BU491 Lecture Notes

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Section: H

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Chapter 1 - Expanding abroad: Motivations, means, and mentalities

Multinational Enterprise (MNE)

Definition: ○ an organization that controls and manages business activities in multiple countries, leveraging cross-border operations to achieve strategic goals and competitive advantage

● Characteristics:

○ Cross-Border Operations: Manages production, sales, or services in multiple countries.

○ Centralized vs. Decentralized Control: Balances global integration with local responsiveness.

○ Transnational Strategies: Adapts to local markets while optimizing global efficiencies.

○ Global Competitiveness: Utilizes resources and capabilities from different regions to build global leadership.

Multinational Corporation

• Refers to a corporate entity that operates in multiple countries

• Emphasizes the corporate structure and hierarchy

Multinational Enterprise:

• Broader term that includes MNC's

• Also includes other types of organisations operating internationally • Includes partnerships, joint ventures and cooperatives

Motivations to internationalise for MNE

Traditional motivations (pre 1970)

• Market Seeking: Fill capacity, exploit competitive advantages and economies of scale and scope

• Resource Seeking (Resource based Theory):

• Secure key supplies

• Exploit factor cost differences (access low-cost factors of production), lower cost of capital

Emerging motivations (post 1970)

• Industry internationalization forces: scale economies, ballooning R&D investments, shortening product life cycles, home country regulations (Think Phillip Morris, BAT)

• Global scanning and learning capability: Access to emerging trends, new technologies, and best skills worldwide (effect of globalization)

• Competitive positioning: e.g. use global operations to pre-empt others, cross-subsidize markets

Advantages of an MNE to the home country

- Economic growth
- Boosted demand
- Foreign exchange income
- Knowledge and skills
- Technology and management expertise
- Economies of scale

Advantages of an MNE to the host country

- Economic growth
- Job creation
- Technology transfer
- Improved standards
- Taxation revenue
- Market development
- Cultural exchange

Disadvantages of an MNE to the home country

- Potential job losses to home employees
- Possible loss of IP
- Vulnerability to global economic fluctuations
- Trade deficits
- Public criticism

Disadvantages of an MNE to the host country

- Economic dependence
- Profit repatriation
- Market dominance
- Resource exploitation
- Cultural erosion
- Environmental concerns
- Labour exploitation

Uppsala Internationalization Process Model

- Developed by Johanson and Vahlne in 1970's, a theory that explains how firms gradually increase their international involvement. It's a slow, stepped approach to international expansion.
- Incremental commitment: foreign markets that are culturally or geographically close
- Market Knowledge is gradually gained
- Risk Aversion
- Stages of Entry example:
  - Exporting via agents
  - Establishing sales subsidiaries
  - Setting up production facilities abroad

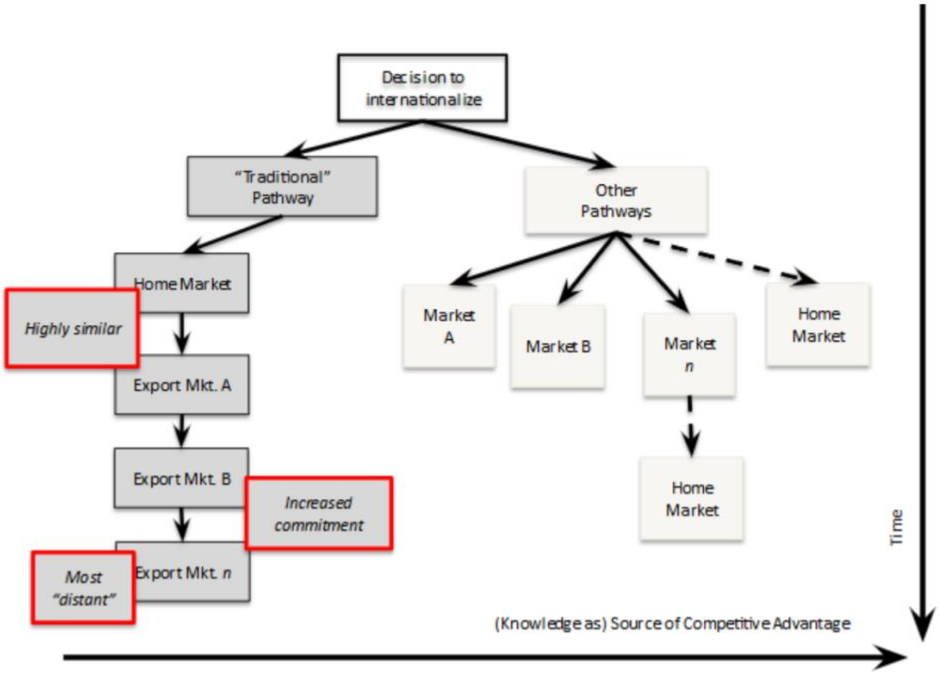
Real Life Example - IKEA

- Incremental expansion:
  - Entering Norway (1963) and Denmark (1969)
  - Low risk due to Swedish proximity and cultural similarities
- Gradual knowledge accumulation
- Distant markets with greater risks
  - 1970's, expansion to Switzerland and Germany, greater differences in customer preferences and regulatory environments
  - 1980s, entered more complex and culturally distant markets like the United States and China adapting its product offerings and store layouts
- Establishing subsidiaries and production facilities

Alternative Approaches

- Investing or acquiring local partners to shortcut the process
- Entering multiple international markets from inception
- Basing expansion on unique resources and capabilities
- Building relationships and networks in foreign markets to facilitate entry and growth
- Focusing on the company's vision, risk taking ability and mindset as primary drivers
- Emphasizing the role of formal (laws, regulations) and formal (culture, norm) institutions in the target market
- Maximizing efficiency cost advantages and control over foreign operations

Traditional vs other approaches to internationalization



Modes of Internationalization

- Exporting
  - Selling goods/services produces in the home country to foreign markets
- Licensing
  - Granting foreign firms the right to use your IP for royalties/fees
- Franchising
  - Allowing foreign firms to replicate a business model under a shared brand name
- Joint ventures
  - Partnership between two firms (one local, one international) sharing ownership and operations
- Foreign direct investments
  - Establishing a wholly owned subsidiary or acquiring a business in a foreign market
- Strategic alliances
  - Collaborative agreements between firms without shared ownership

Key considerations for mode decision

- Strategic objectives

- Level of control
- Resource commitment
- Risk tolerance
- Speed of market entry
- Market knowledge and experience
- Legal and regulatory environment
- Cultural and social factors
- Competitive dynamics
- Long term scalability

Equity Modes
These require significant investment and ownership in the foreign market.

- Joint Ventures
- Foreign Direct Investment
- Strategic Alliances

Non-Equity Modes
Limited or no ownership of operations in the foreign market.

- Exporting
- Licensing
- Franchising

Comparison:

- Equity Modes: Higher Risk & Control, Stronger long-term presence
- Non-Equity Modes: Lower Control & Risk, Faster entry

Entry Mode: Exporting (Dare)

- Advantages: Low cost, minimal risk. Internal economies of scale.
- Disadvantages: Limited control over customer experience and market knowledge. Trade barriers.

Entry Mode: Licensing (Disney)

- Advantages: Low investment and risk; Expanded reach.
- Disadvantages: Loss of control; risk of IP theft.

Entry Mode: Franchising (Subway)

- Advantages: Rapid expansion; Minimal direct investment.

- Disadvantages: Risk of brand mismanagement by franchisees.

Entry Mode: Joint Ventures (Sony Ericsson)

- Advantages: Access to local expertise; Shared risk.
- Disadvantages: Potential conflict; Shared control.

Entry Mode: Foreign Direct Investment (Toyota)

- Advantages: Full control, closer to the market.
- Disadvantages: High costs, significant risks.

Entry Mode: Strategic Alliances (TATA Starbucks)

- Advantages: Synergy from shared resources.
- Disadvantages: Loose ties can limit integration.

CAGE Takeaways

- "Distance" is more than just physical; firms must account for social, economic, and institutional differences when expanding internationally.
- Developed by Pankaj Ghemawat to analyze cross-country differences.
- Focuses on Cultural, Administrative, Geographic, and Economic distances between countries.
- Helps businesses assess market potential and risks.
- Guides strategy for market entry and operations.
- Emphasizes the importance of non-geographic "distances" in global strategy

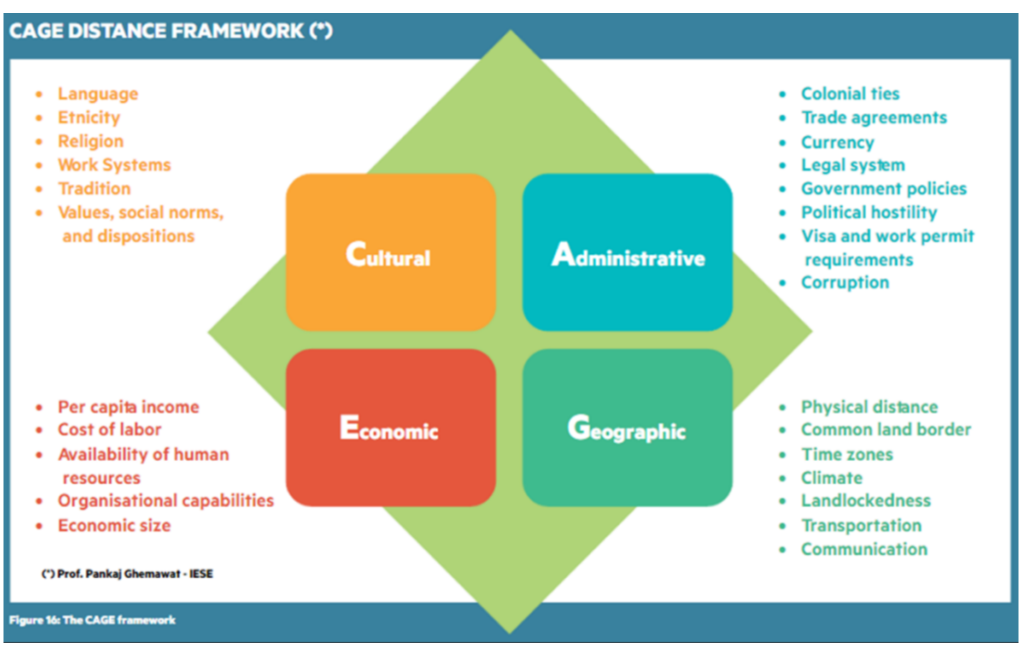


Figure 1d: The CAGE framework

International Mentality

- Centralized control in the home country
- Focus on exporting and sales to foreign markets
- Dare Foods into the Caribbean markets

Multinational mentality

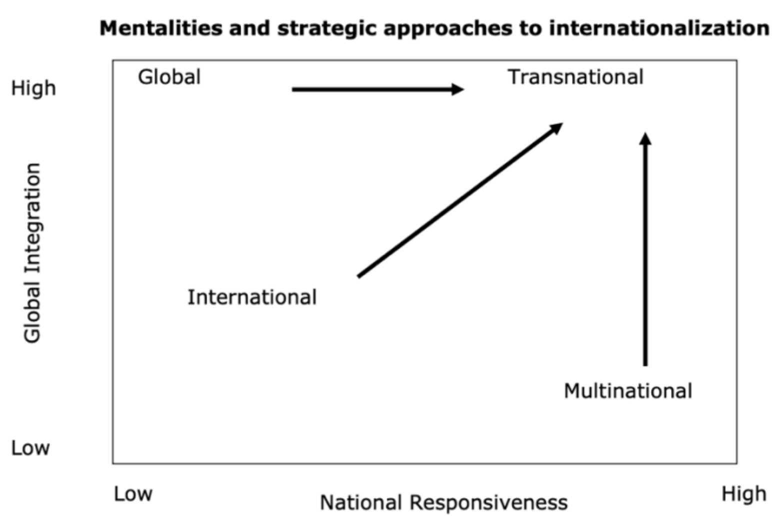
- Understanding the differences among national markets and operating env
- Decentralized decision making
- Modified products, strategies and practices from country and country to meet regional demands

Global mentality

- Standardization to achieve economies of scale
- Creating products for a world market and manufacturing them on a global scale
- Minimal local customization
- Apple

Transnational mentality

- Balances global integration with local responsiveness
- Promotes collaboration across borders and knowledge sharing
- Leverages global strengths while adapting to local market needs
- Encourages innovation through globally linked and locally leveraged solutions
- Integrates global strategies with regional agility
- Creates value through efficiency, responsiveness, and learning
- Essential for managing complexity and diversity in an interconnected world



Chapter 2 - Understanding the international context: Responding to conflicting environmental forces

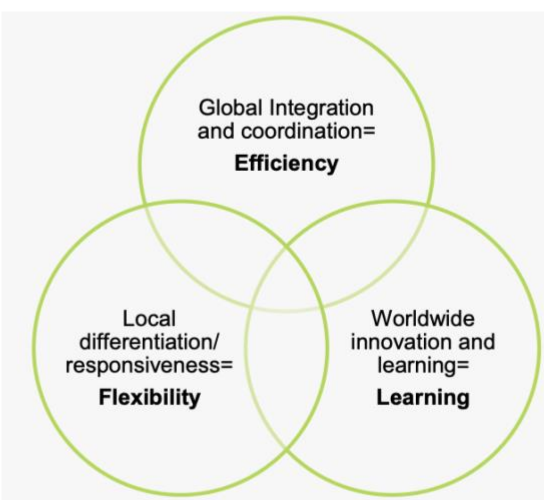
Levitt's "The Globalization of Markets"

- Global markets are increasingly homogenized due to advances in communication, transportation, and technology
- Companies should standardize products to serve the global market instead of local customization
- Key arguments
    - Convergence of consumer tastes
    - Economies of scale
    - Technology as a driver

Criticism of the theory

- Overemphasis on standardization
    - Neglect of market needs
    - No local market adaptation
- Simplistic view of consumer behaviours
    - Overlooks cultural and regional differences within markets
- Underestimation of institutional barriers
    - Regulations, tariffs, etc

Major forces/drivers of internationalization



Forces for global integration & coordination

- Economies - both scale and scope
- Cost differentials (labour, raw materials)
- Global competition as change agents
- Trade environments

Ricardo's theory of competitive advantage

- countries benefit from trade by specializing in goods they can produce more efficiently relative to others, even if one country is more efficient in producing all goods
- Key Concepts:
  - Specialization: Countries focus on producing goods where they have a lower opportunity cost.
  - Mutual Benefit: Trade allows both countries to consume beyond their production possibilities.
  - Efficiency Gains: Resources are allocated more efficiently across nations
- Implications:
  - Encourages global trade partnerships.
  - Drives economic growth and innovation.
  - Promotes interdependence between nations.

Free trade vs protectionism

- Free trade:
  - Unrestricted exchange of goods and services across borders
  - Global trade agreements like GATT, WTO, Nato and NAFTA facilitated trade liberalization
  - Less restricted than in recent decades enabling MNEs to realise economic benefits
- Protectionism
  - Policies aimed at restricting international trades and renegotiating trade agreements.
  - Post 2016- Trump effect and Brexit
  - Increased uncertainty and costs for MNE's operating globally

	Free Trade	Protectionism
Debate	Fosters global prosperity and efficiency.	Safeguards national interests and industries.
Benefits	Increases market access and economic growth. Encourages competition and innovation. Reduces prices for consumers.	Shields local businesses from foreign competition. Preserves jobs in vulnerable industries. Promotes national economic stability.
Criticisms	Can lead to job losses in less competitive industries. May increase dependency on foreign markets.	Higher consumer prices. Limits innovation and market efficiency. Risk of trade wars and retaliation.

Global competition as change agents

- Changing national tastes & behaviours
    - Starbucks: Transformed the coffee culture globally by popularizing premium coffee, turning coffee shops into social spaces.
- Standardizing product formulations
    - Procter & Gamble (P&G): Leveraged global supply chains to standardize products across markets, ensuring consistency while optimizing costs.
- Playing "global chess"
    - British Airways: Uses cross-subsidization to support weaker markets with profits from more established regions

Global chess - cross-subsidization:

- A strategy where a company uses profits from one market to fund or develop its presence in a weaker market.
- Ex. A multinational airline may use profits from its home market to expand services in emerging markets, where demand is growing but the initial investment is higher.

Forces for local differentiation and responsiveness

- Cultural differences
    - Customer behavior and preferences,

    - Consumption patterns
- National infrastructure
    - Technical standards (e.g., voltage, TV broadcast, etc)
    - Distribution channels (e.g., supermarkets vs bazaars)
- Government demands
    - National laws and regulations e.g. Canada Bill C-11: the Online Streaming Act; Bill C-18: Online News Act
    - Host country pressures and demands for localisation

Canadian digital media legislation

- Bill C-11
    - Platforms like Netflix, YouTube, and Spotify must actively promote and financially support Canadian content (CanCon), ensuring Canadian music, films, and TV shows are available and discoverable for users.
    - Requires international platforms to align with Canadian broadcasting standards, bringing them closer to traditional broadcasters in terms of regulations
- Bill C-18
    - Platforms such as Google and Meta must compensate Canadian news outlets for their content.
    - Goal is to address the financial challenges faced by traditional media as ad revenues shift to digital platforms.
    - The CRTC enforces compliance, ensuring fair negotiations and mediating disputes between platforms and news outlets.

Cultural sensitivity - Starbucks in Saudi Arabia

- Segregated seating areas for men and families
- Only male staff employed initially
- Early 2000's, temporarily removed mermaid figure replacing with a crown
- Menu items catering to local tastes: Arabic coffees and dates; spiced teas and fruit drinks
- Adjusted operational hours and paused operations during Ramadhan

Forces for worldwide innovation & learning

- Increased need for rapid and coordinated worldwide innovation driven by:
    - Shortening product life cycles
    - Increased cost of R&D
    - Emergence of global technology standards
    - Competitors' ability to develop and diffuse innovation globally

Managing 21st century political risk

- Amplified impact and speed of political risk
    - Political risks now evolve faster due to global connectivity and non traditional sources: social media campaigns, climate change and cyber attacks.
    - Events in one country can rapidly affect global markets and supply chains.
- Traditional management tools insufficient
    - Traditional political risk management tools (insurance, hedging) are no longer enough.
    - Need for more agile, dynamic strategies in response to real-time changes in the political landscape.
- Evolving role of governments and regulators
    - Governments Becoming More Interventionist: Increasing state control over industries (e.g., nationalization, trade barriers).
    - Localized Regulatory Risks: Multinational companies must navigate a complex web of country-specific regulations, often with differing priorities and policies
- Strategic risk management
    - Companies are shifting from reactive to proactive approaches to managing political risks.
    - Proactive strategies: Engaging with governments, understanding local political landscapes, and forming strategic alliances.

Recommendations to manage 21st century political risk

- Scenario planning
    - Preparing for multiple outcome potentials to mitigate uncertainty
- Stakeholder engagement
    - Building strong relationships with local governments and community
- Technology monitoring
    - Consistent monitoring of digital environments for emerging risks

Political risk framework

- Effective risk management requires four core competencies
    - Understanding risks, analyzing risks, mitigating risks, responding to crises

Understand	Analyze	Mitigate	Respond
What is my organization's political risk appetite?	How can we get good information about the political risks we face?	How can we reduce exposure to the political risks we have identified?	Are we capitalizing on near misses?
Is there a shared understanding of our risk appetite?	How can we ensure rigorous analysis?	Do we have a good system and team in place for timely warning and action?	Are we reacting effectively to crises?
How can we reduce blind spots?	How can we integrate political risk analysis into business decisions?	How can we limit the damage when something bad happens?	Are we developing mechanisms for continuous learning?

Crisis management and continuous learning

- Good crisis management
    - Assess the situation promptly.
    - Activate a skilled response team.
    - Lead with company values.
    - Communicate honestly—tell your story transparently.
    - Avoid actions that escalate the crisis.
- Continuous learning
    - Evaluate: Identify what to keep, stop, and start doing.
    - Create mechanisms to capture lessons learned from each situation.
    - Foster a culture of adaptability and innovation.
    - Inspire teams to embrace change and take ownership.
- Real life example - supply chain vulnerability
    - US/China trade tensions
    - Strict data localization laws
    - Censorship regulations
- Reaction
    - Shift in production to other countries to reduce dependency

Deglobalization

- Shift away from global economic integration
- Drivers include
  - trade wars,
  - rising nationalism and protectionist policies
  - Economic and political instability
- Companies are now reassessing global supply chains and trade partnerships

Impact on 3 key pillars of global corporations

- Technology: the splinternet
  - Disruption to Global Supply Chains:
    - Fragmentation of technology standards hinders seamless operations.
    - Increases costs and undermines efficiency in shared global services.
  - Polarization: U.S. vs. China Camps:
    - Companies face strategic decisions on aligning with competing tech ecosystems.
    - Ex: U.S. microchip restrictions and China's tech independence drive.
  - Data Privacy Concerns:
    - Diverging data regulations add compliance complexity.
    - Challenges in managing customer trust across regions.
- Global recruiting
  - Reduced Diversity:
    - Limits diversity as a competitive advantage for organizations.
  - Cultural Competence:
    - Decreased opportunities to learn and adapt to cross-cultural and social differences.
  - Knowledge Sharing:
    - Fewer global interactions lead to reduced knowledge spillovers and innovation.
- Finance
  - Challenges in Raising Capital:
    - Varied financial regulations across jurisdictions complicate capital acquisition.
  - Profit Distribution:
    - Differing rules for returning profits to shareholders in multiple regions.
  - Regulatory Complexity:

        - A web of independent processes and frameworks creates operational hurdles.
    - Specialized Expertise:
        - Requires deep, localized knowledge to navigate legal and financial landscapes effectively.

Anti-globalization movement

- A social and political movement opposing the negative impacts of globalization.
- Challenges the dominance of multinational corporations (MNCs) and global institutions (e.g., WTO, IMF).
- Key Concerns:
    - Economic Inequality
    - Cultural Homogenization
    - Environmental Detriment
    - Corporate Super Power

IMF

- Founded:
    - 1944, Bretton Woods Conference
- Purpose:
    - Promote global monetary cooperation
    - Facilitate international trade
    - Secure financial stability
    - Reduce poverty worldwide
- Membership
    - 190 member countries

IMF and Role with MNE's

- Global Economic Stability
    - Stabilises exchange rates and promotes global monetary cooperation ensures predictability in MNEs' international transactions.
- Crisis Management and Lending
    - During economic crises, helps stabilize markets, safeguarding MNE investments in volatile regions.

- Offers financial assistance to countries where MNEs operate, minimizing risks like currency depreciation or debt default.

- Policy Advice and Economic Surveillance
  - IMF advises governments on fiscal, monetary, and trade policies that directly affect MNE operations.
  - Provides transparency in economic reforms, reducing uncertainty for global businesses.
- Capacity Development
  - Helps build institutional capacity in developing countries, fostering better business environments for MNE expansions.
- Global Integration and Open Markets
  - Advocates for open trade policies, reducing barriers and creating opportunities for MNEs to access new markets.

Role in managing political/economic risk

- Financial assistance
  - Offers loans to countries during economic crises, reducing systemic risks for MNCs operating globally
- Market confidence
  - Restores trust in markets, encouraging foreign direct investment (FDI).
- Currency stabilization
  - Helps prevent sharp currency fluctuations, minimizing risks for multinational supply chains.

Challenges and criticisms

- Structural adjustment programs
  - Often require austerity measures, which can disrupt local economies and consumer markets for MNCs.
- One-size-fits-all policies
  - Criticized for not adapting to unique conditions in member countries.
- Dependency risks
  - Long-term reliance on IMF loans may deter structural reforms, impacting business opportunities.

MNE’s should:

- Monitor IMF programs to identify high-risk or high potential markets.
- Leverage stability from IMF interventions to expand operations.
- Be cautious of policy changes in countries receiving IMF aid, as they can affect taxation, labor laws, and trade agreements.

The world bank

- Founded
    - 1944 at the Bretton Woods Conference
- Mission
    - End extreme poverty and promote shared prosperity
- Functions
    - Provides financial and technical assistance to developing countries
    - Funds large-scale development projects (e.g., infrastructure, education, healthcare)
    - Promotes sustainable development initiatives

World bank and relevance to MNE’s

- Market Opportunities:
    - Funded projects often increase access to new or underserved markets.
- Improved Infrastructure:
    - Better roads, ports, and utilities enhance logistics and supply chains.
- Stability and Governance:
    - Supports countries in building institutions and improving governance, benefiting business environments.
- Focus on Sustainability
    - Encourages environmentally friendly business practices through funding and partnerships.

Role in developing economies

- Human Capital Development:
    - Investments in education and healthcare create skilled workforces for MNCs.

- Technology Transfer:
  - Promotes innovation by funding digital infrastructure projects.
- Private Sector Partnerships:
  - Collaborates with private companies on large-scale development initiatives.

Differences between IMF and world bank

	World Bank	**IMF**
Focus	Long Term Development and Poverty Reduction	Short Term Monetary Stability and Financial Crises
Loans	Infrastructure, Healthcare and Education Projects	Stabilize Currencies and Manage Debt
Targets	Developing Markets	Countries of all Economic Levels

Both promote global economic stability and both were founded at the Bretton Woods Conference

Chapter 3 - Developing transnational strategies: Building layers of competitive advantage

Worldwide Competitive Advantage

- Goals (what)
  - Efficiency
  - Flexibility
  - Learning
- Means (how)
  - Scale economies
  - National differences
  - Scope economies

Building global efficiency

- Efficiency = value of outputs / value of inputs
  - The higher the value of outputs, the better the efficiency.
  - The lower the cost of inputs, the better the efficiency
- In the global context:
  - Global integration lowers the cost of inputs
  - Local responsiveness increases the value of outputs

Building multinational flexibility

- What is Multinational Flexibility?
  - The ability to manage risks and exploit opportunities arising from the diversity and volatility of the global environment
- Sources of Diversity and Volatility
  - Macroeconomic risks (changes in prices and exchange rates),
  - Political risks (geopolitical events)
  - Competitive risks (e.g. uncertainties about competitors' actions),
  - Resource risks (e.g. availability of raw material)

Multinational flexibility requires:

- Scanning and responding to discontinuities in global environment

- Selecting most attractive markets, sensing their needs, and developing adaptive responses
- Understanding and managing different forms of risk
- Real life examples pro:
    - Unilever in Africa - risk management
    - McDonald's worldwide menu customization
- Real life examples con:
    - Target Canada closed in 2015
    - Walmart Germany exited in 2006

Building Worldwide Learning

- Capture external diversity
    - Worldwide stimuli: global markets and cultures
    - Competitive Information Advantage: knowledge from diverse sources to gain competitive edge
- Leverage internal variety
    - Worldwide human resources and capabilities
    - Innovation synergy
- Create true global innovation by linking sensing, response, and implementation capabilities

Means to achieve strategic goals

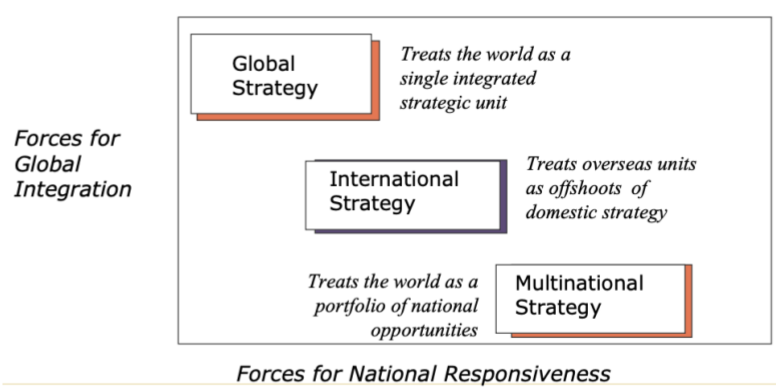
- Three fundamental tools for building worldwide competitive advantage:
    - National differences
        - Differences in factor (input) costs:
            - Nations differ in resource availability and costs
            - Different functions of MNE's require distinct factor requirements
        - Differences in output markets:
            - Countries have different customer tastes and preferences
            - Distribution systems, government regulations vary significantly
        - Locate functions in countries that fit the factor requirements best!
    - Scale economies
        - Macroeconomic theory
            - Production scale- "Bigger is Better"

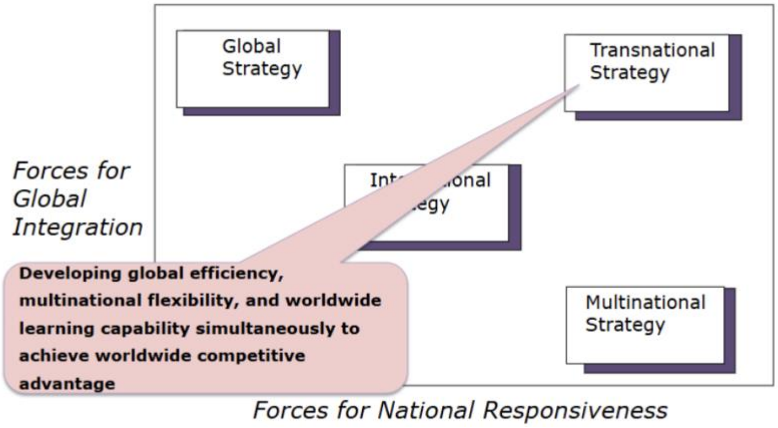
            - As production scales up, cost per unit decreases
        - Learning and progressive cost reduction
            - "Efficiency through Repetition"
            - Over time, employees and systems become faster and better, reducing costs
            - First pancake is messy
    - Scope economies
        - Sharing investments and costs across the same or different value chains to achieve efficiency
        - Sharing resources can occur across markets, products, or services.
        - Joint use of assets like production machinery, information technology, and marketing tools

Sources of scope economies

	Product Diversification	Market Diversification
Shared physical assets	Factory automation with flexibility to produce multiple products (Ford)	Use sales offices to sell multiple products
Shared external relationships	Using common distribution channels for multiple products (Panasonic)	Servicing multinational customers worldwide (Citibank)
Shared learning	Shared R&D in computer and communications business (NEC)	Pooling knowledge developed in different markets (Procter & Gamble)

Traditional strategic postures





Traditional strategic postures with distinct sources of competitive advantages

Strategy	Source of competitive advantage	Organization	Disadvantages
International strategy	Home-country innovations as source of competitiveness Great abilities to create and leverage innovations	Headquartered in technologically advanced countries	Suffers from deficiencies of both efficiency and flexibility
Multinational strategy	Differentiation as source of competitiveness Focus on revenue side (customer preferences, industry characteristics, etc.)	Assets and resources widely dispersed considerable local autonomy of subsidiaries	Suffers problems of inefficiencies and an inability to exploit the knowledge and competencies of other units
Global strategy	Global efficiency as source of competitiveness	Concentration of value chain activities	Suffers from deficiencies in flexibility and learning Risks associated with concentration

Four strategic orientations

	Multinational	Global	International	Transnational
Configuration of assets and capabilities	Decentralized and nationally self-sufficient	Centralized and globally scaled	Core competencies centralized; others decentralized	Dispersed, interdependent and specialized
Strategic Orientation	Building flexibility to respond to national differences through strong, resourceful and entrepreneurial national operations	Building cost advantages through centralized global-scale operations	Exploiting parent-company knowledge and capabilities through worldwide diffusion and adaptation	Developing global efficiency, flexibility, and worldwide learning capability simultaneously

How a company responds to the strategic tasks and challenges

- Defend worldwide dominance
  - Leverage global scale and resources.
  - Protect key markets from new entrants.
  - I.e.
    - Coca Cola with their global marketing campaigns and brand recognition
    - Constant innovation flavours
    - Uses sponsorships to maintain visibility e.g. Olympics
- Challenge the global leader
  - Focus on differentiation or cost advantages.
  - Use innovation to disrupt established competitors.
  - I.e.
    - Huawei: low-cost alternatives and high-performance devices
    - Proprietary 5G technology to compete in telecom infrastructure.
- Protect domestic niches
  - Emphasize localized offerings.
  - Build strong customer relationships to fend off foreign competitors.
  - I.e.
    - Grupo Bimbo: offers products that caters to local tastes
    - Protects market share through aggressive distribution networks
    - Niche dominance through fresh affordable baked goods.

AAA framework

- Adaptation
  - Adjusting to local markets for relevance.
- Aggregation
  - Achieving economies of scale by standardizing processes across regions.
- Arbitrage
  - Exploiting regional differences (e.g., labor costs, resources)

Arbitrage

- The practice of exploiting price differences of the same or similar assets in different markets to generate a profit.
- Types of Arbitrage:

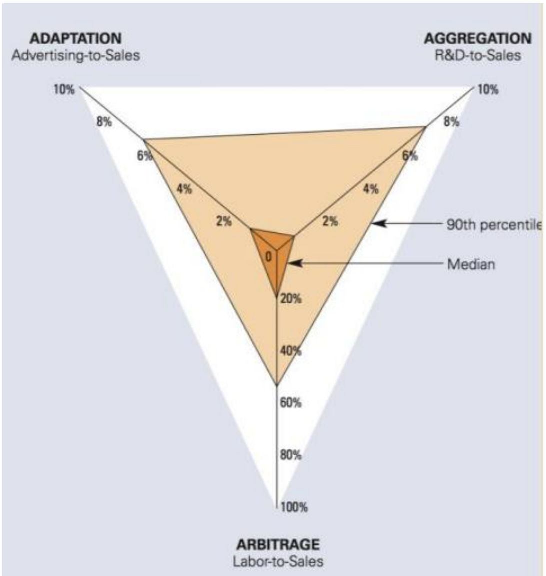
- Spatial Arbitrage: Exploiting price differences in different geographical locations.
- Temporal Arbitrage: Buying and selling at different times to benefit from price fluctuations.
- Currency Arbitrage: Using differences in exchange rates for profit.

AAA examples

- Starbucks (Adaptation):
    - Starbucks customizes its menu to reflect local tastes and cultures, such as offering green tea lattes in Japan or masala chai in India. This approach allows them to resonate with local consumers while maintaining the brand's global appeal.
- Apple (Aggregation):
    - Apple focuses on a standardized product design across all markets. Its iPhone and other devices are globally uniform, reducing costs and creating a consistent user experience worldwide.
- Nike (Arbitrage):
    - Nike leverages production arbitrage by manufacturing products in countries with lower labor and material costs, such as Vietnam or Indonesia, helping them reduce expenses and remain competitive globally

The AAA triangle

- Adaptation:
    - increase revenues and market share by customizing processes and offerings; in extreme cases local units in each national market carry out all the steps in the supply chain
- Aggregation:
    - deliver economies of scale through regional or global operations; standardization of product or service offerings
- Arbitrage:
    - exploitation of differences between national and regional markets; locating parts of the supply chain in different places



A, AA, and AAA strategies

- A strategies
  - Focused pursuit of just one of adaptation, aggregation or arbitrage
- AA strategies
  - A company can win by beating competitors along two dimensions at once A company can win because it manages the tensions between the two As better than competitors
- AAA strategies
  - Complexity of attempting to win on three dimensions collides with limited managerial bandwidth
  - A one culture mentality can get in the way of hitting multiple strategic targets
  - External relationships can force focus on a particular dimension

The state of globalization in 2019

- Globalization Growth Trends:
  - Globalization is growing but slower than expected.
  - Trade, capital, information, and people flows still fall short of pre-2008 peaks.
- Perception vs. Reality:
  - Public perception overestimates the extent of globalization.
  - The "global village" is more fragmented than imagined.

- Regionalization:
    - Regional rather than global flows dominate trade and investment patterns.

Strategic implications - fragmented globalization

- Focus on Regional Strategies:
    - Tailor operations and supply chains to regional markets.
    - Aligning with trade blocs like USMCA or RCEP.
- Adapt to Geopolitical Shifts:
    - Political instability and trade barriers require flexibility.
    - Importance of risk mitigation strategies.
- Local Adaptation:
    - Emphasize cultural and regulatory responsiveness in key markets.

Navigating the limits of globalization

- Barriers to global integration
    - Rising nationalism and anti-globalization sentiment.
    - Protectionist policies increasing trade restrictions.
- The role of adaptation
    - Adaptation extends a firm's global reach despite rising barriers.
    - Importance of localizing products and services.
- Balancing aggregation and arbitrage
    - Strategically focus on efficiency (aggregation) or cost advantages (arbitrage) when adaptation becomes costly

Strategies during globalization's turbulence

- Adaptation
    - Tailor products and services to meet local needs.
    - Focus on cultural, regulatory, and customer-specific adjustments.
- Aggregation
    - Standardize offerings across regions to achieve economies of scale.
    - Invest in technology to streamline global operations.
- Judicious arbitrage
    - Leverage cost advantages in labor, materials, or tax but with reduced reliance.

    - Shift focus to regions with stable political and economic conditions.
- Resilience and risk management
    - Diversify supply chains to mitigate risks from trade barriers and disruptions.
    - Build flexibility into logistics and operations to handle market turbulence.
- Data-driven decisions
    - Use accurate data to counter misperceptions about globalization.
    - Monitor regional trends and adapt strategies accordingly.

The state of globalization in 2023

- Globalization trends
    - Despite global crises, globalization persists.
    - Data challenges the notion of increased regionalization.
- US-China Relations:
    - Evidence of decoupling in certain sectors.
    - Overall economic interdependence remains significant.

Implications

- Strategic considerations
    - Maintain a global perspective in operations.
    - Monitor geopolitical developments, especially US-China dynamics.
- Operational adjustments
    - Diversify supply chains to mitigate risks.
    - Invest in understanding regional markets without assuming a shift towards regionalization.

In the future

- Globalization's Resilience:
    - Anticipate continued global integration.
    - Prepare for potential disruptions due to geopolitical tensions.
- Strategic Recommendations:
    - Stay agile and adaptable to changing global dynamics.
    - Leverage global opportunities while managing associated risks.

Chapter 4 - Developing a transnational organization: Managing integration, responsiveness, and flexibility

For MNE's: The Organizational Challenge?

- Developing a transnational organisation whilst managing integration, responsiveness and flexibility to meet cross border demands

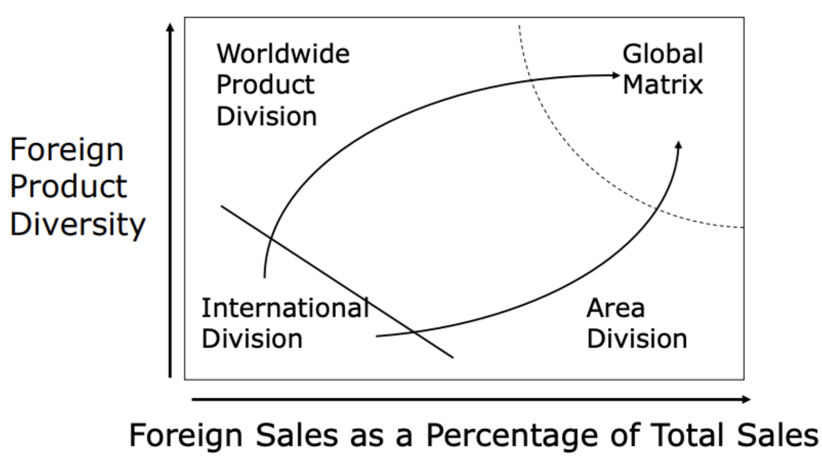
Two variables capture the complexity companies face as they expand abroad

- Number of products sold abroad (foreign product diversity)
- Importance of international sales vs local sales

Stopford and Wells (1972): Strategy and Structure of Multinational Corporations

- Explored the relationship between strategy and organizational structure in multinational enterprises (MNEs).
- Stages model
  - Initial: separate international division created
  - More Countries with a limited range of products (geographic divisions typically)
  - Global Matrix to balance structure and geographic demands

Strategy and structure of the MNE



The global matrix

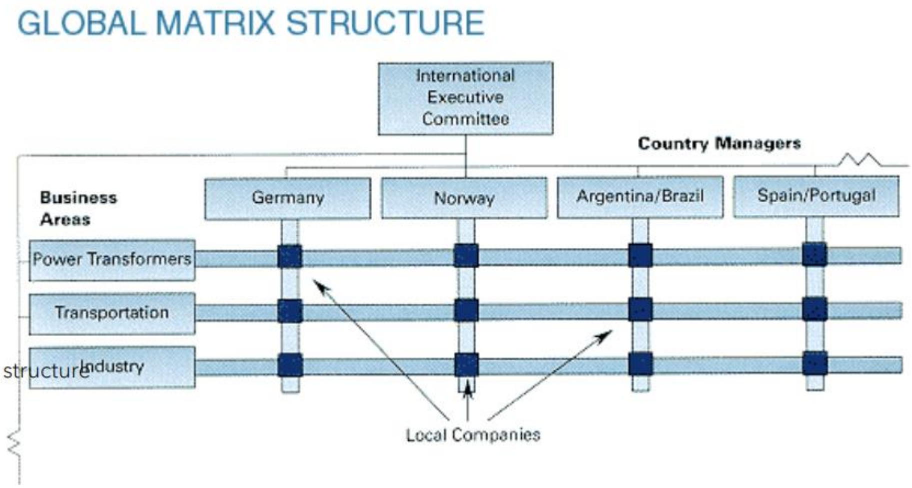


ABB structure

- Many companies experimented with matrix structures in 1970s (Dow, Citibank) resulting in:
  - Complex and bureaucratic processes and relationships
  - Dual reporting caused confusion and informational logjams
  - Overlapping responsibilities, turf battles, and a loss of accountability
  - The result: Very slow decision making
- Most companies abandoned formal matrix structures in the 1980s

Challenges of the global matrix structure

- Complexity in decision making: logjams
- Ambiguity in authority and accountability: resolution through escalation
- Increased costs: administrative and operational expenses
- Overlapping responsibilities
- Turf battles
- Cultural and communication barriers in aligning diverse teams

Beyond structural solutions

- Matrix management focused solely on formal structure as a tool for organization design
- But to effectively manage a complex organization, executives need a much broader set of tools…

- Administrative systems
- Communication channels
- Interpersonal relationships, etc.

- and have a deep understanding of the organization's Administrative Heritage

Administrative heritage

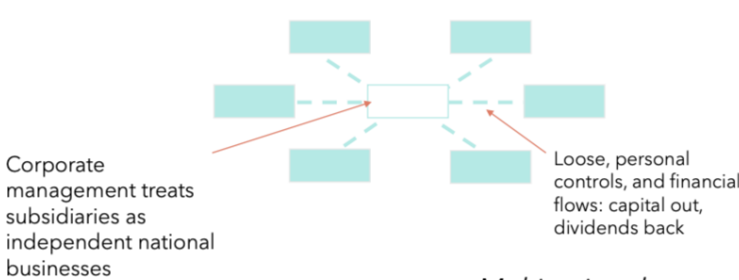
- Administrative heritage: organizational history, the values, norms, and embedded management culture.
- The challenge is to build new capabilities while protecting existing strengths.
- Competitive advantage shaped by country of origin, time of expansion, and nature of leadership.
- "Where to" is influenced by "where from".

The three archetypes

- Decentralised federation (multinational model)
  - Organization developed as a portfolio of national companies; delegate more operating independence and strategic freedom to their subsidiaries.
  - Strategy based on understanding and responding to national markets
  - Key assets and resources are decentralized
  - Key features:
    - Autonomy of Subsidiaries
    - Limited headquarter involvement
    - Local Responsiveness

Eg: In European Empires

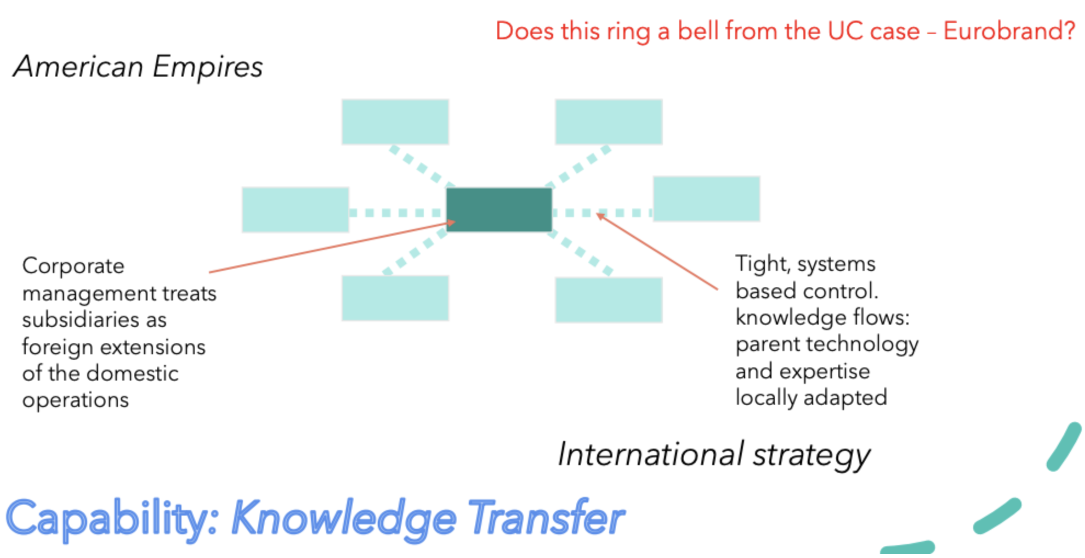
Does this ring a bell from the UC case? – Think localization of products and CM autonomy



Multinational strategy

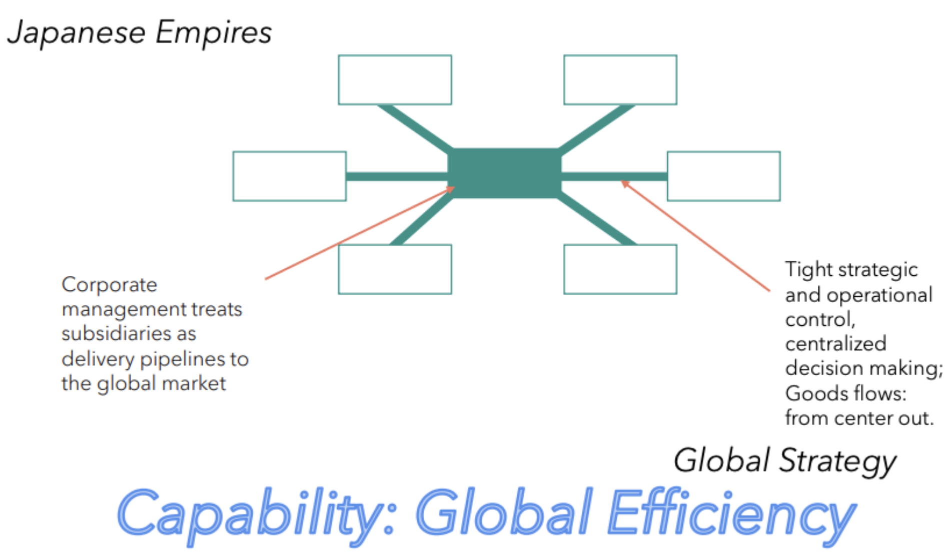
Capability: National Responsiveness

    - i.e. Nestlé
        - Collection of semi-autonomous business across the globe
        - Significant decision making authority especially in product development, marketing and sales
        - R&D and supply chain benefit from central coordination
        - Customization to local markets:
            - Milo in South East Asia
            - Nescafe in Mexico/Turkey
            - Package sizing
            - Nutrition fortification
- Coordinated federation (international model)
    - Subsidiaries maintain some autonomy but are closely aligned and coordinated by the corporate headquarters to leverage global synergies
    - Organization built on strong links to the parent company based on transfer of expertise: heritage of professional management and systems control
    - Foreign units were often free to make adjustments to reflect market differences, but were dependent on the parent firm for new products, processes, and ideas
    - Key Features:
        - Moderate Subsidiary autonomy
        - Global Coordination
        - Knowledge Sharing



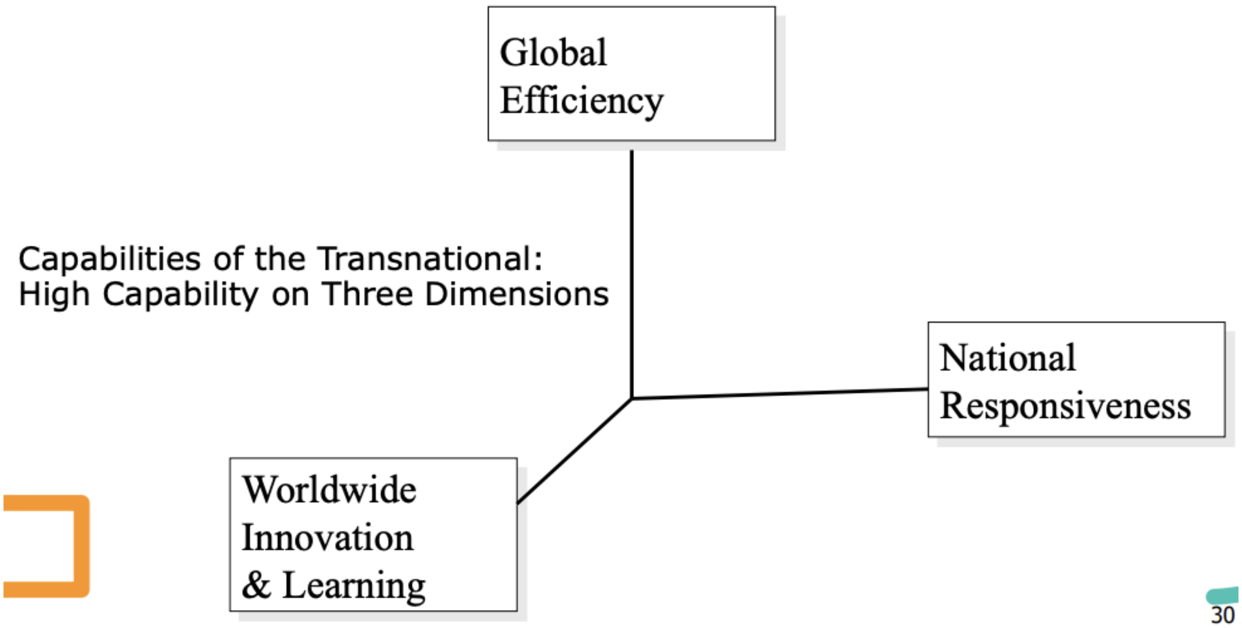
    - I.e. Unilever
        - Leverages global resources (R&D branding) while adapting to local market needs

        - Overarching R&D, innovation and marketing campaigns
        - Decentralised adaptation example: Unilever Sustainable Living Plan
            - Global Coordination: reducing environmental impact and reducing health and wellbeing
            - Local Adaptation: “Lifebuoy Handwashing Campaign”
- Centralised hub (global model)
    - A global organizational model where decision-making, resources, and strategic control are highly centralized at headquarters, with subsidiaries primarily executing directives
    - Expanded abroad in a period of falling trade barriers
    - Key Features:
        - Centralized decision making, assets and resources
        - Limited Local Autonomy
        - Focus on Efficiency and Consistency

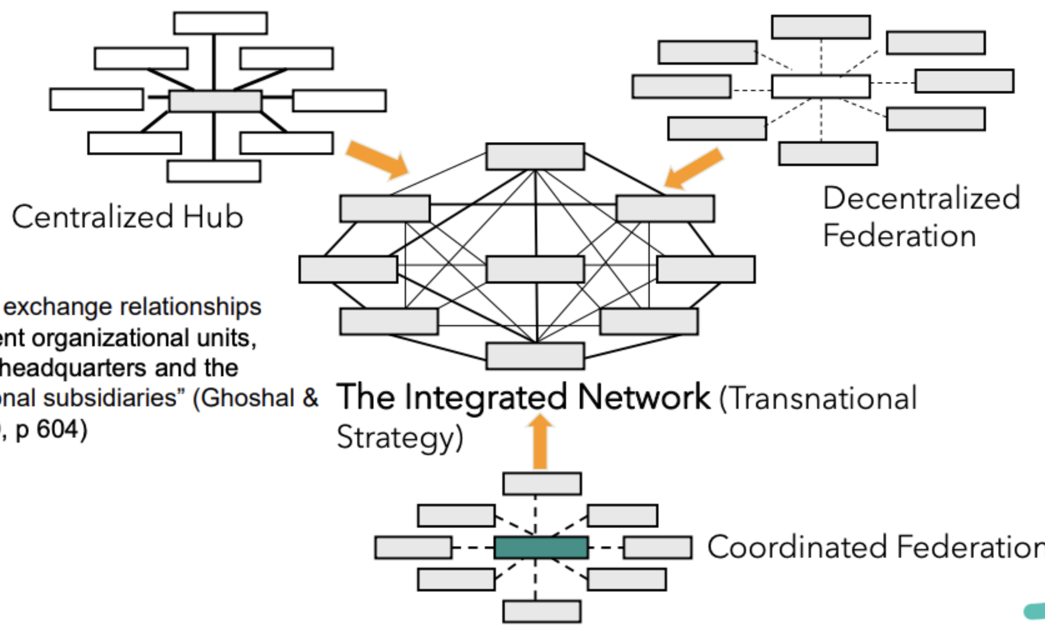


    - i.e. Zara
        - Centralized production and supply chain
        - Supports its fast fashion strategy enabling stores to have new designs globally within two to four weeks
        - Local stores primarily function as sales and customer engagement points
        - Globally standardized processes for operations
        - Centralized decision making maintains tight control over pricing marketing and logistics

Administrative heritage meets transnational challenge



The Integrated Network



“a network of exchange relationships among different organizational units, including the headquarters and the different national subsidiaries” (Ghoshal & Bartlett (1990, p 604)

Organizational Characteristics

	Decentralized Federation	Coordinated Federation	Centralized Hub	Integrated Network
Strategic Approach	Multinational	International	Global	Transnational
Key strategic capability	National responsiveness	Transfer home country innovations abroad	Global-scale efficiency	Simultaneous achievement of degrees of responsiveness, efficiency, and learning
Configuration of assets and capabilities	Decentralized and nationally self-sufficient	Core competencies centralized, others decentralized	Centralized and globally scaled	Dispersed, interdependent and specialized
Role of overseas operation	Sensing and exploiting local opportunities	Adapting and leveraging parent company competencies	Implementing parent company strategy	Differentiated contributions by national units to integrated worldwide operations
Development and diffusion of knowledge	Developed and retained within each unit	Developed at the centre and transferred overseas	Developed and retained at the centre	Developed jointly and shared worldwide

Building and Managing the Transnational organization

- The transnational organization attempts to resolve the inherent limitations of the three organization archetypes
- The transnational organization is created around three key characteristics :
    - Builds and legitimizes multiple internal perspectives
    - Dispersed and interdependent physical assets and capabilities
    - Robust and flexible integrative process

Builds and legitimizes multiple internal perspectives

- Develop strong national subsidiary management, global business management, and worldwide functional management
- Ensure multidimensionality in management perspectives and decision-making

Dispersed and interdependent physical assets and capabilities

- Efficiency through specialization
- Most efficient local plants might become regional or global production centres
- Most effective R&D and innovation labs as 'centres of excellence'
- Interdependent relationships across organizational units

General Electric

- Operates in various industries including aviation healthcare renewable energy and power
- Implemented the concept of building specialized efficient units and creating interdependent relationships across its global network of operations
- Global manufacturing and regional product centres
- Centres of excellence in R&D and innovation
- Interdependent organizational units

Robust and flexible integrative process

- There is not a single static management model that is applied universally in the company
- Benefits from central control and integration or local responsiveness might differ between business units, functions, and regions
- Centralization, formalization, and socialization

P&G

- Centralized strategy with decentralized execution
- Balancing formalization and local responsiveness
- Socialization and knowledge sharing collaboration and knowledge sharing - connect and develop program
- Local adaptation for consumer engagement E.g. Pantene in India

Attributes of a transnational organization

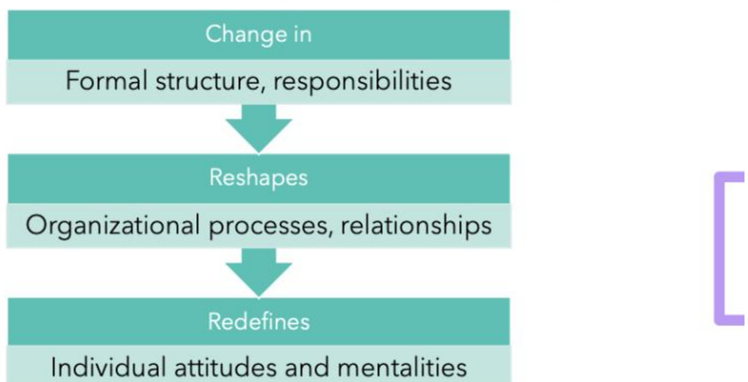
- Structure – Anatomy
    - Redistributing assets and responsibilities
- Processes – Physiology
    - Redefining information flows and relationships
- Culture – Psychology
    - Readjusting attitudes, mentalities and beliefs

Beyond structure

- Anatomy
  - Cross-unit teams, task forces and committees supplement the Anatomy formal line structure
- Physiology
  - Volume, content, and direction of information flows (the higher complexity and uncertainty the greater the need for information)
  - Informal and formal communication channels
- Psychology
  - Shared understanding of the company‘s mission
  - Behavior of senior management
  - Personnel policies

Building the transnational organization

Classic change process driven by structural reconfiguration



Change process initiated by changes in attitudes and mentalities

Breaking Traditional Trade-Offs

- AI removes traditional trade-offs between scale, scope, and learning
- Scale:
  - AI systems can process massive volumes of transactions and interactions with minimal incremental cost.
- Scope:
  - AI enables personalized products and services without sacrificing efficiency.
- Learning:

- AI continuously improves by analyzing real-time data, creating a feedback loop for optimization.

Key Characteristics of AI-Driven Businesses

- Data Pipeline as a Core Asset
- AI-Augmented Decision-Making using algorithms to generate predictions
- Network Effects
- Platform Ecosystems/ Infrastructure

Strategic implications

- Redefining competition
  - Traditional barriers to entry, such as capital and workforce, are being replaced by data access, algorithm sophistication, and computing power.
- New Business Models:
  - AI is fostering innovative business models, such as subscription-based services, pay-per-use systems, and predictive analytics.
- Legacy Challenges:
  - Traditional businesses must transition from hierarchical, human-dependent processes to agile, AI-centric structures, which is often complex and disruptive.

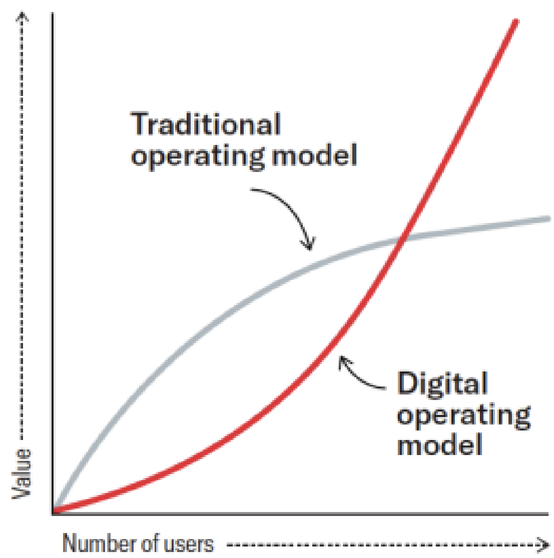
Risks involved

- Ethical Concerns:
  - Bias in algorithms, data privacy, and lack of transparency can undermine trust in AI systems.
- Security Risks:
  - AI reliance makes businesses vulnerable to cybersecurity threats.
- Job Displacement:
  - Automation may lead to workforce displacement, raising social and economic concerns.
- i.e. Amazon
  - operations, breaking traditional trade-offs, customer experience, continuous learning and innovation, AI driven eco-system

Competing in the age of AI

How AI-Driven Companies Can Outstrip Traditional Firms

The value that scale delivers eventually tapers off in traditional operating models, but in digital operating models, it can climb much higher.



Chapter 5 - Creating worldwide innovation and learning: Exploiting cross-border knowledge management

Worldwide Innovation and Learning: Powerful Force of Competitive Advantage

Type of Innovation	Description	Example
New Technology-Based Products	Products reshaping industries	Tesla's electric vehicles and self-driving tech
Organizational Effectiveness	Streamlined processes improving efficiency	Toyota's lean manufacturing system
Pioneering Marketing Strategies	Methods redefining customer engagement	Coca-Cola's "Share a Coke" campaign
Leading-Edge Manufacturing	Methods enhancing production	Zara's fast-fashion supply chain
Logistics Innovations	Systems for speed and sustainability	Amazon's warehouse automation & Prime delivery

Why Innovation Matters:

- Competitors achieving parity in scale and responsiveness.
- Competitive battles are now shifting to the innovation area.

Three Key Innovation Capabilities

- Sensing (S):
    - Identifying emerging market trends, customer needs, and technological advances
- Responding (R):
    - Developing solutions and strategies that meet identified opportunities.
- Implementing (I):
    - Efficiently executing and scaling innovations to gain a competitive advantage.

Traditional innovation

- Two classic processes (not mutually exclusive)
    - **Center-for-global** (dominates within international/global companies)
        - Headquarters identifies market trends and global opportunities

    - Parent company leverages its assets, resources, and expertise to develop new products/services Implementing strategy decided centrally and executed locally
    - i.e. Coca Cola
        - Opportunity Sensing: Coca-Cola’s headquarters identifies global opportunities for new products or market expansion.
        - Centralized Resource Utilization: R&D, marketing strategies, and product development are managed centrally at Coca-Cola's global HQ.
        - Execution at Local Level: While strategy is designed globally, it is implemented locally to suit regional needs.
    - Challenges
        - Risk of market insensitivity
        - Business imperialism
        - Technological/competitive advantage of home market may fade
        - Resistance of local subsidiary management
        - Coordination complexities
- **Local-for-local** (fit with multinational strategic model)
    - Sensing Local Needs:
        - National units identify unique local market requirements and opportunities.
    - Distributed Resources:
        - Local assets and resources are utilized to respond effectively to specific market demands.
    - Implementation:
        - Strategies and solutions are developed and executed locally to ensure relevance
    - Real world examples
        - India: Nestlé’s Maggi noodles come in flavors like "Masala" to match Indian spice preferences, and Nestlé’s dairy products are enriched to meet local nutritional requirements.
        - Japan: Nestlé introduced unique KitKat flavours like matcha green tea, wasabi, and sake to cater to Japanese tastes and gifting culture.
        - Brazil: Ninho powdered milk, a staple product tailored to the local market where powdered milk is widely consumed.

        - Africa: Fortified products, such as cereals and dairy, to address malnutrition and specific health concerns across African markets.
    - Challenges
        - Duplication risk
        - Knowledge silos
        - Reinventing the wheel
        - Inefficiencies and costs
        - Speed to market

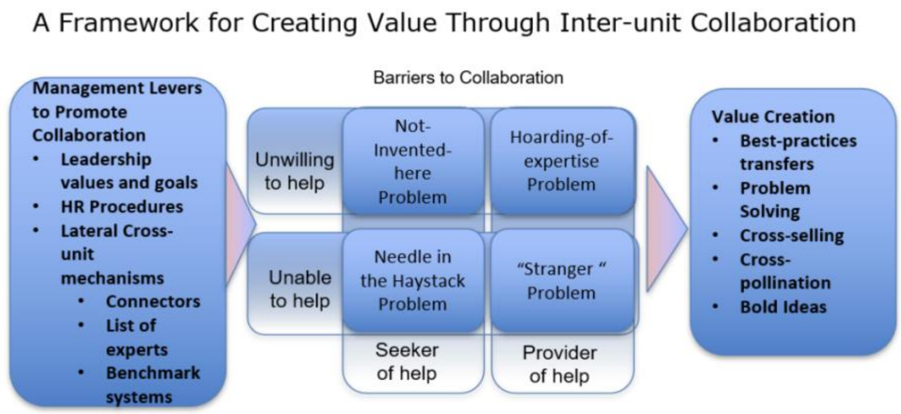
Locally Leveraged Innovation

- Ensuring that the unique strengths, knowledge and capabilities of local subsidiaries are available not only locally but also to other units worldwide to drive innovation
- Example: Nokia: backhaul router in India
- Key characteristics
    - Utilizing your local expertise
    - Empowering subsidiaries
    - Sharing local innovations globally

Globally Linked Innovation

- Leveraging the collective capabilities of the global network
- Resources and capabilities of many units (center and subsidiaries) pooled to jointly create and manage an activity
- Characteristics:
    - Cross border collaboration
    - Specialised roles
    - Integrated knowledge sharing

Building collaborative advantage



Transnational Innovation

- Transnational innovation processes have supplemented rather than replaced traditional innovation processes.
- The challenge is to combine all four cross border innovation and learning processes in one organization.

Making Transnational processes Feasible: Three simplifying assumptions

- Subsidiaries should be symmetrical
- HQ-subsidiary relationship is based on clear patterns of dependence or independence
- Corporate management exercises decision-making and control uniformly

Beyond The Simplifying Assumptions

- From Symmetry to Differentiation
  - Demands for integration and responsiveness need to be addressed separately for each business, function, and geographic region
- From Dependence / Independence to Interdependence
  - Implementation of an integrated network (dispersed and specialized resources) and inter-unit integration mechanisms
- From Simple Control to Flexible Coordination
  - Complex coordination of the flow of goods, resources, and knowledge: formalization, centralization, and socialization process

Reverse innovation

- Definition:
  - Reverse innovation involves developing innovative products in emerging markets and then adapting for use in developed markets.
- Traditional Model:
  - GE typically innovated in developed markets and later sold modified versions in emerging markets.
- Shift:
  - Recognizing that emerging markets like India and China demand cost-effective, high-quality solutions, GE shifted focus to innovate locally for these markets, with potential to scale globally.

Reverse Innovation Examples at GE

- Portable Ultrasound Machine:
  - Developed in China for rural healthcare; later adapted for developed markets at a lower cost.
- Battery-Powered ECG Machine:
  - Innovated in India for affordability and reliability; also found use in resource limited settings in developed countries.

How GE is disrupting itself

- Many emerging markets are no longer small
- They have high growth rates
- Glocalization ignored faster growing middle or lower end customer segment in emerging markets
- Local companies –emerging giants- can enter developed markets with low cost alternatives
- Reversed innovation isn’t optional, its oxygen!

GE’s Reverse Innovation Method- Project Level Actions

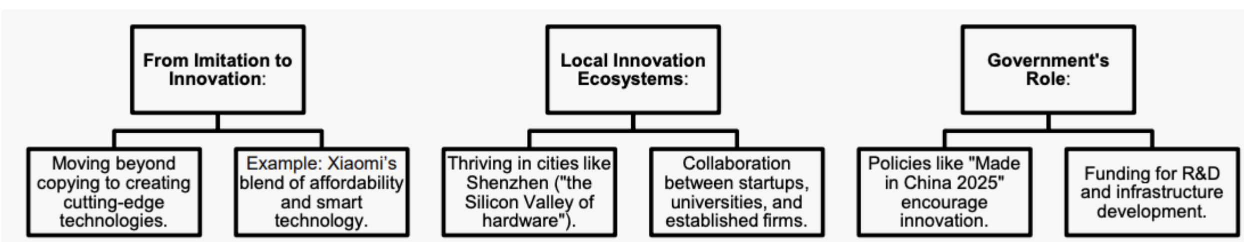
- Establish Local Growth Teams (LGTs)
- Shift the power to growth regions
- Build new offerings from the ground up

- Build LGT from ground up
- Customize and measure success
- High Level Sponsorship with the organisation

The Changing Face of Innovation in China

- Traditional perception
    - China as a manufacturing hub focused on cost efficiency and imitation.
- Current reality (transformation into an innovation powerhouse, driven by:
    - Significant investment in R&D.
    - Government policies supporting innovation.
    - The rise of global Chinese firms (e.g., Huawei, Tencent).
- Key drivers
    - Large consumer base demanding innovative solutions.
    - Focus on emerging technologies like AI, 5G, and clean energy.

Shifting Innovation Dynamics in China



The Changing Role of Foreign Companies in China

- Foreignness as a liability
    - Only 18% of Chinese university students want to work for a foreign company compared to 70% in 2008.
    - Growing preference for local tech companies due to:
        - Competitive opportunities and benefits.
        - Stronger cultural alignment and perceived career growth.
- Rise of Chinese Companies in R&D
    - Chinese tech firms now offer equal or superior benefits to foreign counterparts for R&D positions.

    - Imperfect localization attempts by foreign MNCs make local companies more attractive.
- Strengthened Intellectual Property (IP) Regime
    - Introduction of specialized IP courts with well-trained judges since 2014.
    - The number of patent applications is rising, reducing "freedom to operate" for foreign firms.

Innovation Strategies in China

- Market-Driven Innovation:
    - Companies adapt rapidly to changing consumer preferences.
    - Example: WeChat evolved from a messaging app to an all-encompassing platform.
- Cost-Effective R&D:
    - High-quality innovation at lower costs compared to the West.
    - Example: BYD's affordable electric vehicles challenging Tesla in global markets.
- Leveraging Digital Technologies:
    - Heavy investments in AI, big data, and automation.
    - Example: Alibaba's use of AI in e-commerce and logistics optimization.

Innovation Challenges & Opportunities

- Challenges
    - Intellectual property concerns.
    - Reliance on government subsidies in some sectors.
    - Balancing global collaboration with geopolitical tensions.
- Opportunities
    - Leadership in emerging sectors like renewable energy and healthcare tech.
    - Expansion into global markets with competitive, innovative products.
    - Establishing China as a global innovation leader.

Keeping advanced technology away from China comes with greater risks, but so does sharing it

- There is growing state and market-based pressure in various industries to transfer cutting-edge technology and conduct R&D on it to survive.

- Transferring cutting-edge technology makes Chinese competitors even stronger. Chinese companies that are supported by the state, learn quickly, upgrade their technological capabilities, and have an uncanny ability to quickly scale up operations.

The Changing Face of Innovation in China

- Innovation transaction costs can now jeopardize the lead.
    - Transparency, predictability, and fairness in China's regulatory environment remain among the 10 most significant challenges to foreign business in China
    - Chinese companies do not experience the same transaction costs because of their close relationships with state and local officials
- Time to market (TTM) of innovative products and services is more important than ever.
    - A culture of overengineering products, stringent quality standards, and strict internal processes is costing many foreign companies time that they can no longer afford.

What makes China so globally competitive today:

- Having hundreds of millions of hyper-adoptive and hyper adaptive consumer.
- In the end, innovations must be judged by people's willingness to use them. And on that front China has no peer.

How should foreign companies react to increasingly innovative Chinese companies?

- Strike a better balance between localization and the growing liability of foreignness.
    - Have adequate local faces in management positions
    - A reorientation of company culture to correct false perceptions about the ability of the Chinese to innovate
- Speed up patenting when keeping trade secrets is not strategic.
    - Utility model: "has a shorter allowable duration of protection and typically lower requirements for granting than invention patents" (Prud'homme, 2017, p. 51)
    - More collaboration between R&D and IP management functions

Chapter 6 - Engaging in Cross-Border Collaboration: Managing across Corporate Boundaries

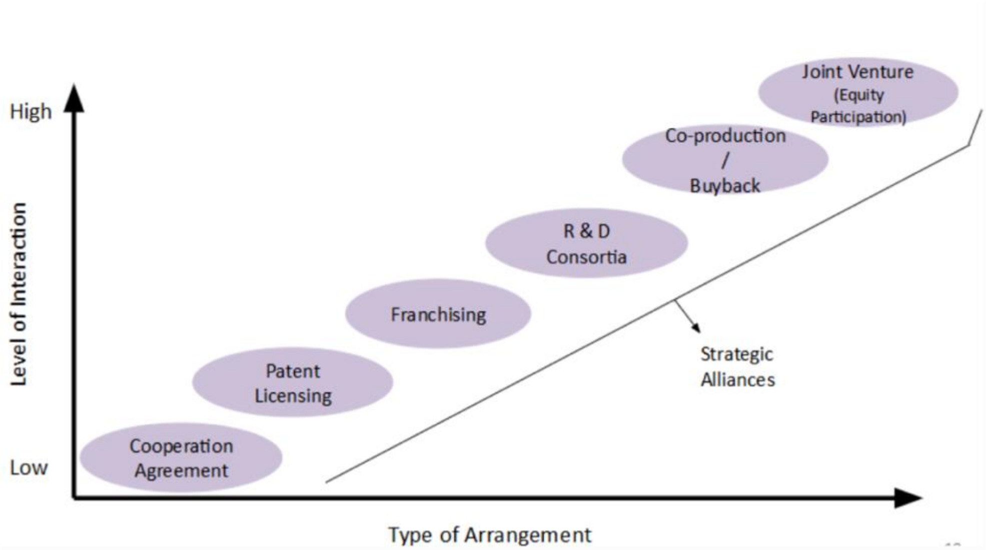
What is strategic alliance?

- A formal and mutually agreed commercial collaboration between companies
- The partners pool, exchange or integrate specific business resources
- Yet they remain separate businesses, making alliances distinct from mergers and acquisitions

Key Motivators for Alliance Formation

- Technology exchange
  - Necessary technology, resources, capabilities, and R&D firms need to compete is beyond their scope
  - Need to collaborate is intensified by short product life cycles
- Global competition
  - Firms need to collaborate to compete in global economy
- Industry convergence
  - Industries are converging and require cross-industry alliances
  - Strategic alliances as a way to develop complex and interdisciplinary skills
- Economies of scale and reduction of risk
  - Pool resources and concentrate activities to increase the scale of activities
  - Risk diversification through multiple partnerships
- Alliances as an alternative to mergers
  - Countries preclude foreign ownership in some industries

Range of strategic alliances



Benefits of existing JVs at the time of crisis

- Raising capital in unconventional ways
  - Secure low- or interest-free loans or capital from their cash-rich owners
- Reducing costs through synergies
  - Cut costs by consolidating or otherwise optimizing activities and assets with their owners (e.g., joint purchases, integrate their supply chains)
- Access to New Markets
  - When a company's core market shifts, JV's can help explore new regions or customer segments
- Expertise Boost
  - Companies complementing each other's strengths

Adapting and Restructuring Existing JVs

- Challenges exposed in downturns
  - Misaligned objectives.
  - Inefficient governance or resource allocation.
- Solutions
  - Reassess partner compatibility and shared goals.
  - Restructure JVs to improve efficiency and relevance.
  - Exit underperforming partnerships.

Critical Factors for Success

- Strategic Alignment:
  - Ensure clear objectives between partners.
- Transparent Governance:
  - Establish clear decision-making processes.
- Flexibility:
  - Adapt structures and strategies to market conditions.

Risks of competitive collaboration

- Uneven Benefits:
  - Gains from collaboration can be asymmetrical, favoring one partner over the other.
- Knowledge Appropriation:
  - Partners might absorb each other's knowledge and skills while safeguarding their own.
  - Explicit Knowledge: Easier to replicate and absorb.
  - Tacit Knowledge: Harder to understand or duplicate (e.g., General Food & Ajinomoto).
- Competitive Edge Risk:
  - One partner may strengthen its position at the expense of the other, eroding their competitive position
- Partnership Evolution:
  - Strengthening a competitor through collaboration.
  - Partnership might lead to a future takeover by one of the firms.

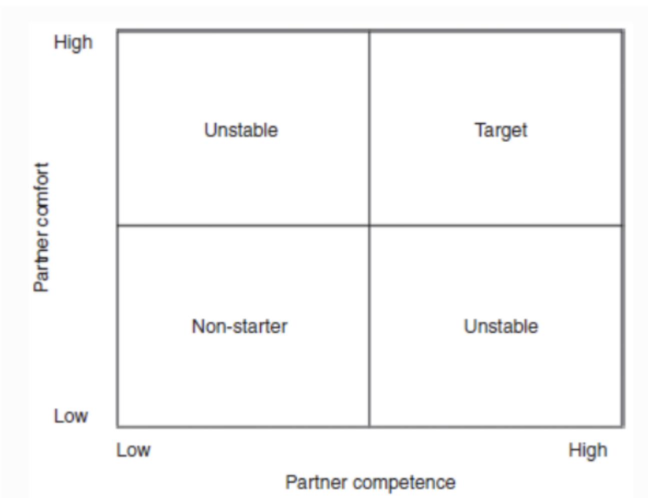
Building and managing collaborative ventures - pre-alliance tasks

- Partner selection
- Escalating commitment
- Alliance scope

Partner selection

- Importance

    - Assess importance and complementarity of assets and capabilities (e.g., physical assets, intangible assets, organizational capabilities).
    - Identify and evaluate potential cultural and physical barriers that may impact collaboration.
    - Analyze partners' future development potential to ensure long-term complementarity.
- Challenges
    - Limited availability of accurate information for evaluation.
    - Managing barriers due to cultural and geographic distance.
- Mitigation Strategies
    - Assess partners' commitment to resource investment.
    - Ensure a clear alignment of goals for the proposed project.
    - Continuously monitor and evaluate partnerships for sustained success.



Real Life Examples: Starbucks and Nestle

- Partner Selection: Complementarity of Assets.
    - Starbucks Strong brand identity and expertise
    - Nestle global distribution network and expertise in mass market consumer goods
- Both companies committed to leveraging their strengths
- Clear alignment on goal
    - Expand Starbucks reach into global markets where it does not have physical stores
    - Tap into the growing demand for premium coffee in retail spaces

Escalating Commitment

- Risks
  - Unrealistic expectations and poor decisions
  - Managers' personal enthusiasm can lead to misjudging the benefits and risks of the partnership
- Mitigation strategy
  - Involve operational managers who will handle implementation in the pre-decision negotiation process.
  - An alliance committee (e.g., P&G example) can ensure balanced decision-making.

Alliance scope

- Challenge
  - Defining a clear and focused scope for the partnership
  - Avoiding unnecessary complexity
- Mitigation strategy
  - Start with a simple and focused scope for the alliance
  - Gradually expand as partners build trust and understanding

Post Alliance Tasks

- Managing the boundary
  - Balancing governance through simple mechanisms (e.g., joint committees) or creating a separate legal entity, based on the alliance's scope
- Managing knowledge flows
  - Ensure full exploitation of learning potential
- Providing strategic direction
  - Equal decision-making power can hinder effective management
  - Integrative equality: Clear leadership in each task and each partner takes the responsibility for different tasks Providing strategic direction

Building and Managing Collaborative Ventures JV Checklist

- Strategic Checklist:
  - Do you really need a partner? For how long?

    - How big is the payoff for both parties? How likely is success?
    - Is a joint venture the best option?
    - Ensure congruent performance measures exist
- Partner Selection
    - Does the partner share your objectives for the venture?
    - Does the partner have the necessary skills and resources? Will you get access to them?
    - Will you be compatible?
    - Is there a comfort versus competence trade-off?
- Shape & Design
    - Define the venture's scope of activity and its strategic freedom • Lay out each parent's duties and payoffs to create a win-win situation
    - Establish the managerial role of each partner
    - Establish clear rules pertaining to decision-making among the entity's partners and its general manager

Framework for alliance formation decisions:

- An alliance business case framework takes into account costs and benefits on the individual level as well as the alliance portfolio level of analysis
- Integrated and codified decision process involving managers on the business as well as the corporate levels
- Clearly defined roles and responsibilities for all actors involved in decision making.

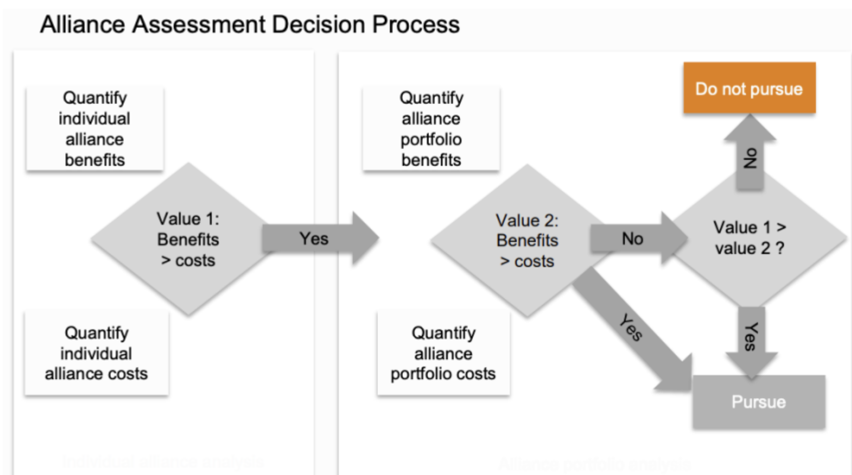
Costs and benefits: individual alliance

- Benefits
    - Achieve economies of scale by pooling similar assets, knowledge or skills
    - Obtain access to a partner's complementary assets, knowledge and skills
    - Obtain access to new skills
    - Reduce competition in the market and increase market power
- Costs
    - Start-up costs
    - Ongoing co-ordination costs
    - Leakage – one partner in the alliance acts opportunistically and appropriates skills or knowledge from the other

Costs and benefit - alliance portfolio

- Benefits
  - Two types of synergies:
    - Sharing or recombining know-how
    - Reinforcing existing coalitions
- Costs
  - Conflict resolution among existing alliances
  - Dissolution costs if conflicts with existing alliances are not resolved
  - Redundancy and value cannibalization as a result of a new alliance

How to manage alliances better than one at a time



RACI diagram

- Who is **Responsible**? Which individuals have to perform the task?
- Who is **Accountable**? Which individuals have the ultimate ownership of the task, and whose heads will roll if the task is not performed?
- Who needs to be **Consulted** for input during this process step?
- Who should be kept **Informed** and up to date during this process step?

	ALLIANCE SPONSOR	MANAGER OF ALLIANCE FUNCTION	MANAGERS OF OTHER ALLIANCES	MANAGERS OF OTHER BUSINESS UNITS	EXECUTIVE COMMITTEE
Identify alliance level benefits costs	AR	C			
Conduct alliance level cost-benefit evaluation	AR	C			
Identify alliance portfolio level benefits and costs	C	AR	C	C	
Conduct alliance portfolio level cost-benefit evaluation	I	AR	I	I	
Compare alliance level and alliance portfolio level costs and benefits	R	AR			
Raise awareness of benefits and conflict between alliances	I	AR	I	I	
Take final decision	I	I	I	I	AR

Alliance Sponsor: Owns the business problem that requires the alliance
Manager of the Central Alliance Function: Is responsible for the overall effectiveness of the company's alliance portfolio
Managers of Other Alliances: Are responsible for the other ongoing alliances in either the same business or a different business
Managers of Other Business Units: Have no vested interest in the alliance to be formed
Executive Committee: Is the ultimate "decision maker" that decides on the go-ahead of the alliance

Recommendations for Managing Multiple Alliances

- Centralized Alliance Management:
  - Create a dedicated team or function to oversee and coordinate alliances across the organization, ensuring alignment with corporate strategy.
- Learning Across Alliances:
  - Facilitate the sharing of knowledge and best practices between alliances to improve overall performance and enhance competitive advantage.
- Alliance Portfolio Approach:
  - Treat alliances as a portfolio, managing them collectively rather than individually, to optimize the use of resources and strategic synergies.

Hofstede's Six Dimensions of Culture

- A framework for understanding how cultural differences impact behavior within organizations and societies
- Power Distance (PDI)
  - How much do people accept unequal power distribution?
- Individualism vs. Collectivism (IDV)
  - "Me" vs. "We" cultures!
- Masculinity vs. Femininity (MAS)
  - Competition vs. Cooperation.
- Uncertainty Avoidance (UAI)
  - Do we embrace the unknown or fear it?
- Long-Term vs. Short-term Orientation (LTO)
  - Future planning vs. living in the moment.
- Indulgence vs. Restraint (IVR)
  - Fun-loving vs. self-controlled cultures.

Chapter 7 - Implementing the strategy: Building multidimensional capabilities

Strategies to develop a transnational organization

- Develop global efficiency and competitiveness
- Create worldwide innovation and learning
- Establish multinational responsiveness
- Effective Strategy + Effective Strategy Implementation = Effective Management

Top level corporate management

- Provide long-term direction and purpose
    - Clarity: simplicity, relevance, reinforcement, etc.
    - Continuity: commitment to direction and purpose
    - Consistency: foster shared vision
- Leverage corporate performance
    - Implements controls, support, and coordination of efforts
    - Maximise resource utilization and enhance capabilities for optimal performance
- ensure continuous renewal
    - Ensure an external orientation
    - Develop a questioning attitude
    - Encourage and validate new initiatives

Key management positions in the transnational company

Worldwide functional manager

- Responsibility
  - Provide support to line managers, particularly by diffusing innovations and transferring knowledge on a worldwide basis
- Roles
  - Worldwide intelligence scanner
  - Cross-pollinator of “best practices” Roles
  - Champion of transnational innovation

Role as Worldwide Intelligence Scanner

- Capture and transmit leading-edge information across national boundaries in order to track trends, developments, and potential challenges and make appropriate adjustments
- Establish functional specialist information channels to link local technologists, marketers and production experts

Role as Cross-Pollinator of “Best Practices”

- Identify and evaluate leading-edge practices
- Break down the ‘not-invented here’ syndrome
- Take initiatives that will expose others to the new ideas
  - Informal contacts
  - Formal reviews
  - Cross-unit visits and transfers
  - Form task forces

Role as Champion of Transnational Innovation

- Locally leveraged
  - Identify local innovations that have applications elsewhere by scanning the company’s worldwide operations
- Globally linked
  - Fully exploit the company’s access to worldwide information and expertise by linking and leveraging intelligence sources with internal centers of excellence

Geographic subsidiary manager

- Responsibility
  - Defending company's market position against global competitors, responding to local customers, host governments, leveraging local resources & capabilities to strengthen company's competitive position worldwide
- Roles (think CAGE)
  - Bicultural Interpreter
  - National defender & advocate
  - Frontline implementer of corporate strategy

Role as Bi-Cultural Interpreter

- Local expert in needs of the local market, competitor strategies, demands of the host government
- Interpret information for corporate management
- Communicate the importance of information to organizational members whose perceptions might be biased by ethnocentric mindsets
- Interpret and apply corporate goals and strategies to the local level of operation
- Communicate the corporate strategies to local employees

Role as national defender and advocate

- Defend need for national responsiveness
- Ensure that the needs and opportunities that exist in the local environment are understood and incorporated into the decision-making process
- Advocate for role of subsidiary within the global operations
- Identify and represent their national organization's key assets and capabilities and the ways in which they can contribute to the MNE as a whole

Role as Frontline Implementer of Strategy

- Convert corporate strategic plans into actions for subsidiaries while responding to host country demands and pressures
- Action needs to be sensitive enough to respect diverse local constituencies, and be pragmatic enough to achieve the expected corporate outcome
- Implement something the manager was against

Chapter 8 - The future of the transnational: An evolving global role

Four types of MNEs

- Exploitive
  - Views differences in wages, working conditions and living standards as exploitable opportunities.
- Transactional
  - Engages in law-abiding, non-exploitive, commercial interactions.
- Responsive
  - Acts in a way that is sensitive and responsive to the needs of all its immediate stakeholders.
- Transformative
  - Commits to leading initiatives to bring life-enhancing changes to the broader society.

The exploitive MNE

- Prioritise profit maximization over social responsibility
- Operate in developing countries to exploit cheap labour, lax safety standards, and uninformed consumers
- Avoid accountability by relocating
- Adversarial attitudes toward NGOs
- Risk long term backlash and ethical concerns due to their short term profit focus

The exploitive MNE - examples

- Jordanian Factory (Target & Walmart):
  - Exploited workers with poor conditions and low wages.
- Glencore:
  - Acquired mining assets cheaply in the Democratic Republic of Congo, capitalizing on weak regulations.
- Union Carbide:
  - Refused accountability for the Bhopal gas leak disaster, which killed thousands and affected many more.

The transactional MNE

- Primary Goal: Maximize shareholder returns
- Focus on Cost Efficiency and Profit Maximization
- Engages in arms-length transactions with local suppliers and partners
- Limited social responsibility, focusing on legal compliance rather than ethical considerations
- Flexible operations—shifts production to wherever costs are lowest

The transactional MNE - examples

- McDonald's and KFC- Comply with relations but promote high fat food, impacting public health
- Apple- Publishes factory audits for transparency, yet Foxconn was found to violate labour laws with excessive work hours
- Fast Fashion Brands- Source from the lowest cost manufacturer meeting legal standards but raising ethical concerns about labour practices

The responsive MNE

- Go beyond mere legal compliance
- Balance stakeholder and shareholder interests for long term success
- Make decisions based on moral principles not just legal requirements
- Proactively address stakeholder concerns and integrate them into strategic planning

The responsive MNE - examples

- Hindustan Lever: Adapted products for rural Indian communities
- GE: Launched basic CT scanners for emerging markets
- GE Gold Seal Program: Refurbished machines to make healthcare more affordable
- Starbucks: Incentives for suppliers meeting high ethical standards

The Transformative MNE

- Goes beyond corporate responsibility to drive meaningful social change.
- Willing to sacrifice short-term profits to tackle deep-rooted social issues.
- Maintains the highest ethical standards for employees, regardless of local norms.

- Actively collaborates with NGOs and stakeholders to uplift communities.

The Transformative MNE - examples

- Unilever committing to improve the health and well-being of 1 billion people by 2020, in addition to cutting the environmental impact of its products by 50% and securing 100% of its agricultural products from sustainable producers
- Merck providing drugs to those afflicted with River Blindness regardless of their ability to pay
- Heineken covering AIDS treatment for employees as well as their families

The Future of the Transnational

- U.S. firms often expand internationally for profit-driven reasons but use Corporate Social Responsibility (CSR) initiatives to maintain legitimacy.
- Firms with higher international diversification tend to increase CSR efforts, but mainly when under public scrutiny.
- CSR can be a strategic tool, allowing companies to "offset" unethical practices with socially responsible actions.
- The study highlights a tension: Can firms truly be “good” while engaging in profit-maximizing behaviors that may exploit global markets?