Chapter 8: Global Strategies and the Multinational Corporation

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Internationalization

- Capable of transmitting and amplifying local economic factors.
- The most important force that reshaped the competitive environment of business.
- Occurs through two mechanisms: trade and direct investment.

Driving Forces of Trade and Investment

- The quest to exploit market opportunities in other countries.
- The desire to exploit resources and capabilities located in other countries
- Results in the creation of flows of international transactions comprising payments for trades/services, flows of payments, and flows of capital.

Internationalization & Strategy

- Considered both a threat and an opportunity.
- Can have tragic effects on entire industries.
- Allows for smaller firms with small markets to become global leaders (ex. Nokia, Swatch)

Opening Case: IKEA

- One of the largest furniture makers in the world.
- Known for low-cost and stylish furniture.
- 80% of sales still come from Europe.
- Global expansion has not always operated smoothly.

Opening Case: IKEA - Background

- Ingvar Kamprad grew up on a small farm in Sweden.
- Even as a young boy he was an enterprising individual.
- First, Kamprad started IKEA as a vehicle for his trading and mail-order activities.
- Once he added furniture he saw the untapped potential.

Opening Case: IKEA – Background Cont.

- By 1951, Kamprad discontinued sales of other products and went exclusive with furniture.
- The first IKEA showroom was opened in 1953 allowing customers to see the products in person before ordering.
- IKEA offered well-designed, swedish designed furniture with low cost.
- IKEA soon became known for its cost-minimizing approach.

IKEA & Internationalization

- Begun expansion into nearby Scandinavian countries, but quickly expanded further.
- The company would identify markets with high potential sales volumes and open a “base”.
- Once the “base” was established and operating, IKEA would expand more stores in the same geographic region.

IKEA & Internationalization Cont.

- IKEA first expanding internationally by keeping its products and management the same.
- Certain adjustments had to be made for nation differences (i.e. bed sizes.)
- Swedish management styles were encouraged revolving around a non-hierarchical management style.

The Challenges of Internationalization

- One of IKEA’s biggest challenges came when it entered the US market.
- Americans were used to purchasing from high-end retailers, who offered free delivery, assembly, and other value-added services.
- IKEA knew they needed to make changes, but revolved around the high volume sales that came from standardization.

The Challenges of Internationalization Cont.

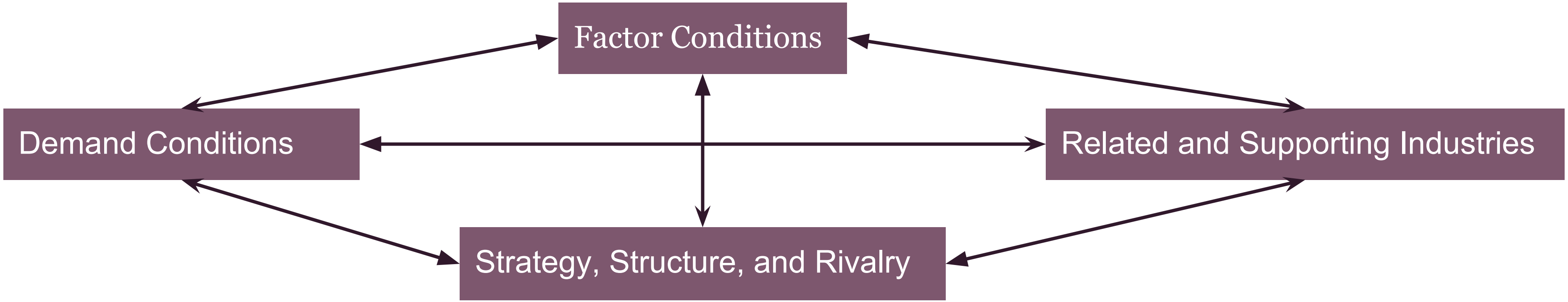
- IKEA's management style also met conflict.
- German IKEA's found the Swedish way of management peculiar. They were more accustomed to a hierarchical style of management.
- France employees also found the Swedish management styles to be demeaning to their position.

The Challenges of Internationalization Cont.

- China was the most recent concern of IKEA's management strategies.
- IKEA's products were being copied and sold at lower prices.
- IKEA sacrificed profitability to gain long-term growth.
- IKEA stores in China seem to be more for entertainment, rather than a place to make a purchase.

Analysing Competitive Advantage in an Interactive Context

- Competitive advantage for international companies depends not just on a firm's internal resources and capabilities, but also its ability to garner resources from other countries in which it does business.
- **<u>Comparative Advantage:</u>** An advantage that makes use of internal abundance of resources.
- **<u>Porter's National Diamond:</u>**



Consistency Between Strategy and National Conditions

- Establishing competitive advantage in global industries requires congruence between business strategy and the pattern of the country's comparative advantage
- *Eg: Audio Equipment*
- *Eg: Consumer Electronics*

Limitation of the Diamond Model

- Since 1990, Porter's Diamond Model has had significant influence on business practitioners and govt policy makers, but has also garnered much critical debate
- *1st Criticism:*
  - Believes that the model fails to take into consideration the attributes of the home country's largest trading partners
  - Isn't applicable to smaller nations
  - Ignores role of multinational corps in influencing the competitive success of nations

Limitation of the Diamond Model

- *<u>2nd Criticism:</u>*
  - Suggest that the model is so general that it lack any value.
  - Argues that by trying to explain all aspects of trade and competition the model ends up explaining nothing because it is insufficiently precise to generate testable predictions.

Applying the Framework: international location of production

Two types of strategic decision in international business:

1. Where to locate production activities
2. How to enter a foreign market

Choosing where to locate production

- National Resource availability:
  - Firms should choose to manufacture in countries where resource supplies are more available or come at a lesser cost.
- Firm-specific competitive advantages:
  - When competitive advantage is based on internal resources and capabilities, optimal location depends on where those resources and capabilities are situated and how mobile they are

Choosing where to locate production Cont.

- Tradability:
  - The more difficult transport of a product is and the greater subjectivity to trade barriers, the more production needs to take place within the local market.
- Political considerations:
  - Government incentives, penalties, and restrictions affect location decisions.

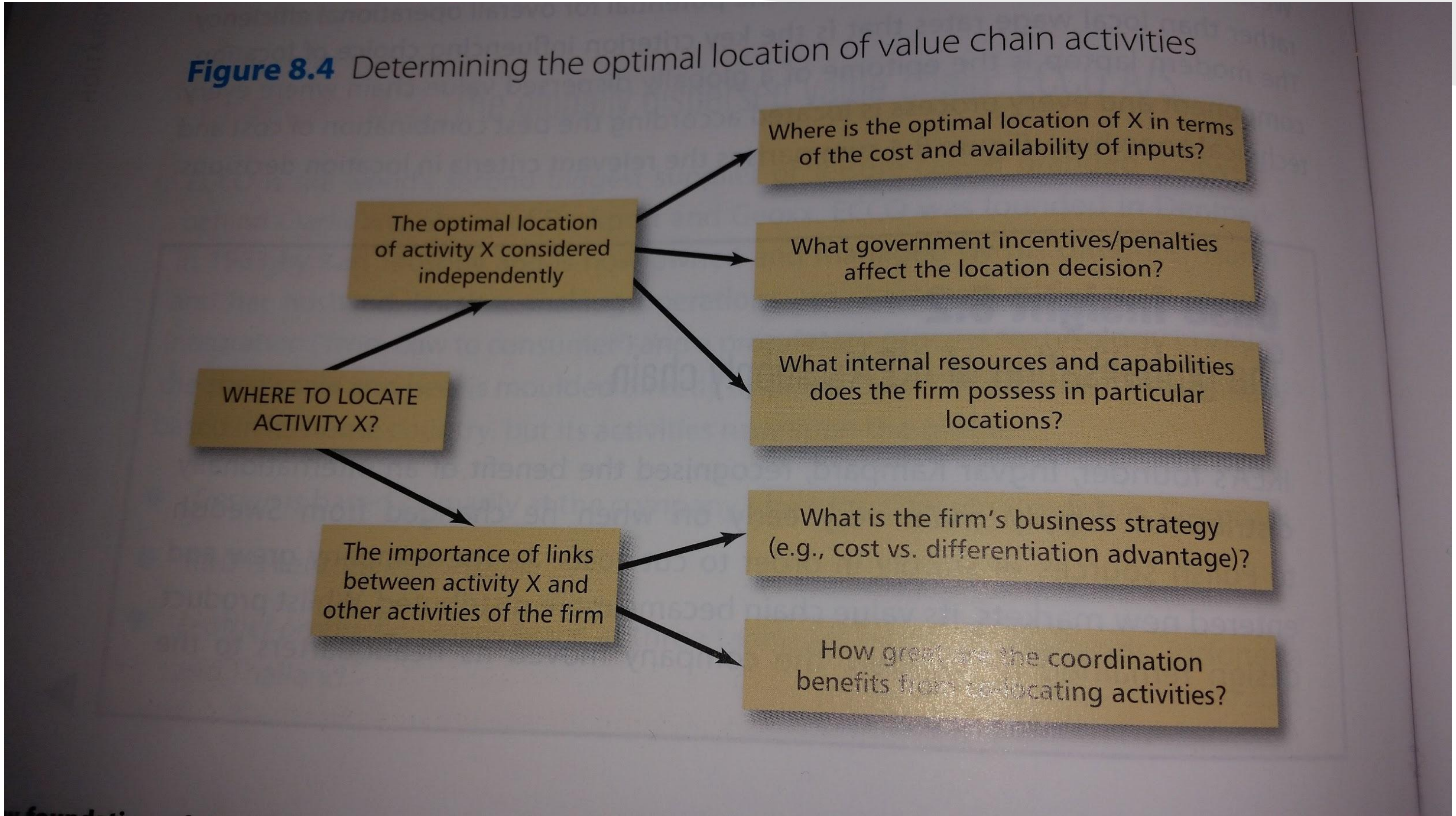
Location and the value chain

- The production of most goods and services comprises a vertical chain of activities where the input requirements of each stage vary considerably.
- Hence, different countries offer advantages at different stages of the value chain.

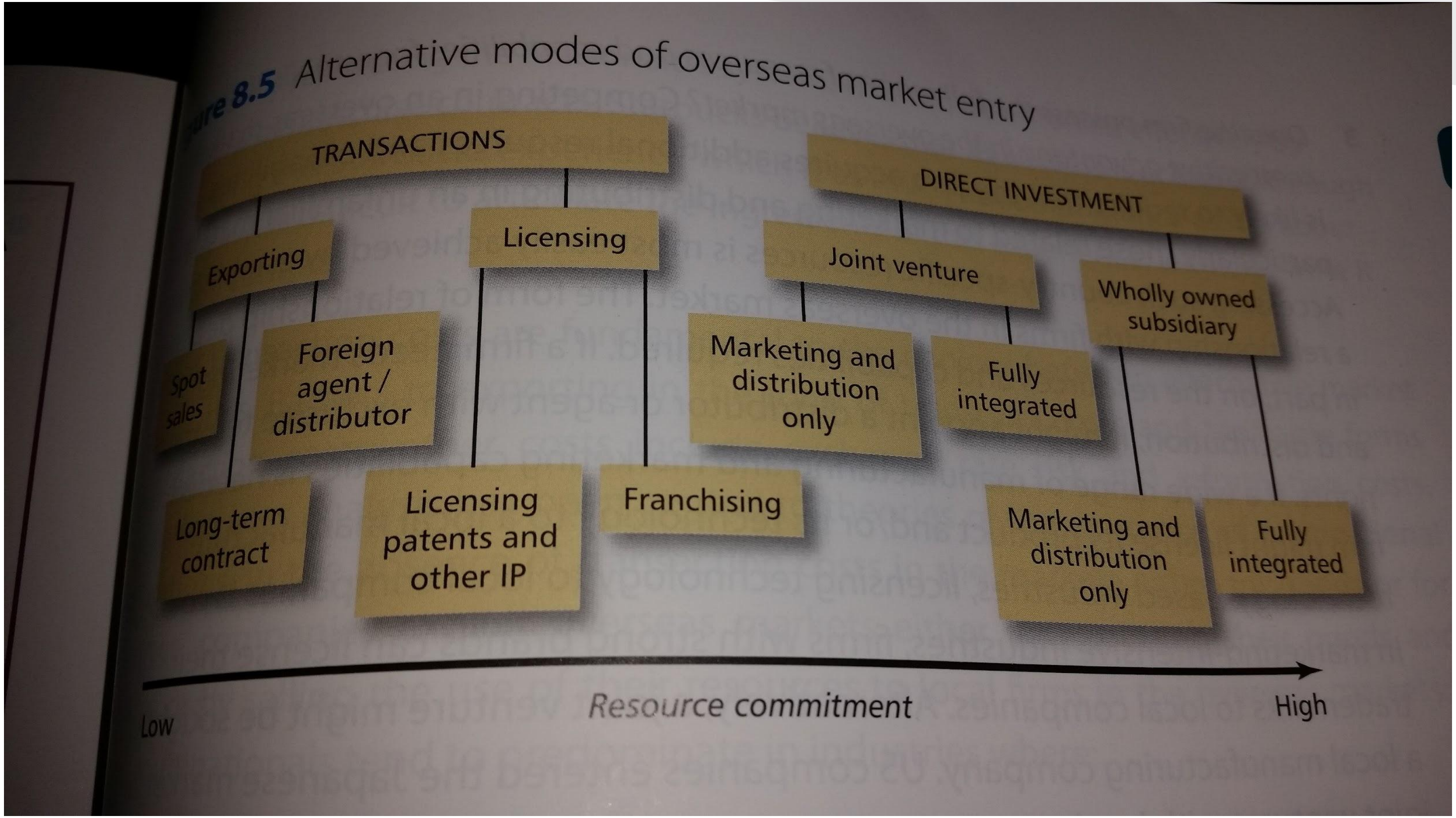
How should a firm enter foreign markets?

- Determining the optimal location of value chain activities.
- How a firm weighs the merits of different market entry modes.

Where to locate activity X? - Figure 8.4



Alternative modes of overseas market entry - Figure 8.5



Five Key Factors in weighing the merits of different market entry modes

1. Is the firm's competitive advantage based on firm-specific or country-specific resources?
2. Is the product tradable and what are the barriers to trade?
3. Does the firm possess the full range of resources and capabilities for establishing a competitive advantage in the overseas market?
4. Can the firm directly appropriate the returns to its resources?
5. What transaction costs are involved?

International alliances and joint ventures

- Strategic alliances:
    - Collaborative arrangements between firms
        - Some information collaborative arrangements
        - Others involve equity cross-holdings
- International venture:
    - Where partners from different countries form a new company which they jointly own. - AKA Joint Ventures.
- By sharing resources and capabilities between the partners, alliances not only economise on investment, theyallow access to more highly developed resources and capabilities than a firm could create for itself.

Benefits of global strategy

- Global strategy views the world as a single, if segmented market.
- Global players win out over their national competitors for two reasons.
- First supplying the world market allows access to scale economies in product development, manufacturing and marketing.
- Second the key barriers to exploiting these scale economies. Locally differentiated customer preferences are starting to disappear on the face of uniformity imposed by technology.

5 major benefits of global strategy

- Cost benefit of scale and replication
- Serving global customers
- Exploiting national resources-arbitrage benefits
- Learning benefits
- Competing strategically

Cost benefit of scale and replication

- One of the primary sources of scale economy is product development.
- Once a company understand the recipe or design they can copy the original idea on a grand level.
- Visa first creating its business plan and executing in the united states, than furthering its ventures into other first world countries.

Serving Global customers

- Essentially you have to service your global customers.
- Create help desk, or ways to service your product if you take it internationally
- Visa being able to deal with its markets separately in order to keep customer service a priority at a global level.

Learning benefit

- Companies can apply what they learned internationally and apply it all across their different business units. Creating a competitive advantage
- Example Ikea according to CEO of Ikea japan, “one reason for us to enter the japanese market, apart from hopefully doing very good business, is to expose ourselves to the toughest competition in the world. By doing so, we feel that we are expanding the quality issues of IKEA all over the world.”

Exploiting national resources-arbitrage benefits

- Global strategy does not necessarily involve production in one location and then distributing globally.

- As we seen companies internationalize not just in search of market opportunities but also in search of resource opportunities.

- Generally this used to mean low cost labor and raw materials, now it is starting to change into a quest for knowledge.

Competing Strategically

- Multinational companies possess a key strategic advantage over their nationally focused competitor.

- Multinational companies can compete in tough local markets, and use cash flow from other profitable markets to fund, themselves in the national market.

- Cross subsidization: involves using cash flows from other markets to finance aggressive sales and marketing campaigns.

Strategy and Organization Within the Multinational Corporation

- Benefits from global integration and need for national differentiation influences the design of strategies
- Challenge faced by senior managers at MNCs is aligning organizational structures and management systems and their fit with the strategies being pursued

The Evolution

- Trade off between the benefits of global integration have shifted
- Some firms have changed while others remain with the same structure
- MNCs are captives of their history
- International distribution, operations are determined
- Reorganization can be slow, difficult and costly

Three Eras in Development

Early 20th Century: Era of the European Multinational

- Unilever, Shell ICI and Phillips were pioneers of MN expansion
- Poor transportation and communications
- Created “Multinational federations”

Post-World War II: Era of the American multinational

- US economic dominance, pre-eminence of US companies such as GM, FORD, IBM, Coca-Cola
- US-based resources and capabilities were their primary competitive advantage

The 1970s and 1980s: the Japanese challenge

- Japanese companies like Honda, Toyota, NEC and YKK
- Production in Japan, Sells and distribution outside;
- Cheaper to make in Japan

Reconfiguring the MNC

- For North American and European based MNCs the shift is from organization around national subsidiaries and regional groupings to the creation of worldwide product divisions
- Cost of research and new product development have made global strategies with global product platforms essential
- Meet requirements in each national market
- Greater decentralization

Reconfiguring the MNC (2)

- Each national unit is a source of ideas, skills and capabilities
- Creating the right organizational context involves clear corporate objectives, developing managers with broad perspectives and relationships, and fostering supportive organizational norms and values
- Balancing global integration and national differentiation requires that a company adapts to the differential requirements of different products, different functions and different countries

Reconfiguring the MNC (3)

- The transnational firm is a concept and direction of development rather than a distinct organizational archetype
- Companies like Philips, Unilever and Siemens have reassigned roles
- Japanese firms have reduced roles of their Japanese headquarters
- MNCs are increasingly locating management control of their global product divisions outside their home countries
- Greatest challenge is organizing, fostering and exploiting innovation and new product development

Conclusion

- Discern patterns of internationalization
- Analyze the implications of a firm's national environment for its competitive advantage
- Formulate strategies for exploiting overseas business opportunities including overseas production and market entry strategies
- Formulate international strategies that achieve an appropriate balance between global integration and national differentiation
- Design organizational structures and management systems that facilitate the pursuit of international strategies