Strategy Tool

The International Strategy Triangle—Determining Which Strategy to Use

Professor Pankaj Ghemawat has developed a tool for assessing the international strategy of firms, the international strategy triangle—or the AAA triangle, as Ghemawat labels it—AAA for *adaptation* (multidomestic strategy), *aggregation* (global strategy), and *arbitrage*. The triangle can be a helpful tool for determining which international strategy a company should pursue, for helping outsiders analyze the international strategies of firms, and can also help a firm assess the current strategic positions of competitors.

The international strategy triangle plots the strengths of a firm and its primary competitors along three axes, each axis corresponding to one of the primary strategies: multidomestic, global, or arbitrage. Figure 9.8 shows an international strategy triangle for the major competitors in the medical diagnostic imaging industry: Philips, GE, and Siemens. The farther along an axis a company ranks, the more the company should follow that strategy. One point of Philips's triangle, for example, is quite far toward the end of the multidomestic axis, while the other two points are closer toward the center of the global and arbitrage axes. This indicates that Philips should pursue, if it doesn't already, a multidomestic strategy. The two corners of GE's triangle that are farthest from the center are along the global and arbitrage axes, suggesting that GE might be pursuing a two-pronged approach combining a global strategy with an arbitrage strategy. Siemens's triangle suggests that its most promising strategy might be a global strategy.

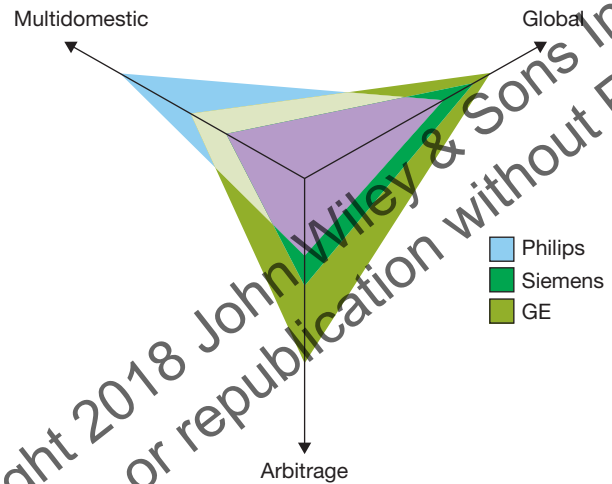

FIGURE 9.8 International Strategy Triangle—Medical Diagnostic Imaging Industry

Source: Adapted from P. Ghemawat, *Redefining Global Strategy* (Cambridge: Harvard Business School Press, 2007).

How are the firm's places along each axis calculated? The measures you use for the three axes depend on the type of industry you are analyzing. For many industries, the following ratios of costs as percentages of sales are good measures:

- Multidomestic axis—Ratio of advertising costs to sales
- Global axis—Ratio of R&D costs to sales
- Arbitrage axis—Ratio of labor costs to sales

Other measures are possible, depending on a company's goals or the industry it is in. These could include the following:

- Multidomestic axis—Percentage of local employees in country-level management positions or rate of new product development at the country level
- Global axis—System integration across countries, standardization of business practices, or the percentage of revenue from customers that are global in nature
- Arbitrage axis—Percentage of back-office activities (labor other than manufacturing labor) that are offshored to low-cost countries

Remember that the Appendix can help you find sources for the data you will need to compute these ratios.

After you have determined the appropriate measures for the axes, you'll need to obtain information to help you plot two points along each axis: