INTERNATIONAL ECONOMIC STRATEGIES ANALYSIS

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An organization's purpose can be met through accepting and enforcing mutually suitable strategies (Walters, Halliday, & Glaser, 2002). Business enterprises should thus engage in a sustainable business strategy. Decisions concerning expansion of a company should not be made without doing the necessary research to ascertain the most suitable business organization. In this essay, business organization will be reviewed. Further, the necessity of subsidiary companies, as well as their advantages and disadvantages will be discussed. In addition, strict brand image, procedures, and central planning approach by an enterprise will be considered.

Organizing business outside the US market can take several forms. It takes the form of an enterprise owner licensing to a third party the right to operate business or distribute goods using the owner's business name for a definite period of time (Rahatullah & Raeside, 2008). This method of business organization is called franchising. The franchisor benefits by having the business get into a new market without the fear of risks.

Several companies have used franchising and it would be possible for the company in the present case to employ it, especially in markets that the company has not ventured into before. After the expiry of the business franchise, the company can take over the business. Before then, the company will have made a decision whether to venture into the new market or not. If it chooses to venture into the enterprise directly, then the advantage is that it will have an already established infrastructure and human resource. Franchising will also enable the company to have a presence in many countries. It is especially important when the corporation does not have enough capital to expand. The franchisee has an interest in making profits; hence, they will endeavor to put all necessary measures in place to grow the company.

The business can also be organized through having subsidiary companies outside the US. This is especially important when the company wants to exercise substantial control over affairs of its business. The parent company exercises this control in various ways ensuring that its objectives are met. Subsidiary companies should establish subsidiaries in strategic areas that meet approval of the parent company. Subsidiaries could be established primarily to produce specific designs that meet the clientele's needs in a peculiar geographical location (Jeffrey, 2002). Since the company produces different designs, it can establish a company for each design, depending on respective needs in countries.

A number of factors determine the decision as to where subsidiaries are to be set up. One has to decide how to expand business as subsidiaries are not always relevant. In deciding whether to set up subsidiaries in each foreign country, following factors should be considered. One has to consider the market's potential. Factors such as political risk, demographic structure, infrastructure, and purchasing power among others have to be analyzed (Tenenbaum, 2002). When these factors are examined, one will be able to make a decision on the necessity of physical presence in a country.

The decision to set up subsidiaries in each foreign country is therefore not a viable option if to take into consideration the business approach employed by the corporation. The company takes an approach whereby they manufacture goods in low-cost countries and retail goods in different countries at reasonably low prices. Hence, the most important factors to consider in setting up a subsidiary are the cost of production, transportation of goods, and demand and supply factors. Companies are increasingly establishing subsidiaries to reap enormous benefits that come with such a move. They are often used as vehicles for expansion into broader geographic areas (Tenenbaum, 2002).

Establishment of a subsidiary comes with immense strategic advantages to investors. First, it results in risk isolation. The resultant risk isolation is the result of parent and subsidiary companies being different legal entities; hence, losses of the subsidiary company do not accrue to the mother company (Tenenbaum, 2002). Secondly, the parent company can exercise control over the subsidiary even without majority shares in the subsidiary. Even with partial ownership of shares of the subsidiary, the parent company could still exercise control.

In addition, as separate legal entities, subsidiaries limit parent company's possible losses by acting as a liability shield. Creation of a subsidiary results in diversification of risks, leading to risk reduction. It will, however, be determined by whether parent and subsidiary companies respect cooperation formalities (Myers, 2002). Since the parent company controls the subsidiary's assets, the parent company has the discretion of choosing what amount to invest in the subsidiary, thus resulting in risk reduction.

Incorporation of a subsidiary provides a legal structure for the establishment of distinct entities with separate management. The resultant decentralization of the management structure creates room for greater diversification and leads to increased efficiencies. The parent company's senior management involvement in the operational details of its subsidiary is thus not necessary. The decentralized management enables the mother company to come closer to clients, allowing it to get accurate feedback. The feedback allows the company to make decisions that resonate with customers' needs, hence increasing market share (Myers, 2002). It also provides a means of developing diverse motivational structures such as pegging executive salary on economic performance of a particular company. In addition, the parent company will provide the subsidiary with skilled and experienced staff in the business.

A subsidiary is also necessary for the purposes of identity and branding as it provides a structural framework for expansion of the corporate identity. In a multinational company, it is possible to develop different brand identities without compromising the integrity of any of the brands through separate ventures. Despite the fact that a parent company and a subsidiary are distinct legal entities, they can share certain business aspects without compromising the other company's autonomy. It includes standard marketing programs and joint financial resources (Myers, 2002). It assists companies in saving resources, hence resulting in more profits.

Despite all these advantages, establishment of subsidiaries comes with some disadvantages as well. Unless the parent company owns the subsidiary wholly, it does not have complete access to the cash flow of the branch; thus, it cannot exercise significant control over the subsidiary. Besides, even when the parent company does not have any legal obligation to pay for debts of the subsidiary, it may be necessary to do so to preserve its reputation (Myers, 2002). In addition, since the subsidiary is an extension of the parent company, the parent company could be held liable for damages if the subsidiary is subject to enforcement actions. Being autonomous legal entities, subsidiaries can borrow money. If the parent company guarantees their loan, their independence and legal protections that go with it are compromised (Heffernan, 2004).

The company can also impose strict brand image, procedures, and central planning. This choice has consequences, too. Some of the positive outcomes include marketplace consistency brought about by strict brand image. If brand and identity are faithfully kept constant, there is more likelihood that the customer will become loyal to the brand (Tenenbaum, 2002). Centralized planning also promotes ease in making decisions since bureaucracies that would be caused by establishing subsidiaries are avoided.

A disadvantage is that when the product experiences adverse publicity tarnishing the brand, it will require the company to build a whole new brand and identity to re-capture its position in the market. However, that risk is taken care of. Centralization also prevents the company from organizing its activities and services around unique needs of its customers (Mark, 2004). This is because management is not in touch with the consumer, hence preventing them from getting accurate information on consumer needs (Heffernan, 2004). A company should not just be product-oriented, but market-oriented as well. Market-oriented company organizes its activities and services around unique needs of its customers, while a product-oriented company focuses its activities on its products, skills, and systems that support the product (Marks, 2004). In an increasingly competitive and changing market needs, market-oriented approach has become more relevant as it is necessary for product ranges to meet customer needs. Successful companies, however, recognize significance of both approaches.

In conclusion, the ever increasing desire by companies to expand their market share should not be done without proper planning. An acceptable strategy should be developed to ensure that willingness to grow does not end up in a counteractive outcome. The desire of every investor is to reap maximum benefits from an investment. It is thus important for a company to decide whether subsidiary companies are necessary when venturing into new markets. The benefits of establishing subsidiaries are many, but there are also disadvantages. Central planning of a business has its pros and cons as well. Thus, the company should decide whether to establish subsidiaries or use the central planning approach.