12 Determining the level of integration and responsiveness

12.1 Preliminary remarks

Companies that are active internationally must avoid to look for good solutions for each foreign engagement separately. Instead, their main competitive advantage results from an integrated review of all their worldwide activities (Holtbrügge/Welge, 2010, p. 132). In this context, the present chapter focuses on a basic decision for the company to make in terms of the levels of global integration and local responsiveness.

For medium-sized companies, the level of global integration and local responsiveness – a basic orientation to international business – is mostly determined at the corporate level. For very large companies, different divisions may follow different orientations.

The strategic orientation of the company or of a business is a basic attitude of management or a "state of mind" (Perlmutter, 1969). Obviously, a company should consider the external environment, especially the situation in the industry. But companies can differ in their strategic response to the external environment (Morschett/Schramm-Klein/Zentes, 2010, pp. 36 ff.) and determine their position in the integration-responsiveness framework themselves.

12.2 Three strategic orientations in the integration - responsiveness framework

All companies that are active in different countries are confronted with two, often conflicting, sets of demands, namely the requirement to adapt to the local environment in the different host countries ("local responsiveness") and the potential benefits of a standardized approach ("global integration"). More specifically, the two dimensions can be described as follows (Doz, 1980; Prahalad/Doz, 1987; Bartlett/Ghoshal/Beamish, 2008, pp. 88 ff.):
An international company operates under heterogeneous conditions in many different host countries. In each country the local unit is confronted with different local customers and host governments, different market and distribution structures, different competitors and substitution products. The attempt to exploit the opportunities that arise from heterogeneity pressures the company towards local responsiveness. This pressure varies by industry.

Global integration means interconnecting the international activities of the firm across all countries, leveraging the strengths of a large company, and trying to achieve synergy effects. For instance, strong economies of scale can push a company towards internationally standardized products. Or the comparative cost advantages of one country may be an incentive for the company to specialize the activities of certain foreign subsidiaries, leading to interdependencies between the activities worldwide.

In the mid 1980s, a number of well-known authors proposed that these two requirements are not the extreme points of one dimension but that companies could, instead, see each as an independent dimension. Based on this view, basic types of international strategies have been developed that describe the different responses of companies to the two requirements (see Figure 12.1). Some authors describe these types as "archetypes of international companies" (Kutschker, 1999, p. 110). Each type is a bundle of strategy elements expressing the fundamental strategic orientation of an organization.

Although a two-dimensional framework implies four strategy types, often only three types are conceptualized. Many authors cannot identify a strategy with low global integration and simultaneously low local responsiveness (see the overview in Morschett, 2007, p. 58). A strategy like this would consider foreign activities only as remote outposts whose main role is to support the parent company by contributing additional sales. The focus would be on exploiting the knowledge, products or processes of the parent company by transferring them to foreign markets. Accordingly, the company would not adapt to the specific host country and the foreign activities would also not be systematically integrated in the company. While this situation may be the emerged approach in the first stage of internationalization, the authors do not recommend this strategy type for companies developing a strategy for being international.