LUCIAN IONEL IGNAT

MULTINATIONAL SOCIETIES DEVELOPMENT STRATEGIES

1. Introduction

Entered on the scene of economic history as early as the end of 19^{th} century, the international societies have imposed themselves as an ample phenomenon in the post-War decades. The ascent that they have registered has conferred them the role of economic agents of first importance and size in international relations.

The contemporary society has generated problems of a global character, whose management goes beyond national borders and requires an extensive cooperation between states in the frame of international relations.

The economic and social phenomena such as the internationalisation of production, the unprecedented intensification of international trade, the emergence of financial capital global markets, are some of the main subjects of economies and states interactions at international level.

In general, it is considered that a multinational company is the firm that operates in one or several fields of activity and which is organised as an ensemble at mondoeconomic scale; it consists of headquarters (mother society) in a country of origin (parent country) and a number of branches, through which it operates in one or several host countries; they have a common strategy for internal organisation, financial and price politics and the relations with the exteriour. [7, p. 32]

A firm can be considered multinational if it has production units in one or several countries. This definition, in a limited sense, is adopted by most authors. [2, p. 291-292]. It eliminates from the field of analysis international societies that only operate in trade.

Multinational societies hold an important role in the transition towards the global integrated system of world economy. These true conglomerates, that have their own geography, have come to significantly influence international production, the dimensions and the nature of operations that go beyond national borders, the globalisation process.

An. Inst. cerc. ec. „Gh. Zane", t. 12, Iaşi, 2003, p. 155–162

The main way to achieve current international expansion of multinational societies, external investment, represents the manner through which access to external market is gained, by acting from its very interiour. The main areas of provenance for external investments are USA, the Common Market and Japan, i.e., the most economically developed regions.

2. Options for direct external investment

The option for direct external investment and the geographic and sectorial reorientation of investment fluxes, directly depend on the extant conditions on the targeted external markets (the legislative and juridical-administrative frame to access them, the capital concentration and centralisation degree on the markets in question, the importance of these markets, the comparative level of production costs and workforce cost on these markets).

In order to shape a synthetic image of the power, the influence and the role that multinational societies play in the formation and the functioning of transnational economy, it is enough to mention that in USA, 25 multinationals hold 50% of the country's external investment stock.

In the car-manufacturing industry, according to "World Investment Report" elaborated by UNCTAD in 1997, the share of external operations from the total activity varies from 30% in the case of Ford Motor, to 60% in the case of Volkswagen AG and even to 63% in the case of Daimler Benz AG.[3, p109].

The diversification of the multinationals' activity is twofold manifested. On the one hand, it can be performed as the amplification of the range of products or groups of products from the most varied branches of industry, on the market where societies tend to be simultaneously present; on the other hand, it can be manifested as the multisectoriality of the activity, i.e., the extension of the area of the economic sectors where the greatest multinationals tend to concomitantly operate.

The diversification is achieved both intrasectorially and intersectorially, and its effect is the stimulation of the societies' activity abroad. Whereas the intrasectorial diversification has, mostly, only a quantitative influence (by enlarging the amplification basis) on the societies' international expansion, the intersectorial diversification has a much more profound incidence, by effecting qualitative changes in the very content of this expansion.

The production can be centralised in only one country, from where products are distributed all over the world, or the production tasks can be distributed all over the world and the production tasks can be distributed among several production units located in different countries. *The lorry bearing the brand Ford has the cab fabricated in Europe, the chassis in North America, is assembled in Brazil and imported to be sold in USA* [3, pg. 515]. The internationalisation of production allows a multinational to remain at the head of the branch in which it specialises and to face competition more easily.

Judging by the nature of the business, at international level there can be different types of societies, according to the field of activity or the natural resources used. [6, pg. 109]

Table no. 1

Types of societies

Activity Sector	Field	Representative Societies
Extraction	Oil Mining Timber	Exxon, British Petroleum, Mobil Broker Hill Proprietary Co. Ltd., Weyerhaeuser
Agriculture		H.J. Heinz
Industry	Production goods Intermediary goods Consumer goods	Caterpillar, Ford, Johnson & Johnson, Procter & Gamble
Services	Transportation Public Retail sale Tourism Advertising Consulting	American Airlines G.T.E. Sears Holiday Inn Lintos, INA Coopers & Lybrand, Mc Kinsey & Co
Financial institutions	Banks	Citicop, Citibank, ING Bank
Conglomerates		IT & T

Source: Walters, R., Blake, D. –"The politics of global economic relations", Prentince Hall, New Jersey, 1992, p. 109

Initially, investments abroad were made with a view to exploit some raw material resources that were then to be delivered to the country where investments came from, later, the investment of capital abroad has increasingly moved towards the major sectors of industry, with a view to produce goods that should be delivered on those very markets or on other markets, thus dictating conditions to the foreign competitors through actions "from within", from their own territory.

The extension abroad of a monopoly or of a society constitutes a complex, non-linear process, influenced by a host of factors. The first contact with external markets is achieved by means of exports. However, from a certain level of exports, it becomes necessary, on an external market, to set up one's own distribution nuclei, especially when for the rise of the sale of industrial goods, in particular of the complex ones, post-sale service is necessary. The first investments are thus made, and then one can gradually go on to extended investment, to the creation of one's own production units, or to the collaboration with local partners.

Specific to current multinationals is an international structure of their own based on an integrated network of production and marketing units implanted in multiple markets. Under these circumstances, an increasing share of the assets and the property of the societies in question is located outside the countries of origin. On the external markets, a multinational's capital either unites with the capital of some autochthonous societies, or even from tertiary states, becoming partially "multinational", or it remains simply "national" in terms of ownership, despite its strong extra-territorial expansion.

In 1959, Gilbert Clee, who later became the manager of McKinsey & Company, formulated the principle that underlay the multinationals' emerging and the evolution: "buy raw materials from where they cost less, unfold production activity where the smallest wages can be paid, and sell products where you'll get the highest price". [5, pg. 126].

Operating in various countries, multinationals are important elements in the world economy. Their main problems are to cope with the variety in the external constraints of the environment (economical, political-legal, educational and cultural), to create a system of viable marketing, to adapt decisions in accordance with the advantages and the risks that the unfolding of activities on a world scale suppose.

The first step in the creation of such a system consists of knowing the international marketing environment, especially the international trade system. To research a certain external market, it is necessary to determine its economic, politic, legislative and cultural characteristics.

The second step consists in the firm's evaluation of the future proportion between the external sales volume and the total turnout, in establishing the smaller or larger number of countries where it will operate and the type of countries where it will penetrate.

The third step is represented by the decision on the actual markets that it will launch on, followed by the evaluation of the probable efficiency of the investment under risk.

At a fourth step, the company must decide on how to penetrate on each of the attractive markets. Numerous firms start by operating direct or indirect export, later to involve in licensing activities or in the constituting of joint societies, and finally in direct investments.

Then, they must decide on the degree of product adaptation, on promotion, price and distribution on each external market.

Finally, multinationals must dispose of an efficient structure of organisation so as to meet their objectives, because all deficiencies can exert pressures on the planning, the managing and the control of international operations.

These firms must promote a common system of values and the management processes must be constituted around the human factor as a central element.

Modern methods of production management must be followed, based on rationality in acquisitions and the extensive resort to the *Just-in time* method, introduced and perfected in the Toyota factories, that will greatly reduce production costs generated non-productive expenses and immobilisations in stocks of raw materials, unfinished production and finite products (in stock). This is why, the economic activity of great transnational corporations for the immediate future will be characterised by an attentive management of material and financial resources, through the consistent application of the strategic management methods and of some flexible and participative organisation forms.

The main dilemma confronting the multinational corporations at the moment is the adoption either of a standardisation strategy or of a global operation de-centralisation one.

The arguments for standardisation concern low costs and the promotion of a brand or single image of the firm at world scale.

The argument for de-centralisation concerns the various conditions that exist on each market, success being the property of the one who best adapts the offer to the situation on the local market.

According to some opinions in the specialised literature, based, in their turn, on the careful analysis of the western firms' behaviour, some strategies are more appropriate than others, under certain circumstances. This aspect must not be overlooked by managers in their option for one strategic alternative or another. It has been been estimated that:

a) The different positions that the enterprises' strategic activities have on the market are each compatible with a certain type (or types) of strategy aiming to ensure success or redress the situation (Table 2). [4, p. 12].

Table no. 2

Competitive strategies and situations

Position on the market	Adequate strategies
1. Dominant activities	To maintain or consolidate the dominant position
2. Marginal activities	The differentiation and the insurance of the brand's image. The specialisation on a type of product or market. "Niche" strategies. Strategies focused on quality. The "pursuer's" strategy.
3. Activities in decline	To consolidate the firm's position. Defensive (to withdraw, partial dispossessions of activity, clearing out). "Ecrenage", aiming at short term profit.

Source: Nemes, M. "Strategia firmei: Tipologii si situatii concrete", in *Tribuna economica*, No. 12, 1999, pag. 12-13

b) The nature and the age of the industry (new and increasing, mature, in decline, local or global), involve different strategies with a view to consider the characteristics of each evolution stage and especially of the competition conditions within each sector (Table no. 3).

Table no. 3

Strategic typologies compatible with the nature and the age of industry

The industry's nature and age	Adequate strategies	
1. New and developing strategies	One cannot speak of a well-defined strategy, but of a series of orientations: the imposition of one's own rules in terms of price and distribution; the consolidation of one's position towards suppliers and beneficiaries; the timely entering on the market.	
2. Mature industries	Domination through costs; geographic re-unfolding; organizational strategies; restructuring startegies.	
3. Industries in decline	Significant competitive capacities on the crenels of remanent demand	Weak competitive capacities on the crenels of remanent demand
- favourable decline*	"Niche" or domination.	"Ecrenage" or clearing out.
- unfavourable decline**	"Niche" or "ecrenage"	Clearing out.
4. Global industries	A large range of strategies, in accordance with the dimension and the complexity of world market. Hey go from "standardization" (in certain industries only) to "differentiation" or a mix of the two.	

* Favourable decline – acknowledged decline; weak exit barriers; clear perception of enterprise disappearance.

** Unfavourable decline – when the enterprises lack a clear perception of the future and the exit barriers are few.

Source: Nemes, M. "Strategia firmei: Tipologii si situatii concrete", in *Tribuna economica*, No. 12, 1999, pag. 12–13.

c) Various strategies can be associated to each stage in a product's life cycle, according to the characteristics of the market and of demand, the evolution of the firm's main indicators for the product in question (Table no. 4).

Table no. 4

Types of strategies according to the product's life stage

The stage of product life	Adequate strategies
1. Launching	The "quick success" strategy: the launching of a new product with a high price level and large promotion expenses; The "slow success" strategy: the launching on the market of a new product with a high price and limited promotion expenses; The "quick penetration" strategy: the launching on the market of a product with a low price level and large promotion expenses; The "slow penetration" strategy: the launching on the market of a product with a low price level and limited promotion expenses.
2. Development	Development or product differentiation strategies; Market development strategies (segment extension or penetration on new segments); Stability strategies and sometimes of redressing.
3. Maturity	Market segment maintenance and protection strategies.
4. Decline	Stability or restriction strategies, as the case might be Withdrawal from the market strategies.

Source: Nemes, M. "Strategia firmei: Tipologii si situatii concrete", in *Tribuna economica*, No. 12, 1999, pag. 12–13

d) The number of strategies that small and medium firms can adopt is more restricted than in the case of big firms because the former's means are more limited; there is a small number of specialists, restricted planning, managers who are, most of their time, busy over problems and operational decisions. The most adequate strategies are considered to be:
   - Position consolidation strategies, including "niche" strategies and big enterprise cooperation strategies;
   - Re-unfolding strategies, product diversification and internationalization, respectively, with the mention that in the latter case the failure risk is high.

e) Companies in difficulty, in accordance with the results of the financial diagnosis, must opt for survival and revitalizing strategies, such as:
   - Cooperation strategies to develop "dilemma" products;
   - Specialisation strategies, that can later lead to domination through cost strategies, to differentiation or "niche" strategies;

– Organisational strategies, emphasizing products and processes, de-centralisation – de-bureaucratisation and motivation.

3. Conclusions

Quite often, most of the strategies that we have mentioned are part of a traditional way of thinking (activity fields and competitive systems of fixed borders). At the moment, however, a new type of strategies is shaping, that break the common thinking schemata. They are called "rupture strategies" and they are characterized by modifications (at certain competitors' initiative) of the strategic segments and the rules of the competitive game. *To play differently from the rest* is becoming the main condition of success, whereas up to now the motto has been *to play better than the rest.*

References

1. Badrus Ghe., Radaceanu, E., *Globalitate şi management*, Ed. All Beck, Bucureşti, 1999.
2. Henner H.F., *Commerce internaţional*, Ed Montchrestian, Paris, 1992.
3. Kotler P., *Managementul marketingului*, Ed.Teora, Bucureşti, 1998.
4. Nemeş M., *Strategia firmei: Tipologii si situatii concrete*, in *Tribuna economica*, No. 12, 1999.
5. Ohmae K., *Inteligenţa strategului*, Ed. Teora, Bucureşti, 1998.
6. Walters R., Blake D., *The politics of global economic relations*, Prentince Hall, New Jersey, 1992.
7. Wheelen T., Hunger D., *Strategic Management and Business Policy*, Addison-Wesley Publishing Company, 3rd edition, 1989.