A Comparison of the Different Types of Marketing Strategies Adopted by Multinational Corporations and Local Firms, Overtime and Over Space: Case Study of India as an Emerging Economy

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ABSTRACT

MNC's and local traditional firms have vied for market space overtime. MNC's have had an advantage due to their financial power, economies of scale and R&D facilities. Traditional firms in emerging economies like India have had little option but to merge or become subordinate to them. But contrary to the above there have been a number of instances that have not followed this route and have expanded in the face of competition. In spite of this all firms (MNC's and traditional) are now faced with a new challenge namely 'climate change'. To address this all stakeholders have to work in tandem.

Keywords: MNC's, Traditional firms, soft infrastructure, Dodger, Contenders, Defender, Extender

Research Question: Are the strategies adopted by local firms and Multinational company's similar or different? Does the strategy change for developed and developing economies? How do older firms react to new innovations? What is the impact of competition on both sets of firms? What are the different types of strategies that are adopted? These and similar type of questions would be addressed in the course of the paper.

1. Introduction

Management experts in large corporations especially in developed economies of the world have acknowledged that globalization is a critical challenge today. As far as multinational firms are concerned, most of them have stuck to the strategies that they have traditionally adopted, with respect to new markets. In developed economies there are a lot of things that are taken for granted. These are often labeled as 'soft infrastructure'. This is the basic infrastructure in place that aids the execution of their business model in their home markets.

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Since the 1990's, developing countries have been the fastest growing market in the world for goods and services. There have been a number of instances where home grown companies in emerging market economies have made inroads into developed nations (China's Haier Group, Infosys, Wipro etc.).If firms from developed economies want to make inroads in developing nations, they have to develop counter strategies that are in a position to move deeper into emerging markets that foster a different genre of innovations than mature markets.

In spite of crumbling tariff barriers, the spread of internet and cable television, and the rapidly improving infrastructure in these economies, MNC's cannot take for granted that the earlier business model that they used for developed nations would work for emerging economies.

In the developed world, companies have realized the importance of digital marketing. For businesses to be successful, online methods would have to merge with traditional in meeting the needs of customers. The advent of this technology has created new business opportunities for marketers in achieving their business objectives.

In the world of digitilisation, the customer is an empowered one and in control of the new media. The power and methods of traditional marketing tools are diminishing. Technology has changed the context of the practicing of marketing strategies, which eventually lead to profits for the firms.

Figure 1: Different Types of Marketing Strategies

Source: Shivanienterprises.com

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Digital transformation constitutes an evolutionary process, it refers to "the process of using this technology to create new- or modify existing-business processes, culture and customer experiences to meet changing business and market requirements", (Sales Force 2019). This technology affects various components of marketing that include customer insights, segmentation, targeting and positioning. There is an enormous dependence on data-driven decisions within marketing management. It has a pervasive impact on various business aspects, leading to businesses rewriting rules and resulting in a change in the traditional paradigm of conducting business.

Figure 2: Traditional methods of Marketing

Source: reliablecounter.com

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2.Definition

The growth path of MNC's and Traditional businesses are entertwined in their achieving relevance. With globalisation and to some extent liberalisation, the importance of these two different types of business models are important in understanding the growth path ahead.

2.1 Multi National Companies

These companies operate in multiple countries, that has assets spread across their business operations, in the form of facilities that include industrial plants and other assets. They are characterised by:

- Centralised management, that coordinates activities across branches, subsidiaries, and joint ventures in other countries.
- Transferring knowledge, from the home country to foreign sites, it also includes organisational mechanisms for conducting long distance trade and investment.
- Global integration, and balancing integration and differentiation, that includes demands of global scale compared to the needs of national markets and traditional local organisations.
- They may also be involved in significant investment in foreign countries.

MNC's maybe characterised by four types;

- Decentralised multinational corporations
- Global centralised corporations
- International companies
- Transnational enterprises

These companies have the ability to establish subsidiaries, branches, or affiliates in multiple countries while maintaining centralised management and control, allowing them to enter diverse foreign markets, access resources and leverage competitive advantages across different regions.The reason they are in a position to reap substantive benefits are because they have;

- Advanced Technology at their disposal
- Huge amount of physical and financial assets

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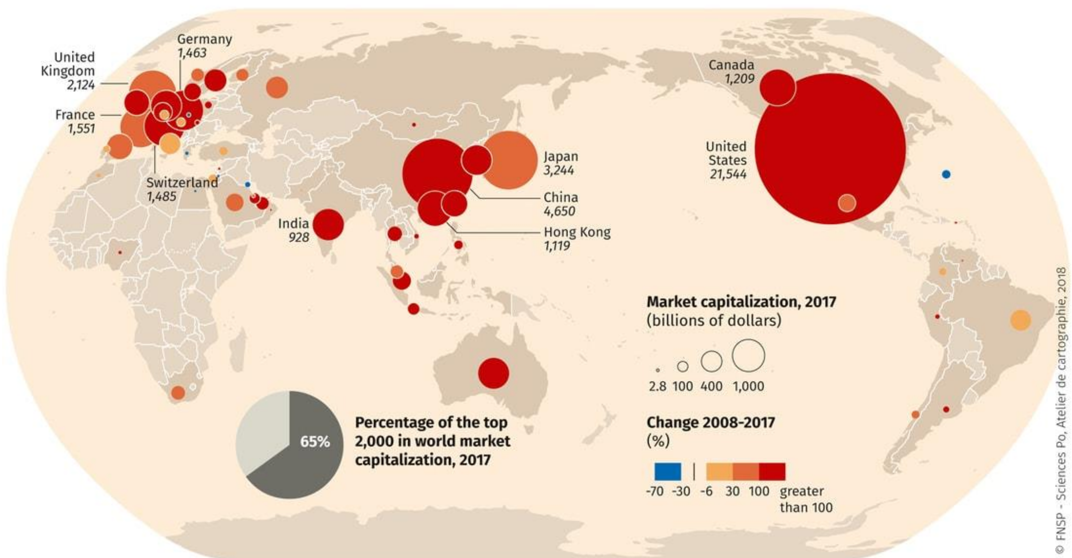
- Pool of Expert and skillful employees at their disposal.

Figure 3: Multi National Corporation Map



Source: webapi.bu.edu

2.2 Local and Traditional Firms

Traditional commerce refers to the face-to-face process of buying and selling of goods in physical store space, by exchanging goods for monetary gains**.** The three common types of organizational structures in these types of firms can be characterized as:

- Functional Organisational Structure; this is a common type of business structure that organizes a company into different departments based on areas of expertise, grouping employees by specialty, skill, or related roles.

- Divisional Organisation Structure; these types of organization's are grouped into semi-autonomous units. Each unit operates separately from the others but is answerable to a central authority. They stick to the goals and objectives of the organization.

- Hybrid/Matrix Organisation Structure; these combine elements of functional and divisional structures into one. The activities are divided into departments that can be either functional or divisional. It also consists of a flexible work model that supports a blend of in-office, remote and on-the-go work. A traditional business can also be defined as a local store, shop, etc.,

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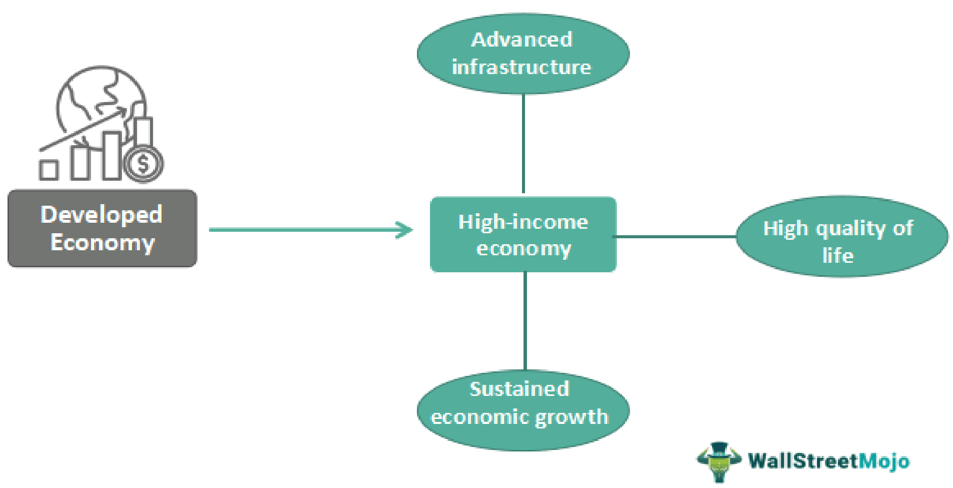
Under the umbrella of local and traditional industries the aspect of 'entrepreneurial culture' also exists. This is a collective programming that is oriented towards individualism, independence, innovation, motivation for achievement and risk taking. It is part of an informal set-up that promotes risk. Factors like economic, family background. Employment history, social networks, national culture and personality traits are all factors that impact the entrepreneurial ability of an individual.

2.3 Developed Economies

These economies have a mature economy, which is measured by Gross Domestic Product (GDP), and/or average income per head, a diverse industrial mix, a large services sector, a developed financial system, high rank in the Human Development Index, and a well-developed educational system. These economies offer great opportunities to developing nations to open their market for goods and services supplied by the developing economies.

Figure 4: Features of a Developed Economy



Source: wallstreetMojo

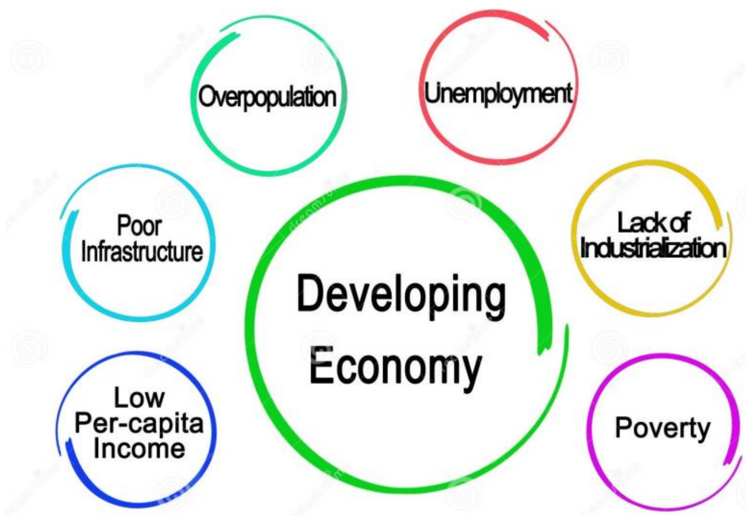
2.4 Developing Economy

These economies experience relatively low per capita resources. They have a lower GDP than developed ones. The common characteristics are;

- Low per capita income

- Overpopulation
- Maximum population below poverty line
- Poor infrastructure
- Agro based economy
- Low rate of capital formation
- Moderate to low HDI.

Figure 5: Characteristics of a developed Economy



Source: dreamstime.com

3. Comparison of the strategies adopted by both set of firms (MNC's and Traditional Firms)

The current economic environment of 'globalisation of markets and competition' has brought 'internationalisation', as a key corporate strategy. Multi National Enterprises (MNE's) are firms that own and control significant business activities in two or more countries (Buckley and Casson, 2009). Earlier the main reason for expansion of firms into other countries were based on Transaction cost economics(TCE), but recently theories depend on both environmental and firms' specific characteristics, that calls for both an integrated and contingent approach.

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Strategy is an important aspect that requires firms to fit and adapt to changing environmental conditions (Barney, 1991). Another important aspect that needs to be considered is that ‘circumstances too change overtime’. Besides the above, these companies have to adapt their strategy to ‘local conditions’.

The globalization of markets and competition compels a large number of firms to move into the global arena and become multinational enterprises (MNE’s). This trend towards *internationalization* brings in its wake new challenges.

The existing theories behind MNC’s were basically *transaction cost economics* (Dunning, 1977). Recently research in this area has moved from the existence of MNE’s to *heterogeneity.* In this approach the *resource based theory of competitive advantage* (Barney’s 1991), has been adopted. Besides the above multinationality, environment and the firm’s specific characteristics are also considered.

The different approaches that have developed over time and need to be considered both together and separately are;

- Transaction Cost Economics(TCE)
- Agency Theory(AT)
- Resource-based view(RBV)
- Knowledge-Based View(KBV)
- Game Theory(GT)
- Institutional Theory(IT)

With respect to MNC’s, strategy is context-dependent, creating an ongoing need for firms to fit and adapt to changing environmental conditions (Barney, 19991). Combinations of different approaches may be required to face various challenges that have and are emerging with respect to time, place and environment.

4. Historical Theories on the Growth of MNC’s

The foundations of the theory of MNE are twofold:

Theories seek to explain the existence of MNE’s that stem from, foreign investment theory (Hymer, 1976), theorems of Heckscher-Ohlin (Heckscher, 1919, Ohlin, 1933). The other theories are Internalization theory that explains why firms internalize some foreign operations rather than

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exporting or using local partners. Some of these MNC's involve the support of local partners, while some don't.

In large organisations, the support of local capabilities that function globally, as well as the adaption of the MNC's to local conditions.

The initial reasons for MNC's entering other countries may have been to take advantage of the population and this being transformed into increasing demand, subsequently the emphasis has been "scarcity of human capital", those that are in a position to use their knowledge and are able to create value(Sveiby 1997). This is the way managers transform a non-rivalries element (knowledge), into a rivalries element (human capital) for which all of them compete.

5. Strategies adopted by local and traditional firms

Local and traditional firms have altered their strategies, strengthening the activities in which they had a dominant position. There are four possible strategic options (Jaffe et al., 2005);

- Attack the MNC entering the cluster
- Cooperate with the MNC
- Defend the initial position
- Acquire competence
- Product differentiation
- Cost leadership
- Cost focus strategy in an industry's segment
- Differentiation focus strategy in an industry's segment
- Differentiation focus strategy in an industry's segment
- Exit the market

All the above depend on different incentives to respond towards the entry, which further depends on the incumbents' competitive position in the cluster as well as their specific characteristics underlying resources and capabilities.

If due to globalization, the specific advantage of the local firms have been reduced then it makes good economic sense for the local firms to cooperate with the MNC. This would help in contributing as well as improving the local firms' resources and knowledge. MNC's may exploit its specific advantage vis-a vis the local firm. This maybe one of the important reasons, that international firms have the ability to exploit as well as overcome the traditional liabilities of foreignness.

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Figure 6: Advantages and Disadvantages for the Host Country

For Host Country

Advantages of MNCs	Disadvantages of MNCs
Gets latest technology and management expertise	MNCs may transfer technology which has become outdated
Domestic Trade is increased	May kill domestic industry through monopoly
Level of Industrial and economic development increase due to growth of MNC	A large sum of money flows to foreign country in form of profit, dividend etc
Employment and income level increases	Uses natural resources of the country and causes depletion

Source: childhealthpolicy.vumc.org

6. Strategies adopted by MNC's in a changing environment

MNC's adopt nonmarket strategies, in an era of anti-globalisation, populism and economic nationalism. Issues that are emerging are concerns about the ethical concerns about the nonmarket practices of big business especially in fragile market context.

Nonmarket strategies are activities which the firms manage through their political and social environments (Lawton et al., 2020). It works towards in a concerted manner in creating and sustaining a competitive advantage by managing the political and social context in which the firm operates (Rajwani and Leidong, 2015). It is through the following that they achieve advantage;

- Corporate political activity (CPA), firms influence government policy making.
- Corporate Social responsibility (CSR), firm's efforts manage social and environmental concerns.

The development of an international strategy is much more complex than developing a national market. International firms have to face numerous political and/or legal systems, various accounting regulations, cultures, language barriers and accounting and tax systems. These companies improve their profit margins by increasing their efficiency either/and by location advantages, or through the scope or scale economies. These businesses require a deeper degree of flexibility due to the fact that the political, economic, legal or cultural environment of a state is continually changing. An interesting example is the case of 'Mc Donalds', where in Israel they prepare 'Kosher', menus, while the same chain in Arab countries prepare 'Halal' menus. These companies have to adapt to different ethnic and religious groups that exist in various countries.

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Most multi nationals adopt one of the four alternative strategies:

- National (In this strategy the firm uses its specific advantages, obtained in the home country in order to compete in the foreign markets that it wants to enter).
- Multidomestic (This is a sum of relevant independent subsidiaries, each of them focusing on a well determined market. This approach is used when there are significant differences between national markets, when the scale of economies are reduced, or when the cost of coordinating between the parent company and the subsidiary is high.
- Transnational (The firm combines the benefits of global efficiency with the local advantages. It does not centralize or decentralize the authority, but it settles responsibility for each organizational task, to that unit of the organization that is efficiently effective and flexible.
- Global strategy(In this case the firm approaches the world as a single market, the main scope being the development of standardized goods and services that ,meet the needs of worldwide consumers. All the market strategies are developed at the 'central location'

As the protectionist barriers crumble, MNC's are rushing in to take advantage of the new markets with their superior technology, economies of scale and better management skills. In this scenario the consumer is king as he/she has a wider choice and at a competitive price. But this spells a death knell for the local firms. These firms are used to dominant positions in a protected market and suddenly they are faced with foreign firms that have an array of advantages. The local firms feel that the only way out is to;

- Call on the government to reinstate trade barriers, or provide some similar type of support
- Becoming a subordinate partner to a multinational
- Selling out and leaving the industry

Case studies like Bajaj Auto have indicated that in the face of competition instead of forming partnerships they decided to stay independent and worked on increasing ,improving its distribution and its research and development. This research indicated that by studying its own working it understood its competitive advantage. This enabled it to develop a better understanding of the strengths of ones rival. It brought into perspectives insights and business opportunities available for it, which it used to its advantage and entered countries with similar type of road conditions. This clearly indicates that local firms do have some type of advantage of the 'local market', that may be symptomatic of a;

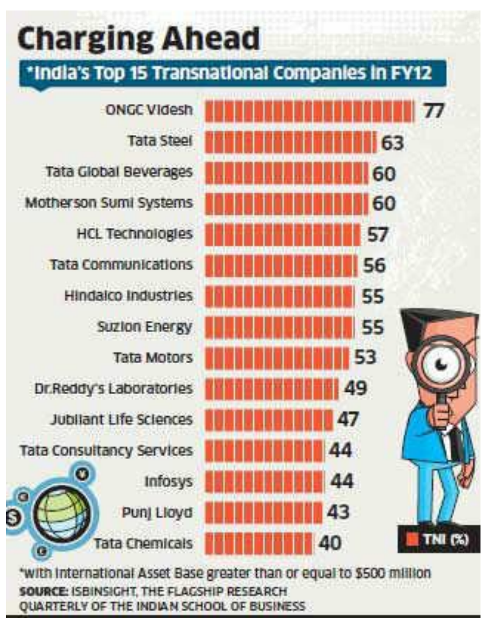
- local distribution network that would take a multinational years to replicate,
- or/and longstanding relationships with government officials that are not available to foreign companies,
- Distinctive products that appeal to local tastes, which global companies are unable to produce.

The above advantages may in fact be a basis for the local firms to become MNC's in their own right, by paying attention to countries where the market conditions are similar to the home country.

Local firms like Bajaj survived the globalization pressures as they were not strong in their own right. The company's strategic thinking was to defend its turf against multinational incursion; this strategy is known as '*defender'*, but if globalization pressures are weak and the company's assets can be transferred, then it is possible to extend the 'home success', to other external markets. These companies are known as '*extender'*

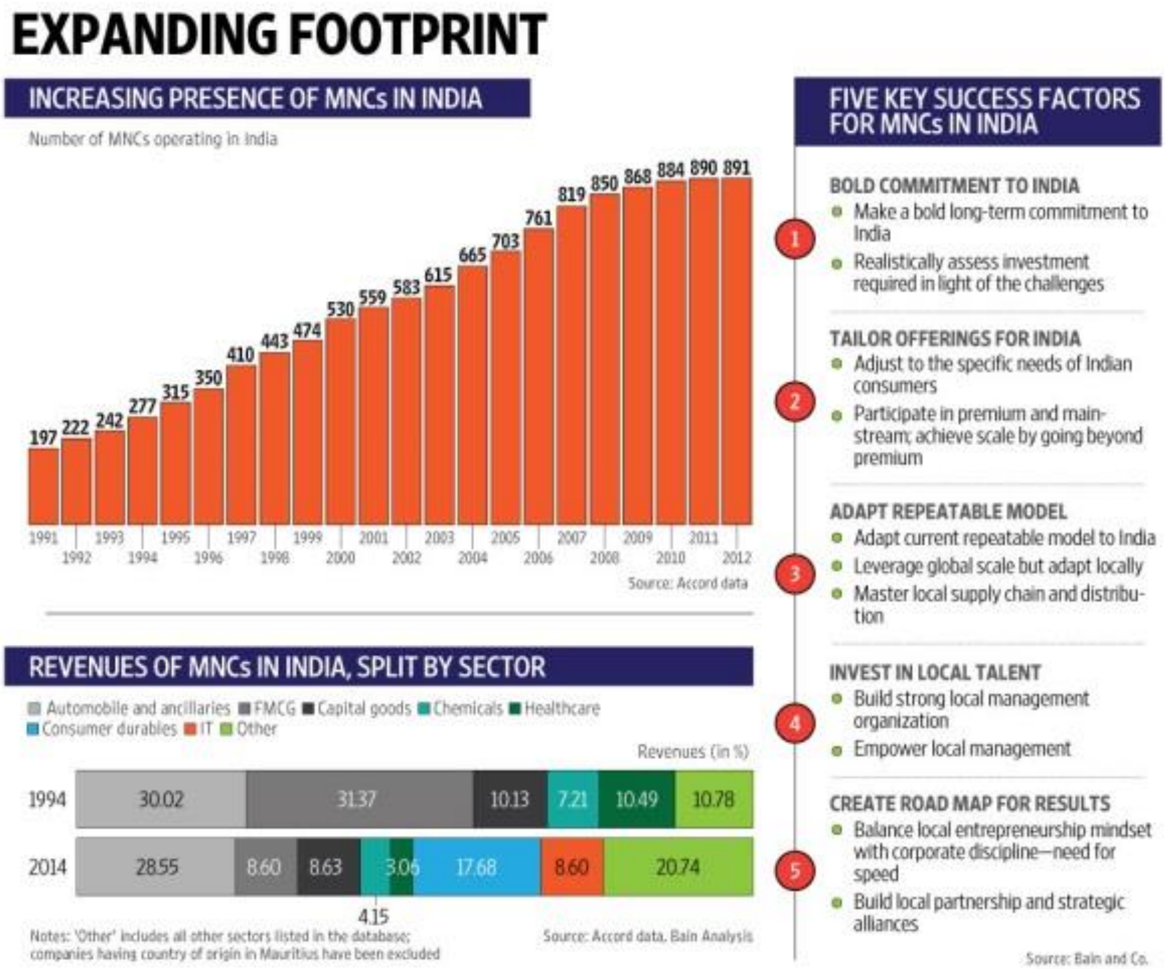
Below are two graphs that indicate the extent to which Indian firms have become transnational, as also the large number of MNC's that want to enter India to take advantage of its huge population and thus the possibility of high demand.

Figure 6: Top Indian Firms that have become transnational



Source: businessstandard

Figure 7: Increasing numbers of MNC's in India



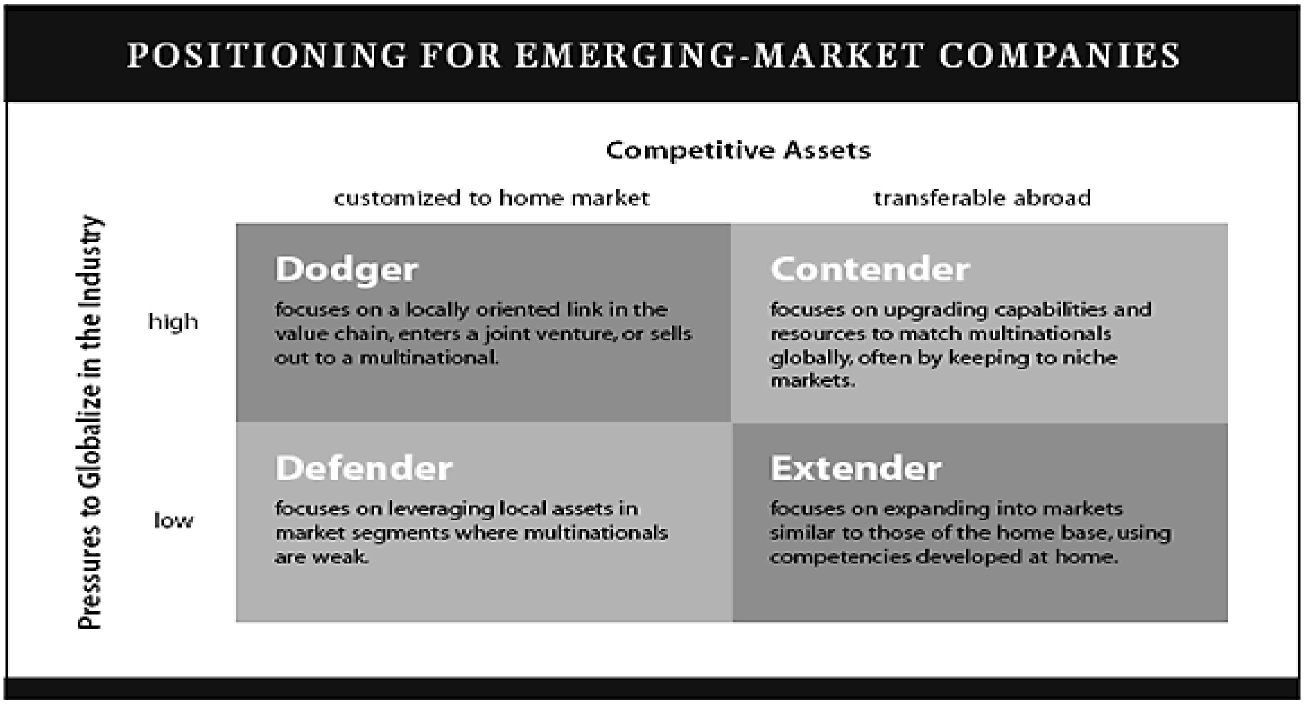
Source: businessstandard

Thus the two important factors that guide the local firms are;

- The strength of globalization pressures in an industry
- The company's transferable asset
- Capitalizing on its own strength

If the globalization pressures are strong, local firms could survive by restructuring around specific links in the value chain where the local assets are still valuable. These companies are labeled as '*dodgers'*. If assets are transferable, the local firm may be able to compete head-on with the multinationals. These companies are called *'contenders'*.

Figure7: Strategy of local firms vis a vis global competition



Source: derivbinary.com

Changing World Scenario; Climate change and its reciprocating decisions by MNC's and Local firms

With increasing detrimental effects of climate change, the number of stake holders from government and communities has increased to include businesses. As the ugly head of the adversity of climate change has reared its head, both MNC's and the local private sector have the capacity to adapt.

Many businesses are experiencing both direct and indirect climatic impacts. These are likely to increase in the future. Research has indicated that though the awareness of the risks of climate change exists, the instant required adaptation may not be forthcoming.(Agrawala et al, 2011;Crawford and Seidal, 2013).

Increasing adaptation may eventually come about by pressures from insurers, banks, investors, regulators, civil society organisations, governments and customers.

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MNC's responses can be categorized as;

- Proactive; this is becoming extremely urgent for businesses to reduce or avoid adverse climate impact and to seize beneficial opportunities. Use and development of Research and Development facilities to counter emissions intensity. The finances are more easily available for MNC's as compared to local industries. But MNC's due to their financial backing can easily shift out of economies which have stringent conditions for carbon emissions to emerging economies which do not have very strict conditions.

- Reactive; these are implemented in response to a climate hazard or extreme event such as flooding that necessitates an urgent response

Proactive adaptation is extremely important in today's environment, to reduce adverse climate impacts. The role that MNC's play relative to domestic companies regarding the impact of R&D intensity on reducing companies carbon emissions is significant as they have significant amount of finances, to spend on research, to create and stimulate the transfer of knowledge and technology, human capital, and know-how. It is R&D alone that can aid all countries to help in reducing the intensity of carbon emissions. Research has indicated that MNC's with high R&D can reduce carbon emissions and can manage carbon leakage through FDI resources. This will help the domestic industries too, and work towards reduction in worldwide carbon emissions.

Conclusion

MNC's entering traditional markets upset the business models of traditional and local firms. MNC's have at their disposal financial power, economies of scale and R&D, to disrupt the market. But local firms have the pulse of their country and at times are in a position to understand and take advantage of it and become a company to reckon with. In fact they at times use this opportunity to enter other similar markets of the world as the Indian firm 'Bajaj Auto', did.

Overtime the main problem that is facing the world is 'Climate Change'. This needs to be addressed by all stake holders. Collaborative arrangements between public, private (both MNC's and local firms) and other sectors of the economy, in tackling complex environmental and socio-economic problems, is the need of the hour. Public-private partnerships (PPP's) or multi-sectoral, multi-stake-holder partnerships are becoming increasingly important in tackling climate change concerns.

Thus the role of both MNC's and Local firms are changing overtime due to the changing environment, globalization and digitilisation.

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