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Strategic Dynamics: Analyzing The Undercurrents Of Organizational Strategic Behavior

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Abstract

In this dynamic world, the trends change rapidly, and it becomes more challenging for the organizations to compete in market space. The study focuses on essential aspects of strategy. Based the current trends, it has even become more demanding for the firms to survive in this competitive age without appropriate planned strategy. The research paper observed that only those firms can be result oriented which have flexibility in their policy and develop a culture which has the enough flexibility to endure and absorb positive changes. The study is conceptual in nature and based on conceptual analysis, we found that the firms that adopt the best practices emerge as leading firms in today's age. If an organization seeks for massive production, it directly transfers the technology to the local partners and order sales of its products worldwide and earns great repute in the international market. While on other hand if the firm is looking for some innovation, it gives full authority to the local partner to best utilize the resources and produce great results. Thus, strategy matter and matters a lot.

Keywords: Subsidiary, Transnational corporations (TNC), Policy, Functional Imperatives**,** Cultural diversity, Strategy.

Introduction

While formulating a strategy for the transnational corporations (TNC'S) the geographic location and the cultural norms must be considered. In order to penetrate in international market, the firm needs to consider every aspect of the international and local market trends and best practices available in the market, which can produce best outcomes.

As the firms use different techniques in order to access to local market to get maximum benefits out of it, crafting the policy on four major variables can be worthwhile; (1) Cultural distance (2) local partner role (3) strategy type (4) role of functional imperatives. One of the ways to transfer the knowledge and knowhow to the local partner by the parent organization is to transfer directly the knowledge and practices to the local firms while another technique is to give full authority to the local partner to develop its customer in order generate revenue.

If the firm is looking for massive production, it directly transfers the technology to the local partners in order to have better sales of its products worldwide and thus can earn great repute in international market, while on other hand if the firm is looking for little innovation it gives full authority to the local partner to best utilize the resources and produce great results.

Cultural diversity

When there is a cultural gap between the parent TNC and the local partner, than it can become very difficult to be globally integrated. When the parent TNC realizes a cultural distance is there, it works in collaboration with local partner to achieve the local market advantages (Fan, 2012).

When the parent TNC perceives some cultural distance, it provides full authority to the local partner to utilize the resources and capture the local market. European firms have the perception of great cultural diversity as a response of which administrative heritage can take place while the American firms are not that sensitive to cultural diversity in a response of which they capture the market globally (Kogut et al., 1988).

Local Partners Roles

When the local partners play the role of prototype of their parent firm, they replicate the products and marketing plan of parent TNCs in the local market. In this case the aim of local subsidiary is to transfer the technology of parent TNC to the local market in order to access to the local market and achieve the strength and create opportunities globally. In contrast when the local partner plays the role of rational manufacturer which makes parts and products for the parent TNC lacks the technical knowledge and creativity to capture the market so it is used for making some parts of the product. If it serves the offshore centers, it will have great bargaining power (White & Poynter, 1984)

Impact of Strategy Type

The strategy has also a great impact on the degree of centralization. When the firm is keen to utilize the global advantages and tries to get maximum out of it, it needs to design the strategy in a way to achieve maximum benefits and penetrate in the global market to achieve the unanimity in the global market. In this way the parent TNC can have a great control over its resources, products and strategy. Opposite to this, when the firm is keen to capture the local market advantages and wants to penetrate in the local market, it develops a strategy in a way so that the local partners can have complete authority to utilize the full resources and thus it best utilizes its capabilities to achieve the best results in order to earn great benefits for its parent TNC (Doz & Prahalad, 1994)

Functional imperatives

The final factor which can have an impact on degree of centralization is functional imperative. Most firms don't follow the degree of complete centralization or complete local autonomy, rather in fact it plays the role of hybrid or both. The degree of centralization depends upon (1) country's government policy (2) Strategic needs (Scofield & Wilhelm, 2004).

Strategic Contingency

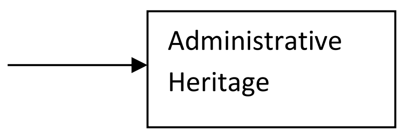
Engaging in competitive actions as an individual entity does not necessarily increase a company's likelihood of survival unless these actions align both with the company's historical practices and with the speed and character of changes taking place in the surrounding environment. While these factors have been separately investigated before, their integration within a comprehensive framework for diversified companies is a new endeavor. The concept of consistency, which can be referred as synchronization of strategic decisions across various business and functional tiers, as observed by Snow, holds significance. Conversely, researchers focusing on the concept of dynamic fit emphasize that changes at the company level need to harmonize with the rate of changes occurring in the business environment (such as shifts in markets, regulations, cultural dynamics, and technology) to ensure the company's viability.

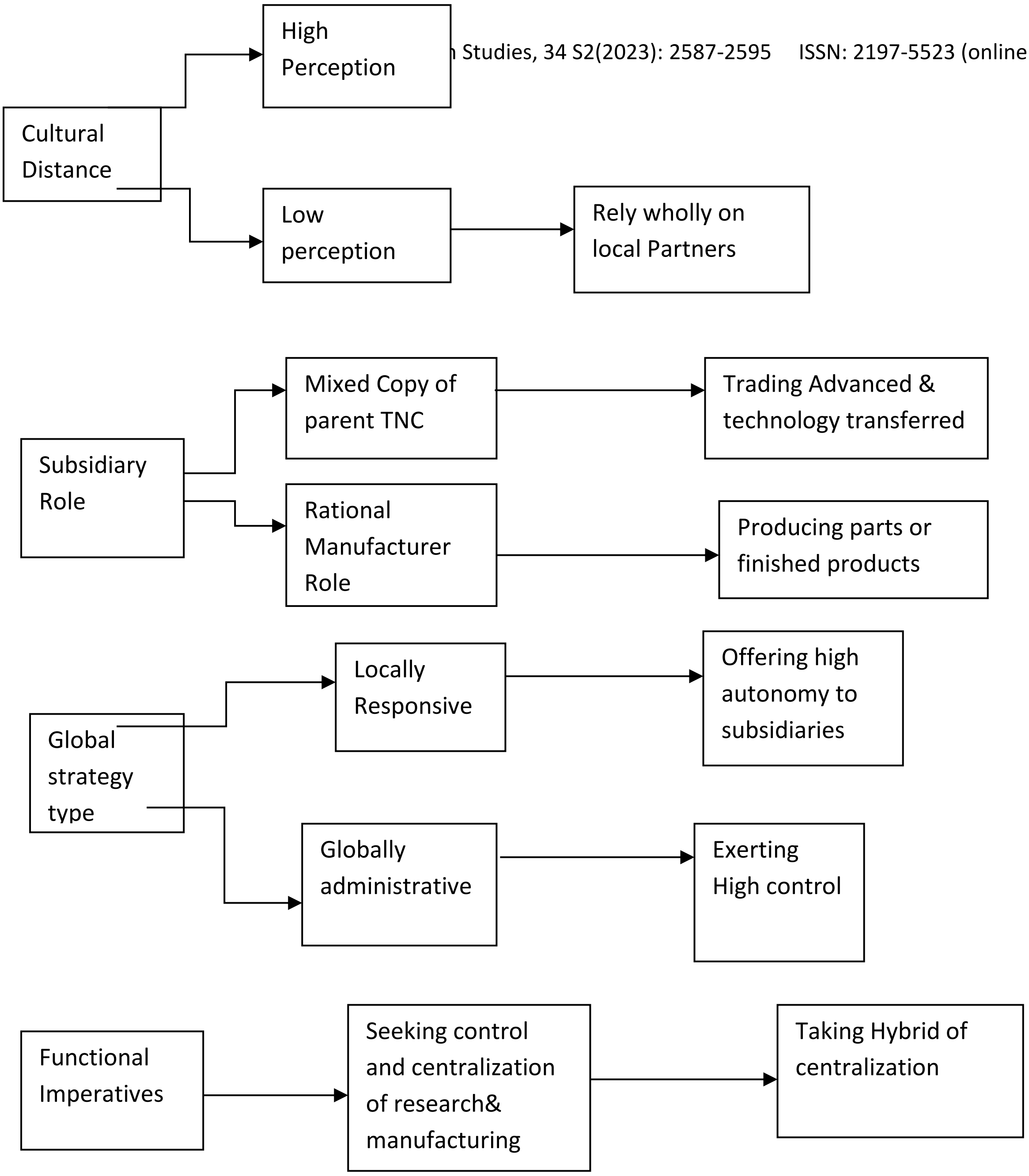
We are presently in the process of amalgamating these viewpoints and linking them with the notion of strategic consistency from the vantage point of competitive actions.

When a company operates in a relatively stable environment (marked by minimal changes), a high level of strategic consistency is anticipated to yield the best results. This signifies that the company tends to maintain its existing state or uniform behaviors. In this context, strategic consistency pertains to the year-to-year resemblance in the array and volume of competitive actions the company undertakes while presenting its competitive stance. A heightened level of strategic consistency might indicate a robust competitive strategy or a certain reluctance to change. Consequently, in a business milieu characterized by limited or gradual changes (such as in regulated markets), companies could achieve success by adhering consistently to a defined course of action.

However, this approach to consistency falls short in explaining competitive success in a continuously evolving environment. As proposed by certain strategy researchers, a company's competitive behavior is influenced by the pace and direction of changes in the surrounding environment. At an extreme interpretation, fully adaptable companies should adjust the direction and pace of their activities to closely mirror the changes happening in their environment. Nonetheless, excessive adaptability can give rise to challenges that jeopardize the company's existence. Firstly, frequent shifts in competitive behavior might undermine the company's credibility and trigger adverse responses from crucial stakeholders. Secondly, actions that deviate from past practices might create a misalignment between the company's capabilities and ongoing competitive activities, resulting in escalated costs and a compromised competitive position.

Figure: Strategy Model





Discussion and Conclusions

Multinational corporations (TNCs) that perceive their Chinese subsidiaries as mainly cost-effective manufacturing bases and global production centers are more likely to exert strategic control over the subsidiaries. In such cases, these subsidiaries are more prone to rely on the parent company for knowledge, technology, and vital resources. Knowledge tends to flow primarily from the parent company to the Chinese subsidiaries. On the other hand, TNCs that view their Chinese subsidiaries as strategic opportunities to enter and expand within the Chinese market are more inclined to support the development of unique competitive capabilities within these subsidiaries. These Chinese subsidiaries are better positioned to reciprocate by generating original knowledge and sharing it not only with the parent company but also with other subsidiaries within the TNC network.

Our findings suggest that when TNCs can tap into the demand within the Chinese market, they are more open to granting their local subsidiaries greater autonomy to innovate and cultivate indigenous capabilities. As these subsidiaries successfully nurture local capabilities, TNC parent companies become more willing to share know-how as part of a mutual or even multilateral system of knowledge exchange within the larger TNC network. Improved access to Chinese customers serves as a foundation for creating and sustaining cost-effective capabilities tailored to meeting customer needs. Increased participation in the local market correlates with a higher level of involvement by the subsidiary in the inter-subsidiary knowledge network, which, in turn, unlocks a range of fresh opportunities for the subsidiary.

However, in cases where factories solely cater to fragmented requirements across various global markets, as seen in the Korean context, their vulnerabilities may become evident, leading to an overwhelming situation. An exception arises when Chinese factories are intended to address specialized needs with limited demand within China, much like the Japanese approach where Chinese bases serve as offshore links to more intricate value-adding home operations. Nevertheless, in this scenario, the environment becomes more challenging due to heightened reliance on the parent TNC, distinctive innovation patterns, and restricted flexibility. When TNCs lack relatively unrestricted access to local market demand, their subsidiaries tend to structure their operations around borrowing from and adhering to the parent company's directives across a wide array of functional activities. Their capacity to creatively address the complex cost-cutting demands presented by the Chinese market is constrained. This also hinders their potential to cultivate a forward-thinking culture in the foreign setting – a culture that encourages profound indigenous innovation-based differentiation. Limited openness of the Chinese markets results in reduced emphasis on cultivating advanced capabilities. Decisions related to local marketing focus on identifying suitable target markets, predicting demand, and promoting products through advertising, rather than concentrating on brand management and product development. Similarly, while some autonomy may be granted in human resource management (HRM) decisions, senior positions are often dominated by expatriates. Absence of local role models in senior positions may dampen motivation and opportunities for skill enhancement and genuine local approaches. Western TNCs that have achieved significant penetration in the Chinese market exhibit a more extensive foundation of competitive advantage in their subsidiaries, followed by Japanese TNCs that have integrated their Chinese low-cost production base with high-value production in Japan. Conversely, Korean TNCs that utilize the Chinese low-cost production base to cater to global markets demonstrate a narrower scope of subsidiary competitive advantage. To effectively compete within the Chinese market, local subsidiaries must establish more robust and comprehensive competitive advantages over their competitors.

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