

# Glocalisation in a subsidiary context essay sample

[Finance](#), [Investment](#)



According to Thomas Friedmann globalization should be considered the integration of everything with everything else; more specifically the integration of markets, finance and technology in a way that makes the world smaller than it has ever been before. In 2008 Levedary Café, an American “ quick causal” fast food restaurant, took on this integration as a specific organization strategy. Their home market had been exhausted and their expansion had reached a plateau, why the board decided on a new strategy: to enter the Chinese market. This paper seeks to investigate 1) why and how Levedary Café has chosen to pursue Foreign Direct Investment (FDI) in China; 2) what difficulties the company has met due to strategic challenges of local responsiveness versus global synergy and finally 3) what opportunities Levedary Café has to restructure its investments in China when dealing with subsidiary strategy. We will do this by answering the following research question:

What ‘ glocalisation’ challenges have Levedary Café faced as it has entered the Chinese market, and how should it restructure its strategy in order to meet these challenges?

We will apply Hymer’s theory of foreign direct investment, Yip’s framework of global and multidomestic strategy and finally Birkinshaw and Pedersen’s framework of strategy and management in MNE subsidiaries. This will shed light on the difficulties the new CEO Mia Foster has encountered in taking over from the beloved founder and former CEO Howard Leventhal when Levedary Café was spun out from private equity ownership in 2011. More specifically we will identify and come up with a solution to the challenges Mia

Foster encountered in expanding into China while trying to meet Wall Street's requirements.

FDI in China – written by Valdemar Gaarn Rasmussen

Hymer, in his theory of foreign direct investment, takes point of departure in his argument that if FDI was simply motivated by the search for low production costs in foreign locations it would be difficult to explain why local firms do not compete successfully with foreign ones. Instead he suggests that FDI is motivated by the existence of market imperfections (Letto-Gillies, p. 52-53). He argues that these imperfections are structural ones, stemming from the market structure. In doing so he highlights the imperfections within an oligopolistic market structure dominated by a few firms, which is where we categorize Leveandary Café to be in the Chinese Quick Casual dining market (Bartlett & Han, p. 2). Moving on Hymer states two main determinants of direct investment abroad influenced by market imperfections and a company's desire to enhance its market power position. The first one being the specific advantages a firm can profitably exploit abroad, especially once domestic opportunities are exhausted (Letto-Gillies, p. 53). This first determinant explains why Leveandary Café chose to invest in China. In 2008 their domestic growth was slowing, their geographic expansion plan plateaued and they had come to realise that their concept did not fit small towns.

Knowing that their home market had been exhausted they now looked for advantages to exploit abroad. With a population of 1.4 billion people, annual GDP growth of 14.5 % over the last decade, heavy urbanization and an

emerging middle class China was chosen as a market ripe for investment (Bartlett & Han, p 5). The second determinant is the removal of conflicts in foreign markets. Facing a situation where competing companies are seeking entry to the same foreign market a company can collude and share the market with rivals or try to gain direct control. The latter increases the market power for the company, and increases the imperfections within the entire market. This second determinant explains how Leventary Café entered the Chinese market (Ietto-Gillies, p. 53). CEO Leventhal's original idea was to enter the Chinese market through a joint venture. However, Louis Chen, a friend of Leventhal and Stanford MBA, convinced him to establish a wholly owned subsidiary. Through horizontal FDI Chen was to establish a strong market position as a base for franchising outlets throughout China (Bartlett & Han, p. 6).

Local responsiveness versus global synergy – written by Sidsel Skovly Green Pedersen

One of the challenges Leventary Café faced, as they chose to enter the Chinese market was a classic problem when opening restaurants in a different cultural setting; to what extent should the concept of Leventary Café be kept as it was in America, and to what extent could the concept be stretched to adapt to local needs? To analyse these challenges this paper will use Yip's framework of global and multidomestic strategies, to assess the conflict of Mia Foster's need of a global strategy versus Louis Chen's need for local adaptation. According to Yip a pure global strategy entails that a company sets up the same strategy at home and abroad; the product should

be fully standardized worldwide, procedures should be uniform and value-added activities should be concentrated within different countries. A pure multidomestic strategy, on the other hand, adapts completely to local needs: products are fully customized in each country, procedures are differentiated to adapt to local habits and all value-added activities are represented in each country (Yip, p. 31). Global availability, serviceability and recognition are clearly benefits of a global strategy, whereas the disadvantages include higher management costs due to increased coordination, and the failure to meet local needs (Yip, p. 34).

Lastly, according to Yip's 'globalization figure', for a business to perform at its best, it needs to adapt a globalization strategy that fits the globalization potential of the industry (Yip, p. 35). As Chen was given the responsibility to set up Levendary Café in China, his main task was to replicate the procedures of the Denver HQ and the different restaurants. To do this he was placed in USA for a six weeks internship, but besides this he was given practically no limits in managing the entry of the Chinese market (Bartlett & Han, p. 6). As Foster became the CEO of Levendary Café in 2011, and chose to investigate Chen's way of business in China, she found that Levendary Café in China seemed to adapt a predominantly multidomestic strategy. This can be seen as Chen had customized products and differentiated procedures; all management and financial reports were delivered to Denver in its own, Chinese format, one of the Shanghai branches were made a pure take-out, one branch in Beijing had its signature wooden furniture replaced with local plastic furniture and several restaurants had completely local menus (Bartlett & Han, p. 8).

On the other hand the new CEO opted for a more global strategy; procedures, such as financial reports should be standardized, and though she acknowledged there should be some level of local responsiveness, she wanted a more standardized product, so Levendary Café would be recognisable for global customers. Clearly applying Yip's figure on globalization potential for the industry vs. global strategy, it becomes clear that Foster and Chen had different views the potential of the industry, which highlights the controversy between the CEO and the Chinese manager.

In order to look upon how Levendary, and ultimately Foster and Chen, should overcome these challenges, we will now apply Birkinshaw and Pedersen's framework for 'Strategy and Management in MNE Subsidiaries' in order to propose advice for Levendary's future strategy.

Moving forward – contribution stated under paragraphs

Birkinshaw and Pedersen describe subsidiaries as a unit that perform value-adding activities for a firm. Their findings add on to Yip's theory on globalization, as they state that subsidiaries find themselves in a position more difficult than ever, as managers are expected to act entrepreneurially and empowered, at the same time as complying with more and more global standards (Birkinshaw, p. 278). Furthermore Birkinshaw and Pedersen describe the role of the company as one that is defined by the parent company, whereas the strategy on the contrary includes some level of self-determination for the subsidiary (Birkinshaw, p. 275).

Levendary China can, with its 23 restaurants, be considered a vital subsidiary for the mother company. Given the problems of finding common ground for the globalization potential of the industry, and thus the degree of local responsiveness, Foster, as the CEO, should manage this subsidiary better. First and foremost Foster must define the role of 'Levendary China'. The 'no limits' strategy proposed by former CEO and founder of the company, Howard Leventhal, clearly worked well to set up a business in China quickly, but with 23 stores, the role need to be much better defined. Foster must thus set up clear rules and regulations for all the Chinese restaurants. These should include the initial role; to make ground for further development in China, however it should further include a clear definition of the type of development they want. Foster must state that Levendary does not want growth if it compromises with the brand's authenticity to make sure Chen does not devalue the brand in China. (written by Sidsel Skovly Green Pedersen)

Foster must however acknowledge that the strategy in China cannot be decided upon in Denver. As proposed by Birkinshaw and Pedersen she must bring together a market positioning component and a resource development component. Chen knows the Chinese market, and they must thus cooperate to find a product range that serves this market. Products are already slightly differentiated in USA, so this should not be a problem (Bartlett & Han, p. 4). In regard to the resource development component, Foster should distinguish between resources and capabilities. Resources are the stock of factors available for and controlled by the firm, whereas capabilities are a firm's capacity to deploy these resources (Birkinshaw, p. 378). Foster must

acknowledge, that though she holds and controls such resources and capabilities as financing and firm-specific knowledge, Chen has developed several capabilities such as rapid innovation and adaption. When setting up the strategy it is thus essential that she includes Chen and his ideas.

Considering that Levendary Café chose to invest in a wholly owned subsidiary, and given the problems of local responsiveness versus globalisation, as defined by Yip, we suggest a new strategy for the company. As proposed by Birkinshaw and Pedersen, Mia Foster should set up a new system for sharing knowledge. This could be done via an international team situated in China, which would include both Chen and his team as well as American employees from Denver deployed in China. Such a system could make sure that the link between the market and resource side of the strategy equation is being dealt with, at the same time as Chen and Foster could find common ground in their 'glocalization' challenge: to agree on a proper level of local responsiveness and globalization.

On a concluding remark the assigned number of pages has made limitations to the analysis. An issue for further considerations is whether Louis Chen is the proper manager to carry on Levendary Café's Chinese expansion.

Theoretically this raises the question of whether Levendary China has gained too much power and control within the multinational corporation. (written by Valdemar Gaarn Rasmussen)

Sources:



Bartlett, C. A. & Han, A. (2013). *Levendary Café: The China Challenge*.  
Harvard Business School: Brief Cases.

letto-Gillies, G. (2012). Chapter 4: Hymer's Seminal Work. In: *Transnational Corporations and International Production*. UK: Edward Elgar Publishing Limited.

Yip, G. S. (1989). *Global Strategy... In a World of Nations?* Sloan Management Review.

Birkinshaw, J. & Pedersen, T. (2009). Chapter 14: Strategy & Management in MNE Subsidiaries. In: Alan M. Rugman *The Oxford Handbook of International Business*. 2nd ed. UK: Oxford University Press.