THE UNIVERSITY OF NEWCASTLE
AUSTRALIA

Faculty of Business and Law

GSBS6481 International Business Strategy

Week 6 Competitive Dynamics in International Business Strategy

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Reference & Readings

- Peng, Mike W (2021), *Global Strategy*, 4th ed. USA: Cengage Learning.
  - ➢ Chapter 8 Managing Global Competitive Dynamics
- Hanson, D., Hitt, M. A., Ireland, R. D., Hoskisson, R. E. (2016). *Strategic management: Competitiveness and globalisation,* 6th ed. Australia: Cengage
  - ➢ Chapter 5 Competitive Dynamics (ebook available through the UoN library for free link)
- Mathews, J. A. 2006. Dragon multinationals: New players in 21st century globalization. Asia Pacific Journal of Management, 23, 5-27, available through the UoN library link

Key concepts

- Market commonality
- Resource similarity
- Attack and counter attack
- Game theory / prisoners' dilemma
- Collusion
- Dumping
- Antitrust policy

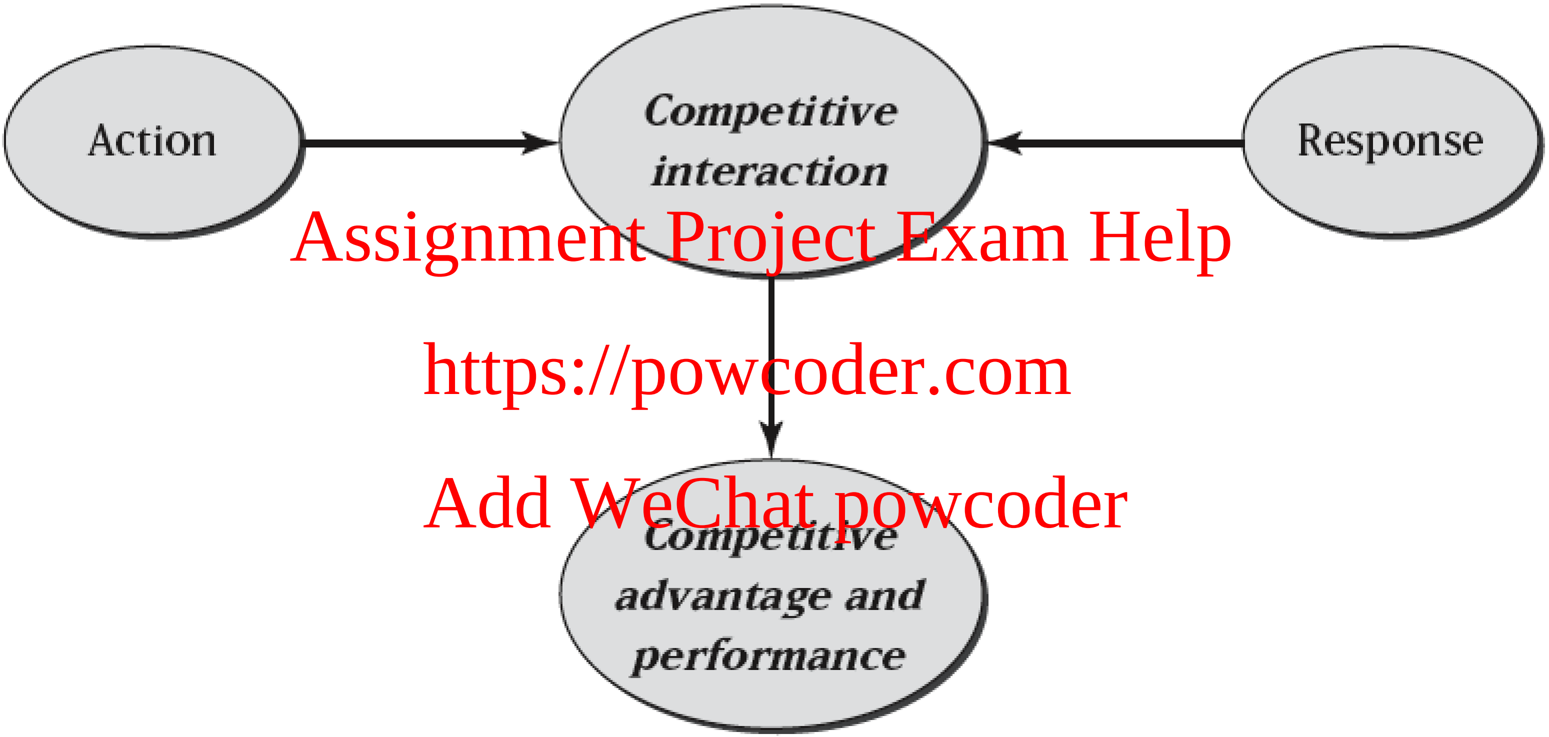
Outline

- Competitive dynamics in IB strategy

  - Competitive interactions
  - Explaining competitive dynamics from the three perspectives

- Case discussion: Competitive dynamics and Emerging Market multinationals

Strategy as actions



Source: C. M. Grimm & K. G. Smith, 1997, Strategy as Action: Industry Rivalry and Coordination *(p. 62), Cincinnati: Thomson South-Western.*

Types of strategic interaction

	Value creation	*Value capture*
Competition	• Patent races • Product proliferation • Attracting complementors away from competitors	• Fighting from customers • Fighting for better prices from suppliers • Fighting for share of value against complementors or strategic allies
Cooperation	• Strategic alliances (e.g. joint ventures, R&D collaboration) • Building an ecosystem for joint development of a product standard	• Collusive agreement (implicit or explicit) on price • Agreements between competitors to obtain better deals from suppliers

Source: Casadesus-Masanell, R. 2015. Competitive and cooperative dynamics. Harvard Business School HBP No.8131.

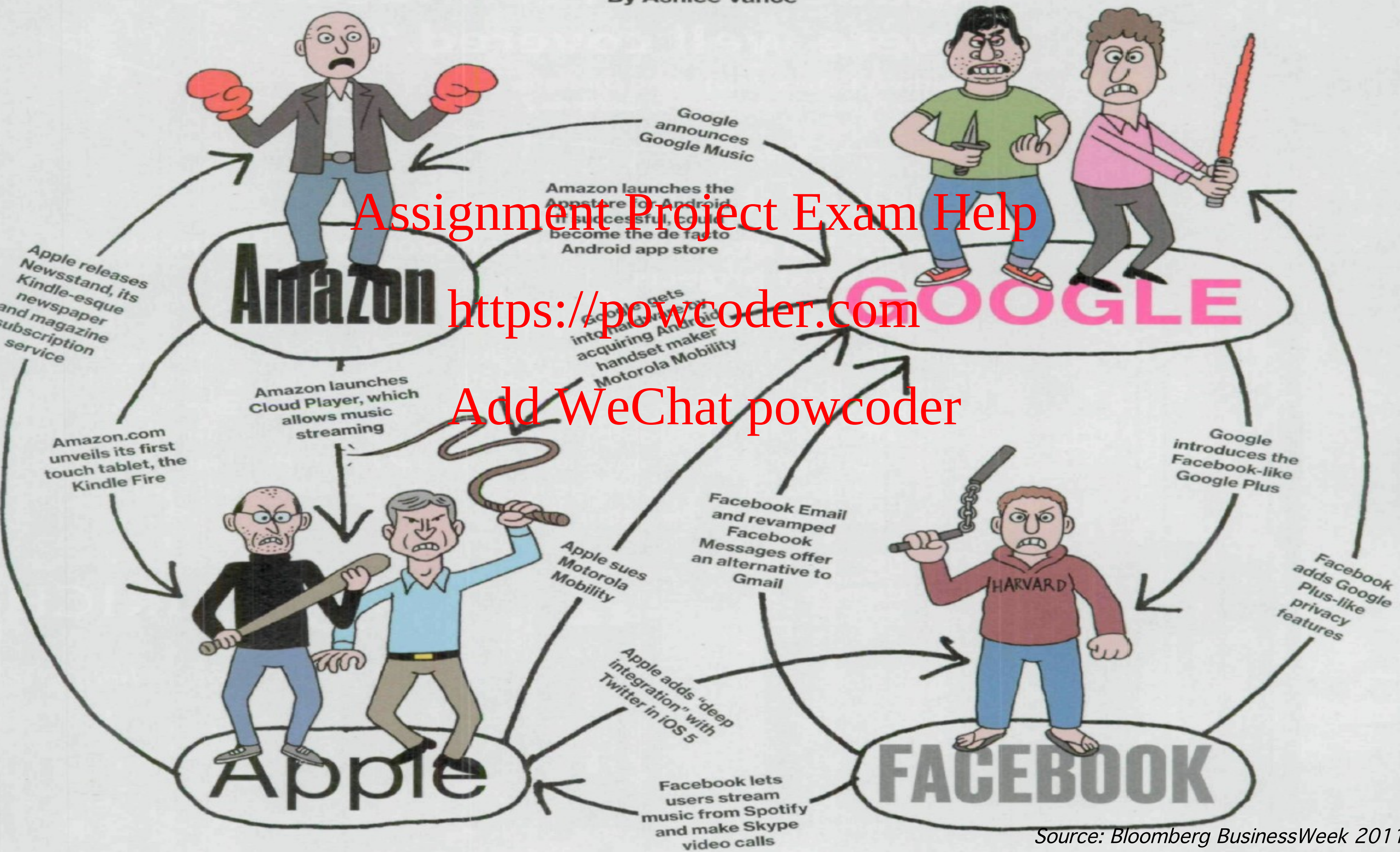
Competitive interactions

- Competitive dynamics – actions and responses undertaken by competing firms
- Competitive dynamics involve not only attack/counter attack, but also cooperation in the among firms
- Attack
  - an initial set of actions to gain competitive advantage
- Counterattack
  - a set of actions in response to attack

It's War!

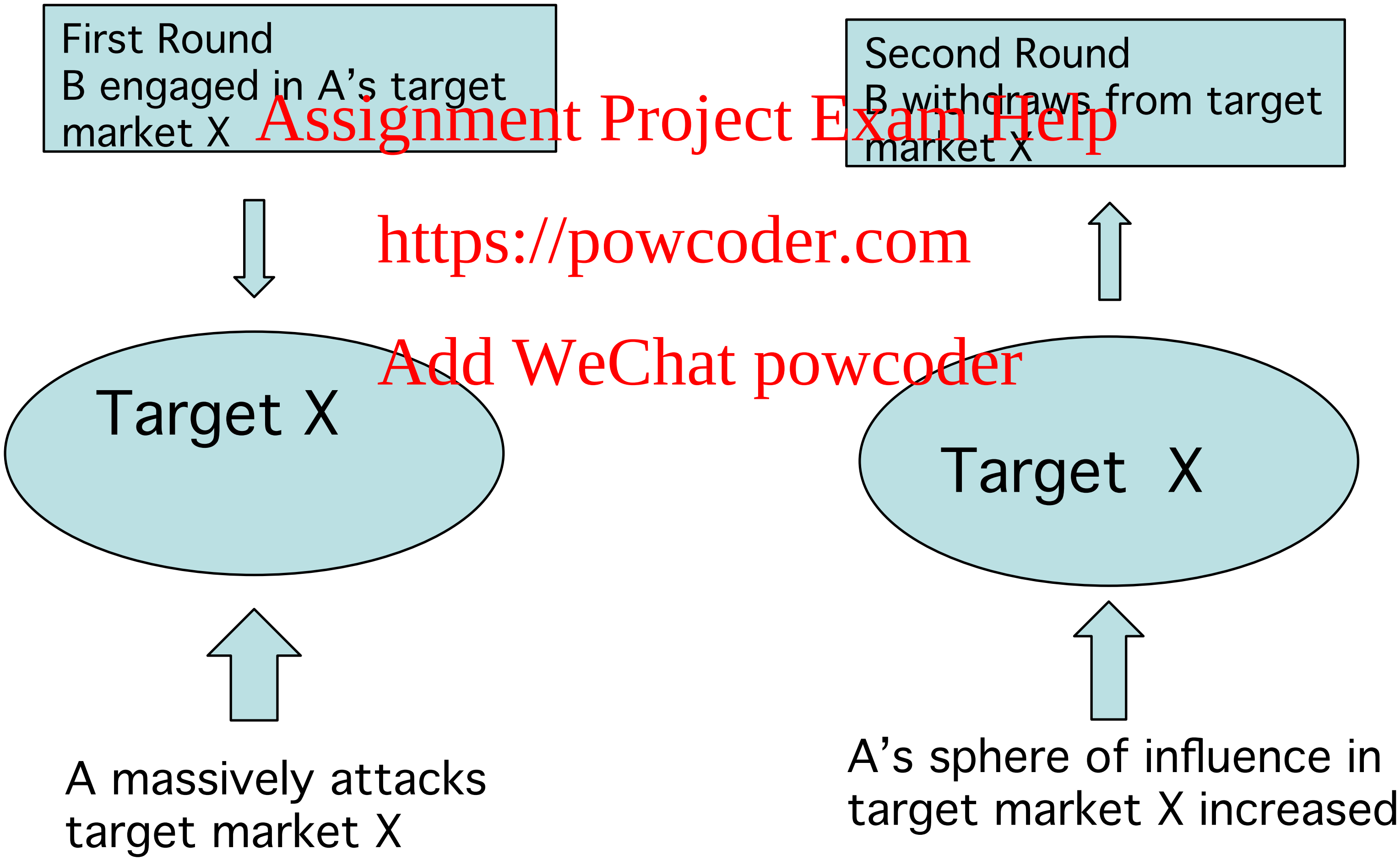
The four giants of consumer tech have hundreds of millions of users, mountains of cash, and compete ruthlessly for the same resource: our attention

By Ashlee Vance

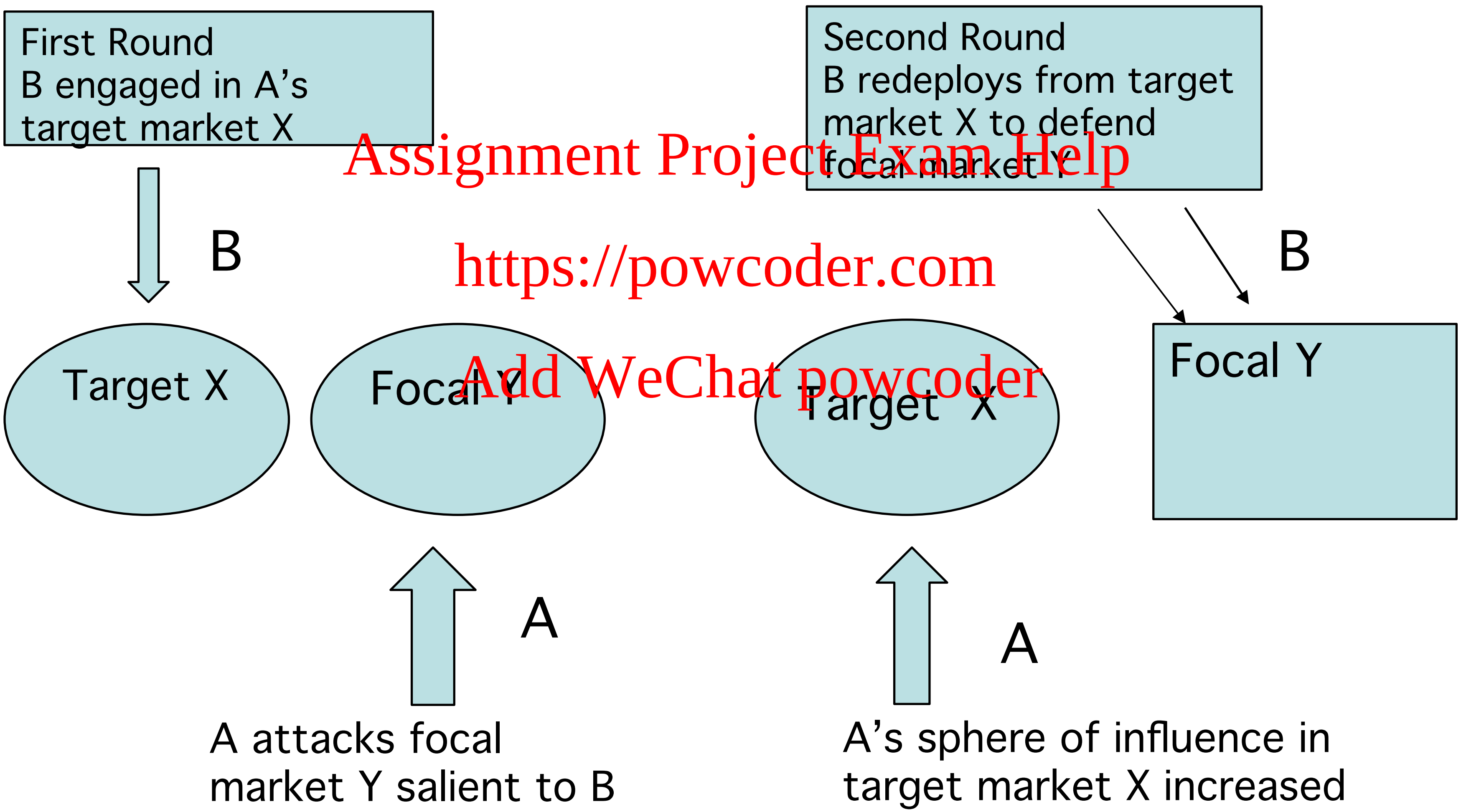


Source: Bloomberg BusinessWeek 2011

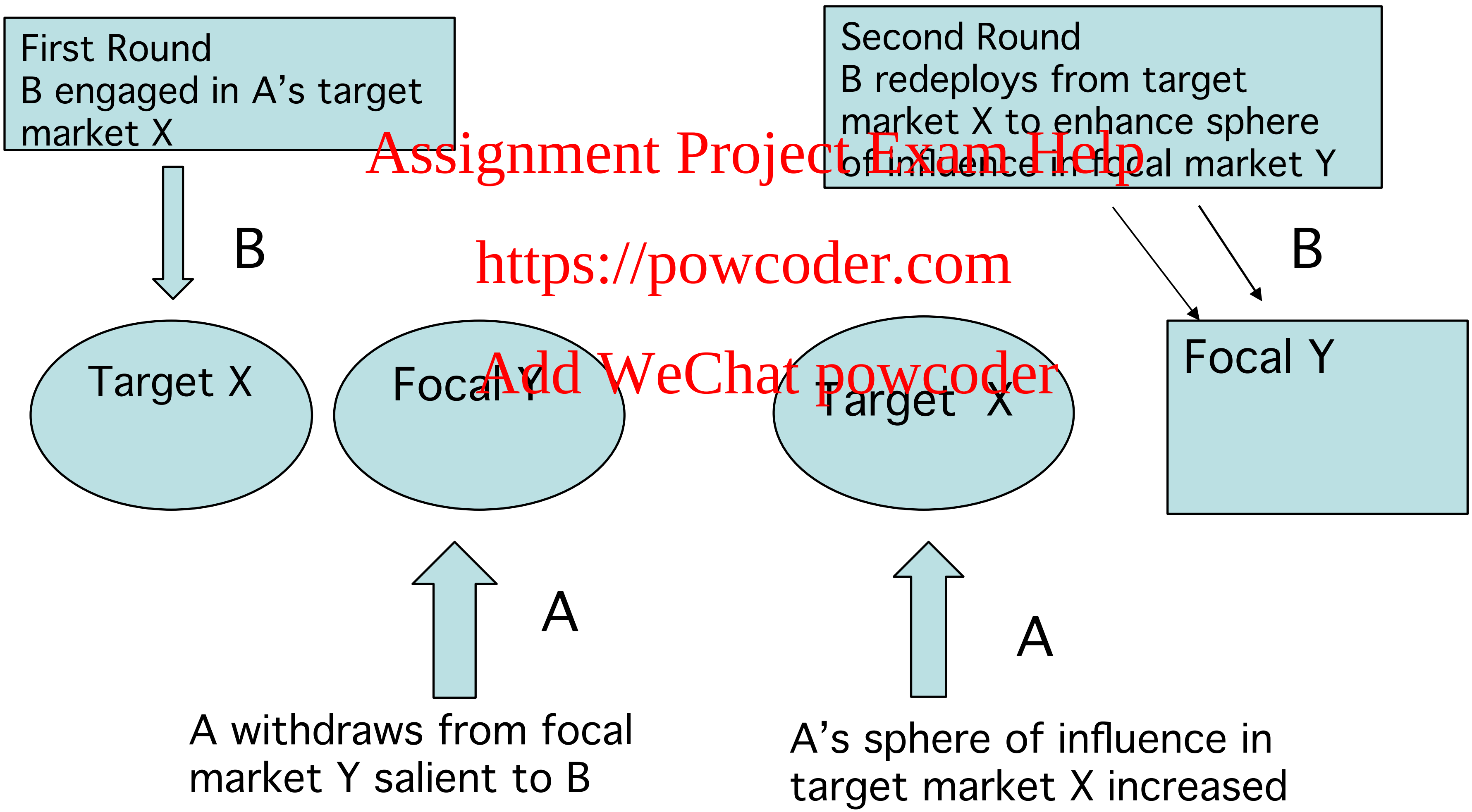
Thrust


First Round
B engaged in A's target market X
Target X
A massively attacks target market X
Second Round
B withdraws from target market X
Target X
A's sphere of influence in target market X increased

Feint


First Round
B engaged in A's
target market X
B
Target X
Focal Y
A
A attacks focal
market Y salient to B
Second Round
B redeploys from target
market X to defend
focal market Y
B
Target X
Focal Y
A
A's sphere of influence in
target market X increased

Gambit

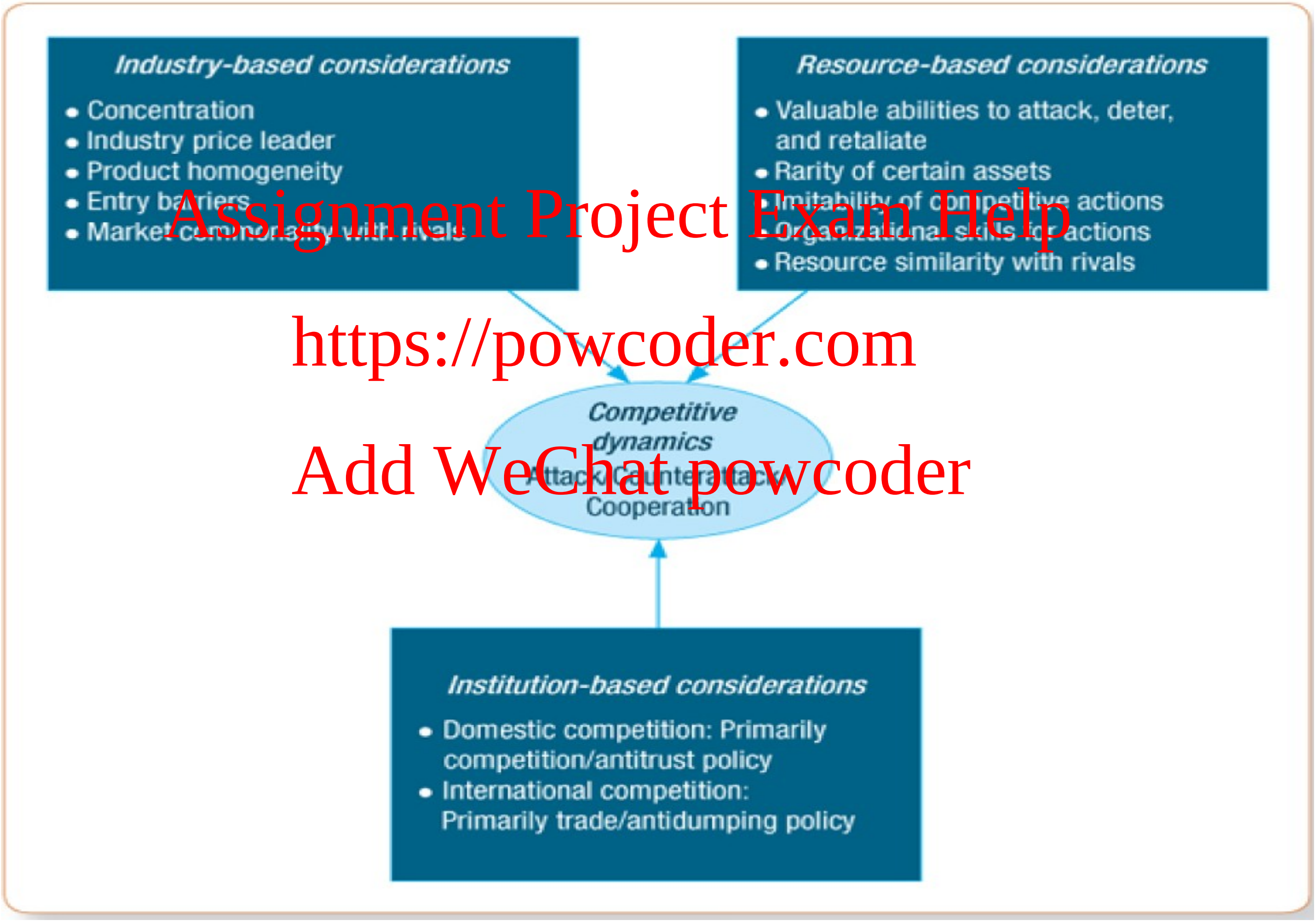

First Round
B engaged in A's target market X
B
Target X
Focal Y
A
A withdraws from focal market Y salient to B
Second Round
B redeploys from target market X to enhance sphere of influence in focal market Y
B
Target X
Focal Y
A
A's sphere of influence in target market X increased

Competitive Dynamics (cont'd)

- Signaling
  - Firms may enter new markets, not necessarily to challenge incumbents but to seek mutual forbearance by establishing multimarket contact
  - Firms can send an open signal for a truce
  - Firms can send a signal to rivals by enlisting the help of governments
  - Firms can organize strategic alliances with rivals for cost reduction
- Collusion – collective attempts between competing firms to reduce competition

  - tacit collusion – firms indirectly coordinate actions by signaling their intention to reduce output and maintain pricing above competitive

Why companies choose certain competitive/cooperative actions?



Source: Peng 2017 Global Strategy 4th Edition. Cengage.

The Industry-based considerations

- Incentive problem, game theory and the prisoners' dilemma
- Industry characteristics as determinants of competitive dynamics

Prisoners' Dilemma – what is it?

A classic example of the prisoner's dilemma

- Two men are arrested for some crime they committed together
- The police do not possess enough information for a conviction
- The police separate the two men and offer both a similar deal
- If one testifies against his partner, and the other remains silent, the betrayer goes free and the one that remains silent receives the full one-year sentence.
- If both remain silent, both are sentenced to one month in jail
- If each 'rats out' the other, each receives a three-month sentence.
- What should they do? What are they likely to do?

A Prisoners' Dilemma for Airlines and Payoff Structure (assuming a total of 200 passengers)

		Airline A	
		Action 1 A keeps price at $500	Action 2 A drops price to $300
Airline B	Action 1 B keeps price at $500	(Cell 1) A: $50,000 B: $50,000	(Cell 2) A: $60,000 B: 0
	Action 2 B drops price at $300	(Cell 3) A: 0 B: $60,000	(Cell 4) A: $30,000 B: $30,000

Industry Characteristics and Possibility of Collusion vis-à-vis Competition

Table 11.1 Industry Characteristics and Possibility of Collusion vis-à-vis Competition

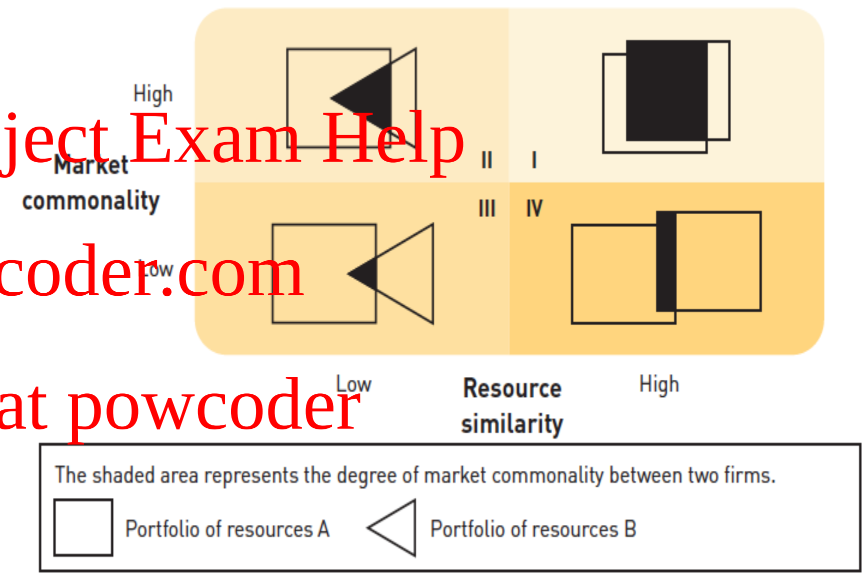
Collusion possible	Collusion difficult (competition likely)
• Few firms (high concentration)	• Many firms (low concentration)
• Existence of an industry price leader	• No industry price leader
• Homogeneous products	• Heterogeneous products
• High barriers to entry	• Low barriers to entry
• High market commonality (mutual forbearance)	• Lack of market commonality (no mutual forbearance)

Resource-Based Considerations

- Value
- Rarity
- Imitability
- Organization

Market commonality and resource similarity

- **Market commonality –** the degree of overlap between two competitors
- **Resource similarity** is the extent to which a given competitor possesses strategic endowments comparable to those of the focal firms.
- Firms with high market commonality and highly similar resources are 'clearly direct and mutually acknowledged competitors'.
- If two firms have a high degree of resource similarity but a low degree of market commonality, the intensity of rivalry is likely to be the highest



Source: M.-J. Chen, 1996, 'Competitor analysis and interfirm rivalry: Toward a theoretical integration', Academy of Management Review, 21: 100–34

Institution-Based Considerations

Institutional frameworks

- ***Formal*** **institutions governing domestic competition**
- ***Formal*** **institutions governing international competition**
- ***Informal*** **institutions influencing competition**

Formal Institutions Governing Domestic Competition

- Competition policy institutions: Determine the institutional mix of competition and cooperation that gives rise to the market system.

- The US case

  - Major antitrust laws: Sherman Act (1890); Clayton Act (1914); Hart-Scott-Rodino Act (HSR) (1976)

  - Landmark cases: Standard Oil (1911); ALCOA (1945); IBM (1976-82); AT&T (1974-82); Microsoft (1990-2001)

- The Japan case
  - Maintaining “orderly competition,” which rewards incumbents which have invested heavily in the industry, is “fair”

Collusions caught by regulators: examples

Qantas fined for cargo price fixing

http://www.youtube.com/watch?v=_70xP6LCen8&feature=relmfu

Australian cardboard giants, Amcor and Visy, agreed to pay $95 million after they were sued by customers for alleging fixing the price of cardboard boxes between 2000 and 2005.
http://www.abc.net.au/pm/content/2011/s3160818.htm

Formal Institutions Governing International Competition

- Example: Antidumping
  - Legal definition: An exporter is (1) selling below cost abroad and (2) planning to raise prices after eliminating local rivals.
    - Similar to the “predatory pricing” case domestically
    - Dumping firms will be subject to severe tariff penalties

The rise of emerging market multinationals and their competiti with incumbent developed country multinationals

- Examples of "dragon multinationls"
  - Korea: Samsung, Hyundai, LG
  - China: Huawei, Lenovo, Haier
  - Taiwan: TSMC, UMC, Acer, HTC
  - India: Ispat
  - Mexico: Cemex
  - Hong Kong: Li & Fung
  - …
- Observed features
  - Managed to enter industries with high barriers
  - Facing fierce competition from incumbents
  - Consistently emerging alternative technologies
  - Had less resources
  - Accelerated internationalization
  - From countries where institutions are weak
- Weekly discussion questions:
- Based on your reading of the article "Dragon multinationals: New players in 21st century globalization", please discuss the following questions in your group
  - How have those dragon multinationals from emerging economies successfully competed with incumbents in the industries? Does the 'tripod strategic framework' fail to explain their success?