Global trends

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1. Conducting Business during the 21st century has many dimensions. To what extent are national forces being superseded by global trends, especially in terms of multilateral institutions such as the European Union and various economic agreements in the Western Hemisphere and Asia? When a company considers investing internationally, what circumstances should influence how much priority is given to global concepts and/or national differences when evaluating the four alternatives for strategic choice? Globalization has triumphed since the last century after the end of the cold war in the late 1980s.

It has made extensive efforts to unify the world's economic order, created tremendous benefits for the countries that participate and is the driving force of economic life on this planet. It has not only spurred the growth of the high-income developed countries but as also brought tremendous opportunities to the developing countries. Globalization is viewed as an inexorable economic integration between countries in terms of technological innovations, cross border trade and increasing foreign direct investment (FDI) due to which national economies are merging into one huge interdependent global economic system.

Regional economic integration has been one of the most evident trends in the global economy. Sovereign states have created supranational organizations such as the WTO and the EU that are international unions in which member states transcend national boundaries. Businesses want to globalize in order to expand their markets and increase profits. Free trade agreements open doors to such opportunities and help promote economic integration.

Other such important integrations that have taken place in other parts of the world are NAFTA, APEC, ASEAN, MERCOSUR, etc. The European Union or the EU has implemented the regional integration process by creating a supranational government. The firms that operate under the EU have adopted a global investing strategy that helps them achieve economies of scale. The national forces in the EU have also been made less significant by the adoption of a single currency and the movement of EU towards a single market.

The trade agreements in the western hemisphere such as the North American Free Trade Agreement (NAFTA) which exists between the United States, Canada and Mexico has led to the removal of trade barriers and restrictions on FDI. As a result, the Canadian and the Mexican economies became stronger. A similar trade agreement exists between the " Asian Tigers" i. e. Japan and China and the United states known as the Asia- Pacific Economic corporation (ASEAN) and it aimed at eradicating the trade barriers that exist between these countries.

The main function of the World trade organization was to facilitate trade amongst countries and currently it has 120 countries under it's umbrella. These agreements and organizations are facilitating economic integration on a regional and worldwide basis. Major companies that participate in investing internationally are affected by these economic integrations. Market entry strategies such as FDI, Joint ventures, Mergers and Acquisitions, franchising etc. are highly dependent on these integrations and enhance cross-border collaboration among businesses.

When a company decides to invest internationally and become a globally competitive firm, it must develop an international strategy based on the firm's overall strategy. Three objectives namely efficiency, flexibility and learning must be taken into consideration. The firms need to be efficient overseas in order to achieve economies of scale. To address this, manufacturers often outsource production to low labor cost countries. This may help them better to have access to cheap low cost labor, raw materials, key suppliers, key consumers, energy and other natural resources.

In order to maintain flexibility, the company must allocate its resources as well as tap the local resources to keep the firm and its products unique. Firms should also be flexible about shifting production as cost and other factors such as exchange rates fluctuate. Firms should be open to learning and internalizing knowledge gained from international ventures. This, in return enhances the management's capabilities, the technology required and the overall brand name of the firm.

In addition to the three objectives, the firms that decide to invest internationally also face other challenges that are identified in the Integration-responsiveness framework. The central challenge that most companies face while expanding internationally is that of maintaining the balance between global integration of activities and local responsiveness. Global integration refers to managing the firms' activities across nations to achieve global efficiency, synergy and taking maximum advantage of similarities across nations.

On the other hand local responsiveness is the effort of responding to specific needs of consumers in host countries. Based on the strategic choices and the balance of the Integration-Responsive framework, managers have four basic strategies at their disposal namely •Global standardization strategy •Localization strategy (multi domestic strategy) •Transnational strategy •International strategy As the figure suggests, when a company decides to choose the global strategy, it faces high pressure to pursue cost reduction and low pressure to meet the specific needs of consumers in the host country.

Regardless of the existence of fixed costs, this strategy takes advantage of the economies of scale by pursuing a low cost strategy on global scale. The products serve universal need across national markets and often lack responsiveness to local markets. This is because national differences in the other nations are not that critical and global products can be developed. The product and pricing strategies are tightly coordinated across nations; therefore firms that pursue global strategies are highly centralized.

This strategy is effective when differences such as cultural, business practices, laws etc. between countries are small. This strategy is inadequate when demands for local needs to be met are high. The next investment strategy, the localization strategy or the multi-domestic strategy focuses on local responsiveness. This strategy seeks to maximize profits and market share by customizing the firm’s product and marketing strategies to meet the needs and preferences of consumers in different and unique national markets.

With the advantage of increasing the value of the product in the local market, the localization strategy is also accompanied by the disadvantage of higher production costs and smaller production runs. This strategy rarely renders economies of scale but accelerates local development. Firms that pursue this strategy have separate headquarters in different countries. Although they endure higher costs of forgoing the economies of scales, they try to capture some learning effects and location economies. The third strategy that firms pursue while considering investing internationally is the transnational strategy.

This strategy is taken into consideration when the firms endure high costs reduction pressure as well as high demand for local responsiveness. A transnational strategy seeks to achieve high levels of both national responsiveness and global integration simultaneously by overcoming the tradeoff between the conflicting demands of the two pressures (Bartlett and Ghoshal, 1991). It is a hybrid between the global and the localization strategy and allows for the procurement of gains that are characteristic to both the strategies.

It focuses on the attainment of internal efficiency and external flexibility without sacrificing one for the other. (Wasilewski). A transnational strategy enables a firm to achieve flexibility by capitalizing on knowledge flows to and from subsidiaries throughout the firm’s global network. This flow of knowledge between the firm and subsidiaries is a leads to the development of products that are standardized and endure low production costs but yet they are flexible to capture the local market to increase profits.

Lastly, by implementing the International strategies, firm's face low pressure for reducing costs as well as for local responsiveness. The products that are developed for the domestic market in the home country are sold in international markets with little or no modification. This strategy is applied when national differences are not important to the company and the head office maintains control over the marketing and the product strategy. These firms produce products that satisfy universal needs and face minimal competition.