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**Multinational Enterprises in the New Europe:
Are They Really Global?**

by

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Executive Summary

Despite a pervasive belief that the world's largest firms compete globally, the vast majority have most of their sales in their home region. Of the top 500 firms for which regional sales data are available, 118 are from Europe, and they compete predominantly within the European region. On average, 62.8% of their sales are in their home region; only three are global, 8 are host-region oriented and 16 are bi-regional, while 86 are home-region based. To illustrate the four categories, we present case studies of 9 European multinationals — Carrefour, TotalFinaElf, Deutsche Bank, Nokia, Philips, GlaxoSmithKline, L'Oréal Paris, Diageo, and AstraZeneca. We analyze the geographical distribution of their operations and their current structure. We also show that management research is strongly focused on the special cases of global and bi-regional firms, rather than on the large majority of home-region firms. This implies that managing in the new Europe needs to be regional, not global.

INTRODUCTION

Recent empirical research has demonstrated that the vast majority of the world's 500 largest firms have most of their sales in their home region of the triad. By triad is meant: EU; Nafta; and Asia Pacific. Of the 380 firms reporting regional sales data, the 118 from Europe average 62.8% of their sales in their home region, the 185 from North America average 77.2%, and the 75 from Asia average 74.3% at home. The data are shown in Figure 1. While each region has three truly global firms, Europe has 86 home-region oriented firms, North America has 167, and Asia has 66. These data indicate a lack of globalization in the sense of a commonality of interests and the homogenization of markets as envisaged by many observers. The limited global expansion of most large firms also suggests that competitive advantages are more difficult to leverage in foreign markets than most observers assume. There is a system of regional business activity or semi-globalization in which firms and initiatives are strongly localized. This implies that analysis of global strategy has been too simplistic, and reflects an inaccurate interpretation of the data. For example, Wal-Mart is often considered to be a global business, yet the company has 94% of its sales in North America, and therefore its business is better explained by regional issues, such as NAFTA, than global issues.

Figure 1 here

European Business is Regional, Not Global

Of the 118 European firms in the world's top 500, for which regional sales are available, most are German (29), British (27), or French (26). (See Table 1.) The 118 European firms average 62.8% of their sales in the European region. Of these firms only LVMH, Philips, and Nokia are global, when using our definition based on corporate sales, and the great majority, 86, are home-region based. There are 16 bi-regionals and 8 host region-oriented firms. We provide examples

of these classifications and also present detailed case studies of European firms in each category.

The definitions are:

- home region (> 50% of sales in the home region);
- bi-regional (< 50% of sales in the home region but > 20% in another region);
- host region (> 50% of sales in another region of the triad).
- global (< 50% of sales in the home region and > 20% in each region of the triad);

Table 1 here

Examples of European-based bi-regional firms include GlaxoSmithKline (GSK) and Bayer in pharmaceuticals. GSK has almost half its sales in North America, almost double its European sales, while Bayer is more evenly split between these two regions. Diageo is another bi-regional firm which sells more in North America than in Europe. Unilever also relies on the North American market, but sells almost 40% of its products in Europe. With over half of its global sales in North America AstraZeneca is classified as host-region oriented, as is Royal Ahold, ING, Santander and Delhaize with 75.9% of its sales in North America. Indeed Europe, with 8, has more host-region firms than Asia, with 2, and North America, with 1. However, none of these firms has the 20% of sales in Asia required to be defined as global.

We take a closer look at a subset of these firms below, in each of the 4 categories: home-region, global, bi-regional and host-region. For each we discuss the factors that have influenced the development of their current strategies and structures.

CASE STUDIES

The following 9 case studies will be developed as examples of each classification. Home-region oriented firms are illustrated by Carrefour, TotalFinaElf, and Deutsche Bank; Nokia and Philips are examples of global firms; bi-regional firms include GlaxoSmithKline and L'Oréal Paris; and host-region firms are represented by Diageo and AstraZeneca.

It should be noted that there is a bias in this article as only 3 of the 86 home-region firms are discussed, in contrast to 2 of the 3 global, and 4 of the 24 bi-regionals and host-region oriented firms that are discussed. This sampling is partially explained by the bias in research activities, which overwhelmingly focuses on global and semi-global firms, rather than the home-region firms.

Table 2 shows that larger, more global firms dominate the references to European firms in academic research literature across all business and management disciplines. In other words, there is a strong correlation between a European firm's degree of internationalization and the number of academic articles in which it is mentioned. The top 10 European firms, ranked by article 'hits' of the top 75, account for over 61% of all article hits (the top 5 alone account for 42%; the top 20 for 82%) and contain a heavy concentration of the few global and bi-regional firms in the overall list. There is an overwhelming bias towards firms like Shell, BP, Philips, Unilever, Nestle, and Nokia in academic research because they have made their mark in the global economy, particularly in the United States. Yet they are not representative of European firms in general. We know least about the most typical group of European firms, whose sales are predominantly in their home regions, and we thus begin our case studies with three examples of home region-oriented firms.

Table 2

HOME REGION-ORIENTED FIRMS

Carrefour

Anyone observing French retail giant Carrefour over the last three decades must concede that international expansion is a key part of its strategic plan. Today, it has 6,132 stores in 29 countries. Yet, in 2003, only 13 percent of Carrefour's sales originated outside its European home region, with sales outside the region being evenly divided across Asia and Latin America.

In 1996, the French government introduced the Raffarin Law to restrict the expansion of hypermarkets. The aim of the law was to keep the French countryside from turning into large warehouse-style retail structures and to protect the French way of life in which local food farmers supply small local shops. For Carrefour, this meant that growth of its hypermarket business could come only from acquisitions in its local markets or from expanding into foreign markets. Its success at following this strategy has varied considerably because of different competitive environments and cultural differences across regions.

In the United States, Carrefour opened three hypermarkets in Pennsylvania and subsequently closed them as a result of local competition. In its home region of Europe, however, Carrefour is the number one retailer in Spain, Portugal, and Greece, and the second largest retailer in Italy. Carrefour was the first Western hypermarket company to expand into the Asian market in the mid-1990s. By 2001, it was the third-largest retailer in China and had operations in Thailand and Japan. The company bet that Asian customers would be willing to move from their traditional outdoor markets to shop at air-conditioned and “all in one roof” hypermarkets. Its hypermarkets relied on local suppliers that offer products at the same price as those that supply the local competition and that cater to the tastes of locals. For their part, local suppliers were all too ready to enter into contracts with Carrefour, which promised to put its

products on shelves across the Asian region. Moreover, where local contacts are not readily available or insufficient, Carrefour's competitive advantage comes from centralized purchasing and other logistics.

Since products are offered in a comfortable environment at competitive prices, the local competition is nothing to worry about. In fact, Carrefour is more concerned about competition from other Western retailers such as Wal-Mart and Tesco. Both Tesco and Carrefour raced to open the first hypermarket in Thailand and achieved roughly the same market share. Today their hypermarkets face each other on a busy Bangkok street. If they want to survive over the long haul, however, Western companies should always be wary of potential local or regional competitors. For instance, in Hong Kong, where Jardine Matheson and Li Ka-shing dominate the market, Carrefour was forced to close operations.

The benefits of international expansion are not clear. While Carrefour's operating margins in France were about 6 percent in 1999, its Asian and Latin American hypermarkets, as well as some of its European operations, were losing money. In particular, the company was hit by the Asian crisis, which also contributed to a Latin American recession. Some studies comparing internationalization patterns across Europe's retailers argue that there are more advantages to sticking to the home region.

The promise of scale economies is unlikely to materialize on a global basis. This is because, to cater to local tastes, hypermarkets must purchase from local producers. This tying into the local economy also helps protect a firm's investment from nationalist factions that might risk the collapse of local suppliers that could result from the ousting of a foreign company.

TotalFinaElf

Ranked 15 in the *Fortune* Global 500, TotalFinaElf is one of the five largest oil companies in the world. In 2002, the company derived 54.8% of its sales from its home- region market of Europe. Another 11.7% was derived from North America, while the remaining 33.5% was accounted for by other non-specified regions. In terms of employment, TotalFinaElf is even more concentrated, with 75% of the workforce employed in its home region.

Low oil prices in 1998 threatened to wipe out smaller oil companies, driving the world's largest companies into a frenzy of mergers that saw the number of players decrease from 10 to 5 mega-oil companies by 2003. The largest mergers were BP with Amoco, Exxon with Mobil, Texaco with Chevron, and Total with Elf Aquitaine of France. Additionally, smaller players were acquired by these newly formed firms. Many were friendly mergers sold to management in each company as a marriage of equals. The takeover of Elf Aquitaine by Total, however, was a messy battle.

In 1995, Thierry Desmarest, a French civil-service worker turned petroleum explorer, became Total's CEO. At the time, the company was a middle-size European player; but in 1999, Total acquired Belgian Petrofina, outbidding and dethroning Elf Aquitaine as France's largest oil company. Days after completing the Petrofina deal, the CEO of Elf Aquitaine, Philippe Jaffre, received an unexpected all-stock offer from Totalfina worth \$43 billion. Elf Aquitaine counterattacked with an offer of \$50.97 billion for Totalfina. Two months after the initial offer, shareholders handed the reins of the new company to Total.

A major reason for national regulatory approval of the merger was that it involved no foreign companies. Also, at a time of industry consolidation in an industry highly dependent on the ability of securing exploration contracts, one large French company could remain world competitive, but few thought two smaller companies could compete.

Trouble in the Middle East after the World Trade Center attacks of 9-11 created much uncertainty for the French oil company. One-fourth of the company's oil and gas production is located in the Middle East. When the United States invaded Iraq in 2003, French President Jacques Chirac stood firm in opposition. TotalFinaElf had for a long time seen Iraq as strategically important for long-term operations. But, political differences between France and the United States undermined TotalFinalElf's plans in the region.

In terms of firm-specific advantages (FSAs), the consolidated TotalFinaElf now has the required size to bid for international contracts. This is a resource-based firm, however, and country-specific advantages (CSAs) are extremely important. In the case of petroleum, where newer reserves are found in non-industrialized countries, international politics might become an important determinant of success. Thus, home-country and host-country CSAs are relevant, as well as the CSAs of third-party countries.

Deutsche Bank

In 2002, Deutsche Bank derived 66.9% of its revenues from its home-region market of Europe, with half of it in Germany. North America accounted for 24.2% of total revenues. The remainder originated in Asia-Pacific, Africa, and South America. Similarly, although over 60% of the bank's employees reside in foreign countries, 71% are located in Europe. Although Deutsche Bank has customers in 76 countries and has aspirations to become a global lending provider, labeling itself a "universal bank," it is not a global company, but a home-region company with a significant presence in the United States.

In 1999, Deutsche Bank acquired Bankers Trust for \$9.2 billion, more than twice its book value. The move was meant to support global ambitions and improve the group's investment

banking arm. At the time, Bankers Trust was the eighth largest US bank, assuring a significant, if not major, presence for Deutsche Bank in the American market. In addition, Deutsche Bank incorporated Bankers Trust's skills in equity underwriting and high-yield debt to its portfolio while strengthening some of its own operations.

Deutsche's drive to become a global bank with strong investment banking capabilities has been supported by other acquisitions. In 1989, Deutsche purchased Morgan Grenfell, a UK-based merchant bank. Spain's Banco de Madrid was acquired in 1993, and in 1998 Crédit Lyonnais of Belgium was added to its portfolio. The fall of the USSR also meant that Deutsche could expand not only into East Germany but also into other Eastern European countries. In 1995, Deutsche opened a branch in Warsaw, and a year later a subsidiary was established in Hungary. In Asia, Deutsche Bank acquired a Japanese trust bank and an Australian fund-management company in 1997. More recently, it acquired Scudder, a US asset-management firm in 2002.

Deutsche Bank has 1,711 branches worldwide. In 2002, 936 of these banks were in Germany. Yet, Deutsche is not looking to become a global retail bank. Instead, the firm wants to get out of small-scale banking in Germany altogether and become a global investment power house. Germany's retail banking system is heavily regulated and fragmented, and despite its size, Deutsche accounts for a fraction of domestic deposits. Deutsche Bank is one of four large private German banks that compete with state-owned banks. Competition from mutual and savings banks is likely to result in losses in this market. Meanwhile, guaranteed state-owned regional banks can access funds in capital markets at lower interest rates. With reported costs of 80% of their income, compared to 60% by other European competitors, German banks are continuously ranked at the bottom. To add to its national complaints, Germany's labor laws

make hiring and firing personnel very difficult and costly. This explains the bank's creating of Bank 24 in 1994 to combine its branch network and online banking. This can potentially allow the divestiture of all retail banking operations. Deutsche is also highly susceptible to the German market and the broader European market. The recent collapse of German companies, including Philipp Holzmann, the Kirch Group, and Fairchild Dornier cost German banks millions.

Deutsche's international ambitions and move into investment banking are heavily driven by regulations in its domestic market. Its past acquisitions and new strategy do not guarantee a carving of this market. Other banks, such as UBS, attempted similar strategies only to find themselves in dire straits. Nonetheless, Deutsche Bank is successful in securities, foreign exchange, and asset management which might provide an edge against competitors. Mergers and acquisitions, however, are a profitable area the bank is hoping to strengthen but has not yet successfully done so. In addition, the acquisition of other localized banks, such as Banker's Trust, does not provide the necessary know-how for global expansion. At best, the bank can hope to gain a bi-regional scope with its European and US arms acquiring know-how in inter-regional transactions across two regions of the triad. Deutsche is now best positioned to become a bi-regional bank with the potential for luring the business of European firms doing business in the United States. Whether or not Deutsche will be able to successfully compete in the US investment banking market, where domestic companies are already world leaders, or to lure US MNEs with operations in Europe, has yet to be seen.

GLOBAL FIRMS

Nokia

Nokia is a global company and, for a period of time, enjoyed unusually high levels of growth and profitability. In the 8 years up to 2000, the company grew from being a struggling Finnish conglomerate to become a leader in mobile telephony with the most valuable non-US brand in the world, operations in 140 countries, and Europe's highest market capitalization. During this time it managed a 30-percent annual compound growth in revenues to reach almost \$20 billion and employ 51,177 people around the world.

Nokia's dramatic international growth followed a radical shift in its business focus. In 1988 it had 41,326 employees almost entirely in Finland and Northern Europe, with telecoms equipment and mobile telephones accounting for just 10 percent of its revenues. In the early 1990s, declining sales and disposals of its non-telecoms businesses left it with 25,801 employees and \$2,599 million in revenues. It reached its lowest point in 1992 when, under pressure from Finnish banks, Nokia offered rival Ericsson its mobile phone business. The offer was rejected and Nokia's rapid expansion began.

Focusing on the GSM platform for network equipment and mobile phones, Nokia grew its market share from 12 percent to 36 percent in a market that itself grew at an unprecedented rate worldwide. It also managed to maintain the highest margins against competitors in the mobile phone industry during this period. Very recent performance provides a contrast, with Nokia's market share falling to 28 percent, as competitors have begun to innovate better (such as Sony-Ericsson, Motorola and Samsung) and/or produce lower-cost rival products (like Haier in China).

How can we explain Nokia's global presence? Several factors, in combination, appear to be significant. In particular, the world-wide growth of consumer demand, for a specific set of technologies (network equipment) and a product (mobile handsets) was triggered by an

unprecedented wave of deregulation which opened up national markets around the world. Global alliances with telecoms license-holders and other technology providers were also necessary to expand in overseas markets and to develop new technologies. Against this is the small size of Finland, as a market, a production base, a source of technology and engineering expertise, and as a source of capital. We will look briefly at each of these factors.

A key driver of Nokia's internationalization during the 1990s was the combined effects of industry deregulation and consumer demand for mobile telephony. This period was marked by a wave of deregulation and privatization in the telecoms industry worldwide, beginning with the UK, then Europe, and then emerging markets such as China and India.

Had we been competing against the Siemens and Alcatels of this world in their own national markets, trying to sell to their PTTs (State-owned telecommunications authorities), we would not have had a chance, because it used to be 70 percent politics. (Sari Baldauf, Head of Cellular Systems at Nokia).

Alongside the deregulation process, throughout the 1990s, consumer adoption of mobile telephony outstripped all predictions, including in emerging markets. (China is the world's biggest market, passing the 150 million subscriber milestone in 2002 and with over 300 million at the most recent estimate.) For both network equipment and mobile handsets, Nokia's lead in GSM and other technology platforms, coupled with its design and development capabilities and its distributed production operations underpinned its rapid growth. Having invested heavily in these technologies in the early part of the 1990s, the timing of these changes was perfect for Nokia. The Nokia 2100 was launched in 1994 with expected sales of 400,000 phones. Actual sales reached 20 million.

Another driver was the home country itself. Finland is simply too small, not just as a market but also as a source of capital. In 1991, Finnish investors held 90 percent of Nokia stock but the company was forced to fund its growth ambitions by listing on the New York Stock

Exchange. It did so in 1993 and Finnish ownership fell quickly 40 percent and then down to 13 percent. By 2000, with US investors eventually holding 55 percent, it was one of the first firms ever not to have a major home-market capitalization.

Finally Nokia's international growth has been driven by the need for two kinds of cross-border alliances. To gain access to particular national markets it has had to ally with licensed network operators in those countries. The most recent example is an agreement to supply GSM equipment to nine of Hutchison India's 13 license areas. Another series of international alliances has been necessary to maintain its pace of new technology and product development.

Nokia's global R&D structure underpins its system of "distributed innovation" which has been particularly appropriate for an industry that has evolved under the dual pressures of technology-push and consumer-pull. Nokia's superiority in this regard prompted an industry insider to state:

Industry thrust has shifted from closed specifications, central innovation and domestic market to open specifications, distributed innovation and global networking. The old era is reflected by the classic Bell Labs; the new era by Nokia.

Roughly a third of Nokia employees are engaged in research, design, and development (RD&D) activities in 50 laboratories and engineering centers in more than 10 countries. Less than one-tenth of these technical personnel are based in the central R&D facility in Finland. A world-wide network for connecting technological and commercial opportunities for new product development and customization is supported by the active rotation of technical managers and engineers around the firm.

As of January 2004, Nokia is structured into 4 business groups — Mobile Phones, Multimedia, Networks, and Enterprise Solutions - and three horizontal business support groups — Customer and Market Operations, Technology Platforms and Research, Venturing and

Business Infrastructure. It has 16 manufacturing plants in 9 countries, with a distinctive triad structure: United States, Mexico, and Brazil for North America; Finland, Germany, Hungary, and the UK for Europe; and two large plants in China and one in South Korea for Asia.

Philips

The Dutch electronics firm Philips has 164,000 employees in 60 countries and a global distribution of sales as follows: Europe (43%), USA/Canada (28.7%), Asia-Pacific (21.5%) and another 6.8% in Latin America and Africa. The company's home country market, Holland, accounts for just 4 percent of sales compared to its largest market, the US, which accounts for over 25 percent.

Although it began its international expansion process much earlier than Nokia, similar factors are responsible for driving its geographic diversification. The need to tap into larger markets, often via local marketing and distribution alliances, together with the need for cross-border collaboration in technology and product development underpin Philips' current global structure. As early as 1916 it formed a production know-how and technology licensing agreement with General Electric. Further expansion into Europe in the 1920s was to establish production subsidiaries to meet growing market demand, initially for lighting products and later for consumer electronics. Technology-related alliances, for example with Osram of Germany in 1921, were driven by the growing product portfolio managed by the firm. By 1930, Philips already had 22 subsidiaries across Europe, Asia, and Africa. These continue to be driving forces in the kind of businesses that Philips is involved with.

In terms of sheer size and diversity, Philips possibly reached its height in the mid-1980s. Then a series of restructurings began with Cor van de Klugt in 1987 closing 75 of its 374 plants

worldwide and cutting the workforce by 38,000. Headcount was reduced by a further 50,000 under Jan Timmer in 1990. Then again in 1996, under Cor Boonstra and subsequent CEOs, employee numbers declined from 260,000 in 1996 to 164,000 in 2003. The firm experienced sharp falls in net income in 1996, 2001, and 2002, with growth in the intervening years.

Throughout the 1990s, manufacturing was gradually shifted to cheaper locations, primarily in Asia, with a strong focus on China and India which continues today. A significant milestone was reached in 1997 when the worldwide (non-digital) television product headquarters were moved from Eindhoven to Singapore and the audio headquarters moved to Hong Kong, so that strategic decision-making could be done close to the main manufacturing plants. Philips currently operates with four regional headquarters located in Hong Kong (Asia), New York (North America), Sao Paulo (Latin America), and Amsterdam (Europe, Middle East, and Africa or EMEA region).

This is one way that Philips has tried to cope with the challenges of coordinating R&D, product development, production, and marketing across its variety of businesses and geographic markets. The specific problem of integrating its more centralized R&D function with its more dispersed commercial and marketing activities has been the focus of considerable attention.

More interesting insights into Philips' global strategy, and its strengths and weaknesses come from breaking down the sales figures into product groups by region. The main product groups are: Philips Lighting (number one in the world and Europe), Consumer Electronics (third in the world, number one in Europe) Domestic Appliances and Personal Care, Semiconductors (9th in world, 4th in Europe), and Medical Systems.

There is a significant difference in regional market share, particularly in the Asia region, where the consumer electronics and medical systems businesses are relatively weak. Japanese,

Korean, and increasingly Chinese firms, with good local brands and well-established operations, appear to be much stronger in consumer electronics and medical systems in this region. In the latter case, strong US manufacturers also vie for market share, often through joint ventures with local firms. This is significant given that the immature Asian markets, particularly China, are the only markets showing strong growth prospects. Philips has responded by focusing efforts and investment in emerging regions, including the Philippines. This emphasis is also clear within the broader global strategic program called Towards One Philips (TOP program), which started in 2002. As part of this program, a series of service centers for the Asia-Pacific region has been established to integrate the separate companies in terms of organization, branding, and corporate culture, such as the Asia-Pacific financial services center in Thailand and the information technology center in China.

BI-REGIONAL FIRMS

GlaxoSmithKline

Among industrialized countries, the United States' market for pharmaceuticals is the least regulated and as a result, the largest in the world. Not surprisingly, European companies like AstraZeneca, Aventis, and GlaxoSmithKline (GSK), depend more heavily on the North American market for their revenues than in Europe as a whole. Europe is not only a more fragmented market, with individual distribution systems and more layers of regulation, but governments are in the habit of imposing price controls. As a result, Europeans spend 60 percent less per capita on pharmaceuticals than their American counterparts.

With \$35.2 billion in revenues and 100,000 employees, GSK is one of the largest pharmaceutical companies in the world. Although incorporated in the UK, it is not surprising that

GSK manages its operations in the United States. Over half of its sales originate in this host nation. This is consistent with world trends; the United States accounts for nearly 50 percent of the world market for pharmaceuticals. GSK derives 28.6 percent of its sales from its home-market region of Europe. The European market accounts for 25 percent of the world market for pharmaceuticals.

Approximately 30 years ago, British Glaxo was a small company in the dried milk, antibiotics, respiratory drugs, and nutritional businesses. The discovery of Zantac, a drug to treat stomach ulcers, catapulted the company into the mainstream pharmaceuticals market and financed its expansion into the US market. As the patent for Zantac was about to expire, Glaxo found itself in a sticky situation. Up to that point, the company had relied on internal R&D, but this had failed to develop the R&D capabilities for sustainable long-term growth. In 1995, the company merged with Wellcome, a company known for its strength in R&D but also for its weak marketing capabilities. The merger was successful in that the new company now had a stream of new drugs that could be marketed using Glaxo's expertise.

By 2000, Glaxo Wellcome was disappointing investors once again. Drug prospects, at least in the short term, were below the industry average and expected revenues from some of its products never materialized. Yet, the merger with SmithKline Beecham was not driven by the same urgency as the previous merger. Both companies had a reasonably stable pipeline and a balanced portfolio of drugs. According to Sir Richard Sykes, then chairman of Glaxo Wellcome, the deciphering of the human genome would transform the industry and only large companies that could afford to invest in working with this new information would succeed. Together, these two companies are immune to the near death experience of losing a major blockbuster drug. No one drug accounts for more than 12 percent of the company's revenues.

GSK operates in two product-based industry segments: 1) pharmaceuticals, which include prescription drugs and vaccines, and 2) consumer healthcare, which includes over-the-counter medicines, oral care, and nutritional healthcare. Prescription drugs are sold mainly to wholesalers who dispense them to the public through pharmacies. Consumer healthcare products are sold either through pharmacies, wholesalers, or directly to retail outlets.

The first step in the development of a drug is research and development. GSK spends \$4 billion on R&D and has over 15,000 researchers in 24 R&D sites around the world. Once GSK has developed a new drug, it must obtain government approval. This must be done in each individual nation where the company markets the product, and the process can be significantly different in each jurisdiction. Production and marketing are the next steps for a new drug. GSK's supply chain is divided into a primary supply chain and a secondary supply chain. The primary supply chain manufactures active ingredients for its products and ships them to the secondary supply chain, which manufactures the end product. There are thirteen primary supply chain sites located in Australia, India, Ireland, Singapore, the United States, and the UK. In Europe, there are 17 secondary supply chain sites. North America houses an additional six secondary supply chains. The rest of the world houses 32 secondary sites in 19 countries, with five sites in the Middle East and Africa, 22 sites in Asia-Pacific, and the remaining five in Latin America.

Different price regulations at a national level have created some market abnormalities within each region. For instance, Canadian web-based pharmacies have sprung up to service US consumers seeking cheaper alternatives. GSK sent a heavily-worded letter to Canadian wholesalers who were selling to these pharmacies threatening to stop supplies. In Spain, GSK developed a two-price system: one lower price for products to be sold in Spain and a higher price

for those to be exported to other EU member countries. This practice was found to be illegal by the EU.

A different challenge is facing GSK and other pharmaceutical companies in some key emerging markets, particularly China. This is the lack of conformity to international regulations and legislation standards for intellectual property rights (IPR), including patent law and licensing conventions, by national governments and regional authorities. Despite the rapid market growth for GSK's products in such countries, and opportunities for tapping into cheaper, sometimes more advanced local science and technology expertise, the activities of local counterfeiters represent a major constraint to international expansion.

L'Oréal Paris

Like many other French companies, L'Oréal Paris, which is ranked 415 in the world's top 500 multinationals, capitalizes on its country's reputation for fine luxury beauty products. A multinational cosmetics manufacturer, L'Oréal has 238 subsidiaries and a presence in 130 countries. Sixty-eight percent of L'Oréal's 50,000 employees work outside France. L'Oréal is a bi-regional company with 49.9% of its sales in Western Europe. The North American market is an additional 30.3%. Operations in Japan, Latin America, Eastern Europe, and other Asian markets account for less than 20% of the company's revenues. Much of the firm's expansion into international markets, as well as its movement into niche markets at home and abroad, was the result of acquisition of already established brands. In 1996, L'Oréal purchased US cosmetic giant Maybelline, and in 2001 purchased both Japan's Shu Uemura and Kiehl's of the United States. L'Oréal also owns Cacharel, Garnier, Helena Rubinstein, Lancôme, and Vichy, among others.

The bi-regional nature of L'Oréal's operations makes government regulations in the US and the EU very important, and the company might get caught up in the cross fire. In 2001, the EU proposed a ban on all new products developed using animal experiments, which L'Oréal performs, even if the animal testing was not done in the EU. This negatively threatened the firm's CSAs in its two main regions. It meant that it may not be able to develop new products involving animal testing to be sold in its home region. It also meant that if the United States decided to retaliate against this extra-territorial regulation, L'Oréal could see its ability to freely import and export from its two main regions jeopardized.

As a Western company, L'Oréal has sought to enter the growing Chinese market. This could potentially lead to global scope. Today, the cosmetics company manufactures locally and has made Maybelline, a traditionally US product, China's top-seller make-up line. Sales in China are growing at about 25% per year thanks to a combination of several factors, including the opening up of the Chinese market, which has increased the individual expectations of the young urban population and the company's ability to adapt to the local market.

Not all cosmetic products are created alike. Shampoos and hair coloring products for the Chinese market have different recipes than in the United States and Europe because Chinese hair is stronger, and color preferences are different. In marketing, L'Oréal has signed up Zhang Ziyi, from the movie *Crouching Tiger, Hidden Dragon* to model Maybelline lipstick, a move that has helped the company achieve 33% of the Chinese lipstick market. Marketing decisions are made under the philosophy that no one knows a target group better than the target group itself. Only eight of L'Oréal's 3,000 employees in China are foreigners. The average age of employees is 28 years, the same age as the customers the company is trying to attract.

Entering the Chinese market has not been an easy task for L'Oréal, and the country is unlikely to become an easy win. L'Oréal and other Western companies are under heavy pressure from Chinese start-ups that have shown an incredible ability to become competitive in a very short span of time. Another problem facing foreign companies in China is the wide range of counterfeit products sold under the company's name. This has several implications, including the loss of product and the loss of reputation that may come from under-performing clones. While the Chinese market offers much promise to L'Oréal, the company's operations there are insignificant.

Diageo

The word Diageo comes from the Latin for day (dia) and the Greek for world (geo). This underpins the firm's main marketing strap-lines, including: "every day, everywhere, people are enjoying our brands" and "global vision, local marketing". In fact the firm is bi-regional, with over 80 percent of its sales in North America and Europe.

After its formation in December 1997 through the £24 billion (\$42 billion at \$1.75 to £1) merger of Guinness and Grand Metropolitan, Diageo grew into a highly diversified conglomerate, at one point with 62,000 employees globally. It underwent a second major internationalization stage with the acquisition of Seagram in 2002, accentuating its bi-regional structure. But it has also made a number of disposals, notably Pillsbury and then Burger King in 2003 (part of GrandMet), and finally it sold its 21 percent stake in Grand Mills in 2004, to focus solely on its drinks businesses. It now has annual turnover of \$15.6 billion, 24,000 employees, and maintains a presence in 180 countries, but outside the UK and US, fewer than 50 people are employed in any of its business operations.

The company's original home market is the UK, accounting for 16 percent of total turnover. It is also home to United Distillers and Vintners (UDV), owner of more than 20 Scottish whisky distilleries. Ireland, the home of Guinness, is also important, accounting for 11 percent of turnover, as is Spain with 5 percent. These three countries together with the US are categorized as lead markets, both in terms of sales and new drinks products. Following these, the company has 14 key markets and a larger number of venture or emerging markets. Beyond this national market prioritization, it operates a regional structure, the main divisions being Diageo Europe, North America, and International, the latter encompassing Asia, Africa, the Middle East, and Latin America.

Diageo's main assets are its brands. It manages 8 global priority brands: Smirnoff (vodka), Johnnie Walker and J&B (whisky), Guinness (stout beer), Baileys (liqueur), Captain Morgan (rum), Jose Cuervo (tequila), and Tanqueray (gin). The last three are premium brands in North America inherited from Seagrams. Among the remaining 5, most are dominant European brands with some global reach. These global priority brands are supplemented by local priority brands, which have strong positions in individual markets. Again, these have been acquired rather than developed. Most recently it announced the acquisition of Ursus Vodka Holding N.V., the owner of the Ursus vodka and Ursus Roter brands which have large market shares in Greece.

Although it has strong capabilities in research and development (new drinks formulas, containers, packaging and labelling), distilling and production, and bottling and distribution, Diageo's major competencies lie in brand management and marketing. Large amounts are spent on new brands, such as Smirnoff Triple Black which cost over \$110 million to launch in 2003. In the US, the company focuses its massive marketing efforts in 5 key states - California, Florida,

Kentucky, New York, and Hawaii - which consume almost 30 percent of total distilled spirits in the United States.

HOST REGION-ORIENTED FIRM

AstraZeneca

In 1999, British Zeneca merged with Swedish Astra to create what at the time was the third largest pharmaceutical company in the world. The merger was considered a union of equals. Astra was a leader in the ulcer market, with Prilosec being the world's best-selling drug at the time. Yet the dependency on this one drug made the company highly vulnerable as its patent was projected to expire in 2001. Today, 55.6% of European AstraZeneca's \$17.8 billion in revenues is derived from North America, making it a host region-oriented firm. Its home region of Europe accounts for only 31.9% of revenues. Japan accounts for a mere 5.5%, and the remaining 7% is derived from other markets.

In 1999, Imperial Chemical Industries (ICI) divested its pharmaceutical business under the name Zeneca. ICI, the world's largest producer of paint, remained a chemical manufacturer. While Zeneca continued to prosper independently, the separation proved devastating for ICI. In the four years that followed, ICI's shares were significantly undervalued, and the company sought acquisitions, including companies it had divested to strengthen its position.

AstraZeneca is a good example of the marketing difficulties pharmaceuticals face even after they have cleared drug regulatory bodies. Each national jurisdiction has its own rules for marketing drugs, forcing companies to structure their marketing strategies to fit the local environment and preventing the development of a global strategy.

AstraZeneca's strategy is one of low levels of economic integration in terms of marketing and high levels of national responsiveness. The nationally based structure of the pharmaceutical

industry makes high levels of economic integration in distribution and marketing impossible and forces firms to be nationally responsive. Even in terms of manufacturing, whether a drug will be produced locally or imported across national borders is highly dependent on the regulations of the nation and regional trade treaties. Nonetheless, R&D shows high levels of economic integration. Indeed, Aventis's development of a drug can take place in any of its R&D labs across the world and lead to a drug product that can be sold in all jurisdictions.

AstraZeneca does not have a global strategy due to the variations in the safety and marketing regulations in each national jurisdiction. This limits its scale economies. The emergence of regional blocks means another set of regulations and barriers that AstraZeneca must take into account. Therefore, the company cannot have a uniform global strategy. Governments are nationally responsive to the demands of their citizens. Drugs are perceived differently across national borders. In addition, local communities may react differently to drugs. There is also an entire industry around the approval process that governments have an interest in maintaining.

A significant risk for pharmaceutical companies is the discovery of new or more dramatic side effects that were not discovered during clinical testing. In late 2002, the Japanese government restricted the use of Iressa, a drug created for patients with lung cancer, after more than 100 deaths were reported as linked to taking the drug. Yet, clinical trials showed that lung-cancer patients experienced significant improvement after taking the drug. The Japanese Ministry of Health did not ban the drug as it considered the benefits to late-stage cancer patients outweighed the risks. However, the discovery prompted AstraZeneca to change its labeling to reflect the risks, and led the Japanese Ministry of Health to require that patients taking the drug be hospitalized for four weeks to monitor side effects. In clinical trials, Japanese patients taking

Iressa benefited significantly more from the drug than other patients. However, it turned out that they were also far more likely to suffer from interstitial lung disease (ILD), a side effect of the drug. ILD, the cause of all Iressa-related Japanese deaths, occurs in all cancer treatments. Yet, a media panic in Japan made international news and threatened to jeopardize Iressa's approval in the United States and Europe.

In the case of Iressa, AstraZeneca made the decision to launch the drug in the Japanese market first. The panic that ensued compromised drug approval in its two largest markets of Europe and North America. Although a regional strategy is required for drug marketing, the strategic launching of pharmaceuticals must be implemented on a global basis. Panics in the media do not remain regional. AstraZeneca's mistake was to launch Iressa without examining or taking into consideration that the Japanese were more likely to suffer interstitial lung disease. Even though they were also more likely to benefit from the drug, the risks associated with it were far higher than for other regions.

In conclusion, while AstraZeneca has to be careful in its European domestic market, it also faces regulations in its large North American market and in the Asian market. These regulations prevent the company from adopting a worldwide strategy. At the same time, it can be argued that regional effects might have worldwide repercussions. The company needs to think regionally rather than globally, while continuing to consider the home-region effects of its regional actions.

CONCLUSIONS

This article shows that the vast majority of European firms among the largest 500 firms worldwide have most of their sales in their home regions. The 118 from Europe that we

examined average 62.8% of their sales in their home region. Only three are global, 8 are host-region oriented and 16 are bi-regional, while 86 are home-region based. We also found very strong bias in academic management research that focused on the much smaller, less-representative subset of more global European firms.

The 9 case studies we discussed begin to examine the differences between the main categories of European multinationals. Specific drivers have pushed Nokia and Philips to compete across the triad of Europe, North America, and Asia, and particular circumstances underlie the evolution of host-oriented and bi-regional firms (such as the series of acquisitions and divestments that created Diageo). These patterns are atypical compared to the more representative examples of home region-oriented firms that compete predominantly within their local markets.

The main implication for managers is to forget about the need for a global strategy. As the large firms in Europe are home region based, it is also highly likely that small and medium sized firms are even more local, as they are often within clusters led by these “flagship” large firms. Such firms appear to view their home-region markets as the best option when weighing up the risks and rewards of international expansion. This also implies that their competitive advantages do not readily apply outside these home region markets, in other parts of the Triad or beyond. The European firms in our study are amongst the largest and most important and yet the vast majority have evolved specific assets, resources and capabilities primarily to meet the needs of regional customers, with strategies and structures primarily suited to the regional context.

Managers of firms in the New Europe will face competition from each other more than from firms from other regions of the triad. This suggests that, rather than following the herd-mentality and becoming overly-concerned with markets outside of Europe, they need to maintain

an appropriate focus on the challenges of regional change, in keeping with their degree of dependence on regional markets. These challenges include many of the factors discussed within each of the company case studies above, from the evolving regulatory environment of the widening European Union, to the dynamics of cross-border, intra-regional mergers-and-acquisitions. Managers from Asia and North America also need to think seriously about the difficulties of entry into the European market and be careful of the costs of adapting their business models in a new region of the triad.

Figure 1

Home-Region Sales of the Top 500 MNEs

Figure 1

Home-region Sales of the Top 500 MNEs

Regions and Countries	No. of Firms	% Home-region Sales
Europe	118	62.8
Germany	29	68.1
Britain	27	64.5
France	26	64.8
Switzerland	8	49.6
Sweden	5	54.3
Italy	5	83.4
Netherlands	5	39.1
Other	13	---
North America	185	77.2
Canada	16	74.1
USA	169	77.3
Asia Pacific	75	74.3
Japan	66	74.7
Australia	5	71.4
S. Korea	2	71.2
Taiwan	1	100
Singapore	1	22.4
Note: Home-region sales are reported as a percentage of total sales		

Data are for 2001

Table 1: Country Distribution and Home-Region Sales of European MNEs

Country	No. of firms	Average revenues (USD\$bn)	Average home-region sales (%)*
Belgium	2	18.8	58.4
Britain	27	25.3	64.5
Denmark	1	10.9	94.3
Finland	2	20.0	55.1
France	27	27.2	64.8
Germany	29	37.3	68.1
Italy	5	38.7	83.4
Luxembourg	1	13.0	95.0
Netherlands	5	42.1	39.1
Norway	2	21.6	83.0
Spain	2	29.1	50.3
Sweden	5	16.4	54.3
Switzerland	8	34.7	49.6
Bi-national	3	73.9	47.9
Europe	119	31.0	62.8

Numbers might not add up due to rounding.

Data are for 2001

Note: The following companies are headquartered in more than one country: Fortis (Belgium/Neth), Unilever (Brit./Neth) and Royal Dutch/Shell Group (Brit./Neth). The home-region number for Belgium is heavily influenced by Delhaize "Le Lion" a host-region oriented firm. The lack of a large sample size makes it difficult to make an assessment of Belgium. The low level of home-region sales in Spain reflects the propensity of the two Spanish firms in the RNGMA to invest in Latin America.

* Weighted average is calculated by using the size of firms according to revenues.

Table 2: The 20 European Firms Most Frequently Cited in Academic Articles

Rank	Article hits*	MNE 500 Rank	Company	Revenues in bn US\$	% home region	C
1	142	8	Royal Dutch/Shell Group	135.2	46.1	I
2	92	4	BP	174.2	36.3	B
3	80	143	Philips	29	43	G
4	68	68	Unilever	46.1	38.7	B
5	57	22	Siemens	77.4	52	D
6	50	55	Nestlé	50.2	31.6	I
7	45	139	BT (q)	30	87	D
8	36	194	ABB	23.7	53.9	D
9	33	147	Nokia	27.9	49	G
10	32	114	Tesco	33.9	93.6	D
11	28	184	J. Sainsbury	24.6	83.3	D
12	27	112	BMW	34.4	57.3	D
13	24	21	Volkswagen	79.3	68.2	D
14	23	125	Renault	32.6	89.1	D
15	22	123	Vodafone	32.7	93.1	D
16	22	154	Barclays	27.6	88	D
17	18	7	DaimlerChrysler	136.9	29.9	S
18	18	72	Metro	44.3	97.3	D
19	18	90	ABN Amro Holding	39.7	na	N
20	15	158	Bayer	27.1	40.3	B
Top 20	Total = 850			Average = 55.3	Average = 61.9	
All 75 firms	Total = 1036			Average = 45.6	Average = 66.9	

Revenue and sales data are for 2001; Article hits are from 2004.

C. Classification: D. Home-region oriented; S. Host-region oriented; B. Bi-regional; G. Global; I. Insufficient information

Notes for Table 2

*Article 'hits' refers to the number of search 'hits' that were returned from a keyword search of peer-reviewed periodicals in the 'Business Source Premier' database, combining the name of the firm and the term 'business'. Business Source Premier is described as "the world's largest full text business database". It provides full text for nearly 3,800 scholarly business journals and is updated on a daily basis via 'EBSCOhost'. By comparison the Social Sciences Citation Index covers 1,725 journals.

Table 2 lists the firms ranked in order of the number of article 'hits' received. The final list includes a cumulative total of 1036 hits across the top-75 European firms. This does not mean 1036 individual articles since the count includes multiple hits where single articles include more than one listed firm. The top-20, accounting for 850 of the 1036 total hits (82%), are listed here.

Selected Bibliography

This paper focuses on a sub-set of the data presented in: Rugman, A.M. (2005) *The Regional Multinationals*, Cambridge, UK: Cambridge University Press. For further discussion of the theoretical aspects of regional versus global structures and strategies see: Rugman, A. and Verbeke, A. (2004). 'A Perspective on Regional and Global Strategies of Multinational Enterprises', *Journal of International Business Studies* 35 (1), 3-18, and; Ghemawat, P. (2003) 'Semiglobalization and International Business Strategy', *Journal of International Business Studies* 34(2), 138-152.

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