THE DEVELOPMENT STRATEGIES OF THE LOCAL BUSINESS TO THE EXPANSION OF MULTINATIONAL CORPORATIONS

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Abstract: *The process of globalization refers to the sectors of the economy, markets, trade, companies, and competition. It's related with a growing potential of multinational corporations (MNCs) and their expansion. They have considerable internal resources, high technologies, well-known brands and certain concepts of operation. In the case of transforming Polish economy local markets are dominated by small and medium-sized enterprises (SMEs). They contain up to 90% of all companies. Appearance of multinational corporations enforce local business to adapt to the new situation. The aim of this paper is to present the strategies of development used by the local businesses as response to the expansion of multinational corporations. There is also based on the literature discussion about the business behavior models in the transforming sectors. Usually they are the pressures to globalize in the industry, as well as competitive assets of an organization. Presentation of selected strategies allowed to show the areas in which local businesses gain a competitive advantage. Development opportunities arising from the focus on the niche market, as well as the concentration of activity in selected value chain activities. Attention was paid on the use of co-operation, mergers and acquisitions to build market relations.*

Keywords: *local business, mergers and acquisitions, multinational corporations*

JEL Classification: *M13, M21, M31*

1. INTRODUCTION

The process of globalization is connected with the expansion of multinational corporations *(MNCs)*. These organizations contribute to the changes of conditions existing in many sectors. This especially concerns emerging markets as well as local small and medium enterprises *(SMEs)*. They very frequently lack the potential sufficient to perceive the ongoing transformations as opportunities. In consequence, this leads to the loss of their market positions. It does not mean, however that they must be eliminated from the market. The examples of strategies presented here refer to selected Polish companies. The companies operate on various local markets. The cases analyzed in this paper point out the available development opportunities in the face of the expansion of *MNCs*. The observations made are supported by the research concerning strategic behaviour of companies in Poland.

When analyzing the notion of *a strategy* it is worth noting that in the military this term refers to leading an army by a commander in chief. It is an element of military art encompassing the study and application of preparing and conducting a war, its individual campaigns and most important engagements [12, p. 616]. From this perspective it is the art of armed victory over the enemies. Referring to the fact that a *strategy* is a plan or, in other words, a consciously intended course of action, H. Mintzberg says it *…can be a ploy, too, really just a specific "maneuver" intended to outwit an opponent or competitor* [11, p. 4]. R.M. Grant, on the other hand, claims that a strategy is *the match an organization makes between its internal resources and skills and the opportunities and risks created by its external environment* [2, p. 114-133].

2. DEVELOPMENT STRATEGIES OF LOCAL BUSINESSES IN EMERGING MARKETS

In the light of the core of the term *strategy,* its military definition contains many elements common with the management of economic organizations. The issues of making decisions refer also to the enterprises operating on a market. They function in a much more complicated reality. The managers building strategies design a long-term development concept for the whole company. The strategy exploits unique characteristics of a given organization. It describes in which sectors the enterprise will operate and on which markets it will sell its products. It decides about its industry and market profile, as well as about the economic potential of the firm. Strategic decisions implicate choices and the readiness to perform certain operations. Implementing a development strategy directly concerns local small and medium enterprises [5, p. 96-115].

With reference to the process of globalization, the presence of *MNCs* forces local firms to adjust to the pressure coming from globalization. This concerns especially those *SMEs* which function in the industries undergoing quick changes and experiencing technological pressure. The new conditions necessitate active adjustment to the changes in the environment. The analysis of the changes in development strategies of local businesses may be based upon the concept of strategic behaviours proposed by N. Dawar, and T. Frost. They point out development possibilities for firms in emerging markets. Effective tools of competition between the companies become available due to concentration and cooperation. Concentration may concern a chosen link in the value chain of specific niche market. Cooperation, in turn, involves building beneficial external relations with other entities on the market.

Local businesses are not capable of changing the pressure on the sector resulting from globalization. Nevertheless, they can upgrade their assets. This means the possibility of shaping the firm's characteristics, which are customized to home market, with the intention of transferring them to other markets. This requires taking into account two parameters. Collating the ***pressures to globalize in the industry*** with ***competitive assets of an organization*** gives grounds for designing possible development strategies for local businesses in emerging markets. This also allows for determining reactions to the expansion of *MNCs*. A model of the above is presented in table 1 below.

The pressures to globalize in the industry decide about the intensity of changes on the market. In many industries it involves the necessity to gradually globalize their operations and to implement technological changes as well. It may be assumed that there are such market sectors in which the intensity of changes is high and those in which it is lower (see table 1).

High pressure to globalize concerns industries characterized by high fixed costs. Examples of highly globalized industries include: aviation, chemical, computer, pharmaceutical and motor industries. In these sectors *MNCs* incur high costs of designing new products, purchasing investment assets, marketing and distribution. To compensate for this, corporations offer standardized products with a marketing strategy customized to local markets.

The intensity of the changes is not equal in all the sectors. There are industries in which the pressure to globalize is low. In these industries well-established external relations of the organization play an important role. They contribute to an effective satisfaction of unique requirements of local consumers. This can be seen in the food industry, retail banking and production of fast moving consumer goods. Competition here is based mainly upon established relations with customers. The differences between consumer preferences are large. They stem from different tastes as well as technological standards. Global corporations offering standardized and cheaper products cannot compete with their rivals. It might be assumed that local firms in industries of lower pressure to globalize are not threatened by *MNCs* [10, p. 169-171].

What is needed to access the position of a local business in relation to a *MNCs* is an appraisal ***of competitive assets of the company.*** It pertains to the degree to which the competitive assets of a local company are transferable internationally. This relates to the prospective use of the organization's potential on other markets. Appropriate development of the potential indicates the need to constantly adjust to the pressure stemming from the processes of globalization (see table 1).

Examples of characteristics indicative of a significant adjustment to the local market include: distribution network, experience and the knowledge of the industry as well as the focus on a particular niche market. It may also be production focusing on individual needs of local consumers. These are assets frequently possessed by small firms. Copying these features by *MNCs* proves to be too time-consuming, not profitable enough and in many cases impossible.

As far as the competitive assets of an organization are concerned, local businesses often hold those which could be used abroad. An example of such an asset is the experience in working in special market segments. In spite of the fact that this feature is of local character, it can be easily transferred and used on a foreign market. Doing this requires an insight into the situation of countries in which market conditions are similar to those on already conquered markets.

3. DEVELOPMENT STRATEGIES OF LOCAL BUSINESSES (AN ANALYSIS OF SELECTED CASES)

The concept of N. Dawar and T. Frost identifies four model strategies for local businesses in emerging markets; namely: *the defender, the extender, the dodger* and *the contender strategy.*

The defender strategy refers to a situation when the pressure to globalize in the industry is low and company's assets are customized to the local market. Focus on the needs of local customers frequently makes the company's resources not transferable to other markets. A *SMEs* should concentrate on defending its current positions. Its advantage is a consequence of the knowledge of the market, the company's distribution network and of a better adjustment of the company's offer to the often special needs of local customers.

Table 1 The development strategies of the local businesses in emerging markets

COMPETITIVE ASSETS / **PRESSURES TO GLOBALIZE IN THE INDUSTRY**	***Competitive assets customized to home market***	**Competitive assets transferable abroad**
High	***Dodger:*** – Exploiting the unique character of home markets. – Focusing on a chosen link in the value chain. – Cooperation with a *MNCs* (strategic alliance). – Merger or acquisition. **Development path of an organization** →	***Contender:*** – Upgrading company's assets. – Competition through conquering niche markets. – Industry diversification, consolidation of local firms. – Creating corporate groups.
Low	***Defender:*** – Exploiting local assets in segments unprofitable for MNCs. – Concentration on segments appreciating local character of the market. – Strengthening competitive assets with the intention of using them abroad. **Development path of an organization** →	***Extender:*** – Expanding the operations into foreign markets similar to those of the home base. – Using the competencies developed on home market. – Cooperating within an alliance, creating corporate networks. – Specialization of operations.

Source: Own work on the basis of [1, p. 149]

A *SMEs* ought to specialize in operating on selected niche markets. The focus on consumers preferring local character of the offer makes it seem unique. It also allows the *SMEs* to avoid direct competition with *MNCs* (table 1).

The defender strategy can be well exemplified by market operations of the company *Roleski.* Functioning on the market of the so-called "wet condiments", the enterprise started its operations from a relatively small production of a few kids of ketchup and mustard. Due to flexibility and one-person management, the company gradually conquered the market. In 1990s an attempt to produce in Russia and Ukraine was made. The Russian crisis however, and the unreliability of partners resulted in a decision to withdraw further investment. The company concentrated upon defending and upgrading the positions at home. It reorganized its sales department. This made it possible to react more quickly to changes in market trends. It also allowed the company to better match its offer to customers' expectations. Thanks to an effective use of its production power, the company has soon become the largest private label manufacturer. It produces ketchup exclusively for the chain store *Carrefour* in the whole of Europe. *Roleski's* advantage over corporations stems from the fact that it does not engage into costly marketing or large advertising campaigns. The products it offers are cheaper than those of *Heinz* or *Hellmann's.* It is also worth emphasizing that the company records an annual increase of its revenues by 5-10% [9, p. 43,44].

The extender strategy concerns companies possessing many competitive assets. However, the pressure to globalize in the industry is low. If a company's resources can be at least partially transferable to other markets, there is a possibility to use them abroad. The company's operations can expand on the condition that its assets are appreciated on new markets. The leading option chosen by such an entity should be the focus on markets similar to the local one. If the strengths of an organization are valued abroad, then expansion to selected markets is feasible (see table 1). The effectiveness of exploiting the assets held by a company depends on the degree of resemblance between the new markets and the home market. A firm may use similar customers' preferences, distribution channels and law regulations as well as favourable geographical location [3, p. 3].

The extender strategy can be exemplified by the operations of a local firm called *Torus.* The company, which employs 41 persons, manufactures metal parts used as fasteners in construction and gardening. The machine park they own as well as the use of the latest technology of hot-dip galvanizing allows them to produce high quality goods. The main customer of the company is a trade partner from Germany. Manufacturing solely on the basis of projects designed by the client makes it possible to produce for large chains. Using the company's competitive assets enables it to engage into export. Permanent intermediaries supply such customers as e.g. *Obi* or *Praktiker.* Adopting the *extender strategy* makes it possible for the company to steadily transfer its operations abroad. As a consequence of implementing this approach *Torus* sells its products on many European markets.

The dodger strategy might be used in the case when a firm operates in an industry characterized by high pressure to globalize. At the same time, the company's characteristics should be customized to the local market. Competitiveness is assessed on the basis of the firm's ability to reorganize its operations. When exploiting the flexibility of its resources *SMEs* ought to focus on those links in the value chain in which the local assets do not become less attractive. One of the elements of the operational research is cooperation. Therefore, the companies possessing assets adjusted to the local needs may be perceived by corporations as interesting partners for different forms of cooperation. In the long run a merger or a resale of the company's assets might become an alternative for a local business (see table 1).

The dodger strategy is visible in the business operations of the company *Inglot.* The firm has been producing and selling cosmetics since 1990. Initially, as a small local business, *Inglot* offers affordable products. This enables it to follow the world trends. Nevertheless, it does not guarantee success in competing with *MNCs*. The corporations operating on the Polish market contribute to the flow of well-known foreign brands into the country. Increasing competition requires the introduction of innovative products and continuous investments. *Inglot* has focused its operations on selected links in the value chain. Particular care has been taken of the sales system and product distribution. These are the areas closest to the final consumers. In order to reach out to clients, a decision to produce testers has been made. This has allowed customers to familiarize with the product before the purchase. The next step was the creation of the company's own sales channels. The new model involves opening company's stalls in the halls of shopping centres. Specially designed stalls are adjusted to the unusual conditions and location requirements. Building the distribution network includes also the opening of brand stalls in large shopping centres and smaller towns. This enabled the company to better present a wider offer and to show its special lines of products for professionals. *Inglot* is in the top three of cosmetics producers in Poland. In 2005 in the main segment of the market (nail products) the firm generated 11.5% of the market share. This makes it possible for *Inglot* to compete with corporations such as *Astor, Maybelline* and *Rimmel* [4, p. 156-157].

The contender strategy is an option for a local business functioning in an industry characterized by high pressure to globalize. The company's assets should be attractive enough to be valued also on foreign markets. It does not happen very often that local companies are capable of gaining leadership skills in an international network of manufacturers and component suppliers. To compete successfully a company ought to focus on improving its capabilities and searching for niche markets – (see table 1). Generally, companies tend to aim at gaining advantage in the field of low costs. *MNCs* achieve it by means of placing their production in low-cost countries. However, in the case of local *SMEs* these possibilities are limited. Local companies should attempt to level up with the corporations in the areas of efficiency, technology, distribution network and after-sales service. A proposed solution involves gaining strong position by developing a given link in the chain of value. In consequence, a consolidation of specialized companies may take place and diversified corporate groups might be built [6, p. 79-80].

An example of a company which has adopted the contender strategy is *Graal SA*. The company has been operating since 1991. At the beginning it employs about 80 persons. It is the biggest distributor on the tinned fish market in Poland. The market is characterized by significant fragmentation. Processing involving the production of smoked and salted fish is not very cost-consuming. This kind of activity is the focus of *SMEs* operating on local markets. The size of the production plant plays an important role because it determines its production profile. For a few years the fish processing market develops dynamically. A trend is observed involving the increase of demand for more processed products. The interest in better types of fish rises as well. This caused high industry pressure on further development of the organization. Production of tinned, pickled, frozen and smoked foods necessitated the use of advanced processing methods and special technological lines. The tinned fish market is dominated by a few large companies. One of the main competitors is the Norwegian concern *Rieber&Son Group*. In the case of *Graal* successful competition requires continuous upgrading of capabilities and resources, as well as expanding the company's operations into the production fields. Initial stages of the company's development concentrated on the sale of tinned fish using the brand *"Graal"*. Production was outsourced to specialized contractors. The need to build its own production base has made *Graal* participate in the process of consolidation of the fish industry since 2004. The investments made by the company have involved buying small and medium fish processing companies being for instance *Graal's* suppliers or competitors. Thus, *Graal* has developed into a corporate group. The mergers and acquisitions which have taken place allow for industry diversification and enable the company to expand its scope of operations [7, p. 66-68].

The cases analyzed here concern local firms operating in various industries. They make it possible to determine development paths of enterprises in the face of the expansion of *MNCs*. The instance of the company *Roleski* proves that focusing on a narrow range of products and strengthening company's assets may constitute a source of steady organic growth of an organization. The business avoids direct confrontation with large food concerns. Strengthening the assets of a company increases the possibility to use them on other markets. Adjusting strategic potential to the changes taking place in the sector lets the company stay on its path towards organic growth. In the long run, a firm's competitive assets may become a basis for effective operations exploiting the contender strategy.

As far as the company *Torus* is concerned, its further development ought to be founded on continuous strengthening of external relations. By the use of different forms of cooperation the company could engage into mergers and strategic alliances. This concerns especially those entities which function in the remaining links in the value chain. Building network connections will facilitate further concentration on the gained market niche as well as technical specialization of business operations. What is also possible is a more comprehensive exploitation of the organization's competitive assets on foreign markets.

The company *Inglot* at initial stages of its development did not possess significant financial surplus. Neither did it have competitive assets which could have been used on other product or geographical markets. Implementing a new sales model facilitated gradual increase in the market share. Further strengthening and development of the organization's potential will form the basis upon which the contender strategy could be put into effect. The company may avoid confronting its competitors through its involvement into common enterprises, alliances and mergers.

In the case of *Graal* the mergers and acquisitions have contributed to the expansion of its distribution network. They make it possible to steadily increase the company's market share. Over 90% of the sales is conducted by international chains. This means that the current development of strategic potential contributes to the increase of the opportunities of its use also on markets abroad. The experience and commercial knowledge of market needs let the company react quickly to the changes of customers' preferences. The established brand strengthens the company's position as a leading distributor on the market. Basing the strategy on such characteristics gives competitive advantage. It decides whether or not the company will continue operating on its development path. It also facilitates competition on the market which is interesting to international rivals.

In the light of the study of the aforementioned cases it is worth noting that the strategies of local firms are a response to the changes in the industry caused by globalization and the expansion of *MNCs.* In order to face new challenges local businesses must upgrade their competitiveness. The examples of strategies adopted by local enterprises point out the available development possibilities. Competitive assets of local businesses may become the areas of competitive advantage. The observations made here are supported by the research on *Strategic Behaviour of SMEs in Poland* [5, p. 192-200]. *SMEs* might be more flexible and adjust faster to market needs than large corporations. Local businesses owe it mainly to confining themselves to narrow fields of operation. The resourcefulness and one-person management facilitate fast decision-making and accommodation to the changes in the environment as well. Also the research on *Concentration and Development of Corporate Groups in Meat Processing* [8, p. 93-97] confirms that local businesses can gain competitive advantage by the use of experience, commercial knowledge of home markets and flexibility, among others. Moreover, some companies engage into the process of consolidation. Using mergers and acquisitions, they develop as corporate groups. This frequently leads to effective fighting off or avoiding competition from *MNCs.*

4. CONCLUSION

Formulating a strategy involves understanding the relations between resources, skills, competitive advantage and its profitability. The core of a development strategy is the exploitation of special resources and skills. They make a company a unique entity and make it possible to gain competitive advantage on the market. The strategies of local businesses studied here confirm the fact that skilful strengthening of strategic potential lets the organization stay on its development path. *SMEs* operate in various industry conditions. This might be the cause of the lack of universal operating methods which could be used in every situation. The responses of local businesses to the expansion of *MNCs* require taking into account the unique character of the industry and the features of the company determining its strategic potential. The specific way of managing *SMEs* does not allow them to exert effective influence on their environment. They are forced to adjust to the changes stemming from globalization. The analysis of selected cases lets us observe that *SMEs* hold the possibility to improve their resources and skills. This diminishes negative consequences of the changes. Through building appropriate relations with individual participants in the market, local businesses can increase their competitive advantage. As a result, we often witness strategic alliances, mergers and consolidation of small companies. The advantage of local firms may also be a consequence of their focus on a chosen link in the value chain. What is more, the companies use a sales and distribution system customized to particular needs of the market. Copying the assets of local companies by international corporations very often proves to be overly time-consuming, not profitable enough and in many cases impossible.

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