

A Literature Review of Research on Coping Strategy Typologies of Local Company against Foreign Competition in Emerging Market

Zhang, Lin*

Jincheng College of Sichuan University, Chengdu, China

Email: 105613742@qq.com

*Corresponding author

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Abstract. the old globalization is on the decline, and new global dynamics are beginning to emerge. Regional economic integration, an important component of globalization, has entered a period of rapid and critical development, which provides important opportunities for the development of major economies, especially emerging market countries. Local companies in emerging market will be closer to the world market and will have more interaction, connectivity and engagement with foreign companies. In order to “go out” and most important, hold their own positions, local companies in emerging markets should actively think about how to use their core competitiveness to cope with external competition and how to choose and adjust their growth strategies in a hyper-competitive environment. Therefore, at the level of the corporate strategy, this paper sorts out and reviews the relevant literatures of foreign scholars on the types of strategic choices of local companies against foreign competition, and finally puts forward the overall framework and key content of the research on coping strategy typologies of local companies. This paper is supposed to provide a theoretical basis and a choice of strategic typologies for local companies against foreign competition, and accordingly to bring more valuable references for local companies in emerging markets when competing with foreign Multinationals.

1. Introduction

In contemporary world, globalization has become a predominant theme and an inevitable trend. The impact of globalization on the whole world and regional economy is impressively profound. On the one hand, globalization offers numerous opportunities for both large and small firms; on the other hand, it also generates new threats for these companies, which intensifies the need for adoption of appropriate corporate strategies. In any international marketplace there are always two major types of participants: Local Corporations (LCs) and Multinational Corporations (MNCs). They vary greatly in terms of cultural background, developing status, corporate mission and structure, target market segments, competitive advantages and marketing strategies deployed. LCs and MNCs have their own advantages and disadvantages in emerging markets. The fierce competition between LCs and foreign MNCs results in a hyper-competition environment in emerging markets.

2. Literature Review

LCs' strategic options in response to foreign competitors' invasion and expansion in LCs' home market can be analysed through the usage of various dimensions and criteria. The following research involves several strategy typologies that concentrate on the strategic behavior or reaction

of incumbent companies against their competitors. Furthermore, although some strategy options are not exactly applicable for LCs in the face of foreign competition, they are expected to underpin the analysis of LC's coping strategy by virtue of applying various analyzing criteria.

2.1 Miles and Snow's Strategic Typology

Miles and Snow's (1978) strategy typology is one widely used in competition analysis thanks to its comprehensive treatment of strategy, structure and processes, its support in empirical studies, and its predictive utility.¹ Miles and Snow proposed that an organization in general develops distinctive and relatively stable patterns of strategic behavior in order to co-align the organization with its perceived environment.² The patterns of interaction between the organization and its environment result from how the organization responds to three major problems, that is, "entrepreneurial, engineering, and administrative"³. Based on these three main problems, the authors classify firms within a given industry into the following four strategic types: defenders, prospectors, analyzers and reactors.

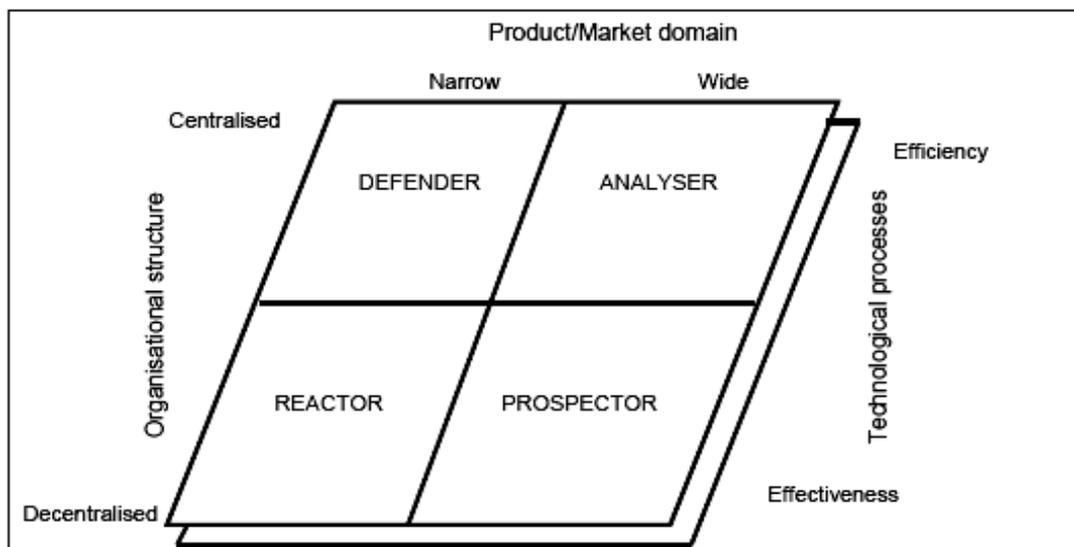


Figure 1: Miles and Snow's Strategic Typology

Source: Jorgensen, H. and Vintergaard, C. (2004), p. 15

The main behavioral characteristics of defenders involve: 1) operating within a narrow product-market domain and maintaining a secure niche; 2) having relatively few core technologies; 3) stable structure and process; 4) intensive rather than extensive planning; 5) dominant coalitions are finance and production; 6) mechanistic organizational structure; and 7) high fixed-asset intensity.⁴ The prospector's main behavioral characteristics include 1) operating within a broad product-market domain through product or geographical divisionalized structure; 2) heavy R&D and IP investments; 3) extensive rather than intensive planning; 4) dominant coalitions are marketing and R&D; 5) organic organizational structure; 6) low fixed-asset intensity; and 7) incompletely efficient. The analyzer's main behavioral characteristics involve: 1) maintaining core products and use of applicable innovations; 2) large matrix of organizational structure; 3) mix of processes and technologies for efficiency and flexibility; 4) dominant coalitions are marketing,

¹ McLaren, T. S. et al. (2004), p. 49

² Gimenez, F. A. P. (2001), p. 1

³ Miles, R. E. and Snow, C. C. (1978), p. 20-23

⁴ Kulzick, R. S. (2003).

applied research and production; and 5) planning is both intensive and comprehensive. Main behavioral characteristics of reactor include: 1) rapid and opportunistic responses to immediate market demands; 2) project-oriented processes and organizational structure; 3) negligible long-term planning; and 4) inconsistent or uncoordinated responses to competitive environment.

According to Miles and Snow, actually, the prospector is comprehended as an outside-oriented strategy and the most dynamic organizational form; in contrast, the defender is regarded as an inside-oriented and a less dynamic one.⁵ Meanwhile, the analyzer is viewed as a “unique combination of the prospector and defender types”⁶. Lastly, firms adopting defender, analyzer and prospector strategies are expected to outperform those applying reactor strategies. As the reactor archetype lacks a consistent strategy, it is usually omitted from studies in which the Miles and Snow’s typology is adopted.⁷

2.2 Raffée and Segler’s Strategy Typology

Raffée and Segler (1984) pointed out in their research “marketing strategies in export”⁸ that enterprise could develop an orientation regarding export strategy by virtue of determining different degrees of competitor-related strategic approaches. In those markets where a competitor-orientation is inescapable or appears appropriately, there are several strategic reaction alternatives shown in figure 2. Among these strategic possibilities, an enterprise’s strategic choice depends essentially on its unique competition position.



Figure 2: Alternative Competition-related Directions of Impact

Source: translated from Raffée, H. and Segler, K. (1984), p. 287

As illuminated in the above figure, weak companies with insufficient resources and competitive potentials should evade competitors by means of giving up some markets or adopting retreat strategy. Medium companies with some but limited resources and competitive potentials can focus on niche strategy in order not to be involved in price wars, or can lean themselves against strong

⁵ Vargas, D. M. (1994), p. 1

⁶ Miles, R. E. and Snow, C. C. (1978), p. 68

⁷ McLaren, T. S. et al. (2004), p. 50

⁸ The following content is based on the translation of Raffée, H. and Segler, K. (1984), pp. 286-288

competitors without making a large amount of market investment (namely “me-too” strategy). Lastly, the company with abundant resources and competitive potentials can attempt to create a different market position for its own products from its competitors by means of product innovations or intensive advertising efforts, without immediately being involved into conflict strategies such as price war and so on.

2.3 Meffert’s Strategy Typology

Meffert (1994) made a contribution on competitor-oriented strategies by virtue of classifying corporate behaviors in competition into four specific types.⁹ Competitor-oriented marketing strategies refer to long-term and conditional plans for the specific behavior against competitors.¹⁰ According to Meffert’s contribution, the decisive factors of competition underpin corporate decisions on their behavior against competitors. With the help of strategy typology, competitor-oriented strategies can be first classified into active and passive competition behaviors. In general, the typology of active competitor-oriented behavior can be further carried out according to different typological dimensions. In literature one briefly classified the behavior into the following basic dimensions: Innovative versus imitative (conservative) and competition-avoidant versus competition-adaptive. On the basis of aforementioned dimensions, enterprises’ competitor-oriented behavior can be categorized into the following four basic strategies shown in figure 3 below:

| Behavioral Dimensions | Innovative | Imitative (Conventional) |
|--|-------------------|--|
| Competitor-avoidant (Defensive) | Dodge | Adjustment/Adaptation (“Me-too” Strategy) |
| Competitor-adaptive (Offensive) | Conflict | Cooperation |

Figure 3: Typologies of Competition-oriented Behavior

Sources : Meffert, H. (1994), p. 157 ; Quarg, S. (2005), p. 1

Cooperation strategy aims primarily at dealing with long-term competition conflicts among those enterprises that have no clear competitive advantages or resources available. This kind of confrontation is presented by some open or implied agreements concerning definite corporate policies. Conflict strategies are mostly connected with that a company aims to win market share through innovative behavior, and probably become the market leadership. Thereby, confrontation with competitors is often unavoidable. Dodge strategy refers to that an enterprise tries to evade the increasing competitive stress caused by its competitor’s innovative activities. Adjustment strategy aims at maintaining the established product-market-position. This behavior is consistent with the competitor’s reactions. Although these four strategic typologies are built on the business level, they can facilitate the analysis of resistance strategy by focusing on a series of active strategic behavior of incumbents against competitors. In the context of active response behavior, four basic strategies including dodge, adjustment/imitation, conflict, and cooperation present more or less resistant

⁹ Meffert, H. (1994), pp. 155-163

¹⁰ Meffert, H. (1998), p. 132

behavior against competitors according to two varieties: one is the enterprise's nature – innovative or imitative, and the other is the enterprise's activities – competitor-avoidant or competitor-adaptive.

2.4 Dawar and Frost Strategy Typology

Dawar and Frost (1999) of Harvard Business School made an impressive contribution by putting forward a framework that helped LCs find their competitive positions and corresponding survival strategies in the face of MNCs' invasion into their emerging markets. These strategic options available to LCs are fundamentally distinguishing from those of foreign MNCs. It is worthy to note that Dawar and Frost's framework has become one of the most popular strategic typologies and therefore has been widely employed and validated by a number of researchers in studying survival strategies of local companies in emerging markets in the face of foreign competition. Dawar and Frost's framework classifies LC's survival strategies into four positions on the basis of two variables: the pressure to globalize within a given industry and the international transferability of the company's assets.¹¹

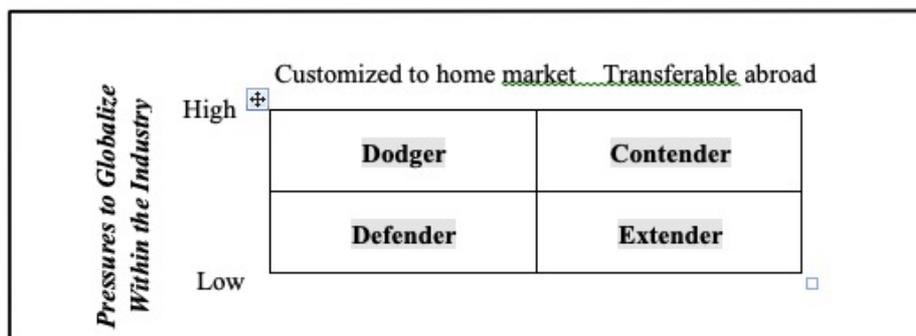


Figure 4: Strategic Alternatives of Local Companies in Emerging Markets

Source: Dawar, N. and Frost, T. (1999), p. 122

LCs in defender quadrant where they have low globalization pressure and their competitive assets are customized to home market should focus on protecting their existing market positions against foreign MNCs' onsets. A fundamental of the defender strategy is that LCs fully exploit and capitalize on their comparatively competitive advantages in domestic market segments where MNCs are weak.

LCs with transferable assets can adopt extender strategy when the globalization pressure is weak. Adopting an extender strategy is expected to benefit from geographic expansion, i.e. from local to national, from national to international, and from international to global level. The fundamental of the extender strategy is applying what LCs have achieved at home as a base for extending into a limited number of other analogous markets. Generally speaking, assets that work for defenders in domestic markets may also work in similar markets abroad.

LCs occupying the dodger quadrant are located in a highly precarious position. That is, they are vulnerable to global competition, and in the meanwhile, they haven't transferable competitive assets. In order to avoid suffering from tough competition, LCs have no option but to dodge through any of the following several possible options. The first option available to LCs is to find a way to cooperate with their more powerful foreign competitors in the context of "pro-cooperative

¹¹ The following content of these two parameters comes from Dawar, N. and Frost, T. (1999), pp. 120-121

attitudes”¹². Under the circumstances, either setting up a JV with foreign MNCs or selling totally out to foreign MNCs makes much sense. Besides selling to and cooperating with foreign MNCs, there are some other strategic options, which enable LCs to compete against foreign MNCs under the dodger strategy. These options involve firstly, LCs can “redefine their core business”¹³. That is, to avoid head-to-head with foreign MNCs, LCs focus on penetrating those markets where MNCs have weak positions or have no business activities so far; alternatively, they can supply the products that can either complement foreign MNCs’ offerings or adapt them to local preference.¹⁴ Thirdly, they can shift the business to those value-chain links where they still have competitive advantages that make LCs outmaneuver foreign well-heeled MNCs,¹⁵ and this involves extensive distribution networks or after-sale service tailored to local demands.

The contender refers to LCs with transferable assets and a high pressure to globalize their business. Contending actively and directly with foreign MNCs is an effective means for emerging companies and some established brands to expand business. When protecting their home turf, contenders can compete against foreign MNCs on a global basis by concentrating on a locally oriented link in the value chain. Investing more in R&D, establishing large-scale production and raising money with offering a stock can obtain advantages for LCs. Furthermore, “for would-be contenders that lack access to key resources, finding a distinct and defensible market niche is vital.”¹⁶ With fierce competition in emerging markets, LCs might become untenable finally and seldom have long-term and promising future by merely relying on defense.

2.4 Gorynia and Wolniak’s Strategy Typology

Gorynia and Wolniak (2000)¹⁷ made a further contribution on another strategy typology for LCs as a result of their research on competition strategies of LCs in the face of MNCs’ invasion and expansion in Poland. According to Gorynia and Wolniak’s research, due to the great disparity and asymmetry of competitive position of foreign MNCs and LCs in Polish domestic markets, Polish firms are forced to compete.¹⁸ And they further put forward to “four interrelated strategic options”¹⁹ available to Polish firms as outlined below:

Firstly, “National Champion” strategy refers to “companies operating in industries with an oligopolistic market structure (involving domestic companies) or in industries experiencing consolidations and mergers which lead to the creation of holding companies and /or strategic alliances”.²⁰ This group of companies plays a strategic role in Poland economy.

Secondly, with the guidance of aggressive defense, domestic Polish firms compete aggressively with foreign competitors for sales and market shares, mainly through continuous adjustment to meet the standards of their foreign competitors, encompassing a series of improvements in quality of products and service, promotional activities and expansion of distribution networks.²¹

Thirdly, the principle of conducting co-operation approach is that if Polish firms can not effectively compete against foreign competitors, it is best to join them, even if this may place Polish firms in a minority shareholding position, or make them play a marginal role in corporate

¹² Gorynia, M. et al. (2005), p. 61

¹³ Dawar, N. and Frost, T. (1999), p. 125

¹⁴ *ibid.*

¹⁵ Gorynia, M. et al. (2005), p. 47

¹⁶ Dawar, N. and Frost, T. (1999), p. 126

¹⁷ The following content comes from Gorynia, M. and Wolniak, R. (2000), pp. 87-97; Gorynia, M. et al. (2005), p. 48

¹⁸ Gorynia, M. and Wolniak, R. (2000), p. 90

¹⁹ Gorynia, M. et al. (2005), p. 48

²⁰ *Ibid.*

²¹ Gorynia, M. and Wolniak, R. (2000), pp. 91-92

governance, or make them even deprived of the corporate governance completely.²²

Fourthly, lobbying and building non-market barriers to foreign entry. This strategy aims at keeping foreign firms out of Polish domestic market or restricting their competitive impact and freedom to operate in this market for as long as possible.²³

To sum up, the above-mentioned four strategic responses of Polish firms against foreign competitors' invasion and expansion proposed by Gorynia and Wolniak should not be regarded as isolated approaches, but a combination of more than one alternative in practice.

2.5 Gorynia, Jankowska, and Owczarzak's Strategy Typology

Gorynia, Jankowska, and Owczarzak (2005) made a further development in this regard in their research "strategies of Polish companies as a response to foreign investors' expansion into the Polish market"²⁴. They pointed out that response strategies of a company confronting competitors can be classified in the light of the company's attitude towards competition. According to a company's competitive potentials and the attractability of its located industry, incumbents can choose any of battle, imitation, market-gap, or withdrawal strategies based on their different attitudes towards their competitors.²⁵ A description of each strategic option, the required conditions for companies which intend to pursue these strategies, and advantages and disadvantages of each typology are listed in Table 1 below:

Table 1: Gorynia, Jankowska and Owczarzak's Strategy Typologies based on Raffée and Segler's research

| Strategy Type | Target Company | Description | Advantages | Disadvantages |
|----------------------------|--|--|--|---------------------------------------|
| Battle Strategy | Companies with high competitive potential and in an attractive market | Trying to dominate market rivals by improving the competitive position or maintaining the present position (then reaching an agreement with competitors) | Chance to obtain a leading position | High costs |
| Imitation Strategy | Companies with limited competitive potential, but in attractive industries | Imitating selected activities of competitors: creative imitation; early imitation; flexible adaptation; imitation to order; late imitation | Reducing risk and marketing research costs. Learning from the best | Losing one's identity in the market |
| Market-gap Strategy | Companies with too limited | Two types: ➤ <u>Imitation type</u> : | Survival in the market place as a | The niche selected may turn out to be |

²² Ibid.

²³ Ibid.

²⁴ Gorynia, M., Jankowska, B., and Owczarzak, R.(2005), pp. 44-65

²⁵ Gorynia, M., Jankowska, B., and Owczarzak, R.(2005), p. 46

| | | | | |
|----------------------------|--|--|---|-------------------------|
| | competitive potential, but in a market with some opportunities | Entering the segments left by innovating companies which have shifted their interest to the production of more innovative goods. ➤ <u>Innovative type</u> : Looking for or even helping to create, new customer needs | result of establishing a safe/protected position in a market niche | unprofitable |
| Withdrawal Strategy | Companies with limited competitive potential and in unattractive markets | Harvest, disinvestment, leaving the industry | Opportunity to recover the investment outlay by selling out the company | Closure of the business |

Source : Gorynia, M. et al. (2005), p. 46 on the basis of Raffée and Segler (1984), p. 286-288

3. Conclusion

In the context of analyzing incumbent companies against competitors, each of those strategy typologies has its own merits and insufficiencies based on different levels of enterprise strategies and determining factors. Based on these literature review, conclusions can be made as follows: firstly, coping strategy of local companies in emerging markets is different from that of foreign Multinationals; secondly, local companies should observe opportunities and threats from external changing environment as well as examine its strategic objectives and internal strengths and weaknesses, in order to choose a relatively suitable strategy typology to fight and defend themselves against foreign competition; thirdly, these strategy typology is most applicable for local companies against foreign competition at their home turf. However, LCs in emerging markets have been increasingly making their presence felt on the international competitive landscape. Therefore, for the future research, based on the internal connections among those strategy typologies, a further framework of strategy typologies of Internationalization Growth of local companies in emerging market is expected to be designed, which will provide a generic framework for local companies adopting when they go beyond their domestic market and compete internationally or globally.

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