STUDY GUIDE

Chapter 11

MANAGING GLOBAL COMPETITIVE DYNAMICS

Learning Objectives

After studying this chapter, you should be able to:

1. Understand the industry conditions conducive to cooperation and collusion.
2. Outline how formal institutions affect domestic and international competition.
3. Articulate how resources and capabilities influence competitive dynamics.
4. Identify the drivers for attacks, counterattacks, and signaling.
5. Discuss how local firms fight multinational enterprises (MNEs).
6. Participate in two leading debates concerning competitive dynamics.
7. Draw implications for action.

Chapter Outline: Key Concepts and Terms

I. COMPETITION, COOPERATION, AND COLLUSION

1. Key Concept

Industries primed for collusion tend to have (1) a smaller number of rivals, (2) a price leader, (3) homogeneous products, (4) high entry barriers, and (5) high market commonality (mutual forbearance).

2. Key Terms

Antitrust laws: laws that attempt to curtail anticompetitive business practices.

Capacity to punish: defined as the capacity to punish. A firm that has sufficient resources to deter and combat defection.

Cartel: an entity that engages in output and price-fixing involving multiple competitors.

Collusion: defined as collective attempts between competing firms to reduce competition.

Competitive dynamics: the actions and responses undertaken by competing firms.

Competition policy determines the institutional mix of competition and cooperation that gives rise to the market system.

Competitor analysis: the process of anticipating a rivals' actions in order to both revise a firm's plan and prepare to deal with rivals' responses.

Concentration ratio: the percentage of total industry sales accounted for by the top four, eight, or twenty firms.

Cross-market retaliation: the ability of a firm to expand in a competitor's market if the competitor attacks in its original market.

Explicit collusion: the result of firms directly negotiating output and pricing and dividing markets.

Game theory: a branch of mathematics that studies the interactions between two competing parties.

Market commonality: the overlap between two rivals' markets.

Multimarket competition: when firms engage the same rivals in multiple markets.

Mutual forbearance: an act of strategic deterrence in which multimarket firms respect their rivals' spheres of influence in certain markets, and their rivals reciprocate, leading to tacit collusion.

Price leader: a firm that has a dominant market share and sets "acceptable" prices and margins in the industry.

Prisoners' dilemma: in game theory, a type of game in which the outcome depends on two parties deciding whether to cooperate or to defect.

Tacit collusion: the result of firms indirectly coordinating actions by signaling their intention to reduce output and maintain pricing above competitive levels.

Trust: another name for a cartel because members have to trust each other to honor agreements.

II. INSTITUTIONS GOVERNING DOMESTIC AND INTERNATIONAL COMPETITION

1. Key Concept
Domestically, antitrust laws focus on collusion and predatory pricing. Internationally, antidumping laws discriminate against foreign firms and protect domestic firms.

2. Key Terms

Antitrust policy: government policies designed to combat monopolies and cartels.

Antidumping laws: laws intended to protect domestic firms from predatory pricing by foreign competitors.

Collusive price setting: price setting by monopolists or collusion parties at a higher than competitive level.

Competition policy: the way in which a company determines the institutional mix of competition and cooperation, which gives rise to the market system.

Dumping: an attempt by an exporter to monopolize a market by selling below cost abroad, and then raising prices to eliminate a competitor.

Predatory pricing: an attempt to monopolize a market by setting prices below cost and intending to raise prices to cover losses in the long run after eliminating rivals.

III. RESOURCES INFLUENCING COMPETITIVE DYNAMICS

1. Key Concept
Resource similarity and market commonality can yield a powerful framework for competitor analysis.

2. Key Terms

Resource similarity is the extent to which a given competitor possesses strategic endowment comparable, in terms of both type and amount, to those of the focal firm.

IV. ATTACK, COUNTERATTACKS, AND SIGNALING

1. Key Concept
Regarding the drivers for attacks, counterattacks, and signaling, there are three main types of attacks: (1) thrust, (2) feint, and (3) gambit. Counterattacks are driven by (1) awareness, (2) motivation, and (3) capability. Without talking directly to competitors, firms can signal

to rivals by various means.

2. Key Terms

Attack: an initial set of actions to gain competitive advantage.

Blue ocean strategy: Strategy that avoids attacking core markets defended by rivals which would likely result in a bloody price war or a "red ocean."

Counterattack: A set of actions in response to an attack.

Feint: in competitive dynamics, a firm's attack on a focal arena important to a competitor but not the attacker's true target area.

Gambit: to withdraw from a low-value market to attract rivals to divert resources into it and then to capture a high-value market.

Thrust: the classic frontal attack with brute forces.

V. LOCAL FIRMS VERSUS MULTINATIONAL ENTERPRISES

1. Key Concept

When confronting MNEs, local firms can choose a variety of strategic choices: (1) defender, (2) extender, (3) dodger, and (4) contender. They may not be as weak as many people believe.

2. Key Terms

Contender strategy: this strategy centers on a firm engaging in rapid learning and then expanding overseas.

Defender strategy: leveraging local assets in areas in which MNEs are weak.

Dodger strategy: this strategy centers on cooperating through joint ventures (JVs) with MNEs and sell-offs to MNEs.

Extender strategy: this strategy centers on leveraging homegrown competencies abroad.

VI. DEBATES AND EXTENSIONS

1. Key Concept

The leading debates concerning competitive dynamics consist of (1) competition versus antidumping and (2) competitive strategy versus antitrust policy.

VII. MANAGEMENT SAVVY

1. Key Concept

Managers need to understand the rules of the game, particularly the laws, governing domestic and international competition around the world. Savvy managers know themselves and their opponents and will develop the skills and knowledge necessary to effectively analyze their competitors.