

Introduction to Business 2

Integration/responsiveness- and the AAA-frameworks

International Business Management

➤ Prof. Dr. Joanna Ożga

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Hochschule Fulda
University of Applied Sciences



Integration/responsiveness- and the AAA-frameworks

Recapitulation from the last week

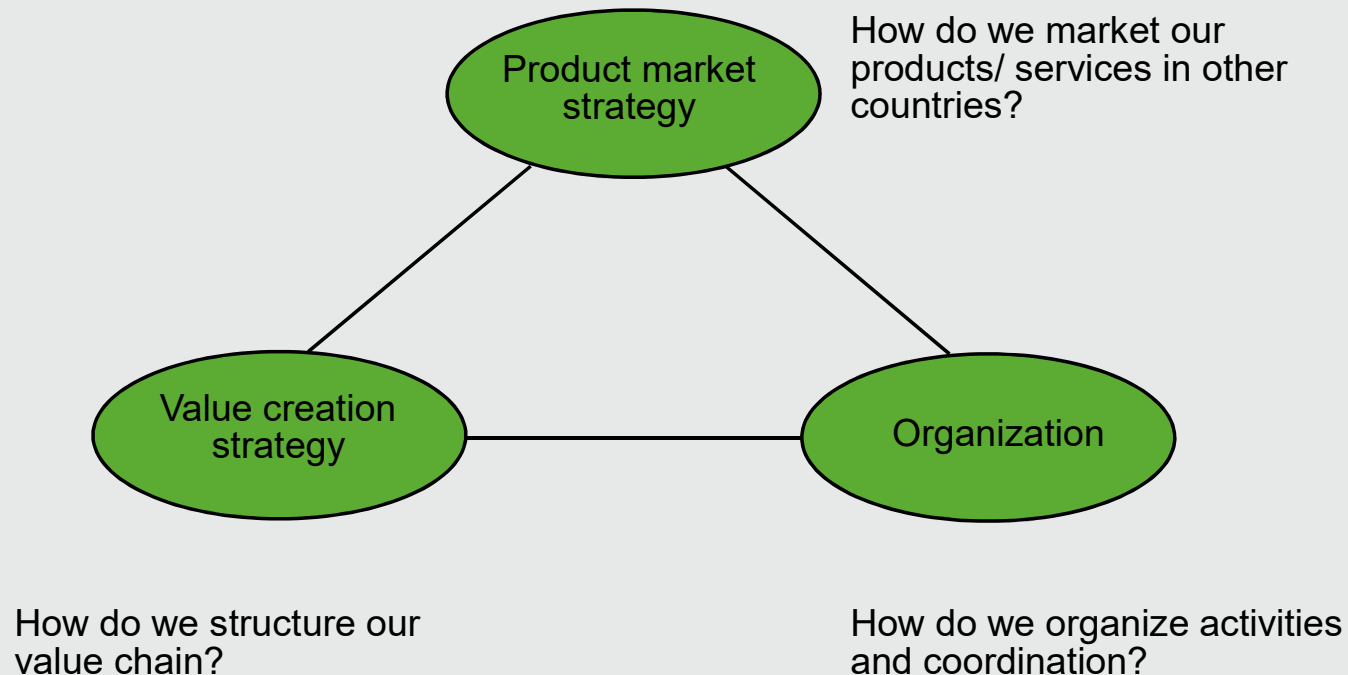
1. Explain the major decisions needed to design an organization structure.
2. Define four major types of organization structures.
3. Explain how a team differs from a group, and describe the six most common forms of teams.
4. Highlight the advantages and disadvantages of working in teams, and list the characteristics of effective teams.
5. Review the five stages of team development, and explain why conflict can arise in team settings.
6. Explain the concept of an unstructured organization, and identify the major benefits and challenges of taking this approach.

Learning objectives

- Explain four dimensions in the Integration/Responsiveness-Framework
- Explain forces for global integration and local responsiveness
- Highlight the advantages and disadvantages of each dimension in the I/R-Framework
- Explain three levels in the i/R-Framework
- Explain three dimensions in the AAA-Framework

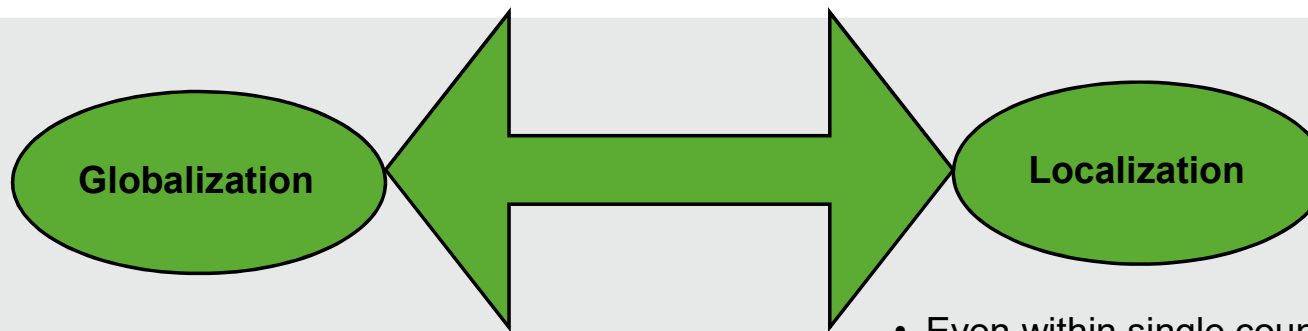
The internationalization approach of companies is determined by three major decisions

Internationalization decisions



International business strategies have to consider conflicting demands of globalization and localization

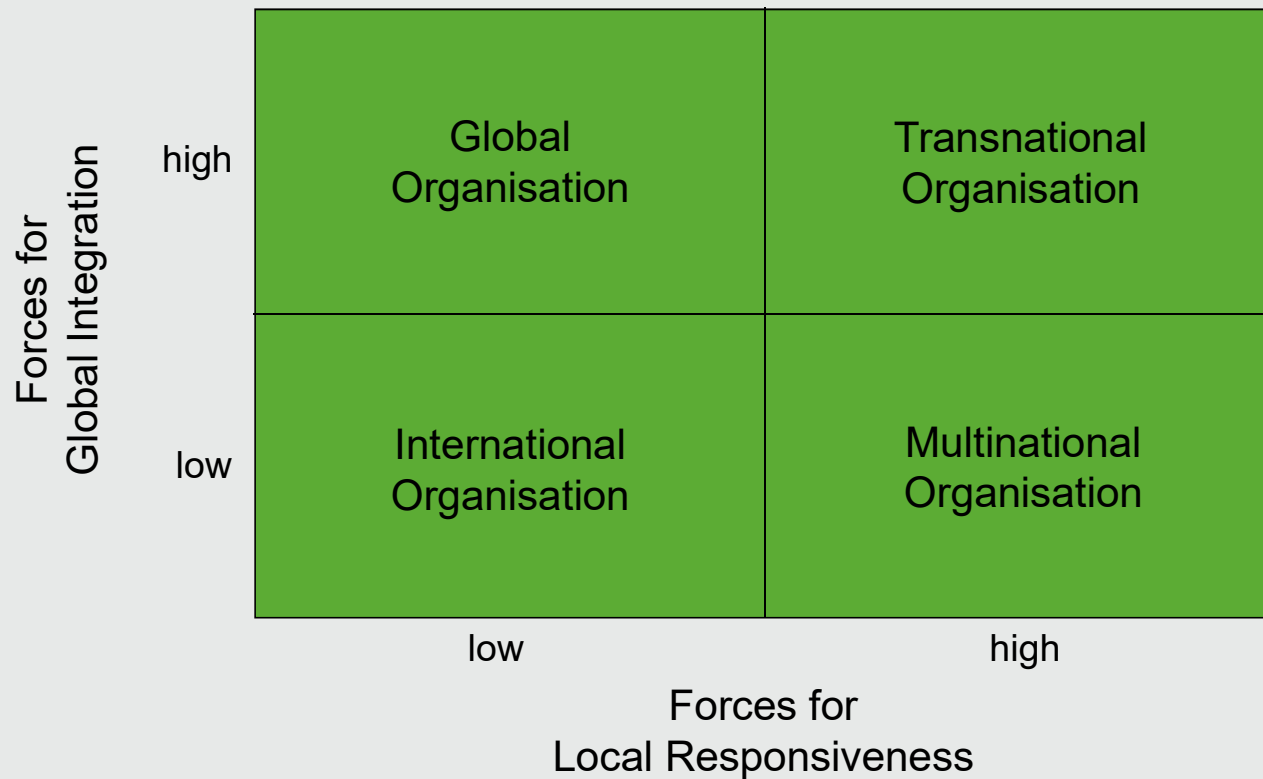
Arguments



- Consumer needs and behavior become more homogenous worldwide.
- Preference for cheap products with acceptable quality can only be satisfied by standardized products.
- Offering products on global markets leads to “economies of scale”.

- Even within single countries consumer needs are very heterogeneous.
- Increasing product differentiation can be observed in many industries.
- Product quality is often more important than the price.
- Global products only exist in the luxury segments.
- Production cost often only make up a minor share of the sales price.

The Integration/Responsiveness-Framework



Source: Adapted from Bartlett/Ghoshal 1989, p. 438.

The Integration/Responsiveness-Framework

- **Global** – build cost advantages through centralized, global scale operations
- **International** – export parent company knowledge and capabilities through worldwide diffusion, local marketing and adaptation
- **Multinational** – build flexibility to respond to national differences through strong, resourceful, entrepreneurial and somewhat independent national or regional operations
- **Transnational** – develop global efficiency, flexibility and worldwide learning

Which factors drive global integration and national responsiveness?

Factors determining market characteristics

	+	-
Global integration	<ul style="list-style-type: none">• Economies of scale•••	<ul style="list-style-type: none">• Heterogeneous customer needs•••
National responsiveness	<ul style="list-style-type: none">• National laws/regulation••••	<ul style="list-style-type: none">• Homogeneous customer needs•••

Pressures for global integration and for local responsiveness

Pressures for global integration (and coordination)	Pressures for local responsiveness
Opportunities to reduce costs through economies of scale and arbitrage benefits (e.g. wage differentials)	Differences in customer needs
Converging consumer trends and universal needs	Differences in distribution channels
Demand of uniform service by multinational customers	Cultural differences
Opportunities for global sourcing	Responding to local competition (product features, price levels, etc.)
Access to raw material and energy	Meet local government regulations and legal requirements
Investment intensity (leverage)	Accommodate with powerful stakeholders (unions, NGOs, consumer groups, financial institutions)
Technology intensity (protection)	
Availability of media with a cross-national reach	

Different industries require different international strategies

Strategies for international markets (examples)

Benefit of globalization/ global integration

Global <ul style="list-style-type: none">•Aircraft•Consumer electronics•PC	Transnational <ul style="list-style-type: none">•Telecommunication•Railway•Pharmaceutical
Export <ul style="list-style-type: none">•Tools•Wine•Office furniture	Multinational <ul style="list-style-type: none">•Insurance•Newspaper•Food

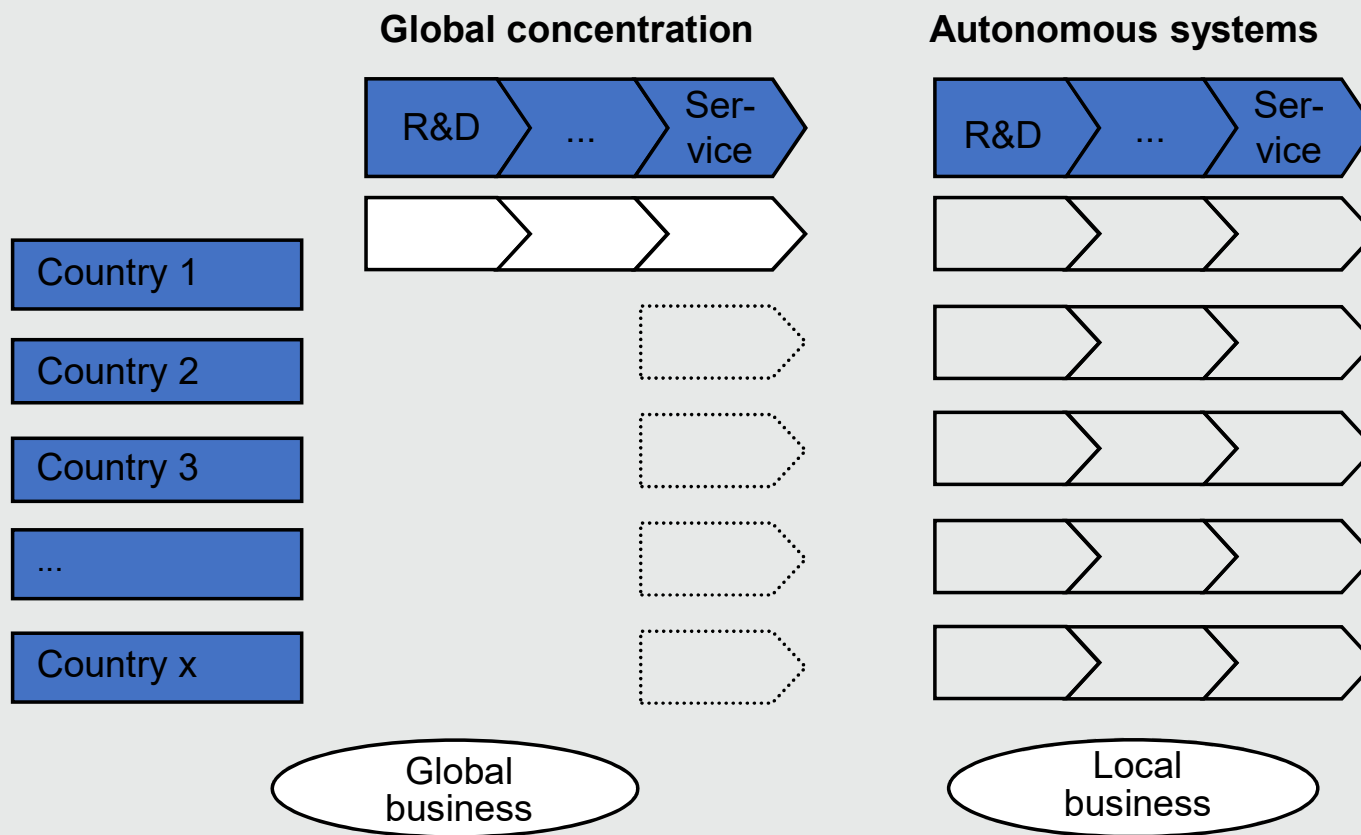
Benefit of localization/ national responsiveness

Character of industries changes over time



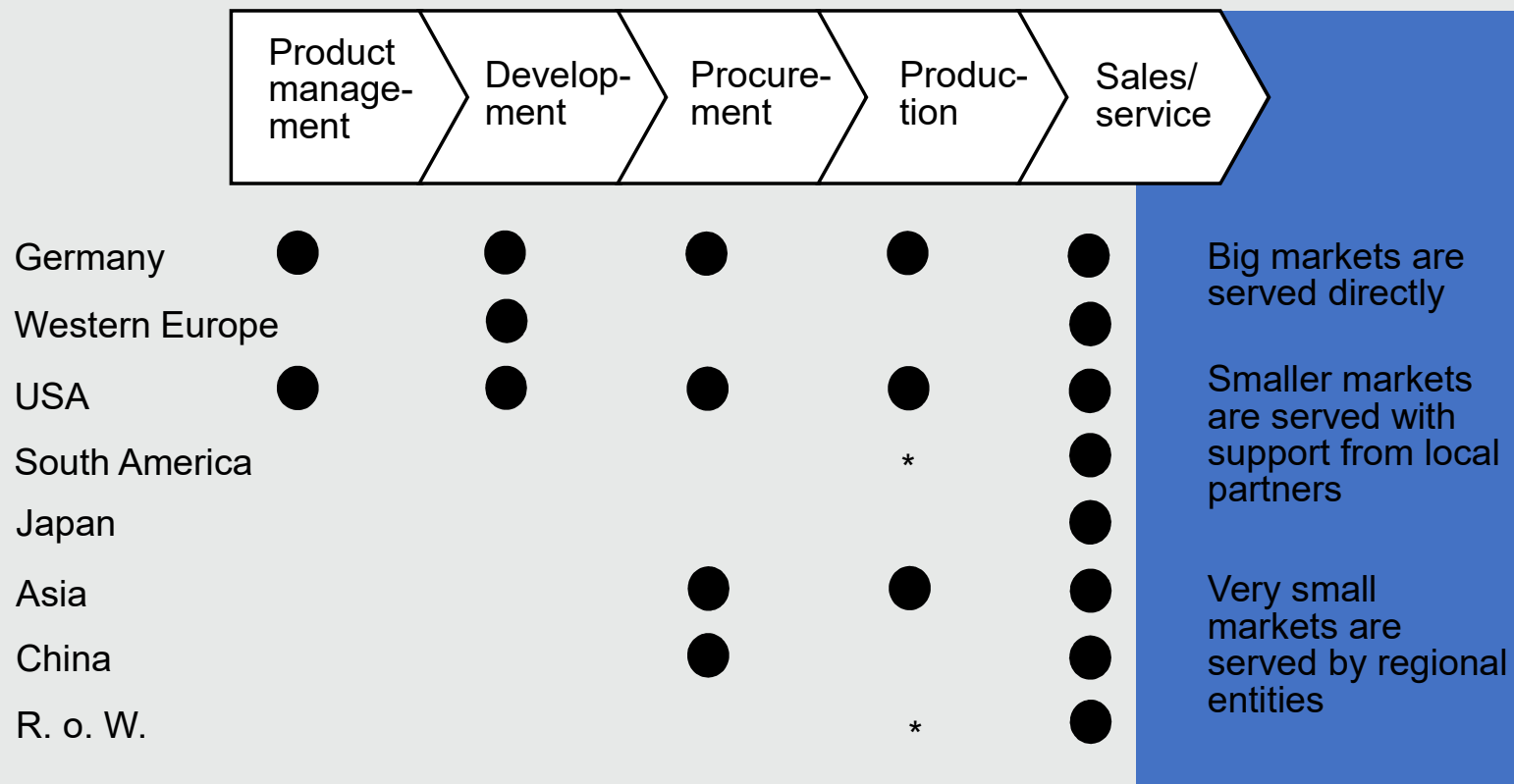
Structure of value chain depends on the internationalization strategy

Approaches to structure the international value chain



In transnational industries the value chain is disaggregated and value networks are formed

Localization of value creation - example of Siemens ICN



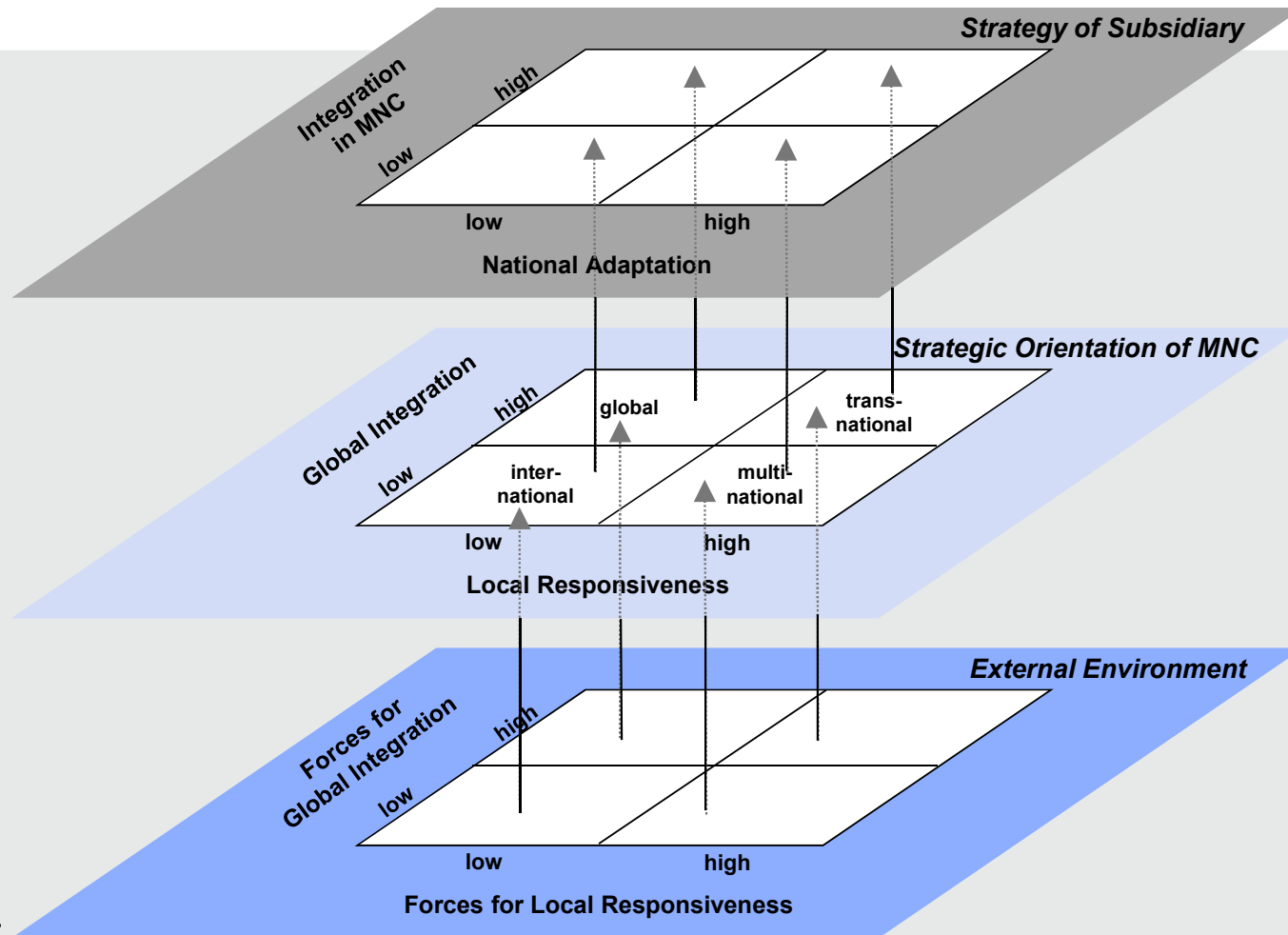
Selected Characteristics of the Four MNC Types

	International	Global	Multinational	Transnational
Role of Subsidiary	sale of HQ products	implementation of HQ strategies	identification and exploitation of local opportunities	differentiated contribution to the worldwide competitive advantages of the MNC
Network Model	centralised hub	centralised hub	decentralised federation	integrated network
Vertical Product Flows	high, sequential	high, sequential	low	bidirectional
Inter-subsidiary Product Flows	low	low	low	high
Centralisation of Decisions	high	high	low	medium (decentralised centralisation)
Management Transfers, Visits, Joint Working Teams	low	high	low	high
Centres of Excellence	low	low	low	high
Product Modification	low	low	high	high
Local Production	low	low	high	medium
Dependency	strong dependence	strong dependence	in-dependence	inter-dependence

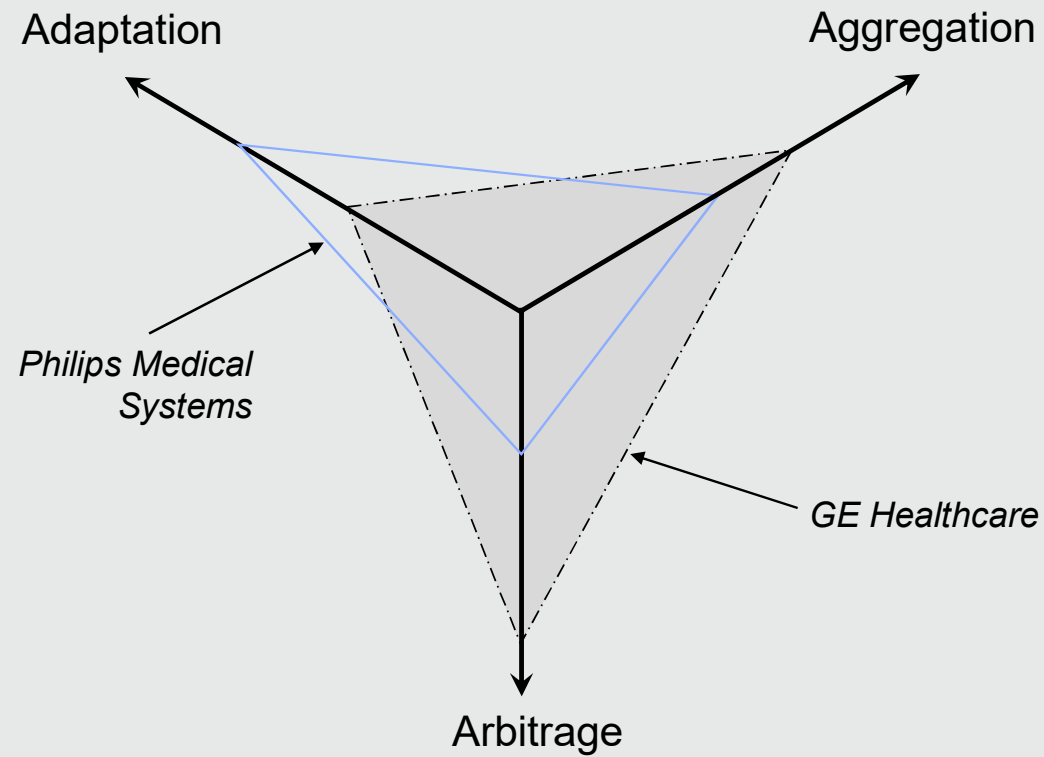
Source: Summarised and adapted from Macharzina 1993, p. 83, p. 102; Harzing 2000, p. 113; Bartlett/Beamish 2014, pp. 198-201.



Three Levels of the I/R-Framework



AAA-Framework with Profiles of Two Companies



Selected Characteristics of the Three Dimensions of International Strategy

	Adaptation	Aggregation	Arbitrage
Competitive Advantage <i>Why should we globalize at all?</i>	to achieve local relevance through national focus while exploiting some economies of scale	to achieve scale and scope economies through international standardization	to achieve absolute economies through international specialization
Configuration <i>Where should we locate operations overseas?</i>	mainly in foreign countries that are similar to the home base, to limit the effects of cultural, administrative, geographic, and economic distance		in a more diverse set of countries, to exploit some elements of distance
Coordination <i>How should we connect international operations?</i>	by country, with emphasis on achieving local presence within borders	by business, region, or customers, with emphasis on horizontal relationships for cross-border economies of scale	by function, with emphasis on vertical relationships, even across organizational boundaries
Controls <i>What types of extremes should we watch for?</i>	excessive variety or complexity	excessive standardization, with emphasis on scale	narrowing spreads

Level of Globalisation by Retail Sector in 2012

	Retail Revenue from Foreign Operations	Average Countries	Single-Country Operators
Top 250	24.3%	10.0	36.8%
Fashion Goods	29.8%	22.2	23.8%
Hardlines & Leisure Goods	26.6%	13.1	26.9%
Fast-moving Consumer Goods	23.3%	5.1	44.5%
Diversified	22.6%	10.3	36.8%

Forces for Global Integration and Local Responsiveness in Different Retail Sectors

Forces for Global Integration	high	<ul style="list-style-type: none">♦ Consumer Electronics♦ Appliances♦ Fashion	<ul style="list-style-type: none">♦ Food♦ Media (Music, DVDs)♦ Cosmetics♦ Drug Stores♦ Telecommunication
	low		<ul style="list-style-type: none">♦ Furniture♦ Home Improvement♦ Books
		low	high
		Forces for Local Responsiveness	

Retailers and Their Strategic Orientation

	Hollister	7-Eleven	REWE Group	Alnatura
Brand	globally standardised	globally standardised	locally integrated	locally integrated
Marketing Strategy	globally standardised	between global standardisation and local integration	locally integrated	-
Store Layout	globally standardised	between global standardisation and local integration	locally integrated	globally standardised
Assortment	globally standardised	between global standardisation and local integration	locally integrated	between global standardisation and local integration
Distribution	Globally standardised	locally integrated	globally standardised with local Integration	between global standardisation and local integration

Thank you!

joanna.ozga@w.hs-fulda.de