

Global Strategy

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I Global Strategies & Competition
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- **Organizing Framework (Ghoshal)**

- 3 goals of MNE

- **achieve efficiency** ~ ratio = value O/P / cost of I/P
- **manage risks** –
 - ◆ included - macroeconomic (unavoidable) + policy (policy acts of gov'ts) + competitive (reactions to our own acts) + resource (scarcity issues)
 - ◆ key pt – they change over time
- **develop internal learning capabilities** –
 - ◆ diversity (internal and external environments in which operates) –
 - > creates potential for learning (not actually learning)
 - > enhances skill set available to face uncertainty

- 3 tools for developing MNE competitive advantage

- **arbitrage input / output opportunities b/w markets**
 - ◆ national factor endowments (inputs)
 - ◆ national tastes (outputs)
- **exploit scale economies** –
 - ◆ cons – increased specialization decreases flexibility in face of change
- **exploit synergies / scope economies** –
 - ◆ includes – flexible manufacturing + cross subsidization + shared external relations + shared knowledge
 - ◆ cons – requires internal consistency across different areas that may prevent customization to local prefs

- **Foreign Acquisitions (Morck)**

- **internalization theory** – notion of expanding abroad to exploit internal resources rather than sending resources to external agents
 - rationale – intangible assets often worth more as they are applied against larger scale ops
- key pt – foreign expansion makes sense when they increase the scale on which intangible assets can be used

II Defining Global Industry

- **Diagnosing Global Strategy Potential** (Yip)
 - **industry globalization potential** – likelihood that global strategy will be successful
 - **market drivers** –
 - **customer prefs** – do facilitate marketing of globally standardized products?
 - **global distribution channels** – do they exist? If yes → should spur to global product uniformity
 - **transferable marketing** – does marketing appeal to universal themes? consider cultural trends of convergence
 - **cost drivers** -
 - **global scale economies** – does it already exist in industry? generally more relevant for mfr activities
 - **logistics** – what is transport cost relative to value?
 - **country skills and cost differentials** – any influence on where to locate?
 - **high product development costs** – encourages reliance on small number of global products
 - **government drivers** –
 - **trade policies** – are policies nationalistic? what level of duties apply
 - **compatible technical standards** – do they exist? how easily can they be met?
 - **marketing regulations** – can uniform global marketing be used? Is it more than just a language change?
 - **competitive drivers** -
 - **globalization of competitors** – consider how this increases rivalry. How will they react if you enter?
 - **competitors global strategy** – what approach do they take to globalization? How are we different / better?
 - ◆ issue = strategic interdependence of countries → can we take competitor's lead? must we?
- **Using Global Strategy** (Yip Pt II)
 - **Going Global** – countries chosen for potential contribution to globalization benes
 - **Global Product** – ideally has maximum worldwide acceptance w/ minimum local adaptation
 - **Global Location** –
 - **multidomestic** – reproduce key portions of value chain around world
 - **global strategy** – concentrate functions in small number of countries to lever competitive advantage
 - **Global Marketing** -
 - **multidomestic** – tailored for each country
 - **global strategy** – common marketing around world
 - **Reaction to Competition**
 - **multidomestic** – country managers ignore what happens in other countries
 - **global strategy** – competitive moves are coordinated across countries
 -
- **Eclectic Paradigm (Dunning)**
 - **internalization theory** – given distribution of factor endowments → MNE activity w/b related to the costs of organizing cross-border markets in intermediate products
 - **main tenets** - foreign activities driven by
 - sustainable ownership-specific (O) advantages v. competitors
 - market internalization (I) advantages
 - extent to which firm's interests are furthered by utilizing O advantages in foreign location, recognizing Location-specific (L) advantages of different countries
 - **most successful global players** – have most pronounced O advantages combined w/ perception that can exploit them in foreign country

- Benetton Takeaways –
 - What is a firm's global potential?
 -
 - What are strengths / weaknesses of a firm's globalization strategy?
 - coordination -
 - dispersion -
 - What causes a globalization strategy to fail?

III Home Country Effects

- Why Nations Triumph (Porter)
 - comparative advantage – nation's ability to export because is blessed w/ domestic natural / human resources
 - competitive advantage – 4 points that determine country's ability to create advantage for itself
 - factor conditions – ability to turn basic resources into specialized advantage
 - demand conditions – sophistication (and number) of domestic customers for industry's product / service
 - related / supporting industries – ability to find supporting infrastructure necessary for our firm to grow
 - company strategy, structure, goals, rivalry – conditions governing the creation of businesses within a country
 - additional factors – chance + gov't + cultural homogeneity (~ bandwagon effects)
 - key point – competition (at home) makes company more competitive (globally)
- Regions and Nations (Krugman)
 - countries ~ defined by their restrictions (~ low labor mobility +)
 - core v. periphery – countries will use protectionism to shelter favored domestic industries as they move from periphery to core
 - transport costs – if lower → easier to locate elsewhere + easier to put all in one place
 - EoS –
- Swatch Takeaways
 - How do you evaluate countries vis-à-vis each other?
 -
 - What home country effects can be leveraged / compensated for?
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IV-V Distance, Competition, and Global Expansion

- Distance Matters (Ghemawat)
 - 4 dimensions of distance
 - Culture – how people interact w/ each other + social norms + nationalistic color preferences (Red = Russia)
 - Admin / political – colonization & common trade partners (~ tariffs) + corruption
 - ◆ protection likely if local competition is – firm size (large employer) + national champion (pride) + national security + produces staples + produces entitlement good (healthcare) + exploits natural resources + requires high sunk costs (lots of local interference)
 - Geographic – size + transportation system w/i + distance w/i
 - Economic – wealth of citizens + similar / dissimilar costs + competition w/ locals
 - key pt - Mgmt may mitigate / augment distance
- Spanish Banks
 - What types of distance are relevant in the industry?
 -
 - What firm capabilities mitigate distance?
 -

- How do you evaluate potential markets for entry?
 -
- Magna –
 - What interconnections exist between countries (ala NAFTA)? How are these changing?
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 - How can they be leveraged?
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VI-VII Dispersion & Coordination of Activities

- Host Country Demands: Managing Tensions in MNCs (Doz)
 - 2 competing mgmt interests – top mgmt must ensure equal input from both (multi-dimensionality + flexibility + quality decision making process)
 - local demands –
 - central uniform policy -
 - types of institutional management –
 - substantive decision-making mgmt ~ representative
 - ◆ con ~ upward delegation risk
 - ◆ pro ~ simplicity
 - substantive decision arbitration ~ trusted delegate resolves
 - ◆ con ~ divisive + decision overload
 - ◆ pro ~ less gets to top
 - temporary coalition mgmt ~ manage decision process by controlling who participates / inputs
 - ◆ con ~ need constant mgmt of process
 - decision context mgmt – org corp to allow mgrs to form own alliances
 - ◆ requires corp value system
 - ◆ legitimize all perspectives through institution
 - Key pts –
 - dealing w/ host nations requires flexibility
 - rules may not be sufficient for solving local issues
 - goal = informal structure that promotes decision process (ensures equal view & quality decisions)
- Acer
 - How must company change as it goes global?
 -
 - How much attention must be given to localize the ops in new markets?
 -
- Philips & Matsushita
 - When should company focus on dispersion v. control?
 -
 - What problems arise from each approach?
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VIII Market Entry

• Designing Entry Strategies (Root)

- why goal abroad - bandwagon effect + π from immediate sales + no longer attain strategic objective @ home + no domestic protection from other international expansion from abroad
- entry strategy ~ 3-5 yrs time horizon
 - **i)** choose target product / market
 - **ii)** determine objectives / goals in target market
 - **iii)** choose entry mode
 - **iv)** develop marketing plan to penetrate target market
 - **v)** develop control system to monitor performance
- entry modes – allows penetration of foreign country
 - **a) export entry** – indirect + direct / agent + direct / branch (sub) + other
 - **b) contractual entry** – license + franchise + tech agreement + service K + mgmt K + construction / turnkey K + K mfr + co-production agreement + other
 - **c) investment** – sole venture (new) + sole venture (acquire) + jt venture (new / acquire) + other
- Factors influencing entry mode -
 - **external** –
 - ◆ **market factors** (target country) – market size + competitive structure (atomistic / oligopoly / monopoly) + marketing / distribution infrastructure (tied to other cos?)
 - ◆ **production factors** (target country) – quality / quantity / cost of resources (RM, labor, energy, etc.)
 - ◆ **environmental factors** (target country) – politics & regulations + geographical distance + cultural distance + political risk + economy (size / performance / dynamics like investment rate, GMP g, external relations, etc)
 - ◆ **home country factors** (market, production, enviro) – size of domestic market (greater g potential before overseas expansion) + competitive structure (if oligopoly, other firms will follow abroad)
 - **internal** -
 - ◆ **product factors** – differentiation + pricing + pre / post purchase services + technological intensity + degree of required adaptation
 - ◆ **resource / commitment factors** – depth of mgmt abilities + capital + production skills + marketing . . .
- marketing plan – allows penetration of foreign market
 - see p. 246 – product + price + channel + logistics + promotion
- remember –
 - dynamics of entry decision change over time
 - internal factors - drive firms international evolution
 - external factors – drive entry mode decision

• Haagen Dasz

- **What factors contribute to home country success?**
- **How can company lever home country factors for success internationally?**

IX International Jt Ventures

- Why Jt. Ventures Fail (Root)

- drivers to enter JV

- author -
 - ◆ fear - K never enough + better if need stronger incentive
 - ◆ π - in oligopoly \rightarrow stabilizes competition and improves returns
 - ◆ learning - potential improved + may be difficult to transfer “organizational” knowledge
- CEOs - risk sharing + EoS + differential liabilities

- killers of JV –

- dissolution – business failed + goal met (~ if JV was option to divest / expand)
- acquisition – one party had higher value

- considerations in establishing JV

- contributions – S/B at market value (if priceless, do not contribute (brand may be irreplaceable)
- remuneration – do not overburden JV \rightarrow every party has their own perspective
- monitoring – choose right metric + avoid unreasonable expectations (only magnify in LT)
- plan for future – flexibility helps

- Otis Elevators

- What is firms goal in using JV
- What will both sides want as parties to / from JV
- How can work w/i JV to reach own goals

X Sequence / Pace Internationalization

- **Product Cycle Hypothesis (Vernon) – GLOBAL SCANNER**
 - **Product Cycle Hypothesis** – firms set up international production facilities on basis of perceived monopoly
 - process in the past –
 - firm develops in home market – where engineers are
 - firm seeks EoS by leveraging skills in home market → finds int'l market
 - firm exports at first but considers overseas alternatives (licence, production facilities, etc.)
 - today –
 - network spread - unfamiliar has become familiar + US cos have global networks of subsidiaries
 - enviro changes - different countries have become more similar + Euro / Jap are better competition
 - MNCs approaches
 - ◆ **global scanner** – one product can serve any market where Demand exists
 - ◆ **standardized products** – attempt to meet a perceived homogeneous need (autos) – requires heavy investment close to HQ
 - ◆ **central differentiation** – home based product development w/ local production / selection driven by local prefs / needs (PC's?)
 - ◆ **Less Developed Countries (LDCs)** – don't have access to full complement of centrally developed products
 - ◆ **local development** – capability for producing innovations responsive to special conditions of own economies
- **McDonald's**
 - **How does Product Cycle apply to firm in relation to global expansion?**
 - **Which model is firm using? Does it make sense?**
 - **Is firm actually becoming global?**

XI Diversification

- **Shelf Stable Lactic Drink (Stevenson)**
 - **redefine core business to facilitate global expansion (provide guiding principles that allow local innovation)**
 - **niche marketing through diversification → short product life + 100's of products**
 - **lever strengths – Coke's = distribution**
- **Coca-Cola**
 - **Globalization v. Fragmentation – which is being achieved through firms diversification efforts?**
 - globalization -
 - fragmentation -
 - **How does organizational strategy have to change to facilitate diversification?**
 - **What mode and speed of entry to achieve diversification?**