

Strategic Management

CB4303

WEEK 10: GLOBAL STRATEGY & STRATEGIC
LEADERSHIP

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Recap

Build-Borrow-Buy Framework

**Identify a strategic resource gap – how do we acquire this resource?
Build, borrow, or buy?**

Build:

- Internal organic growth through development

Borrow:

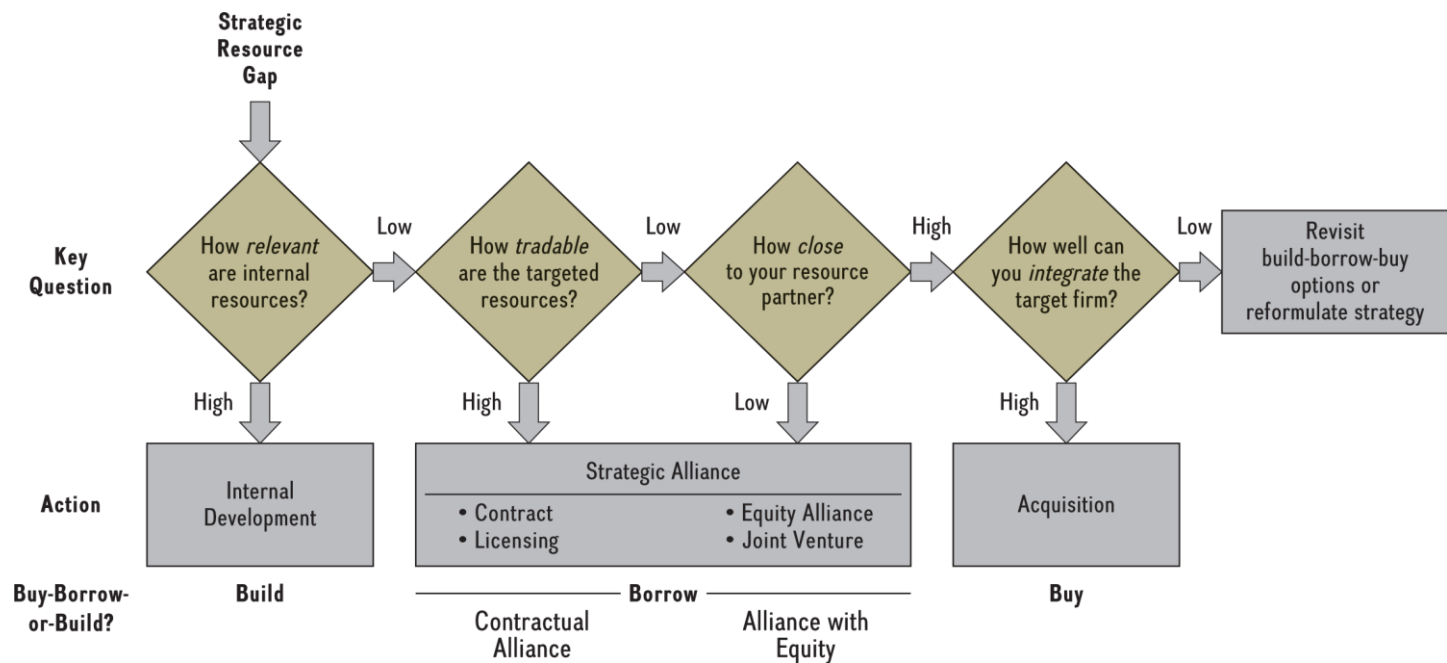
- External growth through a contract / strategic alliance

Buy:

- External growth through acquiring new resources, capabilities, and competencies

Guiding Corporate Strategy: The Build-Borrow-Buy Framework

Exhibit 9.1



Source: Author's adaptation from L. Capron and W. Mitchell (2012), *Build, Borrow, or Buy: Solving the Growth Dilemma* (Boston: Harvard Business Review Press).

Why Do Firms Enter Strategic Alliances?

Strengthen competitive position:

- Change industry structure, influence standards

Enter new markets:

- Product, service, or geographic markets

Hedge against uncertainty:

- Breaks down investment into smaller decisions

Access critical complementary assets:

- Marketing, manufacturing, after-sale service
- Helps complete the value chain

Learn new capabilities:

- Co-opetition: cooperation among competitors

What are the Risks?

Divergent goals and interests

- Choosing wrong partners

Potential partner opportunism

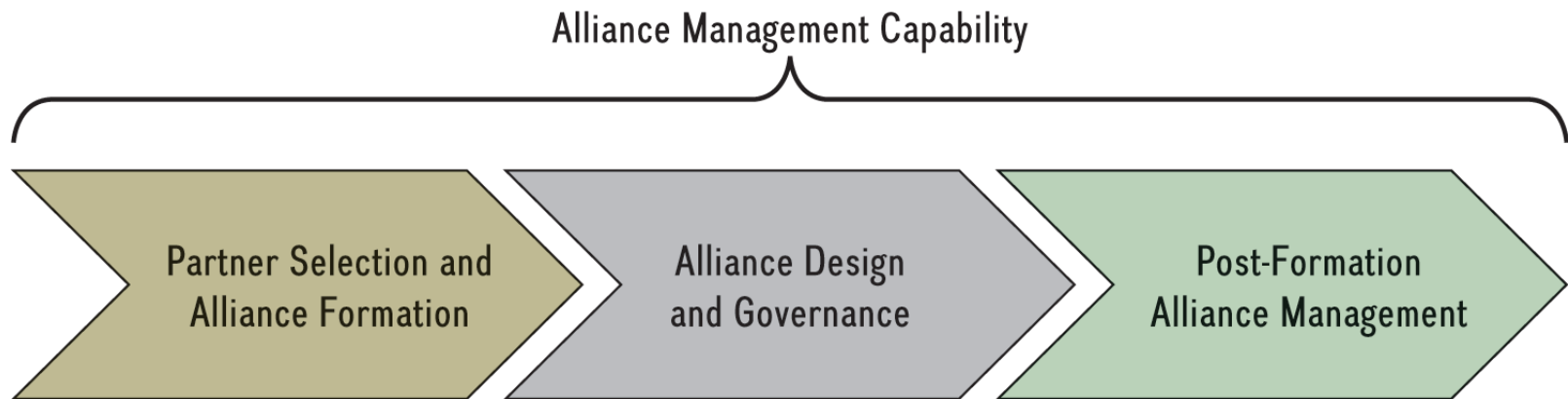
- Partner acting in their self-interest

Risks of nurturing competitors

- Learning race: A race in which partners aim to outrun each other by learning the “tricks” from the other side as fast as possible

3 Phases of Alliance Management

Exhibit 9.3



Why Do Firms Merge with Competitors?

Horizontal integration:

- The process of merging with a competitor
- Occurs at the same stage of the value chain

Three main benefits:

1. Reduction in competitive intensity
2. Lower costs
3. Increased differentiation

Why Do Firms Acquire Other Firms?

To access new markets & distribution channels

- To overcome entry barriers
- To access new capabilities or competencies

Access to a new capability or competency

To preempt rivals (example: Facebook vs. Google)

Why do Most M&A Fail?

Pre-acquisition Issues

- Principal-agent problem (**managerial hubris**)
- Inadequate pre-acquisition screening
- Poor strategic fit: effective matching of complementary strategic capabilities

Post-acquisition Issues

- Challenges of organizational fit
- Failure to address multiple stakeholder groups' concerns

Agenda for Today

- Topic: Global Strategy & Strategic Leadership
 - ✓ Define globalization, multinational enterprise (MNE), foreign direct investment (FDI), and global strategy
 - ✓ Explain why companies expand internationally, and evaluate the advantages and disadvantages of competing globally
 - ✓ Apply the cost-responsiveness framework to evaluate the four different strategies MNEs can pursue when competing globally
- ✓ Explain the role of strategic leaders and what they do
- ✓ Outline upper echelon strategy

Global Strategy

Globalization

Globalization: A process of closer integration and exchange between countries and peoples worldwide

Made possible by reduction of “cost of doing business”

- Falling trade and investment barriers
- Advances in telecommunications
- Reductions in transportation costs

Globalization also allows companies to:

- Source supplies at lower costs
- Learn new competencies
- Further differentiate products

Market economies are becoming more integrated and interdependent

Global Strategy

Multinational Enterprise (MNE)

- Engine behind globalization
- A company that deploys R&C in procurement, production, and distribution of goods and services in two countries or more
- MNEs need an effective global strategy
- While MNEs make up a small proportion of total companies, they account for a larger amount of GDP and employment

Global Strategy

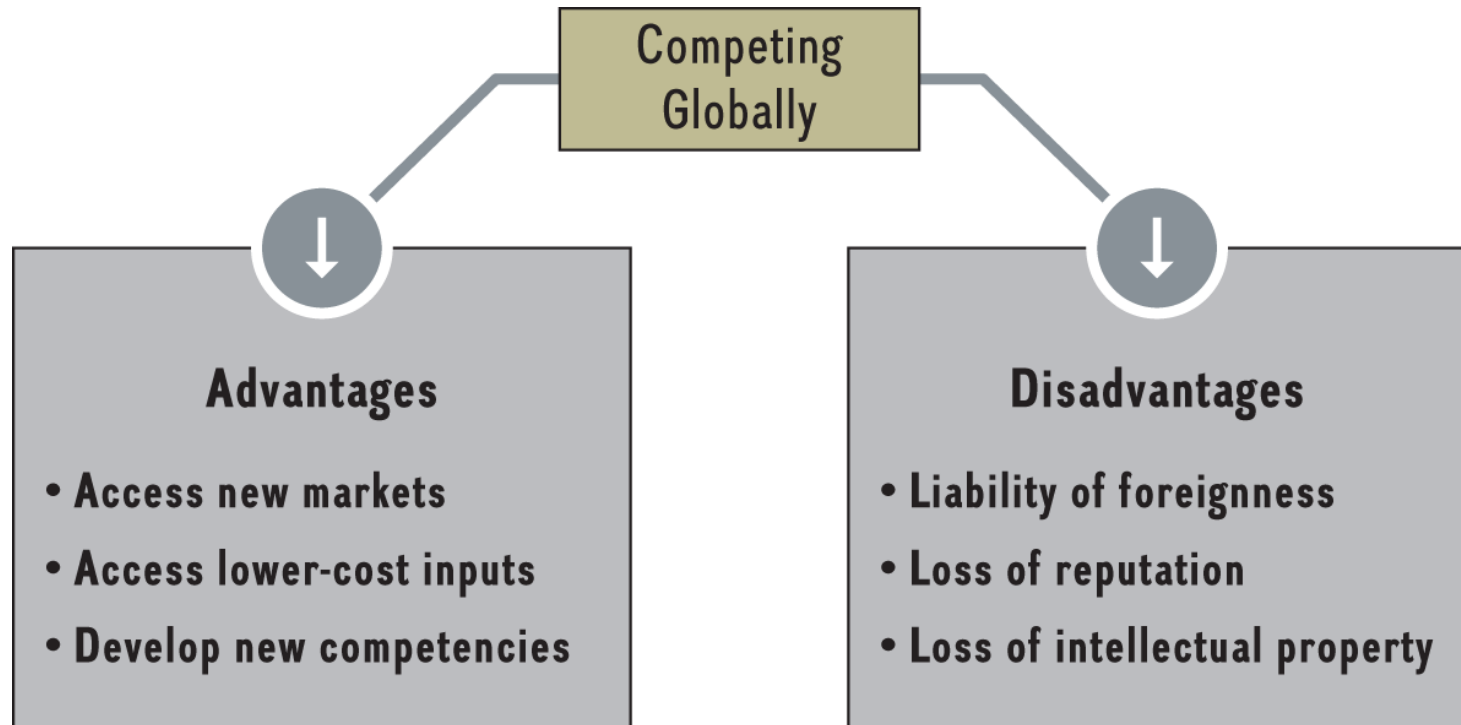
- Part of a firm's corporate strategy to gain/sustain a competitive advantage
- Compete against foreign and domestic companies

Foreign Direct Investment (FDI)

- MNEs engage in FDI: investments in value chain activities abroad

Advantages and Disadvantages of International Expansion

Exhibit 10.5



Advantages of Global Expansion

Access to Larger Market

Helps multinational enterprises with economies of scale and scope

- Participating in a much larger market
- Opportunities to outcompete local rivals
- Helps firms in smaller economies to achieve growth

Gain access to low-cost input factors

Helps multinational enterprises that pursue a low-cost leadership strategy

- Provides access to low-cost raw materials (lumber, iron ore, oil, and coal)
- Has been a key driver of **globalization**

Advantages of Global Expansion (Cont'd)

Develop New Competencies

Helps multinational enterprises that pursue a differentiation strategy

Provides access to:

- Communities of learning
- Specific geographic regions
- Location economies
- Locating value chain activities in optima geographies

Disadvantages of Global Expansion

Liability of Foreignness: Inherent disadvantage that foreign firms experience given their non-native status

- Greater cultural distances: unfamiliar cultural environment
- Unfamiliar economic environment
- Coordinating across geographic distances
- Foreign companies need to invest resources to learn the rules

Foreign firms are often discriminated against, formally and informally

- Formal: regional integration (NAFTA, RCEP), procurement guidelines
- Informal: consumer preferences, nationalism

Disadvantages of Global Expansion (Cont'd)

Reputation is one of the most valuable resources

- Reputation dimensions can include innovation, customer service, brand reputation

Loss of reputation can diminish competitiveness

- Low wages, long hours, and poor conditions
- Local government may be corrupt
- Safety standards may not be enforceable
- This challenge concerns **corporate social responsibility**
- Example: Apple's brand stands for innovation and superior customer experience (valued at \$230 billion)

Disadvantages of Global Expansion (Cont'd)

Loss of Intellectual Property

It can be difficult to protect IP in foreign markets

- Particularly in the software, movie, and music industries
- Copyright infringements can occur

Reverse-engineering capabilities

- Intellectual property exposure

The CAGE Distance Framework

Distance is the main cost and risk of expansion

CAGE is an acronym for different types of distance:

- Cultural
- Administrative and political
- Geographic
- Economic

Guides multinational enterprise decisions on which countries to enter

Cultural Distance

Disparity between a firm's home and host country, in **social norms** and **morals, beliefs, and values**

Cultural distance may stem from differences in:

- Power distance
- Individualism
- Masculinity–femininity
- Uncertainty avoidance
- Long-term orientation

Administrative and Political Distance

Captured in factors such as:

- Shared monetary or political associations
- Political hostilities
- Weak or strong legal and financial institutions

Political and administrative barriers include:

- Tariffs, quotas and restrictions

Geographic Distance

More than just physical distance

Measured by:

- Physical size (Canada versus Singapore)
- Within-country distances to its borders
- Time zones
- Access to waterways and the ocean
- Particularly relevant for raw material bulk products (steel, cement, etc.), fragile (glass) and perishable products (fresh meats and fruits)

Economic Distance

Wealth and per capita income of consumers

- Wealthy countries engage in more cross-border trade

Developed countries trade with each other

- Economies of experience, scale, scope, and standardization
- Similar infrastructure and resources

Developed countries trade with emerging countries

- Access to low-cost input factors (economic arbitrage)

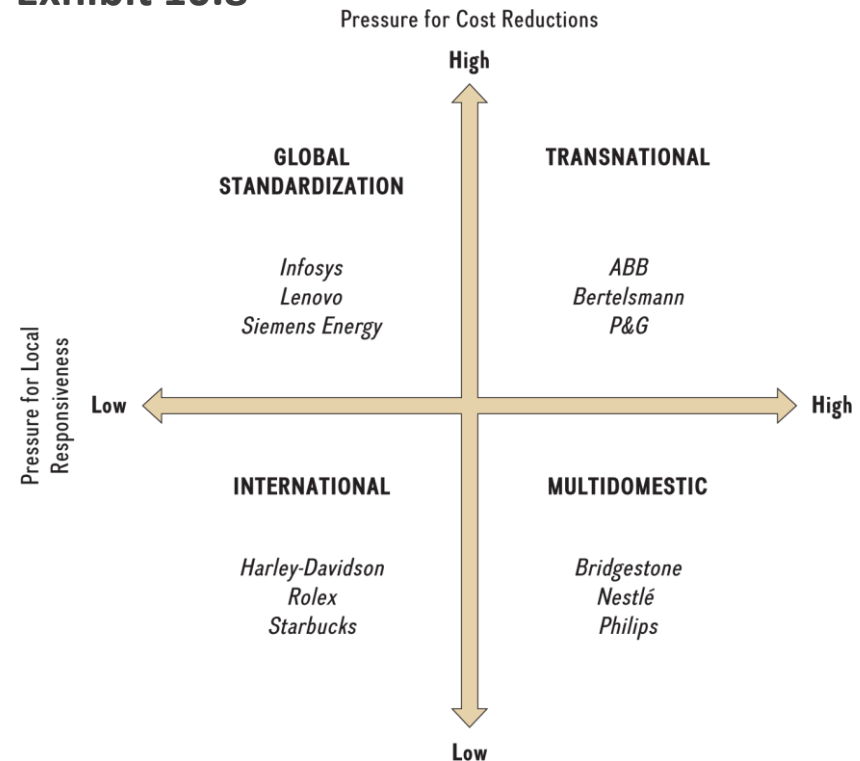
Cost – Responsiveness Framework

The Cost-Responsiveness Framework

Two opposing forces in global competition:

1. **Cost reductions:** key competitive weapon
2. **Local responsiveness:** tailoring to specific preferences

Exhibit 10.8



Sources: Author's adaptation from C.K. Prahalad and Y.L. Doz (1987), *The Multinational Mission* (New York: Free Press); and K. Roth and A.J. Morrison (1991), "An empirical analysis of the integrationresponsiveness framework in global industries," *Journal of International Business Studies* 21: 541–564.

International Strategy

Low pressure for cost reductions / **low** pressure for local responsiveness

- A company sells the same products or services in domestic and foreign markets
- Duplication of home country-based R&C in foreign countries
- Relatively easy to implement

Advantages and Disadvantages

- Advantage: leverages home-based core competencies, consistency
- Disadvantage: lack of local responsiveness

Often used successfully by multinational enterprises with:

- Large domestic markets
- Strong reputations and brand names

Multidomestic Strategy

Low pressure for cost reductions / **high** need for local responsiveness

- Also known as “localization strategy”
- Each country/region regarded as a standalone local market
- Local consumers ideally perceive products as local
- Effective when institutional differences are clear

Advantages and Disadvantages

- Advantage: maximizes local responsiveness
- Disadvantage: high costs due to duplication of efforts in multiple countries, too much local autonomy

Common in: consumer products industry, F&B industry

Global-Standardization Strategy

High pressure for cost reductions / **low** need for local responsiveness

- Economies of scale and location economies
- Achieved through global division of labor
- Based on wherever capabilities have lowest cost
- Focus on development and distribution of standardized products worldwide
- Difference w/ international strategy: operations not limited to home country

Advantages and Disadvantages

- Advantage: Able to leverage low-cost advantages due to scale economies
- Disadvantage: lack of local responsiveness (similar to international strategy), too much centralized control

Example

- Lenovo: Chinese computer manufacturer (manufacturing facilities in Mexico, India, and China)

Transnational Strategy

High pressure for cost reductions / **high** need for local responsiveness

- A strategy that endeavors to be simultaneously cost efficient, locally responsive, and learning-driven around the world
- Cost efficient while being locally responsive
- Engages in global learning and diffusion of innovations
- Used by multinational enterprises that pursue a blue ocean strategy

Advantages and Disadvantages

- Advantages: best practices
- Disadvantage: organizationally complex, difficult to implement

Strategic Leadership

What Is Strategic Leadership?

Strategic Leadership

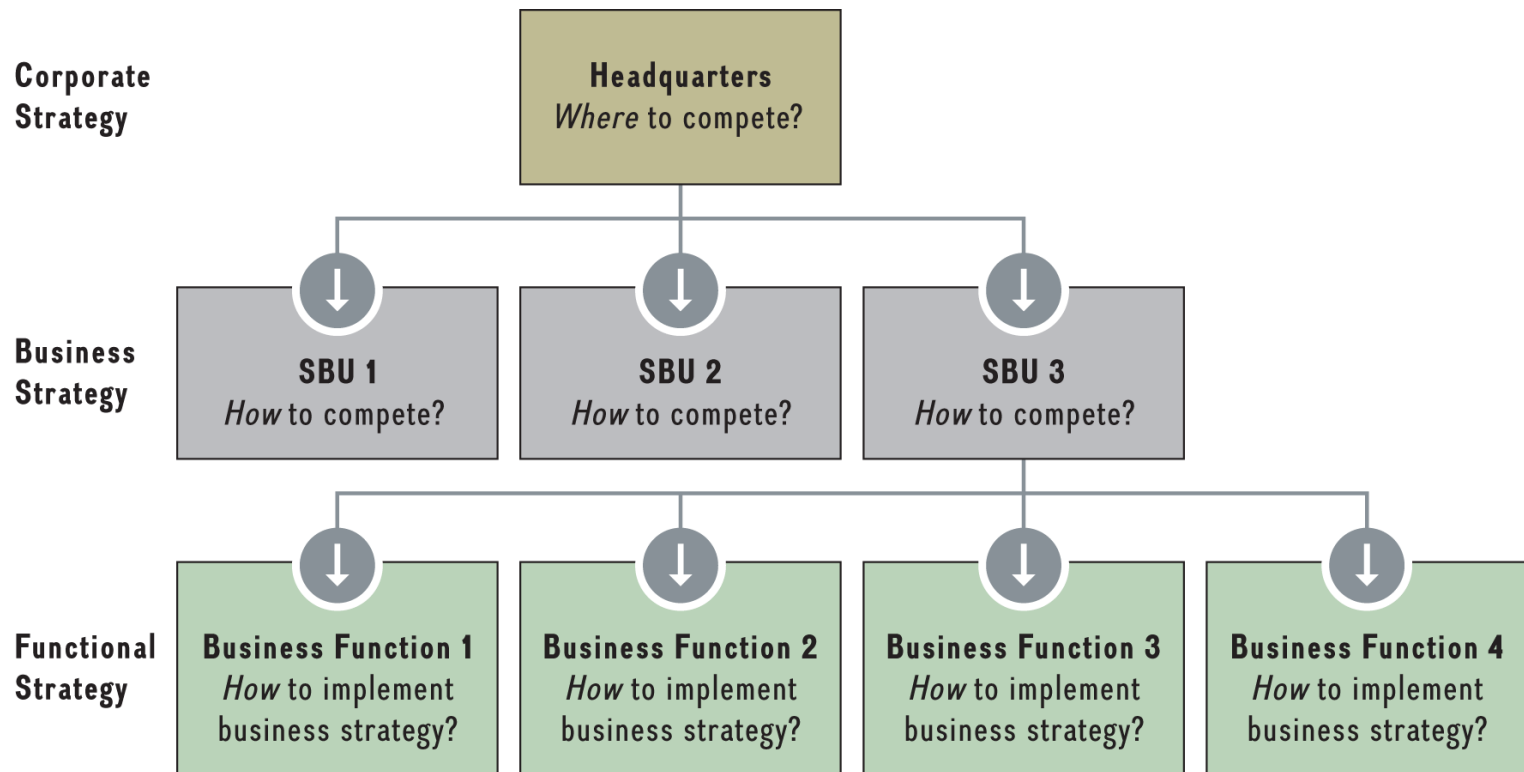
- Executives' use of power and influence to direct the activities of others when pursuing an organization's goals
- Enables organizational competitive advantage
- Power and influence can be both formal (position) and informal (persuasion)

Strategic Decision Making

- Although we generally speak of the firm in an abstract form, individual employees make strategic decisions — whether at the corporate, business, or functional levels
- Corporate executives at headquarters formulate corporate strategy

Strategic Decision-Making Process

Exhibit 2.3



Upper Echelons Theory

Upper Echelons Theory

- Organizational outcomes reflect values of top management team
- Organizational outcomes: both strategic choices and performance levels
- Strategic leaders interpret situations through the lens of their unique perspectives
- Their perspectives are shaped by their personal circumstances, values, and experiences

Cognitive Biases

- Illusion of control: tendency to overestimate our ability to control events
- Confirmation bias: searching for information to support existing beliefs
- Escalating commitment: continuing to support a project when it is showing signs that it may not succeed

Announcements

Group Presentations and Reports

Group presentations start NEXT WEEK

- Group presentation: group leaders email me the PowerPoint version of the presentation by **9AM** of the presentation date
- Also be ready to access the presentation online
- Group report due one week after the presentation

Presentation Date	Groups	Presentation Due	Report Due Date
November 16	7, 8, 10, 12, 15	November 16, 9AM	November 23, 12PM
November 23	1, 3, 4, 6, 13	November 23, 9AM	November 30, 12PM
November 30	2, 5, 9, 11, 14	November 30, 9AM	December 7, 12PM

Final Exam

Exam format

- Closed-book
- 20 multiple-questions
- 3-4 short answers
- One essay

Length

- 2-hour exam

Content

- All lecture and in-class discussion materials
- Details on specific companies during in-class discussion will not be covered
- Chapters: 1-10

In-Class Quiz #1 Review

Q3. _____ factors in the PESTEL framework result from the pressure that various groups, such as government bodies, nongovernmental organizations, and social movements, can exert to influence the decisions and behaviours of firms.

- Economic
- Sociocultural
- Ecological
- Political

Q8. If a firm is not effectively organized to exploit the competitive potential of a valuable, rare, and costly to imitate (VRI) resource, the best-case scenario is

- a temporary competitive advantage
- a state of perfect competition
- strategic equivalence
- direct imitation

In-Class Quiz #1 Review (Cont'd)

Q10. According to the resource-based view, a firm's competitive advantage is more likely to stem from its _____ as opposed to its _____.

- intangible resources; tangible resources
- tangible resources; intangible resources
- current assets; long-term assets
- long-term assets; current assets

Q11. Which of the following is a key criterion in the VRIO framework?

- verifiable
- rare
- imitable
- original

In-Class Quiz #1 Review (Cont'd)

Q13. When using the balanced scorecard approach to assess a firm's performance, which of the following is a key question that strategic leaders need to answer?

- Where should the firm compete?
- What should our strategy be?
- What intangible assets do we need?
- How do shareholders view us?

TLQ Questionnaire

Please complete the TLQ questionnaire before leaving