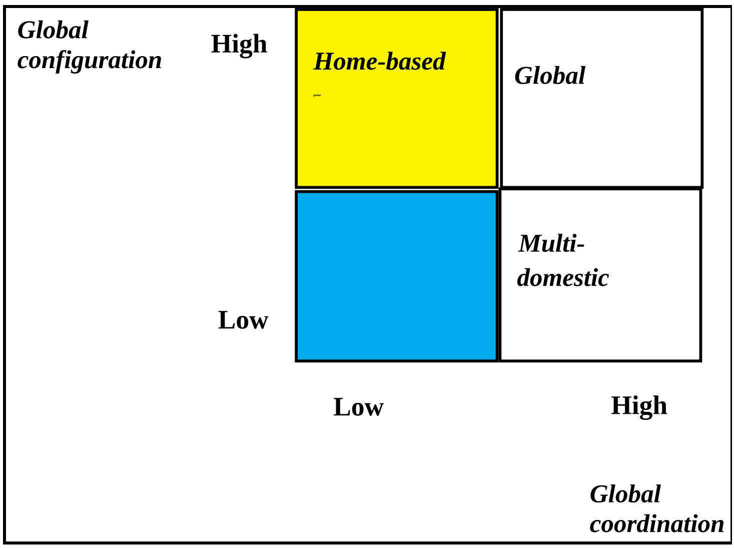

Figure 6 presents a 4-dimensional diagram that incorporates both coordination and configuration, but with more explicit underlying dimensions:

- Market spread refers to the geographic scope of the firm's sales, ranging from local, through regional or continental, to global,

- Configuration of core activities refers to the geographic focus of key activities, whether they are locally-focused, continentally-focused, or globally-focused. Being globally-focused does not necessarily imply that they are located away from the home base, merely that they are done in the right place (in terms of direct, transportation and coordination costs) and at the right scale.

- Connectedness refers both to coordination in the traditional sense and to the sharing and joint development of know-how[9].

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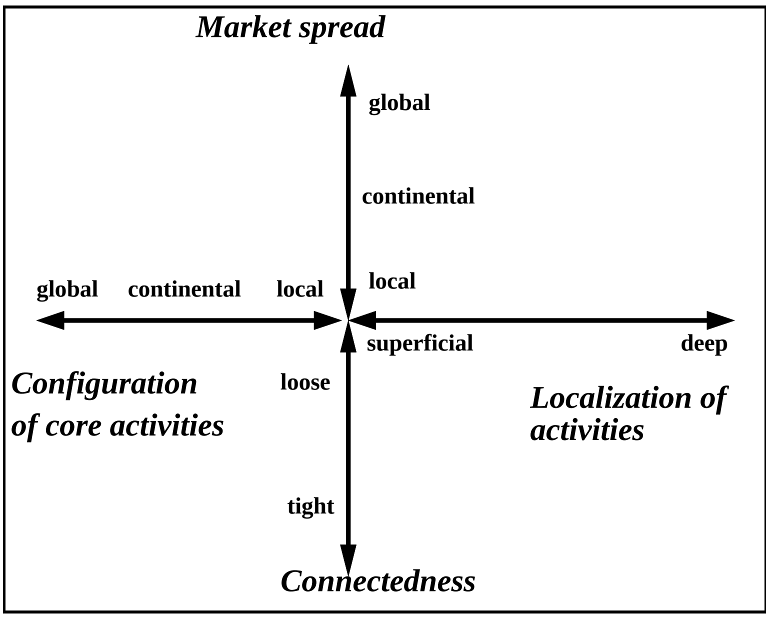
9. Kogut (1989) identifies this joint development of know-how as a key potential network advantage of multinationals. Doz, Santos, and Williamson (2002) view it as the key defining feature of the "metanational."

- Localization refers to the degree to responsiveness to and/or embeddedness in various local environments. It involves much more than just tailoring products to the market. [10]

Figure 6: Dimensions of Internationalization of the Firm



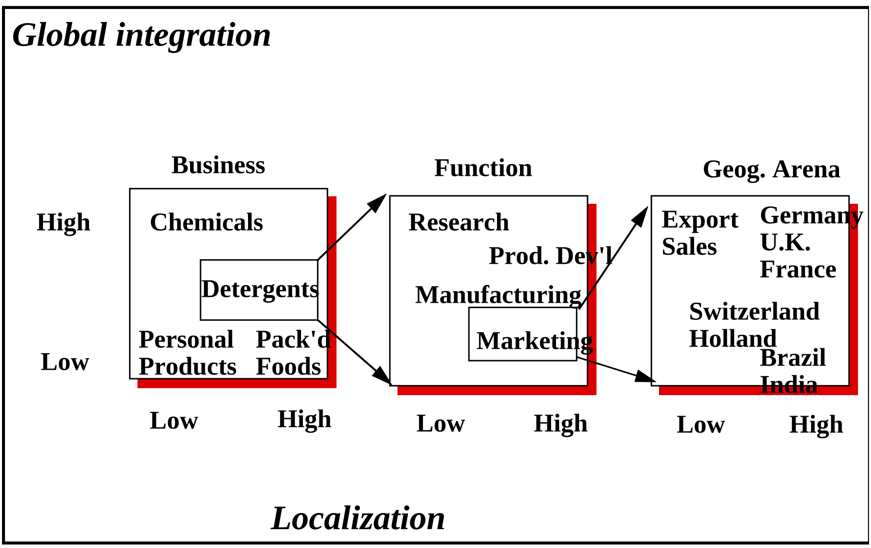
Note that market spread and the configuration of core activities refer primarily to tangible activities of the firm, while connectedness and localization refer to primarily intangible dimensions.

Application to specific stages of the value chain. One of the most useful frameworks for assessing the international configuration and coordination of the firm is the two-dimensional globalization-localization framework. This framework was first introduced by Doz and Prahalad (Doz, Bartlett, and Prahalad (1981) , Prahalad and Doz (1987)), and is further elaborated in Bartlett and Ghoshal (1987, 1989).

10. It is useful to think of localization as involving at least five levels, ranging from the most superficial to the deepest: 1) sufficiently localized not to offend, 2) sufficiently localized to sell home based products and services effectively, 3) sufficiently localized to adapt home-based products and services to the local environment, 4) sufficiently localized to develop internationally competitive products based on local conditions, and 5) sufficiently localized to influence the rules of the game in local environments.

Bartlett and Ghoshal's presentation is particularly useful since it allows differential degrees of globalization and localization for different businesses, activities within these businesses, and geographic arenas within these activities. This figure, based on Bartlett & Ghoshal's analysis of Unilever, is presented in Figure 7.

Figure 7: Globalization/Localization of the Value Chain



7. Summary and Conclusions

This note has presented the principal frameworks for global strategic analysis in a hierarchical fashion. This multi-level approach facilitates "zooming in" on a particular strategic setting, taking into account the most important factors as each level.

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