EXPANSION STRATEGIES AS AN EFFECTIVE WAY OF COMPETITION ON THE GLOBAL MARKET ON THE EXAMPLE OF THE ROYAL DUTCH SHELL INVESTMENTS ON POLISH MARKET

Abstract

The article is an attempt to present the results of the analysis of the activities of transnational corporation which is Royal Dutch Shell in response to the challenges resulting from the use of global strategy. Dynamic changes occurring in the contemporary world economy in recent decades tend to reflect on the fundamental determinants of the development strategy in the new conditions. The aim was to show how the applied strategy affects the development of the corporation and what its characteristics are. An important element of the analysis is also an attempt to identify challenges and indicate possible directions of further development of the corporation. The study was based on available sources of literature and papers as well as official materials prepared by the company. The ongoing process of globalization means that transnational development strategy becomes a very important factor that can positively influence and contribute to achieve the so-called competitive advantage. Despite the global nature of the decisions and the strong pressure to reduce costs, the benefits of foreign direct investments are one of the key elements of the future development of Poland.

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Keywords: Expansion strategies, transnational corporations, foreign investments, Royal Dutch Shell.

Introduction

The phenomenon of liberalization on a global scale, observed in recent years, indicates a trend towards unification of markets, products and management sys-
tems, which leads to the gradual integration of domestic enterprises with the external environment. It should be stressed that the unification of markets, production, and internal harmonization of prices is progressing at an increasingly faster pace. The classic relationships e.g. the demand to supply are subject to modification and change their character. Decisions in production, consumption and management are taken beyond the framework of national economies and companies are forced to make decisions regarding the adjustment process, to keep and develop their adaptability. The article is an attempt to present the results of the analysis of the activities of transnational corporations, which is the Royal Dutch Shell in response to the challenges resulting from the usage of global strategy. The aim was to show how the applied strategy affects the development of the corporation and what its characteristic features are. An important element of the analysis was also an attempt to identify problems and indicate possible directions of further development of the corporation. The study was based on available sources of literature and papers as well as official materials prepared by the company. The ongoing process of globalization means that transnational development strategy becomes a very important factor that can positively influence and contribute to achieve the so-called competitive advantage. Properly defined and programmed development strategy of the corporation allows making the right decisions, which optimally enable the realization of the desired results. The current assessment of this condition allows to determine the level of corporate development, allowing managers to anticipate the next stages, which depending on the business goals, can be modified accordingly, taking into account the changing external and internal environment conditions.

1. Expansion strategies of transnational corporations

„Strategy is the art of creating value” (Zorska, 2000, p.146), through proper planning concept for company development in the long term with regards to „the appropriate configuration of resources and changing environment” (Olszanowska, 2005, p. 291). Only few authors underline in their definitions the meaning of changes in the external environment as the important factors shaping the strategy. G. Gierszewska recognizes the organization’s strategy as a general program of defining and implementing business objectives as well as the discharge of their mission (Gierszewska, 2003). Similarly M. Romanowska sees the action program, setting out the main goals of the organization and ways of achieving them (Romanowska, 1998). A. Kozminski defines strategy as consciously adopted and consistently implemented way to keep sustainable competitive advantage for the company (Kozminski, 1999). A. Zorska argues that in order to gain a competitive advantage it is required to integrate and coordinate the set of activities (action,
moves), undertaken for the use of core competencies and to obtain advantage of it (Zorska, 2000). In its approach, the author takes into account the possibility of modifying the existing competence in the course of strategy implementation as necessary elements for the development of the organization in the long term due to changes that take place in its environment. This concept seems to be particularly relevant to the requirements arising from the global perspective of the business, as it allows for the recognition of internationalising the company’s activities as the development stage rather than a separate strategic concept.

Along with changes in the market arising as a result of on-going globalization processes, there is a need for different perspective on the importance of the organization’s strategy (Owl, 2006). Strategic remodeling of the value chain became especially crucial for multinational companies, operating on a global scale. The liberalization of the rules of functioning of the world economy (reducing the severity of barriers to international transactions) resulted in the recovery of global markets and the development of the corporate system of production process organization. The result of the production system internationalization is the reallocation of corporations elements of the production process (including service functions) in different markets spread throughout the world (in order to benefit from differences in costs, resources and logistics). In this way transnational corporations, thanks to the coordination of activities in many markets, have become the best companies that use sources of advantage, offered by the global business space (international competition). This is of course reflected in the development strategies of multinational corporations. These strategies underwent evolution as a result of exploration of new forms of managing their distributed operations.

Assuming that internationalization is the only possible path of the proper existence of the organization, internationalization should be considered as a component of the overall strategy of enterprise development. In the case of transnational corporations it represents an inherent growth path. Methods and forms of international engagement should be subordinated to the primary objective which is the improvement of the competitive position (Pierścionek, 2006). Given the pressure on costs and the need to diversify the local offer, the literature distinguishes four expansion strategies of transnational corporations (Rosińska-Bukowska, 2009, pp. 169–170):

- International strategy, which is based on the centralization of operational decisions with little pressure on costs,
- A multinational strategy, applicable when it is necessary to adapt to local markets and at the same time pressure on costs is small,
- Global strategy, used by very fierce competition and low pressure to suit local markets.
- Transnational strategy, implemented with very strong pressure on costs and at the same time clearly accents the need for local adjustment.
The above division is the result of the assumption that the markets in which the company operates are generally characterized on the basis of the analysis of two parameters: the price sensitivity in the process of competition and sensitivity to adapt the product to the individual requirements of local markets. The interdependency matrix for the used strategy according to these two parameters is presented in Table 1 (Pierścionek, 2006, p. 471).

Table 1. Matrix – dependence on market characteristics and corporate strategy.

<table>
<thead>
<tr>
<th>PRESSURE FOR COSTS (Prices)</th>
<th>HIGH</th>
<th>GLOBAL STRATEGY</th>
<th>TRANSNATIONAL STRATEGY</th>
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<tr>
<td>LOW</td>
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<td>INTERNATIONAL STRATEGY</td>
<td>MULTINATIONAL STRATEGY</td>
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The choice of strategy used by the company is determined by the characteristics of the markets in which the firm operates. For example, if a company operates on thirty different markets, and most of these customers require products and services that significantly differ from each other, the company must implement the multinational strategy, if the price pressure is not high or transnational strategy, if the pressure on prices is high. On the other hand, when customers in most markets accept the same standardized product and services, the company uses international strategy, if the pressure on prices is low and the global strategy if the pressure on prices is high (Pierścionek, 2006).

Only 10–15% of transnational corporations use global and transnational models to compete in international markets. 85–90% of the corporations use a multinational or international strategy, probably because they are considered to be relatively the easiest (low pressure on costs, relatively low requirements for skills and qualifications) (Rosińska-Bukowska, 2009).

2. Global strategy on the example of Royal Dutch Shell

2.1. The foundation and core business of Royal Dutch Shell

Royal Dutch Shell Group is now one of the largest transnational corporations in the world. Despite the enormity of the scale, in which Shell operates, thanks to the long-term presence in the markets of many countries individual companies operating within the Shell Group etched permanently into the local economic landscape of these countries. Being present in more than 150 countries, Shell
is trying to work with the specific characteristics of local markets, social and environmental conditions. According to the data at the end of 2013, Shell Group employed more than 100,000 employees worldwide (official materials of Shell Poland Ltd, 2013). The company manages more than 10% of the world reserves of oil and natural gas. Shell owes its current position to its tradition and experience gathered in more than 100 years of activity. Group revenues at the level of $368 billion in 2013 are the second score in the world after ExxonMobil ($370 billion) (www.parkiet.com, 2015).

The functioning of the company started in fact in 1833, when the founder of the company – Marcus Samuel – opened a small shop in London with antiques and oriental seashells. Over time, the small store turned into company Royal Dutch Shell Group, which was created in 1907 following the merger of the Dutch oil company Royal Dutch Petroleum Company and the English trading company Shell Transport & Trading Company. The decision to merge these two companies fell into a turning point for the global oil industry, and was associated with a mass production of cars, started in 1909. Demand for oil products began to grow fast. The new company developed very dynamically. In 1914, Royal Dutch Shell Group was coming oil already in several places around the world – including the USA, Romania, Russia, Egypt, Venezuela and Trinidad. In 1929, Shell started operating also in the chemical industry. In the 50s and 60s of the twentieth century oil production and sale of petroleum products began to grow rapidly. Shell supplied almost 15% of oil products in the world. This period was also very important because of the development of research on the usage of gas as an alternative energy source (official materials of Shell Poland Sp. z o.o., 2013).

Since the 90’s Shell focuses its activities on the extraction, processing and sale of petroleum products, as well as on the adjustment of their activities to the needs and challenges of the new millennium. Shell consolidates its leading position acquired over the years in the field of petroleum products through policies for sustainable development based on awareness of obligations in relation to the surrounding environment, through actions related to the regeneration of the areas destroyed by oil production, educational campaigns regarding safety or social actions. This kind of activity is worldwide, but also often very local such as educational campaign for kindergardens in Zabierzów (near Cracow), referring to safety while driving (so-called „Safety braces”).

2.2. Employees, mission and future

Innovative technology helps to shape the future of energy – this is a short description of the long-term strategy of the company. Shell Group’s activity is based on openness to new energy sources and focused on the most efficient use of current resources, which also helps to develop global economies.
The number of technical staff exceeded in 2013 the number of 30,000 people. Their objective is to develop and deliver technology solutions then used in energy projects around the world. About 10% of the technical staff conducts research and development in technology centers located in 11 countries. Huge spending on research and development meet the growing demand for energy while responsibly allowing fulfilling social or ecological functions. Shell Group currently works on the development of technologies that can shape the future of energy in the world, e.g. through research on the Tar Sands in Canada, which may prove to be an alternative to petroleum in connection with the steadily rising prices of the latter. Shell technical centers in Houston (USA), Amsterdam and Rijswijk (Netherlands) conduct innovative projects, develop new technologies and improve existing ones. Other resorts – located among others in the UK, Canada, France, Germany, India, Norway, Oman, Qatar and Singapore – focus their efforts on product development, support for marketing and on providing specialist support in regional operations, depending on the sources and methods of the extraction of energy resources.

In all the research centers Shell place specialists from different scientific areas whose main aim is to improve planning, while using the latest technology. Geologists, geophysicists and engineers have the ability to connect using three-dimensional virtual reality systems to work simultaneously on the design of wells. Shell is the largest investor in the field of scientific research and development among the major oil companies. In 2009 company allocated nearly $1.2 billion on research and development of technologies necessary to produce greater quantities of cleaner energy and more efficient fuels and products for customers (www.shell.pl, 2015).

2.3. Characteristics of the global strategy on the example of Royal Dutch Shell

Global strategy is based on the assumption that the markets in which the company exists or intends to enter, are homogeneous (consumer preferences, socio-political, cultural rights are similar or identical). This assumption means that the company produces and sells identical products in all markets, and conducts uniform marketing. For the purposes of the article the author has chosen the following features of global strategy, reflecting the global operations of Royal Dutsch Shell on the international market (Pierścionek, 2001):

1) participation in the market,
2) the ownership of the product and promotion strategy,
3) the rules of business location,
4) the rules of competitive moves,
5) sources of competitive resources and skills,
6) the distribution of competence in the management system.
Participation in the market is global, if the following conditions are met (Pierścionek, 2001, p. 373):
- The share of the company in the global market is significant,
- The company has a significant share in the markets of most competitive countries in the world (in the countries of the Triad), i.e. the countries with the global strategic importance,
- The distribution of market shares of individual countries is relatively even (global balance).

Obtaining a significant share of the world market means on the one hand – a large-scale operation of the company (worldwide) provides therefore the effects of large-scale production, research, supply and sales. On the other hand it gives the effect of marketing in the form of strengthening the company’s image as the one which surrounds most of the countries in the world. The global company must be present on the markets of major economic powers of the world, namely the United States, Japan and European Union countries. Having most shares localized this way results from the global strategic importance of these countries. These are the markets with the highest competitiveness, which is the main source of innovation. Royal Dutch Shell owns shares in most countries of the world, and the distribution of shares in the markets of individual countries, characteristic for the global strategy, is close to equal.

The basic characteristic of a global strategy, used by Shell is using the same product and the same promotion policy in all markets in which the company sells its products. The product of the same quality features, offered unchanged on all markets, is called a global product. Marketing strategy in all markets is therefore also the same. This applies above all to these policy elements used to
promote a product, like brand politics, services related to the product, packaging, choice of promotion forms. Global product is a standard product that meets the standards of global technology, safety or environment. Homogeneous product and marketing are connected with scale effects and the effects of the global production location and other activities of the company which create the value chain (Pierścionek, 2001, p. 376).

Global strategy is characterized by concentrated model of business location. Extremely globalized pattern of location of the company on the international scene is the location of production in only one selected country, and the location of the other businesses in other countries; every activity in different country. In practice, production in the framework of the global strategy is localized in several countries, similarly to other activities (see p.3.2).

The main criterion for country selection regarding the location of production and service activities is primarily the most advantageous relationship of skills of the workforce to its costs. It assumes such a location that will provide highly qualified staff, with simultaneously low labor costs. Other criteria for the location of production activities are conditions of infrastructure in the country, the stability of the economy, ie. steady growth, the financial system, stability, economic policy, a favorable tax regime, environmental regulations etc. An example is the outsourcing of finance and accounting centers in the US, UK, Poland, India and the Philippines. Thanks to these decisions, the company can significantly reduce costs, while maintaining an equal price level. These criteria consist of the so-called investment attractiveness of the country. Additionally important is the location of the country in relation to sources of supply of raw materials, materials, parts and components and to the markets in other countries.

2.4. Effects of global strategy in the international market and in Poland

Global strategy provides Royal Dutch Shell the competitive advantage, especially in competitive factors such as price, modern product, quality of the product, the quality and intensity of the promotion, the scale of market presence, product brand and reputation of the company. The sources of these effects are as follows (Rymarczyk, 2004, p. 76):
1. Large scale of production, specialization and standardization,
2. The effects of product range,
3. The optimal location of production,
4. The concentration of research and development,
5. The concentration of marketing activities and other activities of the value chain,
6. Enterprise bargaining position with suppliers and customers,
7. Participation in the global market,
8. Coordinated and integrated competitive moves,
9. Internalization (international turnover inside the corporation).

Similar attributes of transnational corporations, proving their uniqueness in comparison to those located on the less advanced level, are mentioned by M. Rosińska-Bukowska (Rosińska-Bukowska, 2012, pp. 23–24). Global strategy is to concentrate production in one or several countries, which means the production on a large scale. The effects of large-scale production, in the form of cost reductions result from a smaller share of fixed costs, higher productivity of labor, specialization and standardization of the production (Rosińska-Bukowska, 2009). Another important source of reduction in production costs is the location of production and services in countries where the ratio of labor force to its costs is the most favourable, meaning: preferred tax laws, customs, environmental protection, the cost of supply of raw materials and energy. Used global strategy thus allows for an effective pricing strategy. Focusing research and development activities in selected countries (USA, Netherlands) means the possibility of employing highly qualified professionals, equipping them with high quality equipment and granting a high budget, which is the basis for the development of new products and technologies (Menkes, Gardocka, 2010).

A global company, which is the Royal Dutch Shell uses several centers in the world located, among others, in Britain, Canada, France, Germany, India, Norway, Oman, Qatar and Singapore, to develop promotion strategy. These centers focus their efforts on product development, marketing support and on providing specific technical assistance to regional operations. Created product of a very high quality, is the same as presented in all markets where the company operates. The advantage of this is a very high quality promotion and creation of a global brand. There is no risk of maladjustment to customers’ needs in certain countries due to the specificity of goods offered by the company. Global participation in the market has the marketing effect because of the widespread presence on the market and has a positive impact on the company’s reputation. Internalization is an important source of competitive advantage of Royal Dutch Shell. Transactions between subsidiaries of foreign corporations are the basis of its existence and expansion. Internalization means the internal flows in corporations on both products and services between foreign branches. Flexible transmission of products and services to foreign branches allows for commercial cost reduction as well as the reduction of taxes (already mentioned outsourcing of finance and accounting) (Stabryła, Malkus, 2012).

Shell sought to make the social responsibility of the business to create the basis for the so-called soft value added. Promotion to the position of global orchestrator in business network has forced corporation to improve its image. Shell emphasizes its contribution to environment protection, promotion of human rights and investing in environmentally friendly technology. More often company
comes with initiatives aiming to improve relations with local communities. All activities such as: extension of the renewable energy, a number of environmental initiatives and special offers for customers which have to convince them to use „cleaner” products, are part of the planned investment in the image of a socially responsible organization. Undoubtedly, this is of course marketing, but at the same time it forces business partners to apply these principles, which means the creation of a kind of code of good practices in the Shell’s network. This in turn provides evidence that Royal Dutch Shell operates as a conscious orchestrator in global business network (Rosińska-Bukowska, 2012).

In Poland Royal Dutch Shell owns a network of petrol stations, numbering 40,000, and additionally offers the possibility of refueling at more than 10,000 partner stations. Poland, in terms of the number of stations, is ranked as third in Europe, after the Netherlands and Germany. Such a wide range means that this network is also one of the largest in the world. Royal Dutch Shell, through direct investments on the Polish market, has become one of the main leaders of the petroleum industry in a short time. Efforts to keep accurate investment decisions, marketing, service and long-term global strategy allows the company to diversify its business, which last effect has become an investment in self-service stations, by buying NESTE network in 2013. Shell Poland Sp. z o.o. invested also in the reconstruction and rebranding of shops at stations, creating them under a new brand Deli2Go. This action also had a worldwide reach. The company positions its fuel products as directed for more demanding customers (Shell V-Power), further expanding the global perception of the brand as a luxurious one, through the production of fuel for the Ferrari and by sponsoring international and local sport events.

In 2007, Royal Dutch Shell opened a center of finance and accounting in Zabierzów near Krakow. Its aim was, in addition to the assumed lower maintenance costs of its activities, the diversity and risk reduction by using several centers located in various parts of the world. Polish market is to foreign investors, including Royal Dutch Shell, a very attractive and perspective one due to its size and absorbency. In addition, bureaucracy reduction and simplified tax system create an enormous incentive for potential investors. GDP growth forecasts for this year and the next two years oscillate around 3 percent. This is a very good result in comparison with other countries of the European Union (www.wprost.pl, 2015). Subsequent arguments that determine the investment attractiveness of Poland are certainly a convenient location in the center of Europe, low political risk, lowering trade barriers, political and economic progress, integration processes, tax benefits in economic zones, cost reduction of the transmission of information resulting from technological progress and available and well trained – thanks to the many academic centers – human resources – employees with relatively low labor costs. That resulted in the decision of Royal Dutch Shell to locate perma-
ently its center of finance and accounting in the Lesser Poland Economic Zone (Krakow Business Park in Zabierzow), and the further development plans for that center. At the end of December 2015, 2 thousand people were employed in Krakow Business Park and plans for the coming years are to increase of another 500 people.

Conclusions

The acceleration of technological progress expressed in the shortened life cycle of products on the market, and the life cycle of the technology, the emergence of entirely new technologies and products increase the costs of research and development. These phenomena contribute to the growth of globalization potential, as companies tend to expand to as large number of markets as possible to amortize their costs. In this way, the high expenditure on research is a factor prompting corporations to further globalization. Another incentive to globalization is to differentiate the costs of different activities in different countries. The stronger differentiation of costs in different countries, the greater is the incentive to further globalization. The emergence of global companies in the sector means that the intensity of competition increases significantly. Competition between the company which applies the global strategy and the company which does not apply it, places the second one on the lost position. In this situation, competition from global firms becomes a factor inducing globalization. Global strategy is a difficult strategy: it requires advanced management skills in foreign markets, ability to select the optimal location of production and other activities in the international system, the capacity to build a global marketing strategy, finance, human resources, research and development, skills to create global competitive moves. A competitive advantage can be achieved and maintained only by this company, which will develop and consistently apply the variant which will be adapted to its potential of globalization and its ability to develop and implement a program of key competencies in the international system. Global strategy creates much better conditions than other expansion strategy to develop these key competences. The aim of the analysis was to refer to global strategy used by the Royal Dutch Shell on the example of the Polish market. The specificity of the Polish market and its attractiveness compared to other countries is conducive to locating foreign investment by multinational corporations. It is obvious that not only corporations gain during their presence in foreign markets. Also, the host country of foreign investment in the form of a business corporation gains through increasing competitiveness in the domestic market, the improvement of the situation on the labour market by increasing employment in the branches or training the local staff. Incoming investments often relate to high-tech and
R&D, which in turn is conducive to narrowing the technological gaps between the countries, and consequently favors the creation of further developments. Poland is the undisputed leader in place when it comes to attracting foreign investment and is an example for the countries of Central and Eastern Europe. Over 4.71 billion EUR flowed to Poland in the context of foreign direct investment in 2013 (www.paiz.gov.pl, 2015).

References


Ranking największych firm na świecie 2013 from http://www.inwestujwdobramarke.pl/ranking-najwiekszych-firm-2013


