Part 3 Strategy and Opportunity Assessment

Chapter 11

Strategy and Organization in the International Firm

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What Is Strategy?

A planned set of actions that managers take to make best use of the firm's resources and core competences, to gain a competitive advantage

- When developing strategies, managers examine the firm's strengths and weaknesses, and the opportunities and challenges facing the firm.

- They then decide which customers to target, what product lines to offer, how best to contend with competitors, and how generally to configure and coordinate the firm's activities around the world.

International Strategy

- Strategy carried out in two or more countries.

- Managers develop international strategies to:
  - allocate scarce resources and configure value-adding activities on a worldwide scale
  - participate in major markets
  - implement valuable partnerships abroad
  - engage in competitive moves in response to foreign rivals.

Three Strategic Objectives

- **Efficiency** – Lower the cost of the firm's operations and activities on a global scale.

- **Flexibility** – The agility to manage diverse country-specific risks and opportunities by tapping resources in individual countries and exploiting local opportunities.
- **Learning** – Develop the firm's products, technologies, capabilities, and skills by internalizing knowledge gained from international ventures.
- Often, even successful firms excel at only one or two of these objectives.

Visionary Leadership

A quality of senior management that provides superior strategic guidance for managing efficiency, flexibility, and learning.

1. **International mindset and cosmopolitan values**: Openness to, and awareness of, diversity across cultures.

2. **Willingness to commit resources**: Financial, human, and other resources.

3. **Strategic vision**: Articulating what the firm wants to be in the future and how it will get there.

4. **Willingness to invest in human assets**: Emphasizing the use of foreign nationals, promoting multi-country careers, and training to develop international “supermanagers”.

Examples of Visionary Leaders

- Ratan Tata, chairman of the Tata Group, oversees a $110 billion family conglomerate whose companies market a range of products from cars to watches.

- His group made numerous international acquisitions, reflecting a change in strategic vision from local to global.

- Recently, Tata developed a $2,500 car, the Nano, targeted worldwide to emerging markets.

Source: Gary Knight

Organizational Culture

The pattern of shared values, behavioral norms, systems, policies, and procedures that employees learn and adopt

- Employees acquire the culture as the correct way to perceive, think, feel, and behave in relation to new problems and opportunities that confront the firm.
- Usually derives from the influence of founders and visionary leaders or some unique history of the firm.
- Management should seek to build a *global organizational culture,* key to the development and execution of successful international strategy.

Firms with a Global Organizational Culture:

- Value and promote a *global* perspective in all major initiatives.
- Value international competence and cross-cultural skills among their employees.
- Adopt a single corporate language for business communication.
- Promote interdependency between headquarters and subsidiaries.
- Subscribe to appropriate ethical standards.

Multi-Domestic Industry

An industry in which competition takes place on a country-by-country basis.

- Firms that specialize in such industries as processed food, consumer products, fashion, retailing, and publishing usually cater to specific conditions in each country where they do business.
- In such industries, the firm must adapt its offerings to suit the language, culture, laws, income level, and other specific characteristics of each country.
- Each country tends to have a unique set of competitors.

Examples of Multidomestic Industries

- The British publisher Bloomsbury has translated each volume of its Harry Potter series into the local language in every country where the book is sold.
- Beverage companies produce various brands and flavors in markets worldwide. Coca-Cola offers “Georgia Coffee” in Japan, “Café Zu” in Thailand, Inca Cola in Peru, and “Burn” energy drink in France.
- In Asia, KFC restaurants are often multi-story structures that sell distinctive flavors of chicken.

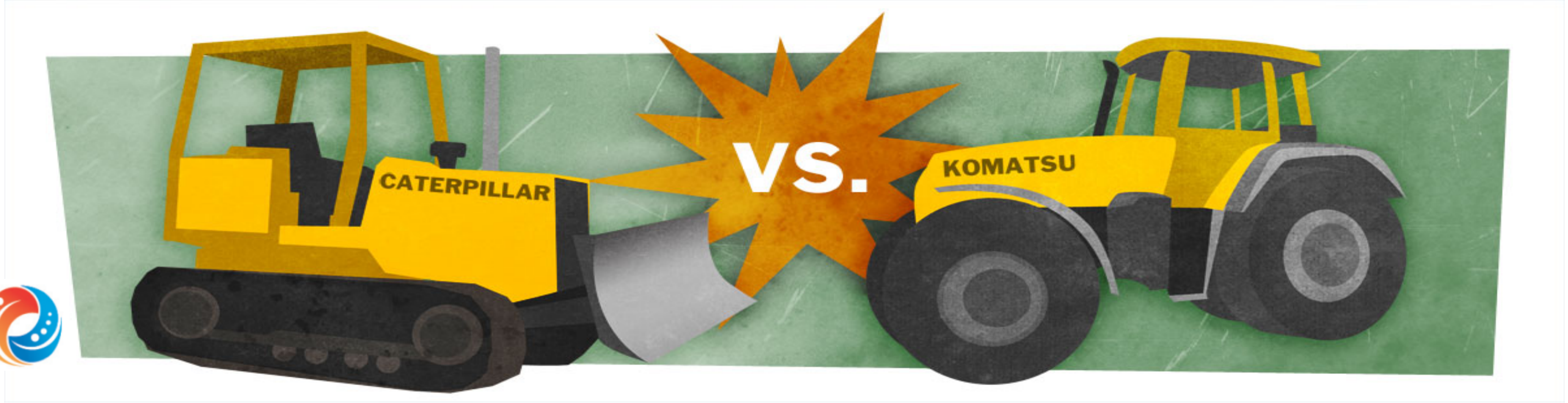
Global Industry

An industry in which competition is on a regional or worldwide scale

- Firms that specialize in such industries as aerospace, cars, computers, chemicals, and industrial equipment, typically cater to customers on a regional or global scale. For example, Subaru markets similar cars worldwide.
- In such industries, customer needs vary little from country to country. Firms sell relatively standardized offerings across entire regions or throughout the world.
- The industry usually has only a handful of the same competitors that compete regionally or worldwide.

Examples of Global Industries

- Kodak must contend with the same rivals, Japan’s Fuji and the European multinational Agfa-Gevaert, wherever it does business around the world.
- American Standard sells similar bathroom fixtures worldwide, competing with Toto most major markets.
- Caterpillar and Komatsu compete head-on in all major markets, and offer similar brands of tractors.



Global Integration

Coordination of the firm's value-chain activities across multiple countries to achieve worldwide efficiency, synergy, and cross-fertilization, to take advantage of similarities between countries.

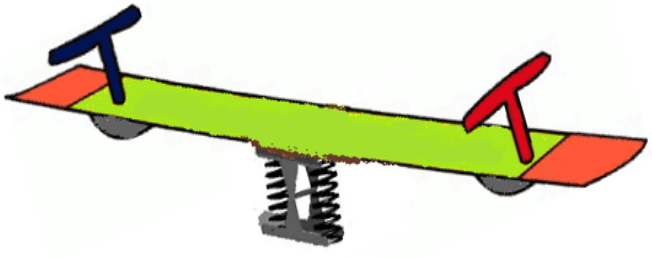
- Firms that emphasize global integration:
  - Make and sell standardized products and services to capitalize on converging customer needs and tastes.
  - Compete on a regional or worldwide basis.
  - Minimize operating costs by centralizing value chain activities and emphasizing scale economies.

Local Responsiveness

Meeting the specific
needs of buyers in individual countries

- Local responsiveness requires the firm to adapt to customer needs and the competitive environment.
- Local managers are free to adjust offerings, marketing, and practices to suit conditions in individual markets.

When operating internationally, firms try to strike the right balance between global integration and local responsiveness.



Home Replication Strategy

- The firm views international business as separate from, and secondary to, its domestic business. Expansion abroad is an opportunity to generate incremental sales for domestic product lines.

- Products are designed for domestic customers, and international business is pursued mainly to extend the life of domestic products and replicating home market success.

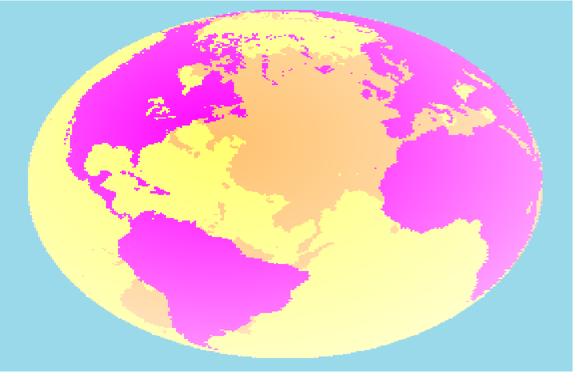
- Management holds little interest in foreign markets and expects little knowledge to flow from foreign operations.

Multidomestic Strategy

- The firm develops subsidiaries or affiliates in each of its foreign markets, and appoints local managers to operate independently and be locally responsive.
- Products and services are adapted to suit the needs and wants of buyers in each country.
- Because headquarters acknowledges differences between national markets, subsidiaries are allowed to vary product and practices by country.
- Country managers are often nationals of the host country, and generally don’t share knowledge and experience with managers in other countries.

Global Strategy

- Headquarters seeks substantial control over all country operations in order to minimize redundancy, and achieve maximum efficiency, learning, and integration worldwide.
- Global strategy asks “why not make the same thing, the same way, everywhere?” Products, marketing, and company practices are relatively standardized.
- R&D, manufacturing, marketing and other activities tend to be concentrated at headquarters, where they can be centrally coordinated and controlled.
- Management views the world as one large marketplace.



Transnational Strategy

- A coordinated approach to internationalization in which the firm strives to be more responsive to local needs *while* retaining sufficient central control of operations to ensure efficiency and learning.
- The firm seeks to combine the major advantages of multidomestic and global strategies, while minimizing their disadvantages.

- It's a flexible approach: *standardize where feasible; adapt where appropriate*.
- But, most firms find implementing transnational strategy very challenging

How IKEA Strives for Transnational Strategy

- Some 90% of the product line is identical across more than two dozen countries. IKEA modifies some furniture offerings to suit tastes in individual countries.
- An overall, standardized marketing plan is centrally developed at the firm's headquarters in Sweden; but is implemented with local adjustments.
- Management decentralizes some decision-making to local stores, such as product displays and language to use in advertising.

Organizational Structure

The reporting relationships inside the firm, “the boxes and lines” that specify the linkages among people, functions, and processes, allowing the firm to carry out its operations.

- In large MNEs, these linkages are extensive and include the firm's subsidiaries, affiliates, suppliers, and other partners worldwide.
- A fundamental issue: How much decision-making should the firm retain at headquarters and how much it should delegate to foreign subsidiaries and affiliates. It between *centralization* and *decentralization.*