

# A Framework for Analysis of Strategy Development in Globalizing Markets

*This article describes the development of an analytical framework of strategic behavior in globalizing markets, based on different strands of literature (internationalization process, strategic groups, intra-industry trade, and global management). The framework consists of a three-by-three matrix with the following dimensions: the global structure of the industry (industry globality) and the firm's preparedness for internationalization. In each of the nine resulting cells ("The Nine Strategic Windows") the author discusses consequences for strategic behavior of the firm. The author makes concrete suggestions on company strategy, varying from "stay at home" to "strengthen your global position." In order to illustrate the framework, the study of a Norwegian ship equipment manufacturer is briefly discussed.*

## ABSTRACT

Levitt's (1983) now-classic article on the promises of global strategies sparked a long debate among academics (Bodewyn, Soehl and Picard 1986; Porter 1986; Wind and Douglas 1987). Levitt's main contention was that companies operating in increasingly homogenous global markets will be forced to standardize production and marketing programs. He asserted that this strategy is bound to give the companies economies of scale and a cost leadership position in the industry. Even though Levitt's argument might be questioned on a number of grounds (the globalized consumer, the importance of scale economies of standardized products/marketing strategies), it has generated an important discussion on the effects of the globalization trends on company strategy. Furthermore, one can argue that there has indeed been a trend toward globalization of industries and markets, be it the institutional infrastructure (EU, NAFTA, WTO), the technological infrastructure (telecommunications), or the increased transfer of people and ideas across countries and continents.

A large body of literature has evolved on strategic responses to this development. The focus of this literature, however, has been mainly on large multinational enterprises (MNEs) (Hamel and Prahalad 1985; Porter 1986; Bartlett and Ghoshal 1989; Yip 1992). These are the firms that enter global strategic alliances, that are known for worldwide marketing campaigns, and that appear in the international financial press. The strategic responses of small and medium-sized businesses (SMBs) have, on the other hand, received relatively limited attention.

---

---

**Carl Arthur Solberg**

*Submitted March 1995*

*Revised August 1995*

*January 1996*

*May 1996*

---

© *Journal of International Marketing*  
Vol. 5, No. 1, 1997, pp. 9-30  
ISSN 1069-031X

This article describes the development of a new model of internationalization of the firm, which is applicable to both SMBs and large global firms (see Figure 1). This framework is based upon the two following premises:

1. The strategic behavior of firms depends on the international competitive structure within the industry. In a multidomestic market environment where the markets exist independently from one another (Porter 1986), the firm may consider entering foreign markets gradually, with limited concern about competitive retaliation, and with a marketing strategy adapted to the individual situation in each market. In a more global market environment, the interdependencies between markets affect the strategic deliberations of the main actors in the market (Johanson and Mattson 1986; Hamel and Prahalad 1985). In this situation, the firm will have to take the global market situation into account when making moves in any one country. One may argue that SMBs do not operate in a league where market interdependencies and competitive retaliation are being felt by management. However, since a number of SMBs operate in niches where they meet specialized divisions of large MNCs, this phenomenon may make itself felt also to the SMB. The theories at work in this context emanate from industrial organization (Bain 1956) and its management corollary, the strategic groups paradigm (Hunt 1972; Caves and Porter 1977). The theory of intra-industry trade (Grubel and Lloyd 1975; Krugman 1989) extends the competitive arena to the international market place.
2. The other premise behind this framework is partly based on the Uppsala School of incremental learning and commitment of the firm toward international markets (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977). Aaby and Slater's (1989) review of 55 studies of export performance seems to confirm the general pattern of commitment, consistency, proactive attitudes, and risk preparedness as being the main determinants of export success; the more committed and the more experienced, the more the firm is prepared to meet challenges in globalizing markets. The insights from the interaction school of thought (Håkanson et al. 1982) also help us explain the ability of firms to expand in international markets: the better developed the marketing network through customers, distributors and other actors in the market, the better prepared the firm is to embark on further international expansion.

The framework that will be developed makes use of the two dimensions in Figure 1: "industry globality" and "preparedness for internationalization." Management should adopt international business strategies according to its scores on those two dimensions. The resulting placement in the framework, the "Nine Strategic Windows," indicates the main strategic thrust of the company in international markets.

<b>PREPAREDNESS FOR INTERNATIONALIZATION</b>	<b>MATURE</b>	Enter new business	Prepare for globalization	Strengthen your global position
	<b>ADOLESCENT</b>	Consolidate your export markets	Consider expansion in international markets	Seek global alliances
	<b>IMMATURE</b>	Stay at home	Seek niches in international markets	Prepare for a buy-out
		<b>LOCAL</b>	<b>POTENTIALLY GLOBAL</b>	<b>GLOBAL</b>
		<b>INDUSTRY GLOBALITY</b>		

Figure 1.  
The Nine Strategic Windows

The next three sections describe how management may define its placement in this framework and the rationale of each of the suggested strategies in the windows of the model. In a fourth section, the framework will be applied to a small Norwegian manufacturer of electronic ship equipment.

Most people have an intuitive notion of how global an industry might be. Several writers have suggested indicators of industry globalization that help us define this concept (see for instance Levitt 1983; Porter et al. 1986; Leontiades 1986; Yip 1992). However, in the present context it is important to define in more detail the determinants of industry globality since the strategic consequences apparently vary so much from one placement in the grid to the other (see Figure 1). In the present framework, three indicators of industry globality are introduced: industry structure, strength of the globalization drivers, and market interdependence.

Industry structure is defined as the delineation of the competition relevant to the firm. It is useful in this context to introduce the concept of strategic groups (Hunt 1972; Caves and

---



---

## INDUSTRY GLOBALITY

---



---

## Industry Structure

Porter 1977) where suppliers in an industry gradually develop different sets of entry barriers and therefore end up covering different market sectors, only tangentially competing with each other. This is one of the reasons why smaller firms using sub-optimal technologies and scales may profitably coexist with larger, state-of-the-art, low-cost facilities. In many instances, because of blurred boundaries between customer segments, it may therefore be difficult to identify the real competition. In globalizing markets, the analysis of competition appears to be even more complex, given the multitude of combinations of entry barriers and ensuing different competitive situations in individual markets. In some industries MNEs dominate the competition (computers, semiconductors, soft drinks), whereas in other industries the competition is much more fragmented (service industries, furniture, building material, etc). In still other industries there is a mixture of large MNEs and local niche companies that cater to basically the same market.

The type of structure is determined by the number of entry barriers and the strength with which they appear. Scale economies and product differentiation have been mentioned as typical entry barriers. Another important barrier is market control through distribution channels. In an international context, the role of government intervention plays an important role (trade barriers).

---

## **Globalization Drivers**

To what extent are the entry barriers affected by globalization? Globalization drivers have been discussed by a number of writers (Leontiades 1986; Porter 1986; Yip 1992). The most important ones seem to be: demand homogenization, trade and capital market liberalization, firm activities in global markets, technological environment, infrastructure (communication), concentration of customer, and distribution structure.

The key questions are: 1) To what degree do globalization drivers occur, and 2) How do they impact on the ability of the industry players to build global market positions through the erection of entry barriers? For instance, does the state-of-the-art technology permit improved economies of scale and flexibility to cater to different market segments in a multitude of countries? Do the developments within the EU promote intra-industry trade to the extent that market interdependencies in Europe might be expected to develop? Do the trade disputes between the United States and her trading partners have a negative impact on further economic integration in the world? Will the activities of MNEs in international acquisitions, joint-venturing, and strategic alliances lead to a more concentrated global industry structure? Are market segments experiencing a gradual convergence, facilitating the implementation of global marketing programs? Also, how imminent is the impact of changes in these factors, and with what strength do they occur?

These questions are generally difficult to answer with any satisfactory precision, and yet, the answers could provide management with critical information for strategy development. This could be done by introducing a scaling system whereby managers rate the impact of different developments in their industry.

If we are to capture a realistic picture of the industry globality, it is also necessary to gauge the degree of interdependence among national markets. Market interdependence is one of the direct results of the process of international oligopolization. The ultimate consequence of this factor is that any actor in the industry has to consider the outcomes for its competitive posture in several countries (or "all" the countries in a truly global market) even when the strategy is implemented in only one country.

There are several measures that may capture this phenomenon. Intra-industry trade is one example and it varies greatly between and within industry sectors (Grubel and Lloyd 1975; Krugman 1989). Another indicator of market interdependence is the presence of MNEs and international strategic alliances in the industry. As the number of cross border mergers, acquisitions, and strategic alliances have considerably increased in the last decade, this has itself resulted in greater concentration of the international industry structure (Hagedoorn and Schakenraad 1990). A final indicator of market interdependence is international price sensitivity (Leontiades 1984), where price changes in one country affect the price level in other countries.

Table 1 specifies useful indicators of industry globality. One may apply a 1-5 scale to get an estimate of the firm's location on the multilocal-global continuum.

	Global Industry	Multilocal Industry
<b>Industry structure</b>		
Competitive structure	Concentrated	Fragmented
Customer structure	Concentrated	Fragmented
Supplier structure	Concentrated	Fragmented
<b>Globalization drivers</b>		
International demand pattern	Homogeneous	Heterogeneous
Trade and investment policy and practice	Liberal	Prohibitive
Internationalization of customers/suppliers	High	Low
<b>Market interdependence</b>		
Intra-industry trade	High	Low
International price sensitivity	High	Low
Coordination of marketing campaigns by MNEs	High	Low

---



---

## Market Interdependence

---



---

Table 1.  
Indicators of Industry Globality

Considering the three factors discussed above, we end up with the following three categories of industry structure: Nationally oriented industries—or multidomestic industries (Porter 1986), potentially global industries, and finally “truly” global industries.

1. A *multidomestic or multicountry industry* is one where the basic structure is dominated by national actors and a fragmented competition. In this industry there are no signs of globalization drivers that will pull the industry toward a more international orientation. The plumber and hairdresser trades are perhaps the archetypes in this category. There are rare examples of industries in this category that nevertheless have some internationally active firms (for instance firms in the paint or the building materials industry).
2. A *potentially global industry* embodies the possibility of becoming global if exposed to the “right” set of globalization drivers. There are two main types of potentially global industries. The first one consists of fragmented industries with an element of exporting to neighboring markets and/or where multinational actors have made some inroads into the individual national markets. International trade is important, but there are no dominant players in the market. Furniture, clothing, building materials, and some food products are found in this group. The second type of potentially global industry is the “third country” industry structure, where international competition indeed exists, but it is confined to countries not supplying the products themselves (defense industries are one example, where for instance German, French, and U.S. companies compete to get a contract in a third country, for example Indonesia, with no national supplier). Both categories may become more global, but for different reasons.
3. *Global industry* is characterized by the presence of a limited number of global, dominating players in the industry, catering to major segments of the market. There is, however, usually an undergrowth of smaller, segment-oriented companies that specialize in particular application areas in the market, and that operate on a worldwide basis. The aircraft business is a typical example of this structure, with three leading Western suppliers (Boeing, McDonnell Douglas, Airbus), and a range of other companies specializing in, for instance, commuter planes (Saab, Cessna, Fokker etc.). A major feature of major players in a global industry is that they, through their extensive distribution network, are able to rapidly introduce product innovations on a world scale basis.

The preparedness for internationalization consists of two factors: international organizational capacity and relative market share in the firm's reference market.

---

---

## PREPAREDNESS FOR INTERNATIONALIZATION

This dimension involves the firm's ability to develop and carry out strategies in the international marketplace, and includes both the number of managers and employees engaged to carry out international operations and the degree of international culture embedded in the organization. Many researchers, for example, have noted that successful exporting hinges primarily on management commitment. This commitment is nurtured by the gradual maturing of company management in developing proactive attitudes toward international business with increased international sales (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977; Cavusgil 1984; Aaby and Slater 1989; Johanson and Vahlne 1990). Therefore, one proxy of international organizational capacity could be the level of international sales.

---

---

### International Organizational Capacity

Although the international organizational capacity is enhanced by increased international exposure, many companies either lag behind the "norm" or on the contrary are able to leapfrog a step in the internationalization process (Welch and Luostarinen, 1988). Therefore, a more thorough analysis of the organizational capacity is needed to make corrections to the somewhat "arithmetic" approach of using only the ratio of international sales to total sales. In this connection it is appropriate to make use of Welch and Luostarinen's (1988) framework of six internal dimensions (foreign operation methods, sales objects, markets served, organizational structure, personnel—skills and experience, finance) to give a measure of the firm's capability to internationalize.

The strategic importance of market share is emphasized by the Boston Consulting Group (BCG) in the much-used Boston Consulting Group Grid. In the Profit Impact of Market Strategy (PIMS), evidence is rendered to support the relation between market share and return on investment (ROI) (Buzell and Gale 1987). In the present context, relative market share is a proxy for the relative strength of the firm in its major markets and, hence, its ability on one hand to withstand competitive attacks, and on the other hand to finance—through higher ROI—a further global development of the firm.

---

---

### Market Share in Reference Market

One problem of using the BCG-matrix is to determine the market shares of the players. In the car industry, for instance, market share may be defined as a share of the total market, as a share of the station wagon market, of the small car market, of the high-end market, etc. In each instance, manufacturers like Volvo or Toyota will be positioned in different places in

the grid. The importance of properly defining the concept of what we may call the *reference market* is illustrated by Leontides (1984), who shows how Ford, IBM, and Texas Instruments perform much better in their UK operations in terms of ROI than their local counterparts, despite lower market shares in this market. Translating his findings to the present context, one may say that the reference market is no longer constrained to the UK, but rather, has to be defined in an international context. The determinants of the market share concept should therefore be related to:

- The ability of the marketer to position the product in a segment, which can then be defined as the “total” market or reference market. It is in this market that the customers perceive the marketer’s products, and it is therefore also in this market that competition really takes place.
- The effects of the learning curve and economies of scale initially constitute the basis for the argument about the importance of market share. This factor is important in that a cash cow position in key markets may constitute a prerequisite to financing expansion into new markets.

The problems of defining the reference market and the ensuing problems with relevant information about market shares in foreign markets may be alleviated by introducing proxies for this measure. Market network may constitute such a complementary or substitute measure for market share. The function of this dimension is to gauge the company’s ability to reach key markets through its network. The more global the industry structure is, the more important becomes the presence of an active and widespread network. Only in this way is it possible for a firm to put weight behind a threat of retaliation in the home base of a potential entrant (Hamel and Prahalad 1985). This, then, means that it is not enough to have a foothold, but that the firm should have an entrenched position in the market (Sölvell 1987).

Table 2 sums up the most important indicators of preparedness for internationalization. Again, a 1-5 scale may be used to gauge the individual indicators of this dimension.

**Table 2.**  
**Indicators of Preparedness for Internationalization**

	<b>High Preparedness</b>	<b>Low Preparedness</b>
International organizational capacity		
International sales ratio	High	Low
Market presence in key markets	High	Low
Modes of operation	High control	Low control
Market share in reference market		
Market share in major markets	Dominant	Insignificant
HQ interaction with distribution network	High	Low

Pulling these factors together will give us a construct denoting the firms' preparedness for internationalization:

1. The globally *immature company*. These have no or limited export activity and at the same time have no dominant position in their present markets. In international markets, this company will be particularly vulnerable in that it has limited experience and an unfavorable market share position.
2. The *adolescent company*. There are two types: those with virtually no foreign experience, but with a firm position in the home market (the home market adolescent); and those with a small to medium market share at home, and with extensive experience from international marketing (the international adolescent). Firms in the first category have the necessary economic strength to carry out an international marketing campaign, but lack the experience and organizational culture to do so and will probably make many mistakes in their first attempts to go abroad—following the incremental internationalization model. Firms in the second category may have the required skills but not the strength to compete in global markets.
3. The internationally *mature company*. These companies have a dominant position in major markets and they are dependent on international sales—both exports and sales by foreign subsidiaries—with all that entails of experience and ensuing organizational capacity. Companies with these features should be well prepared to take on globalization challenges. It is important to emphasize that this third category is not reserved only for large MNEs; many SMBs (or at least “MBs”) have achieved considerable positions in key world markets within their narrow niche, making traditional thinking of world players rather obsolete. It should furthermore be stressed that preparedness for internationalization has to be considered relative to the market situation confronted by the firm. The requirements are much less demanding in a multicountry market situation than in a global market situation. This point is partly taken care of by the inclusion of market share in reference markets, the latter denoting the scope of the competitive challenges.

We will now revert to the “Nine Strategic Windows” (see Figure 1) and discuss the strategic position of the individual firm. Before doing so, it is important to consider the effect of the globalization drivers on market shares in reference markets. A

movement to the right in the grid entails a *larger reference market and a resulting weaker relative share for the firm* of this market and vice versa. In a globalizing industry, therefore, the passive firm will see its preparedness for internationalization gradually deteriorate.

This section describes the strategic posture of firms in each of the nine strategic windows of the matrix. It is important to note that the alternative strategies suggested in the nine windows delineate the *major international strategic focus* of top management. Many other tasks relating to technology, marketing, human resource management, or financial subjects have not been captured by the matrix. Yet, the proposed focus will have ramifications for these areas, and the way in which the company chooses to carry out these strategies will depend to a large extent on factors such as financial strength and human resource base. These two factors have therefore been included in the discussion of the different approaches to help define the relevant strategies.

---

---

### Window 1: "Stay at Home"

In this window, each country-market is isolated from one another by different kinds of entry barriers, and the threat of competitive entry from international or global players is limited and not likely in the near future. With limited international experience and a weak position in the home (reference) market there is little reason for the firm to engage in developing a position in international markets. The main focus of firms located in this part of the model should be on improving their performance and position in their home market.

If the company has a weak financial position, it should consider strategies like cost reduction and/or market repositioning at home. With a better financial position and a management that takes a keen interest in international business development, it should consider initiatives outside its home market. One reason justifying such a step is the alleged relation between success and export involvement (Solberg 1988). International sales will be a new dimension to the company and will force it to sharpen its competitive advantage. This in turn will also pay rewards in the home market. Firms in this window that embark on a cautious internationalization process are normally "protected" by the multidomestic nature of the individual national markets. They can then take a stepwise approach, whereby the company can move slowly and learn the "rules of the game" step by step without risking counterattacks in their home market.

---

---

### Window 2: "Consolidate Your Export Markets"

An environment with limited competitive threat is also true of firms in this window. Still, entrepreneurial companies have succeeded in entering foreign and, most often, neighboring

markets. This is the case of Scandinavian manufacturers of building products, furniture, sports wear, etc., which they sell in each others markets and to some extent to the European continent. What, then, are the strategic options for a company in this situation?

If the company has a weak financial position, management should review both the market and product mix and concentrate on the strategic business units (SBUs) that reward above-average returns. The remainder should be divested or harvested in a "traditional BCG-manner" (Kotler, 1994). The cash generated from this operation should be used to reinforce the strategic position of the SBUs that are left. Given the relatively protected market climate (multidomestic markets) the company may work its way out in what could be termed a "calm international setting."

If the company has a strong financial base, it should also consider penetrating into major existing markets and assess entering new ones. Due to the relatively closed markets (multidomestic), licensing and/or foreign direct investments are two possible entry modes for market expansion. Even though there are no signs of a globalizing market environment, the company should capitalize on its international marketing know-how and competitive and financial strength. One day, the market factors may start to move in the global direction, and the company should be positioned to play a new role.

In this strategic window, the company has achieved a leadership position in its most important markets. The individual markets are nationally oriented, the competition is made up of nationals, and the market accessibility is limited. The case of the financially weak company is similar to that in Window 2: consolidate, review your product/market mix. A company with sound finances, in contrast, should either seek to expand further in new international markets or enter new business areas in its home market. In this way, the company gradually builds its position in individual markets, thereby enhancing its ability to implement aggressive strategies when globalization eventually occurs in the industry.

---

---

**Window 3: "Develop New Business"**

In this window, the markets have been exposed to globalization drivers to the extent that competition across borders is the rule, although it is not yet global. Firms in this position are often vulnerable because they lack both management and financial resources to confront the market situation.

---

---

**Window 4: "Seek Niches in International Markets"**

If the company's top management lacks interest/skills in international operations, the board of directors should initiate programs to develop a more internationally proactive management

team. With a more proactive management in place, the company should identify niches in international markets. By developing niche strategies, the company erects entry barriers and redefines its role in the market (increasing its relative share in its reference market). The company will, therefore, be less vulnerable to global competitive forces. The question is, of course, to what extent will a newcomer in international markets be capable of discerning niches in the market where the company can live "peacefully."

The suggested strategies are in this case either to expand stepwise in neighboring markets, following the "traditional" internationalization process ladder (Johanson and Vahlne 1977), and/or—if the company has sound finances—to expand through acquisitions. This latter route to internationalization, however, is a perilous one. Several studies (see for instance Kitching 1967) have found that only a minor part of international acquisitions live up to expectations. If the company has no previous international experience, it will most likely lack the necessary organizational capacity to cope with foreign mergers and acquisitions. Of course, if the company has extensive experience of buy-outs in the home market, this may compensate for such shortcomings.

---

---

**Window 5: "Consider  
Expansion in International  
Markets"**

The middle of the grid denotes a situation full of potential both within the company and in the market. The company has "climbed" the internationalization ladder and management is characterized by a proactive stance toward further international involvement. The challenge for management in this case is to carve out a position in the markets where their key competitors have a stronghold. This will increase the company's ability to react to competitive pressures in the event of a drive toward global markets.

The expansion strategy that is selected will vary according to the specifics of the situation (for instance competitive structure, barriers to trade, demand pattern, etc.). Penetrating the home turf of key competitors, the company may wish to expand by inviting them to form strategic alliances, so as not to exacerbate the competitive situation. If the impeding factor is barriers to trade, for instance a closed distribution system (consumer goods with a handful of very powerful retail chains), the company may again be advised to enter into some form of alliance with major players in the market, to buy a market share. Another way to get around the barriers is to enter into licensing agreements and joint ventures. The choice of one approach or the other will vary according to financial strength of the company.

Exporting is still another possible entry approach, which may be feasible if the barriers and demand patterns do not

constitute effective barriers to entry. In many ways, gradually increasing the company's market presence through what one could term "controlled" exports, is preferable because the company slowly but surely builds the international experience necessary to take on even bigger tasks in the future (Newbold et al. 1979); in this way the international organizational culture is allowed time to become embedded in the company (Solberg 1988).

The internationally mature company in a potentially global market is well positioned to prepare itself for eventual shifts toward a more global market. The analysis of the imminence and impact of the globalization drivers is critical to companies in this cell. To what extent, for instance, will the harmonization of standards in the EU impact on industry structure? To what extent will our company's reactions to the development in itself bring about change in the industry structure?

A company with comfortable financial strength is in a position to adopt an aggressive stance to the possible changes in the industry through, for instance, acquisitions. Norsk Hydro's Fertilizer Division is an example of such behavior. Since the middle of the 1970s they have stubbornly and consistently carved out a dominant position in the European fertilizer industry through acquisitions and joint ventures. The industry structure may still be classified as potentially global, but Norsk Hydro is well placed to meet a more global market situation and also to influence this development.

A financially weaker company will have to play with other "instruments" to gain a market position. One alternative is to seek alliances with major actors in the individual markets. Jordan of Norway (toothbrushes), for example, is either a market leader or number two in major markets in Europe. With a sales volume of some US\$100 million, however, it is a dwarf against the big retail giants in Europe. In order to achieve a leverage in this situation, Jordan seeks alliances through interactive participation with major local distributors of hygiene products, who have the necessary market power to deal with supermarket chains in each individual market.

One important distinction between the above types of alliances and "strategic alliances" lies in the scope of these latter. The competitive arena is more global and the event of a failure is more consequential in strategic alliances than is the case of local joint ventures or acquisitions in individual markets (Hamill and El-Hajjar, 1990). According to Perlmutter and Heenan (1986), "Not all efforts to mold international coalitions are either strategic or global; some are mere extensions of traditional joint ventures—localized partnership with a focus on a single national market." The above alliances

---

---

## Window 6: "Prepare for Globalization"

seem to fall into this category. However, the aggregate effects of these local alliances may be to position the company to act more globally. Thus, the actions taken by the company may in themselves constitute a globalizing driving force; Norsk Hydro's Fertilizer Division may be a case in point.

---

---

**Window 7: "Prepare  
for a Buy-Out"**

In this strategic window, the company already finds itself in a global market and is a local dwarf among multinational giants. The company most likely has only a few possibilities to survive as an independent unit. There may be a slim opportunity to carve out a niche based on specific skills that respond to particular needs in a limited segment of the world market. In such a niche the company may develop a "protected" life. It may divert into either of the following three windows: Window 4, "Seek niches in international markets" through redefining the nature of the business, for instance, by entering more protected segments of the market (government contracts, fragmented or innovative distribution channels); Window 8, "Seek global alliances" by inviting a third party with the necessary "preparedness for internationalization" to enter into a licensing agreement or to take a (majority) stake in the firm; Window 5, "Consider expansion in international markets" through a combination of the two. If this is not possible, the company should seek ways to increase its net worth so as to attract potential partners for a future buy-out bid.

In this window, one will find a number of hi-tech entrepreneurs with technological innovations targeting an international audience. In Scandinavia and other small countries there are a great many companies falling into this category, mainly emanating from the engineering oriented *milieu* of technological universities. Their home markets are often too limited to warrant sufficient economies of scale and the orientation of management is toward the technology rather than toward the market. The challenge for these companies lies in the conflict between the lack of international organizational culture and of market or financial power on one hand, and the threat of larger internationally oriented competitors with a broad marketing coverage entering the arena on the other. This threat is exacerbated by the speed by which hi-tech innovations are diffused, copied or improved by competitors (Ohmae, 1985).

---

---

**Window 8: "Seek Global  
Alliances"**

In this cell, the company is adolescent, and finds itself in a global market. With medium preparedness, the firm in this position may use strategic alliances in order to cope with larger and more powerful competitors, either through extensive joint venturing or through marketing, subcontracting, or R&D arrangements. In this position the firm has acquired the necessary skills in international business operations (adolescent) and should be able to cope with the challenges posed

by complex negotiations with potential partners, without losing its independence. By means of an alliance, the firm may overcome its competitive disadvantages, whatever the field of activity (economies of scale, marketing network, technology development and so on, Porter 1986). The difference between the financially strong and weak company lies essentially in the leverage it will have in negotiations with its future partners, and in its capability to take initiatives. It seems, however, that companies in this position in the grid will not be able in the long run to defend their market position on their own, unless they are able to identify niches, or in other words change the position in the grid to the left and upward (through a larger market share in a smaller reference market).

Finally, the firm has reached a position where it operates in global markets, and where it is among the market leaders in key markets. Within its industry the company is among the major "chess players" in the global marketplace. Even if this seems to be the end station of a long voyage toward the "global village," the dynamism of international trade will force the players in this window to be alert and carry out preventive and more proactive policies. Changes in demand patterns and customer preferences, the volatility of the reference market, changes in the cost position of both the different countries and the individual players in the market, new technologies, political events, etc., will all contribute to a market being constantly on the move. A key element to become a global player—or a "Triad Power" (Ohmae 1985)—seems to be to secure access to the Japanese market. Without a firm foothold in this large and still growing market, the "global" firm is vulnerable to Japanese competitive attack in other markets. Citing Kverneland (1988, p. 225): "Japanese firms' success in certain global industries could make counter-competitive actions in Japan an important component of competitors' worldwide strategy."

Companies in Window 9 should therefore identify the pivotal elements in this picture and develop an organization capable of rapidly reacting to changes and events in the "global village." During the 1980s different network-based organizational models were suggested (Hedlund 1986; Prahalad and Doz 1987; Bartlett and Ghoshal 1989) in a response to the challenges posed by a global industry structure. Bartlett and Ghoshal (1989) model of transnational companies (think global—act local) may epitomize the organizational challenges of companies in this window.

This section will briefly describe the case of one company. It will discuss how the company has positioned itself in the present matrix and which strategic conclusions one may

---

---

### Window 9: "Strengthen Your Global Position"

---

---

**CASE COMPANY—  
NORCONTROL AUTOMATION**

draw from this position. The company was studied at two points in time, first in 1989 and then again four years later. The company is a Norwegian manufacturer of electronic control systems for ship automation, Norcontrol Automation (NA). During that period of time the company had increased its sales from 62 million NOK (around 9 million USD) to close to 256 million NOK (40 million USD). The main reason for this dramatic increase lies in a major marketing drive in the Far East, chiefly in South Korea, which delivers around one-third of the world tonnage.

---

---

### **The Situation in 1989**

In 1989 the structure of the ship equipment industry was deemed to be potentially global in terms of the present framework. One key factor contributing to this location was the state of the industry structure with some large players mainly operating in their home countries or in "third countries." For instance the largest operator in the industry by the end of the 1980s was the Japanese Terasaki, which concentrated on the home market. Industry players like ABB (in Finland) and AEG (Germany) also operated mainly in their respective home markets. The only truly internationally oriented companies (apart from Norcontrol) were at the time Siemens of Germany, Valmet and Autronica of Norway, and Søren T. Lyngsøe of Denmark. The shares of the largest players in world markets outside Japan were estimated as follows (estimates based on company information): Siemens 15 percent, Søren T. Lyngsøe 10 percent, Valmet 10 percent, Autronica 10 percent, Norcontrol 5 percent.

At the time the company had a preparedness-for-internationalization rate below medium, basically because of medium-to-low market shares in international markets and because the international organizational culture was restricted to the top management of the company. Indeed its sales force was internationally oriented with customer relations in many important markets, but these relations were not embedded in the rest of the organization. Furthermore, the company was extremely product oriented in the sense of adopting a flexible, but highly onerous stance toward adaptation of products. In 1989 the company hired a new managing director with extensive international experience and with great ambitions to turn the poor financial performance of the company. NA had in fact struggled with returns on sales of around or below zero and an equity ratio of less than 5 percent several years in a row.

---

---

### **Two Alternative Strategic Windows**

NA was, as a result, placed between Windows 4 and 5, close to Windows 7 and 8. As a consequence, the company was in the position to assess at least two strategic options. The recommendations built in the matrix and discussed with the company management in 1989 were as follows:

A change in the competitive structure, through extensive strategic alliances between important players in the marketplace, or through a more open market access as a result of eases in regulations (e.g. EU92) would potentially lead these firms in a more global market structure. It was, therefore, important to identify key markets in order to develop a firm foothold with a number of key customers in the market. Without such a stance, the company risked lagging behind its (larger) international competitors, gradually losing market position and competitive stamina.

A factor strongly contributing to the urgency of an offensive strategy was the fact that in a globalizing market, price and distribution network will often "make it or break it," not necessarily because other factors like product quality and service are less important, but because large, multinational competitors (like Siemens) generally are able to offer precisely that: quality and service at a competitive price. The main reason lies in their capabilities in low-cost, large-scale production, and also their extensive market network, enabling them to turn over the necessary volumes to achieve scale advantages. Therefore, NA was advised to develop new markets and networks enabling them to achieve threshold volumes in manufacturing and R&D. The way in which this network and market expansion was to be carried out would largely depend on the firm's management competence and financial resources.

NA was at the time too weak to expand rapidly on their own. At the same time they risked being swept out of the market by multinationals actively seeking global strategies. This implied that the company, having limited resources, should as an alternative strategy, "Seek niches in international markets," where the investments in international networks were more compatible with its resources. In this context, seeking niches entailed setting up barriers to entry preventing the multinationals to take an interest. The challenge, however, seemed to be to identify a set of customers that had sufficiently pronounced special requirements to allow NA to distinguish themselves from their larger competitors. As a consequence, the real challenge was to make the company more market oriented, so as to come to grips with its customer base and establish and nurture long-term relations with its customers. In this way the firm would enhance its ability to identify niches.

During the four-year period, some changes in the competitive structure had indeed occurred. Valmet and Lyngsøe had merged to form a more powerful market player, and Autronica was acquired by the British company, Whessoe. These

---

---

*Window 5: Consider Expansion  
in International Markets*

---

---

*Window 4: Seek Niches in  
International Markets*

---

---

**The Situation Four Years Later**

changes in industry structure have moved the industry globally to the right in the matrix. NA had also undergone great changes during the four-year period.

- 1) NA's financial resources toward the end of the 1980s were strained to the extent that it would not be able to survive without a sound financial backing of new owners. This situation was aggravated by the move to the right on the globality axis. The company was finally taken over by a large state-owned manufacturer of defense electronics, with long-term aspirations in the information technology industry. Once the ownership issue was solved, management could actively carry out new strategies to capture shares in new markets.
- 2) The company had shown an impressive growth of some 300 percent over the four year period. The expansion strategy was aggressively implemented in selected markets—i.e., South Korea, and in Europe to the extent that the firm today is a market leader outside Japan. As a result, NA is much better prepared to confront a potential international entry of their largest Japanese competitor, although not in its home ground. According to company management, time has now come to consolidate the situation, through an increase in headquarter control of market activities, establishment of a market intelligence system, and a more systematic approach to its international network.

To sum up, one may say that NA chose an aggressive expansion strategy, opting out of the more cautious niche strategy alternative. In this way the company achieved the economies of scale requested by a world leader. In order to maintain its position, the company has implemented consolidation moves (headquarter control, etc.). This would not have been possible without ownership reshuffles and a more market oriented management orientation.

One may say that the company had climbed the internationalization ladder and by 1993/94 found itself in the upper part of the matrix ("Prepare for Globalization"). According to the model, NA was then in a position to preemptively introduce itself to the home ground of its biggest international competitors (in the present case, Japan) in order not to be overrun in its own strongholds by price subsidized market entry (Hamel and Prahalad 1985).

---

## CONCLUSIONS

The framework presented in this article demonstrates the effects of different international settings on business and marketing strategy. The approach taken differs from other frameworks in that it accounts for the combined effects of the

degree of globality in the particular industry, the impact of globalization drivers, and the degree of international preparedness of a company.

The case study shows that the model forces management through an analytical framework that gives signals to its strategic development. The signal followed in the present case was to expand in international markets in order to secure a broader market foothold and satisfactory scale economies in a globalizing industry. The more general managerial implication of the model is that company management should carefully assess the outcome of a gradual concentration of competition. This concentration may take place in any industry depending on the underlying barriers to entry and the globalization drivers affecting the industry.

Although the author has used the "Nine Strategic Windows" in a number of companies, it is vital to further validate the model through additional research. One important aspect of this research is to develop measures that properly translate the dimensions of the matrix: industry globality, preparedness for internationalization, and the individual strategic postures hypothesized in each window. Both longitudinal case studies and cross-sectional studies (both across industries and countries) are needed to explore the potential merits of the framework suggested in this article.

From his experience in using the framework, the author believes it is critical to discern between the state of the globality and the globalization drivers. In the former, the specific structure of the industry is the object of analysis. The analysis of industry structure does not entail the study of the process leading to the state. Rather, it is essential to define a measure of the extent to which the industry structure makes competitors in different local markets mutually interdependent in international markets.

An analysis of the globalization drivers calls for a thorough understanding of the *forces* at work. These forces are, in order of importance: 1) technological development (initiating changes in mobility barriers and thereby strategic groups); 2) trade and capital market liberalization (lowering international entry barriers); and 3) internationalization and concentration of customer structure (forcing suppliers to enter into strategic alliances or acquisitions).

One may ask whether it is possible to create an all-encompassing framework of analysis in which international newcomers and SMBs share space in the grid with large multinational enterprises. The issues confronting these different categories of companies are undoubtedly widely different, and one may argue that they cannot be discussed in

---

---

## THE AUTHOR

*Carl Arthur Solberg is associate professor of international marketing at the Norwegian School of Management.*

---

---

## REFERENCES

- the same context. However, the framework does not deal with large MNEs as such, but rather with individual strategic business units within MNEs. In this perspective, many SBUs of large multinationals may embody certain common features with those of SMBs.
- Aaby, Nils Erik, and S. F. Slater. "Management Influences on Export Performance: A Review of the Empirical Literature 1978-88." *International Marketing Review* 6, no. 4 (1989): 7-26.
- Bain, Joe S. *Barriers to New Competition. Their Character and Consequences in Manufacturing Industries*. Cambridge: Harvard University Press, 1956.
- Bartlett, Christopher A., and S. Ghoshal. *Managing Across Borders: The Transnational Solution*. Boston: Harvard Business School Press, 1989.
- Boddewyn, Jean J., R. Soehl, and J. Picard. "Standardization in International Marketing: Is Ted Levitt in Fact Right?" *Business Horizons* 29, no. 6 (Nov-Dec. 1986): 69-75.
- Buzell, Robert D., and B. T. Gale. *The PIMS Principles*. New York: Free Press, 1987.
- Caves, Richard A., and M. E. Porter. "From Entry Barriers to Mobility Barriers; Conjectural Decisions and Contrived Deterrence to New Competition." *Quarterly Journal of Economics* 91-2 (1977): 241-61.
- Cavusgil, S. Tamer. "Differences Among Exporting Firms Based on their Degree of Internationalization." *Journal of Business Research* 12, no. 2 (1984): 195-208.
- Forsgren, Mats. *Managing the Internationalization Process, The Swedish Case*. London: Routledge, 1989.
- Grubel, Herbert G., and P. J. Lloyd. *Intra-Industry Trade: The Theory and Measurement of International Trade in Differentiated Products*. London: Macmillan, 1975.
- Hagedoorn, John, and J. Schakenraad. "Leading Companies and the Structure of Strategic Alliances in Core Technologies." Paper presented at Workshop on Europe and Globalisation, EIASM, Bruxelles: May, 1990.
- Håkanson, Håkan, ed. *International Marketing and Purchasing of Goods; An Interaction Approach*. Chichester: John Wiley and Sons, Ltd., 1982.
- Hamel, G., and C. K. Prahalad. "Do You Really Have a Global Strategy?" *Harvard Business Review*, no. 4 (July-August 1985): 139-48.
- Hedlund, Gunnar. "The Hypermodern MNC—A Heterarchy?" *Human Resource Management* 25, no. 1 (1986): 9-35.
- Hunt, M. S. "Competition in the Major Home Appliance Industry, 1960-1970." Unpublished Ph.D. diss., Graduate School of Business Administration, Harvard University, 1972.
- Johanson, Jan, and F. Wiedersheim-Paul. "Internationalization of the Firm; Four Swedish Case Studies." *The Journal of Management Studies* 12, no. 3 (October 1975): 305-22.

- Johanson Jan and J.-E. Vahlne. "The Internationalization Process of the Firm—A Model of Knowledge Development and Increasing Foreign Commitments." *Journal of International Business Studies* 8, no.2 (Spring/Summer 1977): 23-32.
- \_\_\_\_\_. "The Mechanisms of Internationalization." *International Marketing Review* 7, no. 4 (Fall 1990): 11-24.
- Johanson, Jan, and Lars Gunnar Mattson. "International Marketing and Internationalization Processes—A Network Approach." In *Research in International Marketing*, edited by P. W. Turnbull and S. J. Paliwoda, 234-66. London: Croom Helm, 1986.
- Kitching, J. "Why Do Mergers Miscarry?" *Harvard Business Review* 45, no.6 (November-December 1967): 84-101.
- Kotler, Philip. *Marketing Management*, 8th ed. Englewood Cliffs: Prentice Hall, 1994.
- Krugman, Paul R. "Industrial Organization and International Trade." In *Handbook of Industrial Organization*, edited by Richard Schmalensee and R. D. Willig, 1181-1223. Amsterdam: Elsevier Science Publishers NV., 1989.
- Kverneland, Ådne. "Japan's Industry Structure—Barriers to Global Competition." In *Strategies in Global Competition*, edited by Niel Hood and Jan Erik Vahlne, 225-55. Stockholm: Stockholm School of Economics, 1988.
- Leontiades, James. "Market Share and Corporate Strategy in International Industries." *Journal of Business Strategy* (Summer 1984): 30-37.
- \_\_\_\_\_. "Going Global; Global Strategies vs. National Strategies." *Long Range Planning* 19, no. 6 (1986): 96-104.
- Levitt, Theodore. "The Globalization of Markets." *Harvard Business Review* 61, no. 3 (May/June 1983): 92-102.
- Perlmutter, Howard V., and D. A. Heenan. "Cooperate to Compete Globally." *Harvard Business Review* 64, no. 2 (March-April 1986): 136-52.
- Porter, Michael E., ed. *Competition in Global Industries*. Boston: Harvard Business School-Press, 1986.
- \_\_\_\_\_. *The Competitive Advantage of Nations*. London: The Macmillan Press Ltd., 1990.
- Prahalad, C. K., and Yves Doz. *The Multinational Mission: Balancing Local Demands and Global Vision*. New York: The Free Press, 1987.
- Solberg, Carl Arthur. "Successful and Unsuccessful Exporters: An Empirical Study of 114 Norwegian Export Companies." Working Paper, Norwegian School of Management, Sandvika, Norway, 1988.
- \_\_\_\_\_. "Strategy Development in Globalising Markets: The Case of Norwegian Small and Medium Sized Firms." Unpublished Ph.D. diss., University of Strathclyde, 1994.
- Sölvell, Örjan. "Entry Barriers and Foreign Penetration." Ph.D. diss., Stockholm School of Economics, 1987.
- Welch, Lawrence S., and R. Luostarinen. "Internationalization: The Evolution of a Concept." *Journal of General Management* 14, no. 2 (Winter 1988): 34-55

Wind, Yoram, and S. Douglas. "The Myth of Globalization." *Columbia Journal of World Business* 22, no. 4 (Winter 1987): 19-29.

Yip, George S. *Total Global Strategy, Managing for Worldwide Competitive Advantage*. Englewood Cliffs, NJ: Prentice Hall, 1992.

Copyright of *Journal of International Marketing* is the property of *American Marketing Association* and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.