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International Strategy: is it Meeting the Challenge?

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The paper proposes an IS process model comprising inputs, development, outputs and a feedback loop based on performance measurement and its interpretation. The feedback impacts on the inputs and development components. Inputs are comprised of market information, human resources, diversity, value creation and host country environmental factors. Development includes preparation and learning, planning and scrutinising partnerships, anticipating impacts of globalisation and experience effects. Outputs comprise structure, scope of operations, target countries, facility location and positioning. Performance interpretation explains rapid and major changes in IS outputs, such as structure and business unit portfolios, whilst process complexity explains observed output similarities for organisations reacting to similar inputs and suggests an evolutionary approach in their determination.

Field of Research: Strategic Management, International Management

1. Introduction

International strategy (IS) is the approach by which an organisation’s capabilities and resources are directed to generate value utilising the global market’s opportunities (and risks). Despite some significant developments in the 1970s and 80s of models describing the stages of IS ‘maturity’, such as Johanson and Vahlne’s (1977) Uppsala internationalisation model, there has been little recent development of IS process models. For example, Ricart et al (2004) identified that, of the 84 IS research papers published in the Journal of International Business Studies between 1970 and 2003, only 12 dealt with formulating strategy. Furthermore, the stages models, such as Uppsala have been strongly criticised in the literature (e.g. Oviatt and McDougall, 1994).

The research agenda for IS model development is well defined by the literature. Melin (1993) indicated that an integrated approach to IS modelling is desirable because the three traditional perspectives of IS research (stages, strategy-structure relationship and administration) are too normative to model the formulation process; Ricart et al (2004) developed this idea further by noting that there has been insufficient research linking the three IS development perspectives; activity, resource and knowledge. Crick and Spence (2005) supported the integrated model approach by finding that no single theory could fully explain the strategic decision outcomes of UK based high-technology International Businesses (IBs).

This paper presents a model for the IS process which comprises four three stages; inputs, development and outputs – reflecting the perspectives of the current literature – and a feedback loop which impacts on the first two stages of strategy inputs and development. The contextual background for this model is presented in the literature review following and the elements of each stage are then described with reference to literature and examples.

2. Literature Review

Local conditions such as wage rates, politics and competitive threats are frequently considered in output oriented models of IS. For example, Montout and Zitouna (2005) developed a theoretical model that explained how local wage rates and tariff barriers affected the structure of IBs; Hillman and Wan (2005) developed a model of the political strategies of IBs which incorporated the influences

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of isomorphism within the business and host country and Delios and Henisz (2003) concluded that the political environment is an important IS input.

The significance of resource allocation is also featured in several IS models. For example, Crick and Spence (2005), found that the internationalisation strategies of 'high performing' UK high-technology small and medium-sized enterprises could be modelled using a resource based perspective, whilst Tan and Tan (2005) produced a model which predicted that the failure of many state owned Chinese enterprises when changing to commercial operations is due to an inability to match resources to new environmental (market-based) conditions.

The literature also provides different potential focuses for the IS process. London and Hart (2004) suggested that IS development should focus on low income earners which are the largest and fastest-growing segment of the world's population. They concluded that the IS process for this market should reflect its patterns of economic development by focusing on the strategy outputs of adopting non-traditional partners and developing local capacity and processes. Jaffé et al (2005) found that a framework for the optimum strategy outcome for a local business being threatened by an IB should include the scope of current markets and strategic assets. Chetty and Campbell-Hunt (2004) suggested that a desirable IS focus was destabilising the organisation and allowing more entrepreneurial behaviour and stronger learning capabilities.

Zahra (2005) also recommended that the IS development process should focus on developing international entrepreneurship, which requires a value focused strategy process. Rindova et al (2004) extended this idea by suggesting specific forms of language to describe the strategy to increase stakeholder involvement and improve performance. This approach has consequences for corporate governance during the strategy development process.


3. An is Model

True IS involves a transformed strategic model from that of a one-country operation. At low levels of internationalisation, strategic planning and management are more similar to domestic strategy. For example, if an organisation is merely exporting or licensing out its products and services internationally, the organization may only need to extend its existing capabilities and activities into the international arena. An IS for significant international operations, however, must span all countries of operation.

An IS process model which incorporates the important features for IS is shown in Figure 1 below. It contains four components - inputs, process, outputs and feedback.

Strategy Inputs

Strategy inputs include; market information, human resources, diversity, value creation and host country environmental factors.

The value of accurate market information cannot be understated for IBs, particularly global businesses. For example, Rosenbluth International, a major US travel agency, significantly improved organisational performance during a period of consolidation in the industry by adopting a
sophisticated market information system to prioritise international markets relative to its capabilities (Clemons and Hann, 1999).

The IS value chain includes technologies that can be transferred internationally, global financial management capability, global representation and internationally appropriate leadership in addition to Porter’s (1980) value-chain items; operations, marketing and sales and service. These factors lead ISs to emphasise different capabilities to that of a domestic only strategy. For example, IKEA considers the first outlet it opened up in Russia to be a success, even though it was not expected to make a profit for a number of years (Shanetskaya, 2001).

Local country environmental factors include; the competitive situation, political conditions, labour costs and economic conditions. For example, Hewlett-Packard chose to transfer significant technical capability to its Singapore printer development division on the basis of the support provided by the Singapore government for FDI in advanced technology areas (Harvard Business Review, 1997).

![Figure I. IS Process Model](image.png)

**Strategy Development**

Strategy development factors include learning, preparation, planning partnerships, anticipating globalisation affects, anticipating technology affects, considering location, experience effects, planning competencies, planning for cost effectiveness, scenario planning, leadership and ethics. Few modern ISs do not include ventures or partnerships to reduce the risks — particularly if technology or skill transfer is attractive. Unfortunately, these joint ventures have an estimated 60% failure rate (Zahra & Elhagasey, 1994) and should receive more attention in the strategy development stage.

IS process should also consider the possibility of technology speeding up local political as well as economic development, especially in larger developing countries. The most significant example of this effect is China where many overseas manufacturing companies have transferred significant operations and technology and made significant financial investments (FDI). The current strategy has been to produce products and services for export to highly developed countries, particularly the US and Europe, as the purchasing power of most Chinese when the China FDI boom commenced was low (and remains mostly low). The factors that have made production in China possible also mean that it will ultimately represent an attractive market to these manufacturers as the rapid economic growth increases local purchasing power. Current IS, however, has ignored the use of technology to produce products and services that will accelerate this market development, even though its development would represent a major advantage to these companies.
The most common IS competencies sought are cost effectiveness, high levels of quality control (a core competency for US manufacturers like Motorola) and the integration of technology, particularly into the production process. Service organisations (such as international consulting companies) also focus on the competency of being a learning organisation because much of their key resources are attached to information and intellectual property. The ability to transfer competencies to new subsidiaries will contribute considerably to IB success. The US Postal Service IPS, for example, based its IS on transferring competencies developed for the US into existing European postal businesses that it acquired (Parker, 1999). Unfortunately, UPS found out that these competencies were not as relevant to the European environment as they were to UPS's domestic environment, damaging the European business units that it had acquired and reducing the overall value of the organisation to the shareholders.

Cost reduction is frequently an imperative imposed by institutional investors interested in maximising the short term return on their assets. IBs can minimise costs by standardising products, services and operations and by reducing ranges of options as far as possible. Unfortunately, the opportunities to further reduce costs through international operations is limited (Sams, 2005). The demand for broad-based global services means that contemporary IS focuses on the creation of "economies of expertise" to provide a high value products and services, rather than just on reducing activity costs, such as manufacturing (Sams, 2005:24). It is still uncertain as to whether successful domestic business leadership can easily be transferred to international operations (Kedia, et al, 2002). Some ISs, however, effectively substitute controls and procedures for leadership. For example, McDonald's Corporation's international expansion through franchises, with centralised activities such as training and franchise application evaluation, has enabled the organisation to grow dramatically and to an unprecedented level of international market penetration. As IB ethics becomes an increasingly important issue, research is beginning to identify a positive correlation between long-term profitability and a well-defined ethical position. For example, Holland (2002) found that, in Asia, ethical business behaviour leads to greater profits. Grossman (2004) also noted that the next item on the IS agenda is Corporate Social Responsibility (CSR) and that many socially responsible investment funds now exist which focus on CSR organisations.

**Strategy Outputs**

As was identified in the literature review, IS outputs focus on, structure, scope of operations, target countries, facility location and positioning. Given the complexity of the IS development process, the IS outputs are surprisingly consistent in practice across IBs with the same strategic objectives (such as increasing internationalisation) and environmental factors (such as local economic conditions) (Salvato, 2003; London and Hart, 2004 and Chetty and Campbell-Hunt, 2004). Does this mean that the IS development process in these organisations does little to differentiate their outputs in response to certain strategy inputs? Certainly, this behaviour may reflect a commonly shared focus on certain inputs by IBs, which would bias the strategy development process. This may even extend to their adopting standard responses to strategy inputs which would result in this observed consistency in outputs for IBs experiencing the same inputs.

At present, the differences in the strategy outputs of different IBs may, therefore, be found principally in their micro strategies, as suggested by Salvato (2003). This is not sustainable, of course. Historically, predictable strategy reactions to inputs are sustainable only in markets where there are few similar organisations competing with predictable reactions - in other words, this approach requires fragmented markets. Globalisation still has some way to run before the global market ceases to be fragmented in most industries. As the level of globalisation increases, IBs will experience more and more direct competition. This will force these organisations to be more creative in their IS development stage and produce more individual macro level outputs in response to their strategy inputs.
Feedback

Feedback is an important feature of IS because the process is iterative, usually requiring decisions to be made using measurements and interpretation of business performance. The interpretation of significance component of the feedback loop is very important to IS. Two businesses will rarely view a measurement of performance in the same way or draw the same conclusion regarding its significance. For example, in the white goods industry, a return on assets of a few percent is considered acceptable, whilst in the resources industry, under current economic conditions, an acceptable return on assets would be more than ten percent.

In addition to likely variations in the interpretation of significance of feedback, the model suggests that the interpretation of significance will impact upon the attention given to particular strategy inputs and features of the strategy development process. For example, an IB that finds its market share dropping will shift its attention to alternate strategy inputs such as using technology to reduce operating costs, thereby improving its capacity to compete on price. In a similar manner, a loss of market share due, for example, to the company's poor response to variations in the global economy, will encourage the organisation to incorporate and focus on strategy development tools such as scenario planning. This explains the surprisingly rapid shifts in strategy outputs (such as structure) which can be observed in IBs (such as Qantas airline's formation of a new domestic business unit in reaction to increased rivalry in its home market).

4. Conclusion

This paper presented a model for the IS process based on critical observations of strategy inputs, process and outputs and measurement and interpretation. Whilst a large number of separate elements for both the strategy inputs and development stages were identified (five 'clusters' of elements and twelve 'clusters' of elements respectively), only five elements were identified for the strategy output stage. This suggests that the IS process comprises considering data from a range of complex and significantly different sources for use by a similarly large range of strategy development tools. Both the inputs and use of specific development tools are also influenced by the interpretation of performance feedback measurements, adding a further dimension to this complexity. Given this complexity, a sound IS process would need to focus on a small number of outputs to ensure a reliable determination for each. In practice, IS outputs are indeed limited to a relatively small number of elements. Whether the IS process has evolved in recognition of this practical limitation, or whether a Darwinian evolutionary process has been in force which favours organisations with a relatively simple strategy outputs, is uncertain. Further research in this area is warranted.

References