FRANKFURT UNIVERSITY OF APPLIED SCIENCES

International Strategic Management

Prof. Dr. Erika Graf

Fachbereich 3
Wirtschaft und Recht | Business and Law

1. Strategy and Competitive Advantage
Learning Objectives

1. Understand **definitions** and **elements of** a **strategy**
2. Differentiate different **schools of strategy**
3. Recognize **strategy development as** a **process**
4. Identify **Generic strategies** and **competitive advantage**
5. Apply some of the **tools for strategy development**

What Is Strategy And Why Is It Important?

Three central questions

1. What's the company's present situation?
2. Where does the company need to go from here?
3. How should it get there?

A company's strategy is management's action plan for running the business and conducting operations.

- Commitment to pursue a particular set of actions:
  - how to attract and please customers, how to compete successfully, how to conduct operations, and how to improve the company's financial and market performance.
- Choice between offensive and defensive, risk-avoiding strategies
- Must fit a companies DNA
- Copying competitors hardly works

Three schools of strategy have emerged

TABLE 1.1 What Is Strategy?

Strategy as plan

- "Concerned with drafting the plan of war and shaping the individual campaigns and, within these, deciding on the individual engagements" (von Clausewitz, 1976)[1]
- "A set of concrete plans to help the organization accomplish its goal" (Oster, 1994)[2]

Strategy as action

- "The art of distributing and applying military means to fulfill the ends of policy" (Liddel Hart, 1967)[3]
- "A pattern in a stream of actions or decisions" (Mintzberg, 1978)[4]
- "The creation of a unique and valuable position, involving a different set of activities … making trade-offs in competing … creating fit among a company's activities" (Porter, 1996)[5]

Strategy as integration

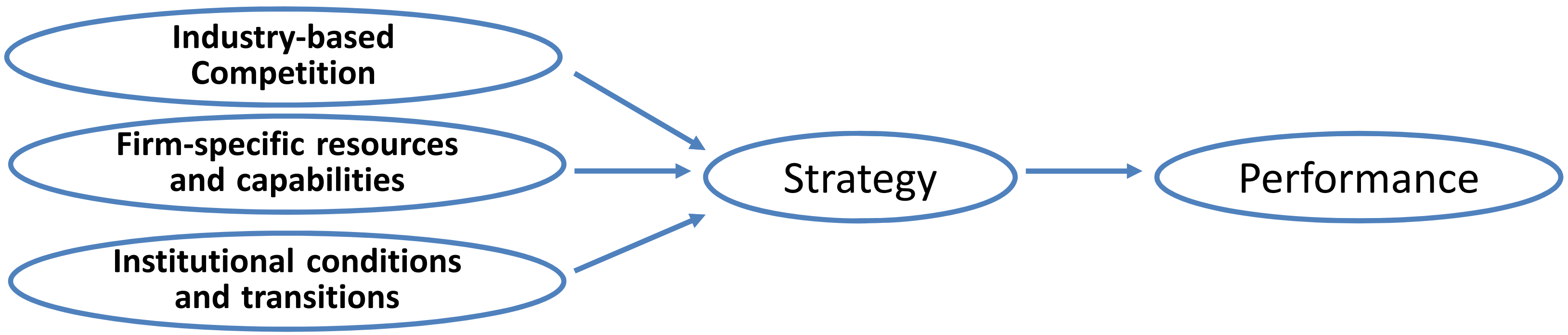
- "The determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" (Chandler, 1962)[6]
- "The major intended and emergent initiatives undertaken by general managers on behalf of owners, involving utilization of resources to enhance the performance of firms in their external environments" (Nag, Hambrick, and Chen, 2007)[7]
- "The analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages" (Dess, Lumpkin, and Eisner, 2008)[8]

Sources: Based on (1) C. von Clausewitz, 1976, *On War*, vol. 1 (p. 177), London: Kegan Paul; (2) S. Oster, 1994, *Modern Competitive Analysis*, 2nd ed. (p. 4), New York: Oxford University Press; (3) B. Liddell Hart, 1967, *Strategy*, 2nd rev. ed. (p. 321), New York: Meridian; (4) H. Mintzberg, 1978, Patterns in strategy formulation (p. 934), *Management Science*, 24: 934–948; (5) M. Porter, 1996, What is strategy? (pp. 68, 70, 75), *Harvard Business Review*, 74: 61–78; (6) A. Chandler, 1962, *Strategy and Structure* (p. 13), Cambridge, MA: MIT Press; (7) R. Nag, D. Hambrick, & M. Chen, 2007, What is strategic management, really? *Strategic Management Journal*, 28: 935–955; (8) G. Dess, G. T. Lumpkin, & A. Eisner, 2008, *Strategic Management*, 4th ed. (p. 8), Chicago: McGraw-Hill Irwin.

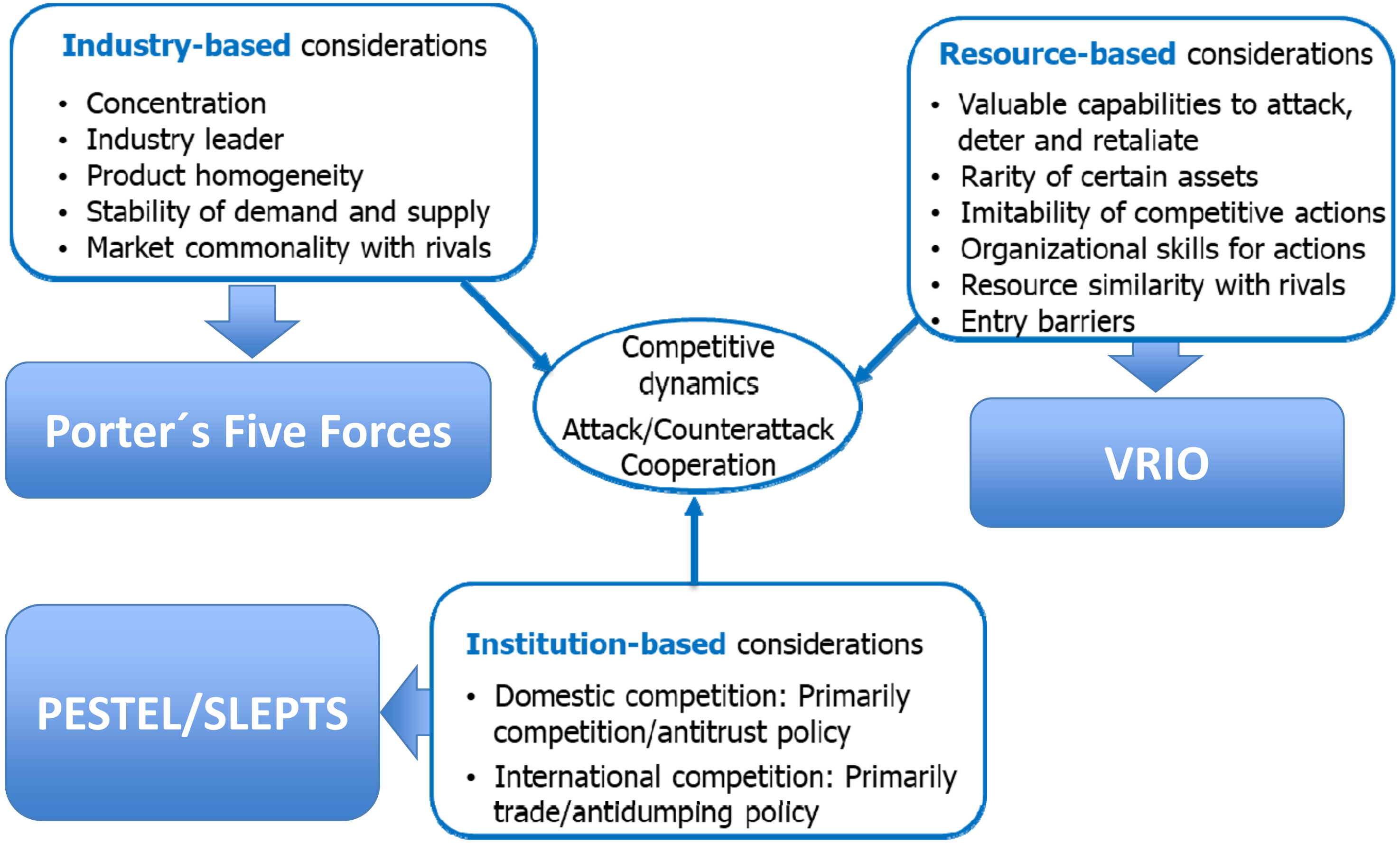
The "Strategy Tripod"
3 Leading Perspectives on Strategy

Three most prevalent philosophies of international business strategy:

1. **industry-based**, which argues that conditions within a particular industry determine strategy; structure–conduct–performance paradigm
2. **resource-based**, which argues that firm-specific differences determine strategy;
3. **institution-based**, which argues that the industry- and resource-based views need to be supplemented by accounting for relevant societal differences of the types mentioned above.

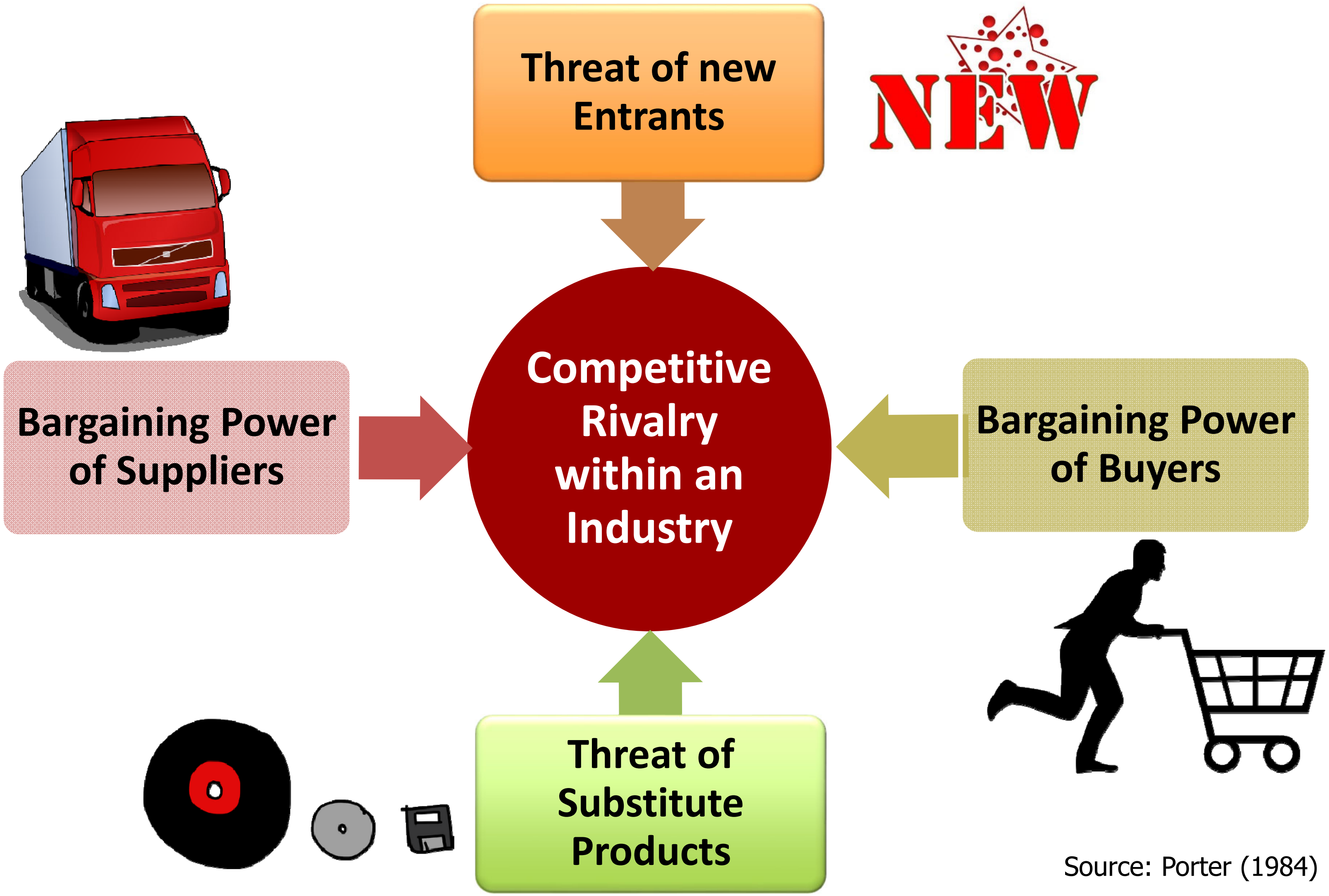


Three perspectives on strategy



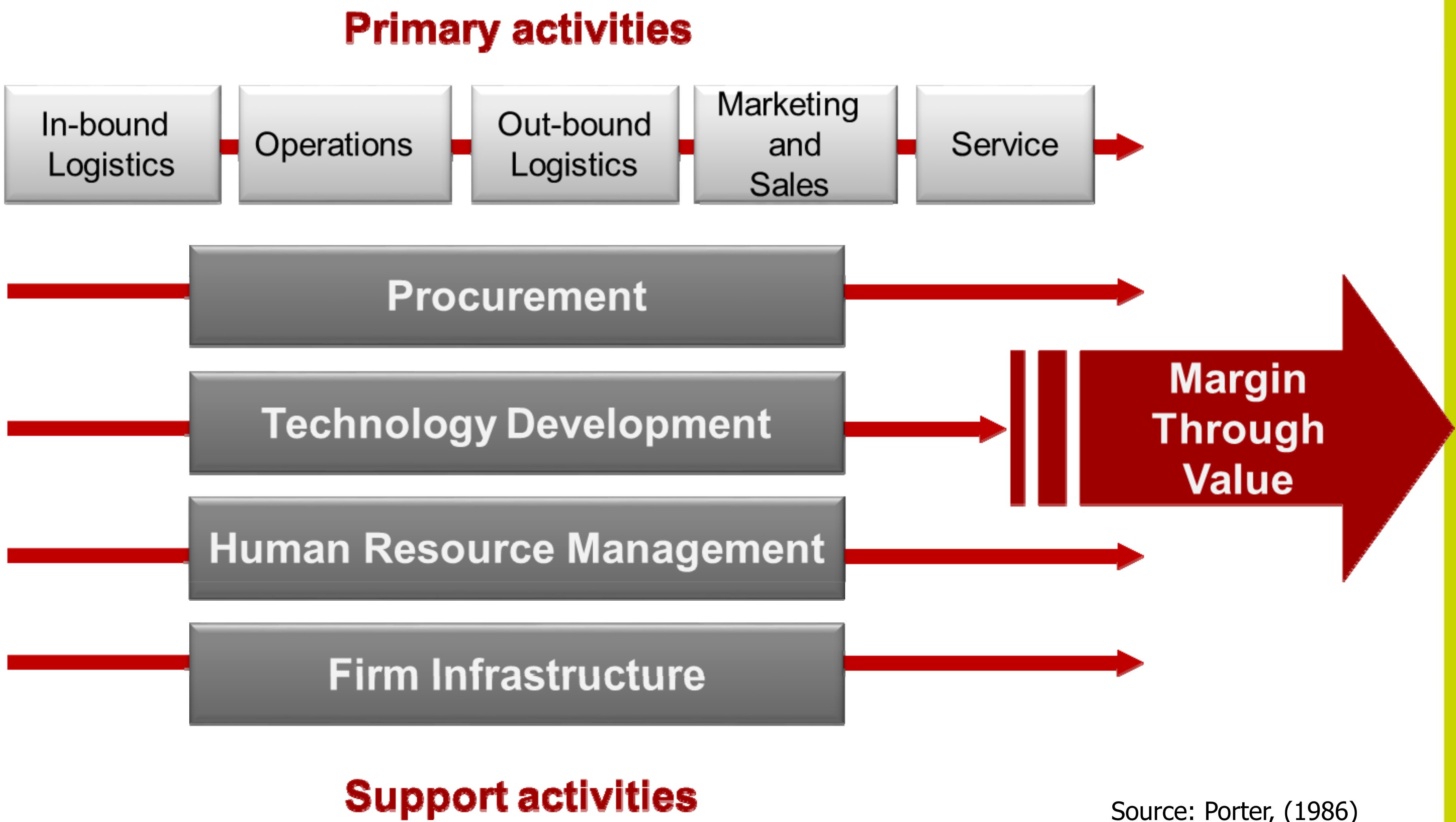
Source: Peng (2012) p. 125 ff.

Porter´s Five Forces Model of Competition



Source: Porter (1984)

Porter´s Value Chain



Source: Porter, (1986)

Information Needs in Strategy Development

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Tools used to analyze a business macro environment, e.g. risks & opportunities

S	• Social & cultural factors
L	• Legal environments
E	• Economic characteristics
P	• Political factors
T	• Technological environments
S	• Sustainability

P	• Political factors
E	• Economic characteristics
S	• Social & cultural factors
T	• Technological environments
E	• Environment
L	• Legal environments

SCA structured – The VRIO Framework

Resources/capabilities with the potential to provide an organization with superior performance must meet four criteria:

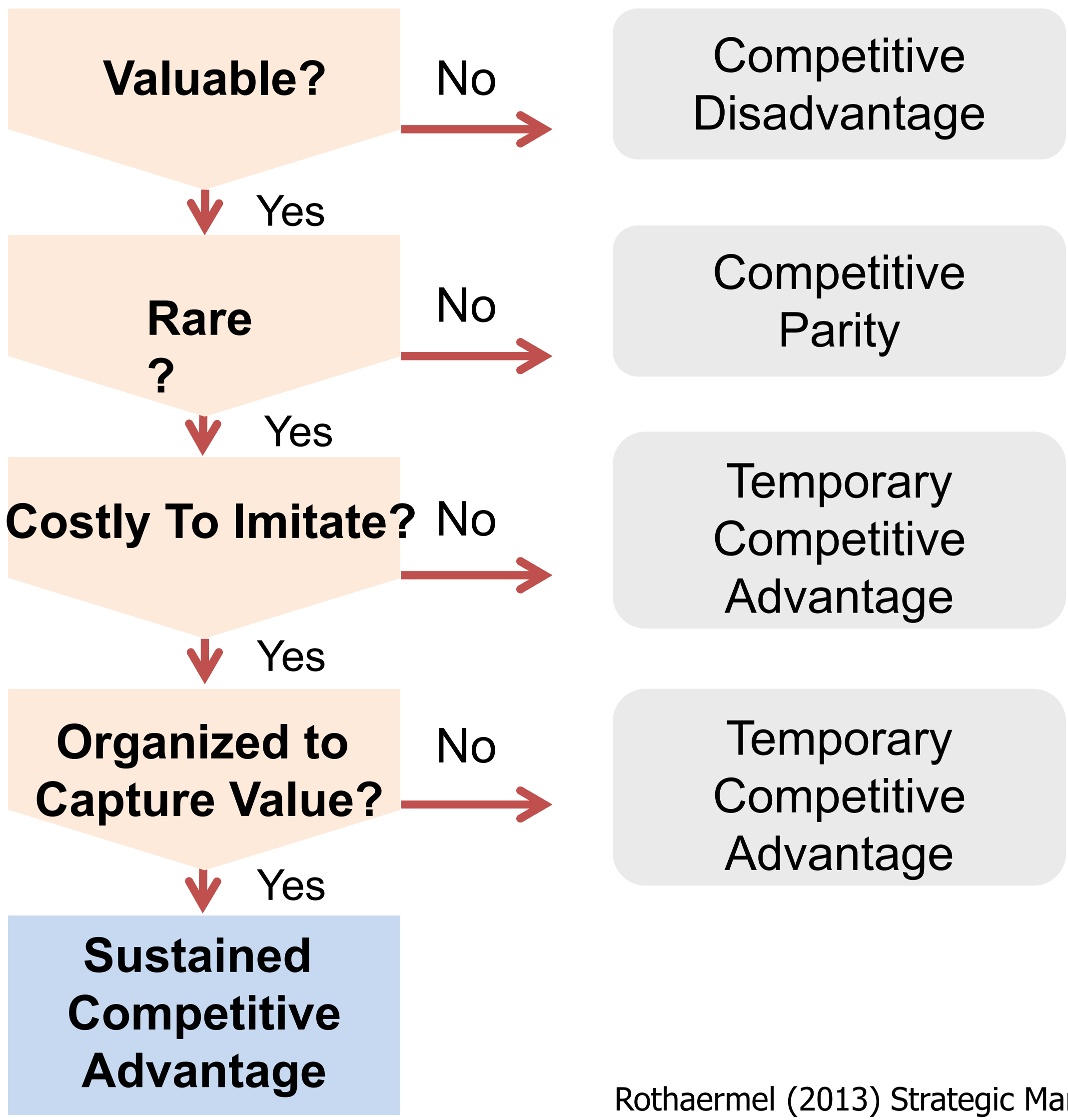
1. **Valuable** – the resource helps the organization improve its value-added
2. **Rare** – few, if any, organizations possess this resource
3. **Inimitable** – the resource cannot easily be copied or substituted
4. **Organized** – the organization must be able/organized to take advantage of the resource

Source: Lynch (20012) p. 125 ff.

VRIO Framework Application

Is the Resource or Capability…

and is the Firm …



Rothaermel (2013) Strategic Management, p.91

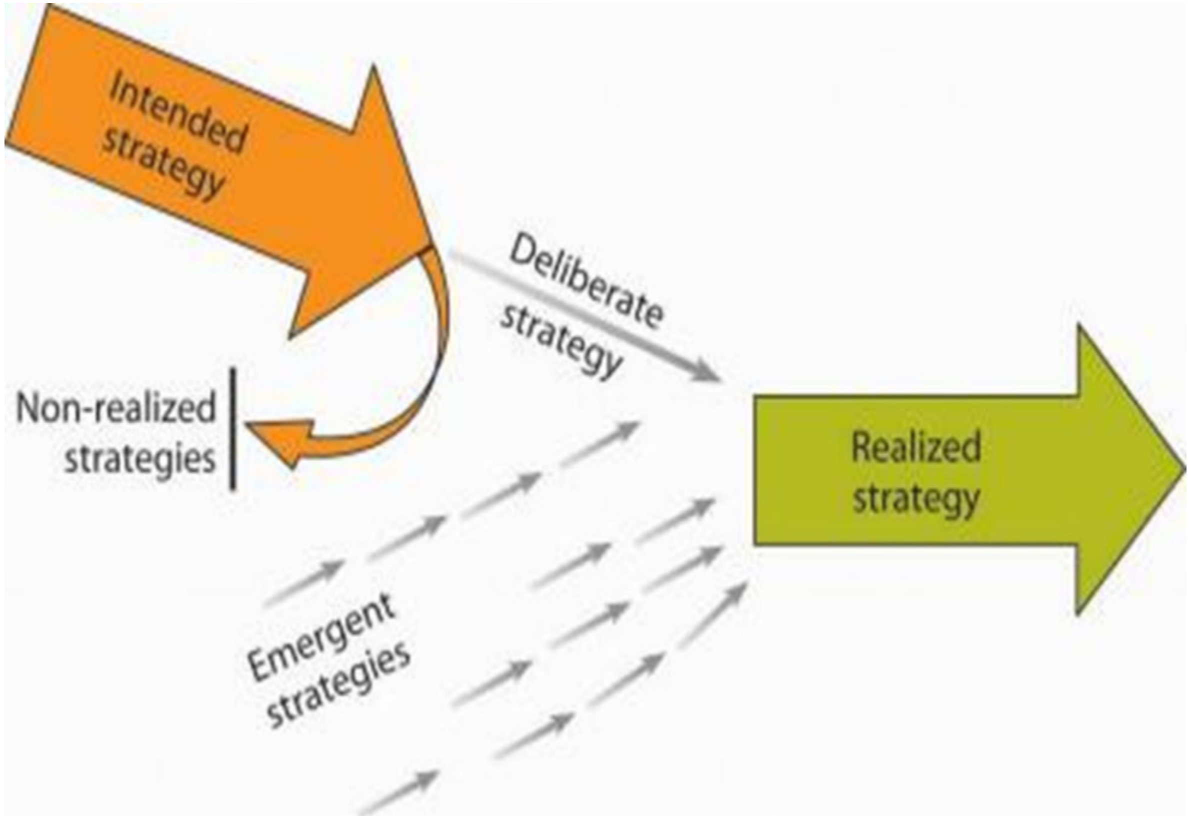
Mintzberg: 5 Ps of Strategy

5 different definitions of (or approaches to) developing strategy

1. Strategy as a Plan	**PEST, SWOT-Analysis**
2. Strategy as a Ploy	**Scenario Analysis , Game Theory**
3. Strategy as a Pattern	**VRIO Analysis**
4. Strategy as a Position	**Porter´s Five Forces, Porter´s Diamond**
5. Strategy as a Perspective	**Cultural Analysis**

Mintzberg (1978) Patterns of Strategy Formulation. Management Science, 24, p. 934–948

Mintzberg
Intended, Deliberate, Realized, and Emergent strategies



Intended strategy
- conceived of by top management team
- stimulus for initial attempts at strategy implementation

Realized (actual) strategy
- Implemented, comes to realization
- only partly related to which was intended

Deliberate strategy
- flowing from the intended strategy and emerging factors

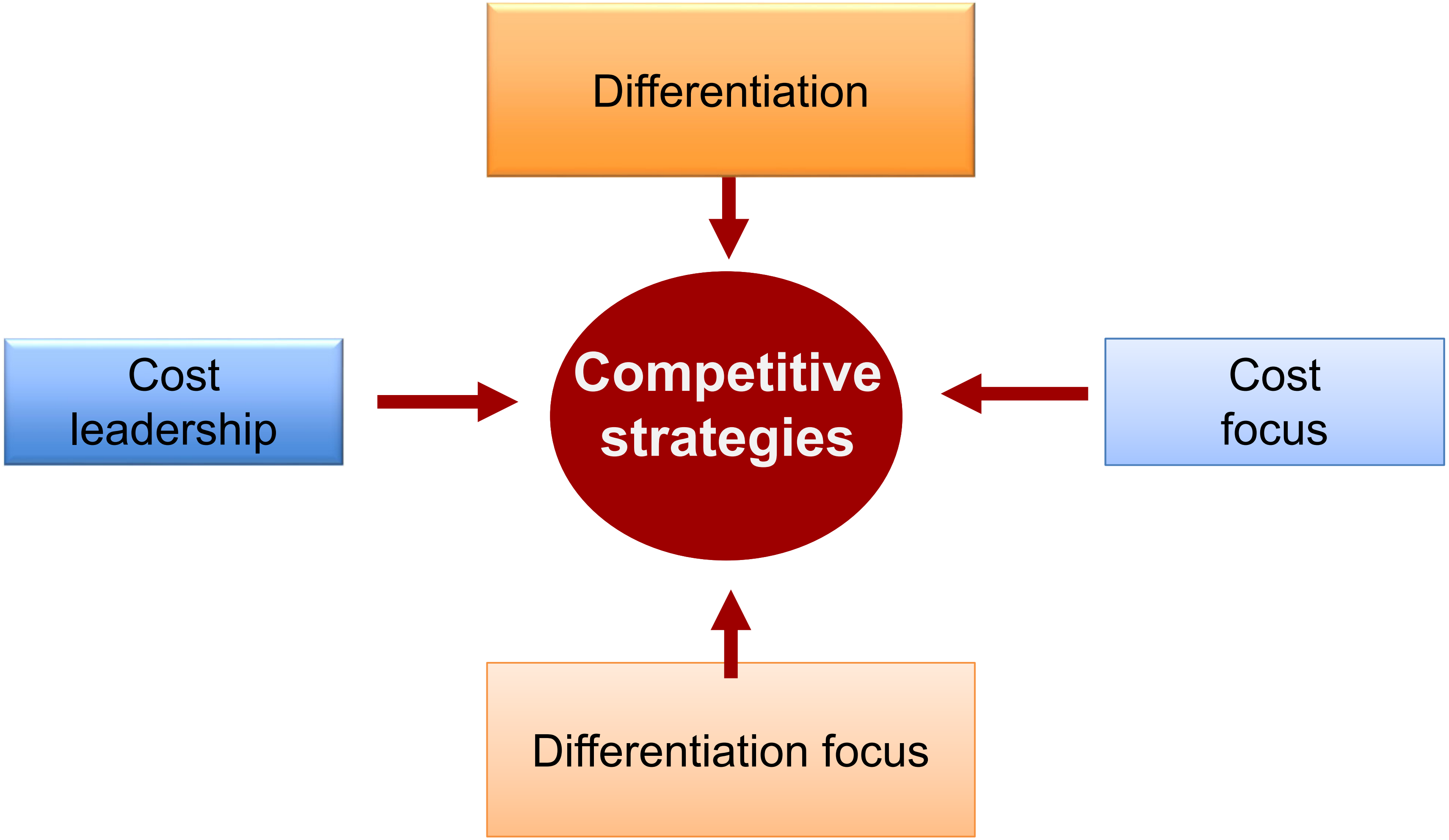
Emergent strategy
- primary determinant of realized strategy

Mintzberg (1985) Of Strategies: Deliberate and Emergent. Strategic Management Journal, 6, p. 257–272

Strategy and Competitive Advantage

- The **heart and soul of any strategy** are the **actions and moves** in the marketplace that a company makes to **strengthen its competitive position** and **gain** a **competitive advantage over rivals**
- A creative distinctive strategy that sets a company apart from rivals and yields a competitive advantage is a company's most reliable ticket to above average profitability
- Competing with a **competitive advantage is more profitable** than competing with no advantage
- Competing with a competitive disadvantage nearly always results in below-average profitability
- A company achieves **sustainable competitive advantage** when an attractive number of buyers prefer its products or services over the offerings of competitors and when the basis for this preference is durable.
- Four of the most frequently used strategic approaches to setting a company apart from rivals and achieving a sustainable competitive advantage are: Michael Porter´s Competitive Strategies (see next page)

Michael Porter´s Competitive Strategies



Porter (1979) How Competitive Forces Shape Strategy. Harvard Business Review. Vol. 57, No. 2, pp. 137–145.

Four "Best" Strategic Approaches
to Building Sustainable Competitive Advantage

1. Being the industry's low-cost provider (a cost-based competitive advantage)
2. Incorporate differentiating features (a "superior product" type of competitive advantage keyed to higher quality, better performance, wider selection, value-added services, or some other attribute)
3. Focusing on a narrow market niche (winning a competitive edge by doing a better job than rivals of serving the needs and preferences of buyers comprising the niche)
4. Developing expertise and resource strengths not easily imitated or matched by rivals (a capabilities-based competitive advantage)

Porter (1979) How Competitive Forces Shape Strategy. Harvard Business Review. Vol. 57, No. 2, pp. 137–145.

Michael Porter on strategy

"Strategy is the **big picture** of how the organization is going to win in its environment, whatever that is."

"Strategy **rests on unique activities**. Competitive Strategy is about being different. It means choosing a different set of activities to deliver a unique mix of value."

"Strategic positioning attempts to **achieve sustainable competitive advantage** by preserving what is distinctive about a company. It means performing different activities from rivals, or performing similar activities in different ways."

"Strategy is **not competing to be the best**. Many managers and leaders and organizations think that they are trying to be the best organization in their industry. The best bank, the best coffee shop, etc. And to do so, we must make the best products. But that's a wrong approach and a very dangerous way of thinking about strategy. Indeed, there is no best company in any industry…. Strategy is **competing to be unique**."

"The worst error in strategy is to compete with rivals on the same dimensions."

Michael Porter, HBR's 10 Must Reads on Strategy

Company Strategy and Business Model

Strategy deals with a company's competitive initiatives and business approaches

Business Model concerns whether revenues and costs flowing from the **strategy** demonstrate a business can be amply profitable and viable

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Identifying a Company´s strategy

What to look for

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The pattern of actions and business approaches that define a company's strategy

- Actions to capture emerging market opportunities and defend against external threats to the company´s business prospects
- Actions to strengthen marketing standing and competitiveness by acquiring or merging with others companies
- Actions to strengthen competitiveness vial strategic alliances and collaborative partnerships
- Actions and approaches used in managing R&D, production, sales and marketing, finance and other key activities
- Actions to strengthen competitive capabilities and correct competitive weaknesses
- Actions to diversify the company´s revenues and earnings by entering new businesses
- Actions to gains sales and market share via lower prices, more performance feature, more appealing design, better quality or customer service, wider production selection or other such actions
- Actions to respond to changing market conditions and other external factors
- Actions to enter new geographic or products markets or exit existing ones

2. History of Globalization, Motivations and Models of MNCs

Learning Objectives

1. Comprehend the **history, drivers, and dimensions** of globalization
2. Explain the consequences of the **Old and New Silk Road**
3. Contribute to the **discussion on globalization**
4. Describe the **development** and **motives** of the **multinational corporation**
5. Understand the **models of MNCs**: Centralized Hub, Decentralized Federation, Coordinated Federation, Integrated Network

When did international trade start? What were its major phases? How did it lead to globalization?

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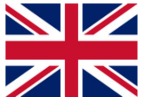
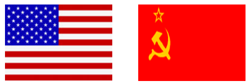
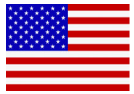
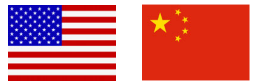
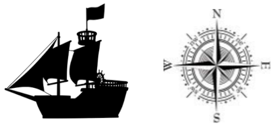
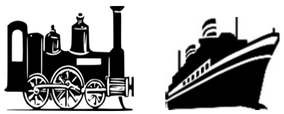
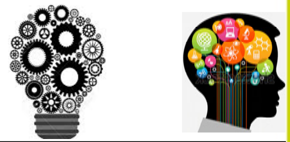
The Development of Globalization

Globalization Era	Age of Discovery (15th - 18th Century)	Globalization 1.0 (19th Century - 1914)	Globalization 2.0 (1945 - 1989)	Globalization 3.0 (1989 - 2008)	Globalization 4.0
Leading Exports	Raw Material / Basic Goods	Textiles / Industrial Goods	Factories	Global Supply Chain	Digital Goods / Services
Leading Nations					
Exports a % World GDP	<5%	6 → 14%	5 → 15%	15 → >20%	?
Enabling Era	Scientific Revolution (15th - 17th Century)	1st Industrial Revolution (1780s mid – 19th Century)	2nd Industrial Revolution (1870s – 1910s)	3rd Industrial Revolution (1960s – 1990s)	4th Industrial Revolution (2000s – 2010s)
Enabling Innovations					
Characterizing GDP Trend	Europe ↗	Britain ↗↗	World ↗	United States ↗↗↗	China ↗↗↗↗

Source: World Economic Forum, available at https://www.weforum.org/agenda/2019/01/how-globalization-4-0-fits-into-the-history-of-globalization/

Second and third wave of globalization

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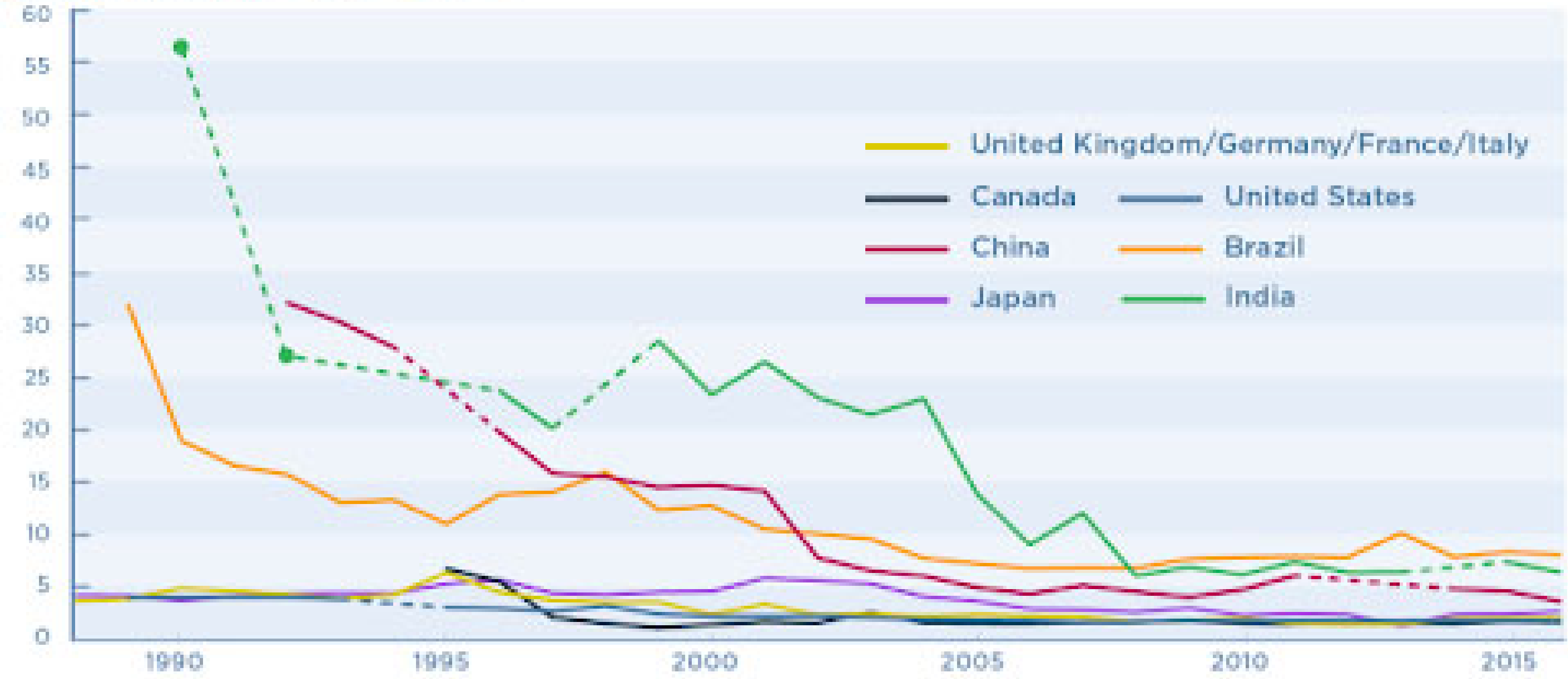
Major economies dropped tariff rates and kept them low

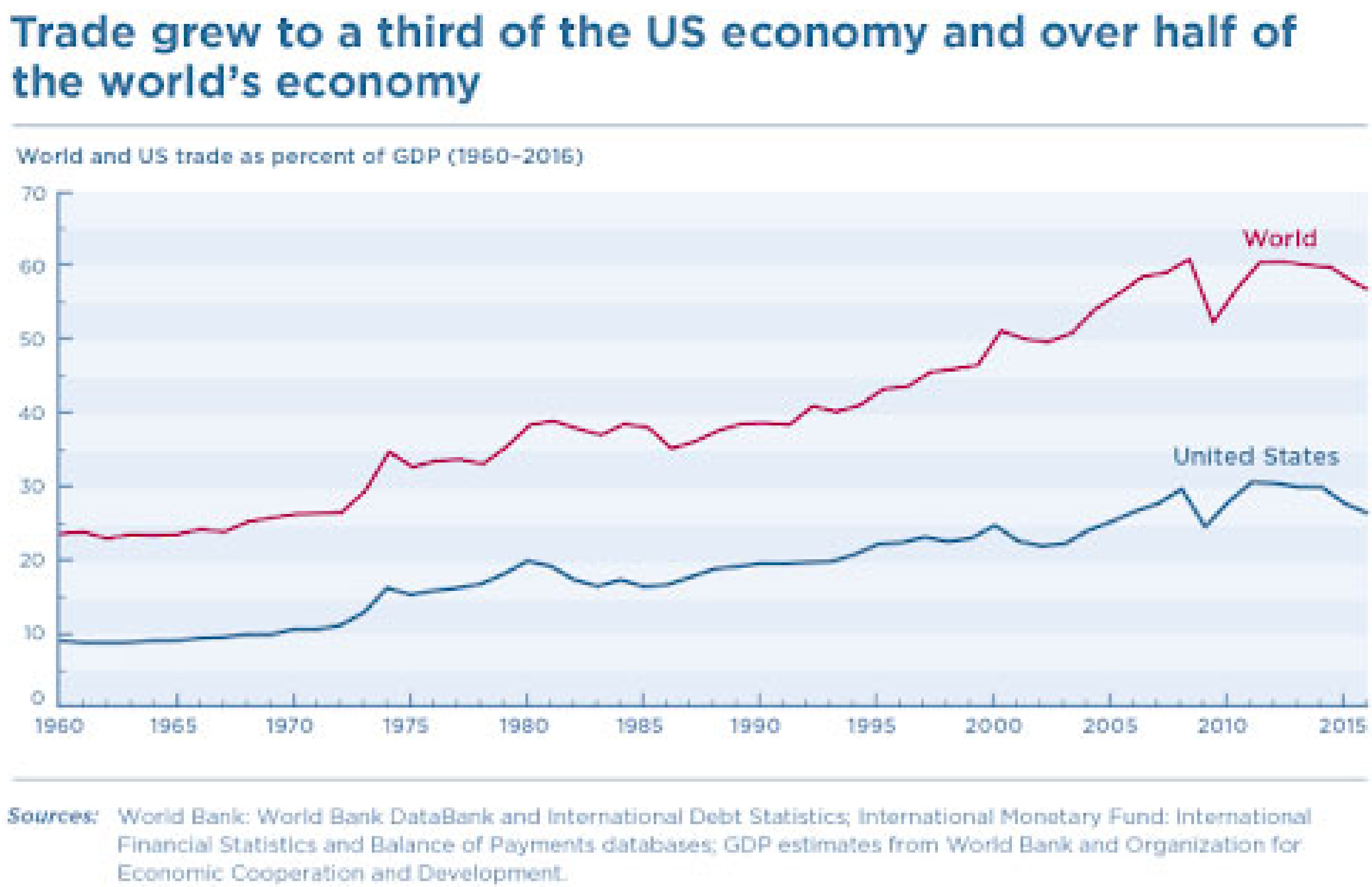
Average applied tariff rates (1988-2016)



Note: Shows world's ten largest economies, 2016. Rates are weighted by trade value. Dotted lines indicate years when data are not available.

Source: World Bank DataBank.

Globalization 4.0

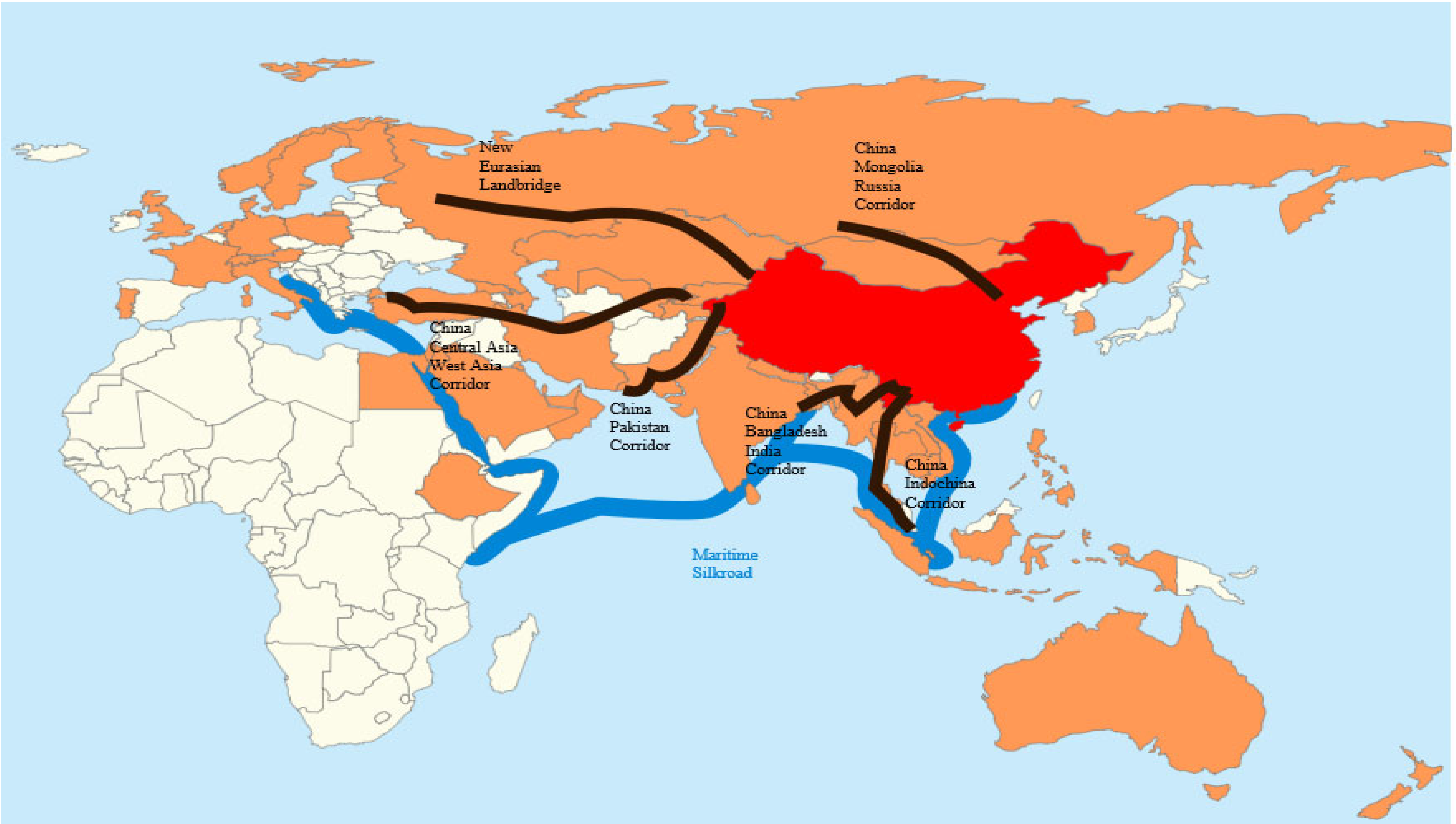


The New Silk Road – One Belt One Road (OBOR)

- Long-term project by the People´s Republic of China
- Aimed to develop infrastructures for transport, supply and trade
- Included: Asia, Africa and Europe.
- Not included: USA, which is opposed to the project.
- Roads, railway lines, bridges, ports and power stations will be built with Chinese workers on site.

The 6 proposed corridors:

China in Red, the members of the Asian Infrastructure Investment Bank in orange.



By Lommes - Own Work, CC BY-SA 4.0, https://commons.wikimedia.org/w/index.php?curid=58884083

Political Cartoon depicting debt-trap diplomacy

https://commons.wikimedia.org/wiki/File:Chinese-win-win-situation.png Dedoshucos / CC BY-SA (https://creativecommons.org/licenses/by-sa/4.0)

The New Silk Road

“One Belt One Road (OBOR)”

Opponents Critique

- China is overexploiting nature and facilitating the introduction of alien species.
- It lures developing and emerging countries into the debt trap making them economically dependent + politically compliant.
- As a dictatorship, it would gradually impose its ideas on the rule of law and democracy in Western industrialized countries.

➢ More than a traffic route, rather a topic of political, economic and environmental ethics.

Average labor cost in Europe

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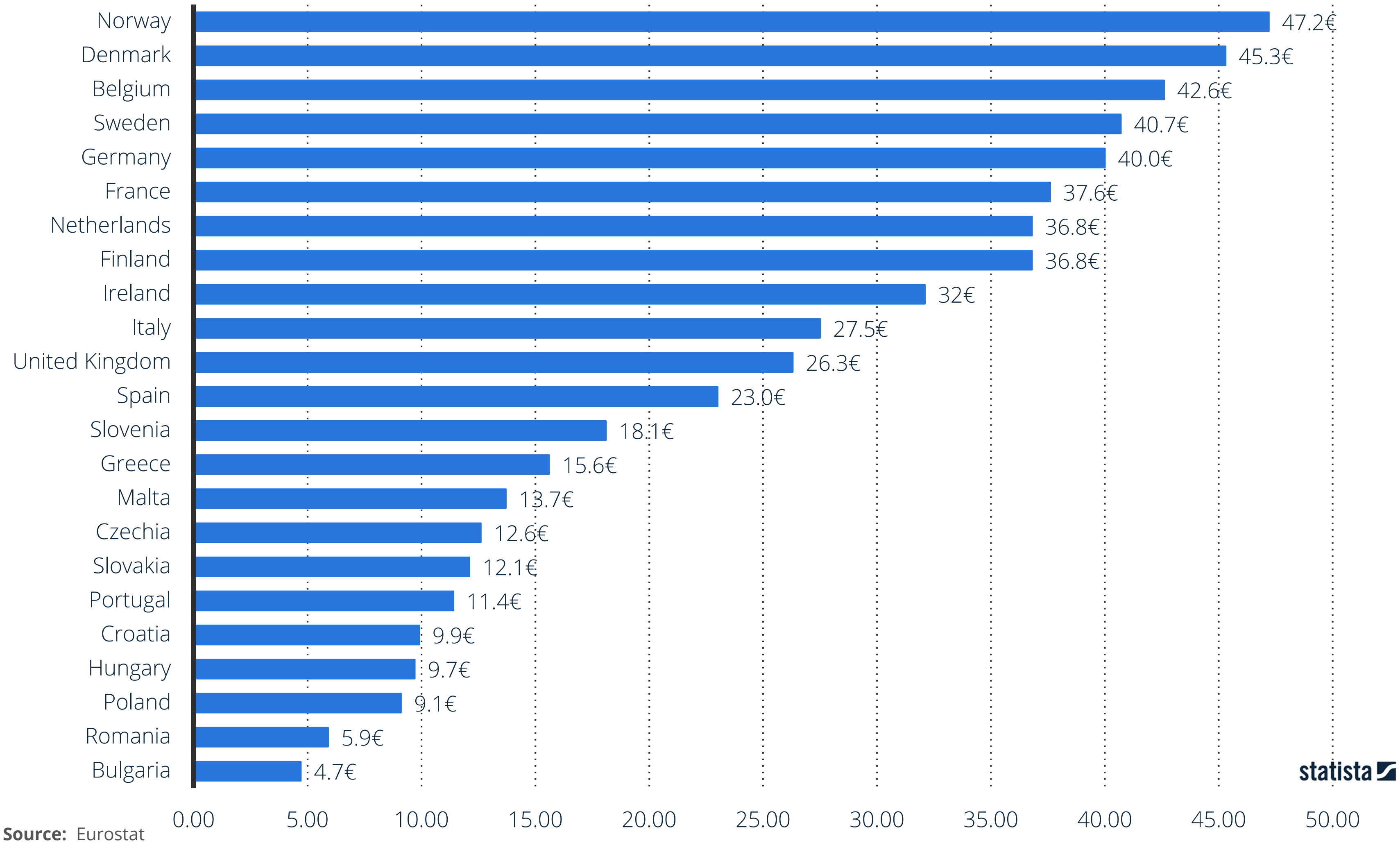
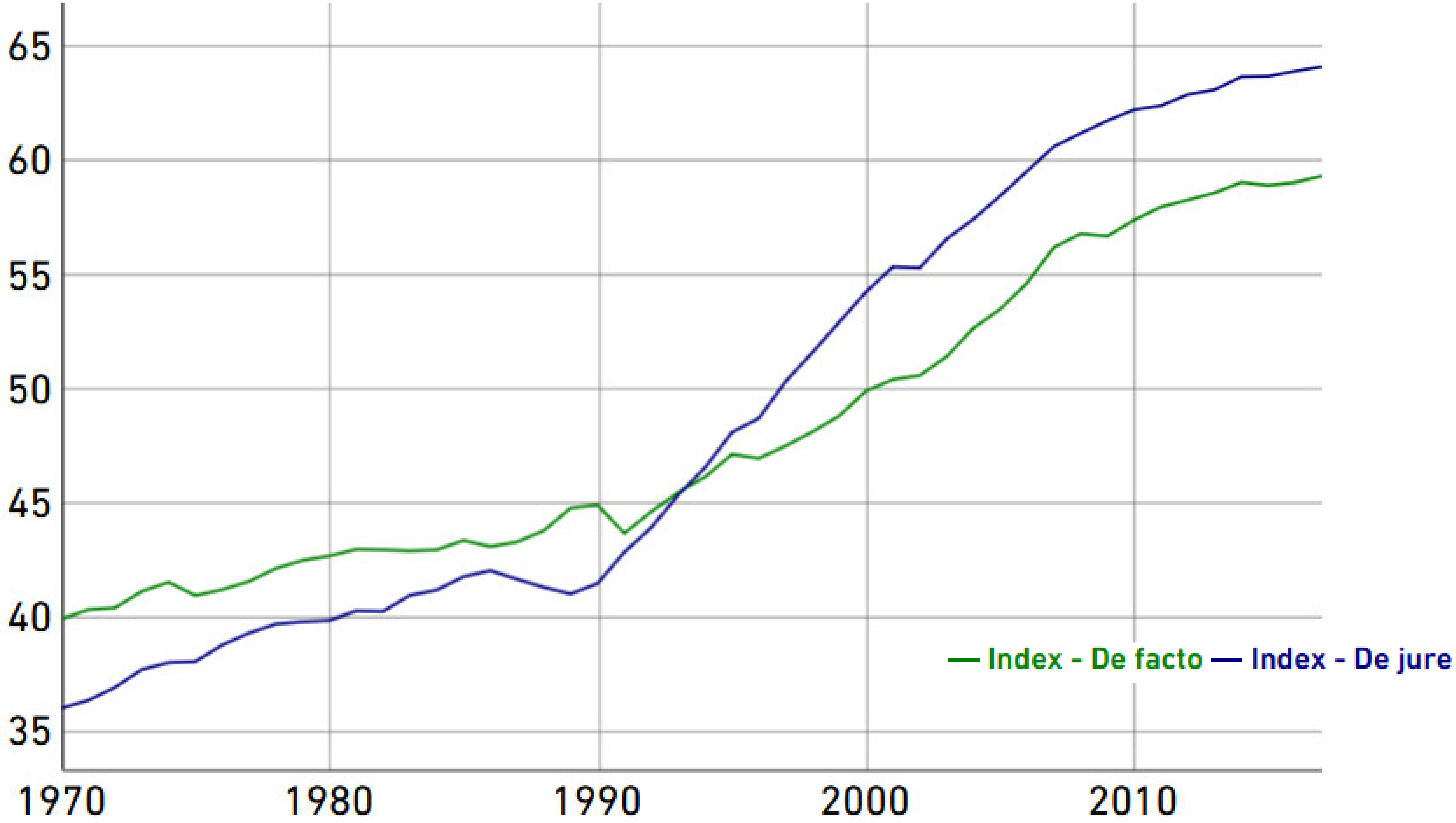
Average labor cost for the manufacturing industry in Europe in 2018*, by country (in euro per hour)



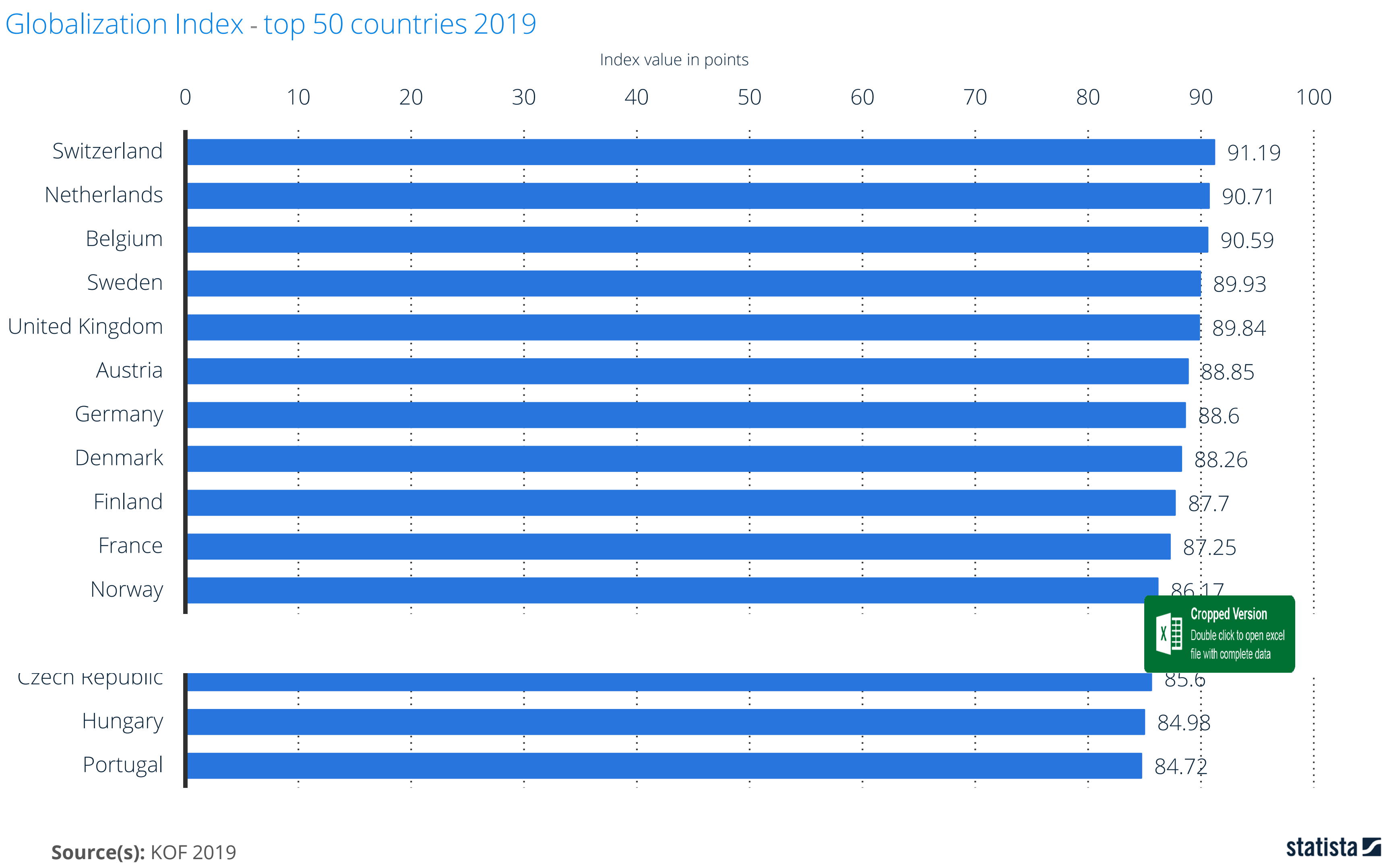
Source: Eurostat

KOF Globalization Index



KOF; available at https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalization-index.htm

KOF globalization Index



Lower Growth by U.S. & Advanced Economies

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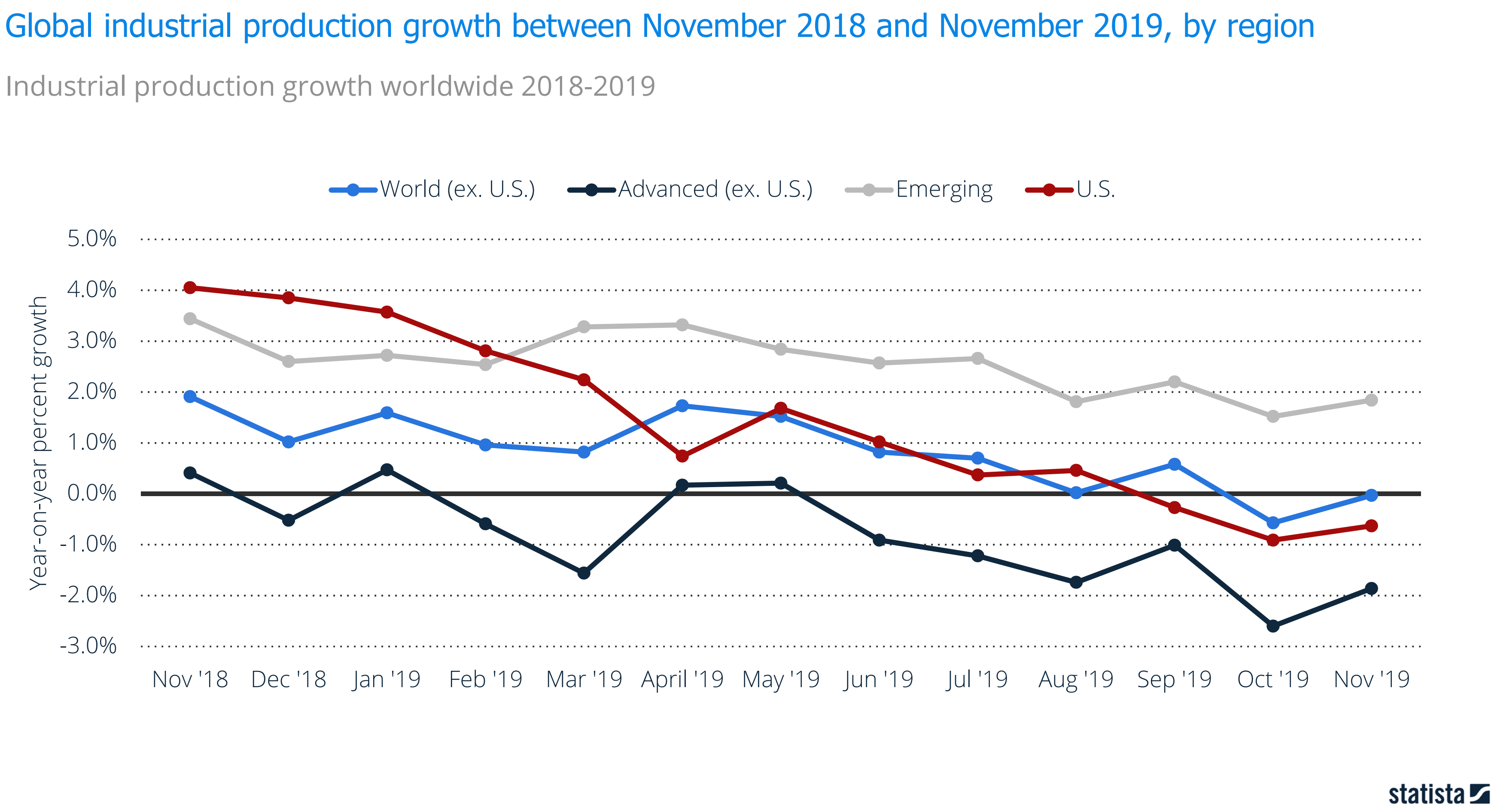

Source: Dallas Fed; Haver Analytics

Global Trade growth above GDP growth

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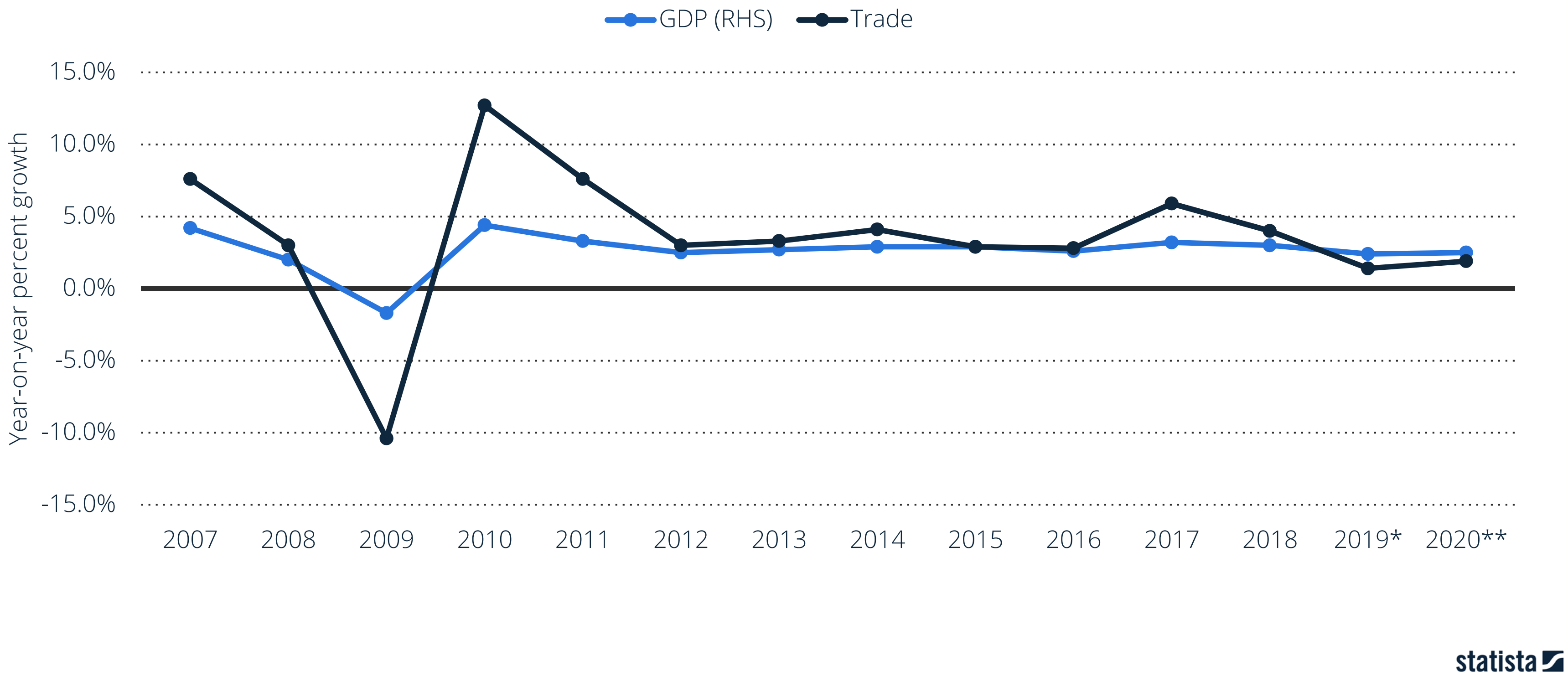
Global growth in GDP and trade from 2007 to 2020

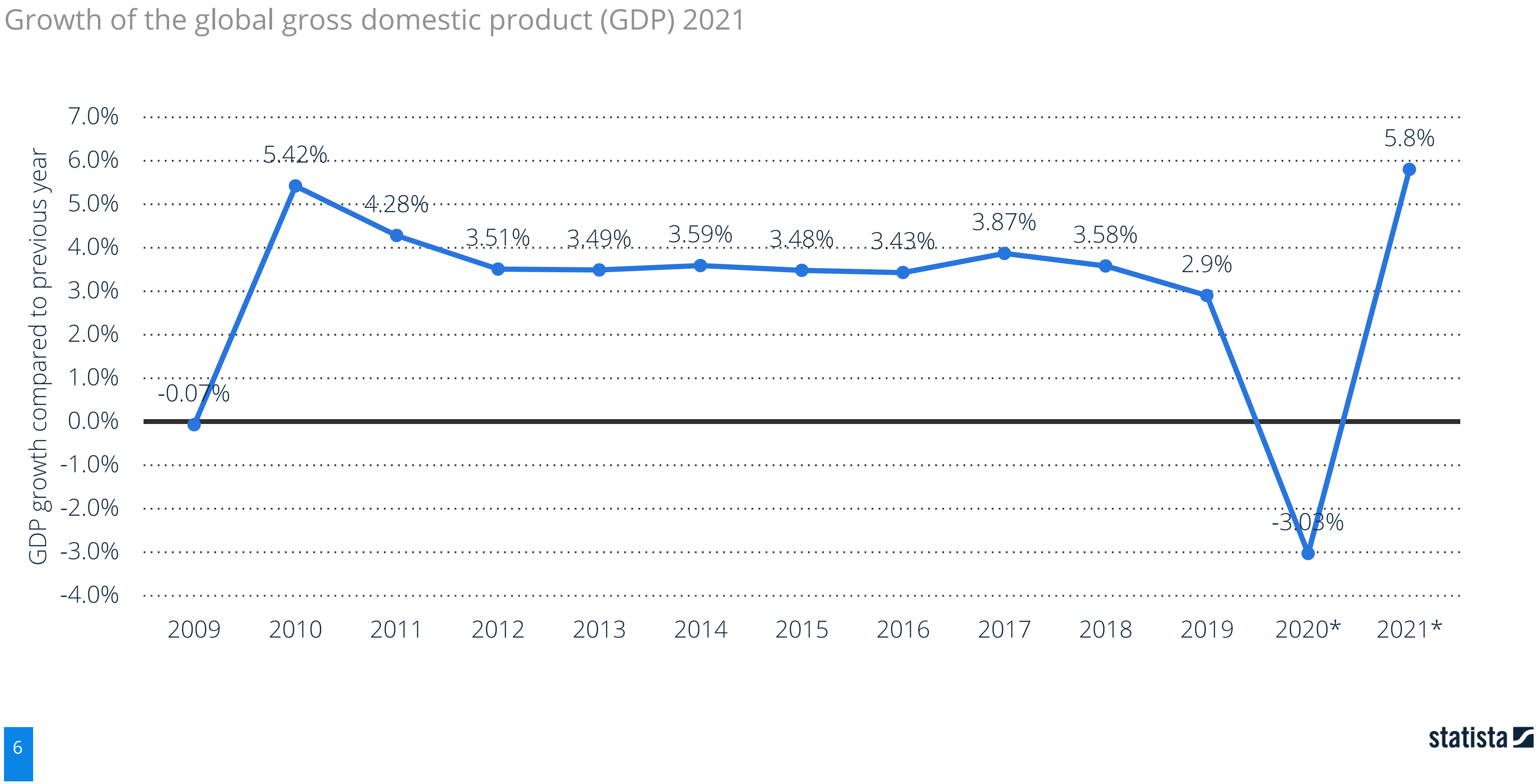
Global growth in GDP and trade 2007-2020



Source: World Bank

Impact of Covid-19

Growth of the global gross domestic product (GDP) from 2009 to 2021 (compared to the previous year)



Note: Worldwide

Further information regarding this statistic can be found on page 8.

Source(s): IMF; ID 273951

The Globalization Debate

- Job losses in industries under attack from foreign competitors
- Pressure on wages and working conditions of unskilled workers
- Environmental degradation
- Cultural imperialism of global media and multinational enterprises

- Falling barriers to international trade and investment lead to
- Greater prosperity of the global economy
- increased international trade and cross border investment
- lower prices for goods and services

Hill/Hult 2020, p. 24-31

Historical Origins of Multinational Corporations

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"East India House"
Thomas Malton Yr.
(1748-1804)

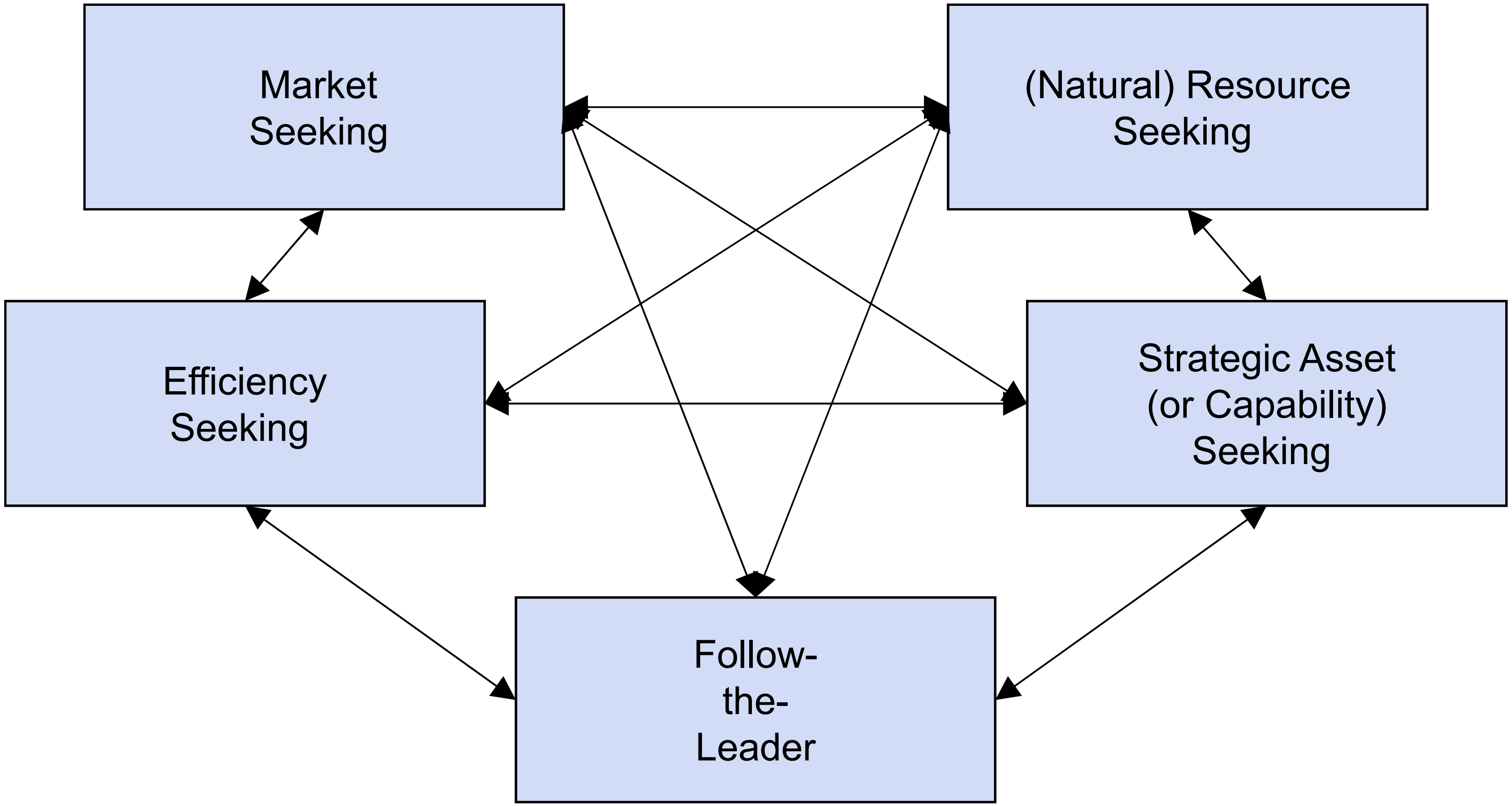
From the Origins to the Second World War

- Trading activities followed territorial acquisitions of countries
- Ex. British East India Trading Company

1945 to the Present

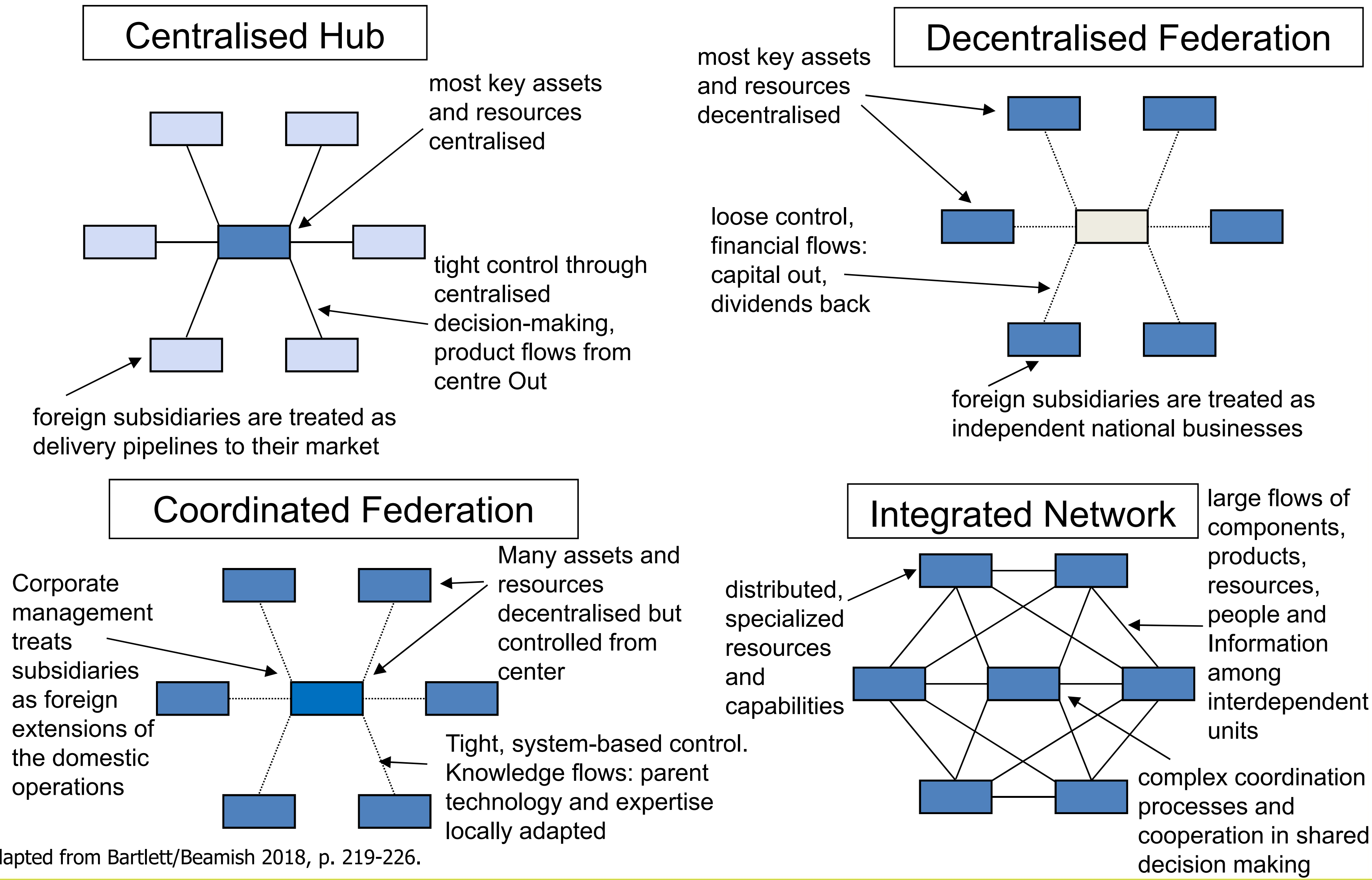
- US MNCs dominated after WWII
- In the 1950s, Europe, and Japan started to invest as well
- More recently China became a major player

Motives for Internationalisation



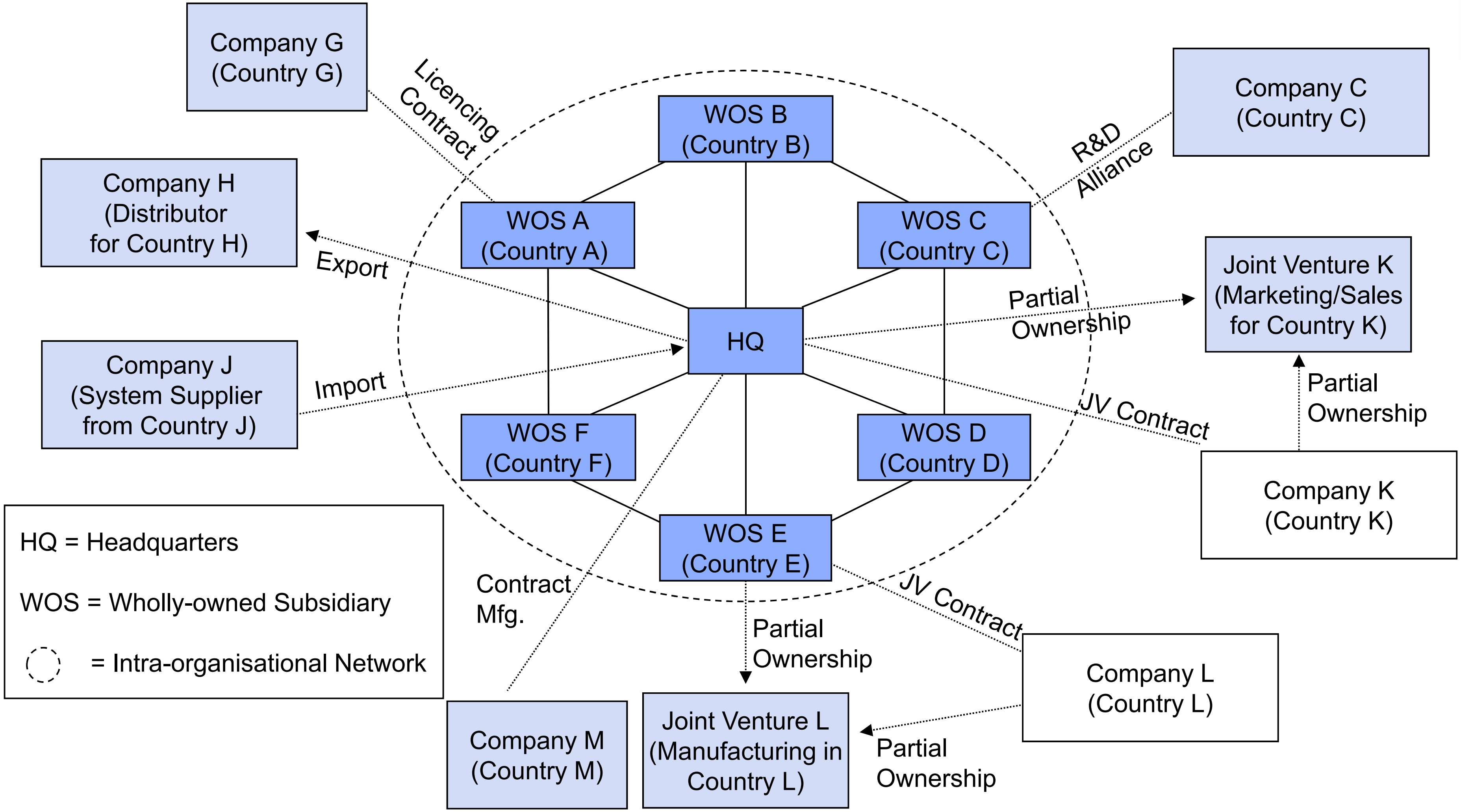
Morschett et al. 2015, p. 80-89

Alternative Models of the MNC



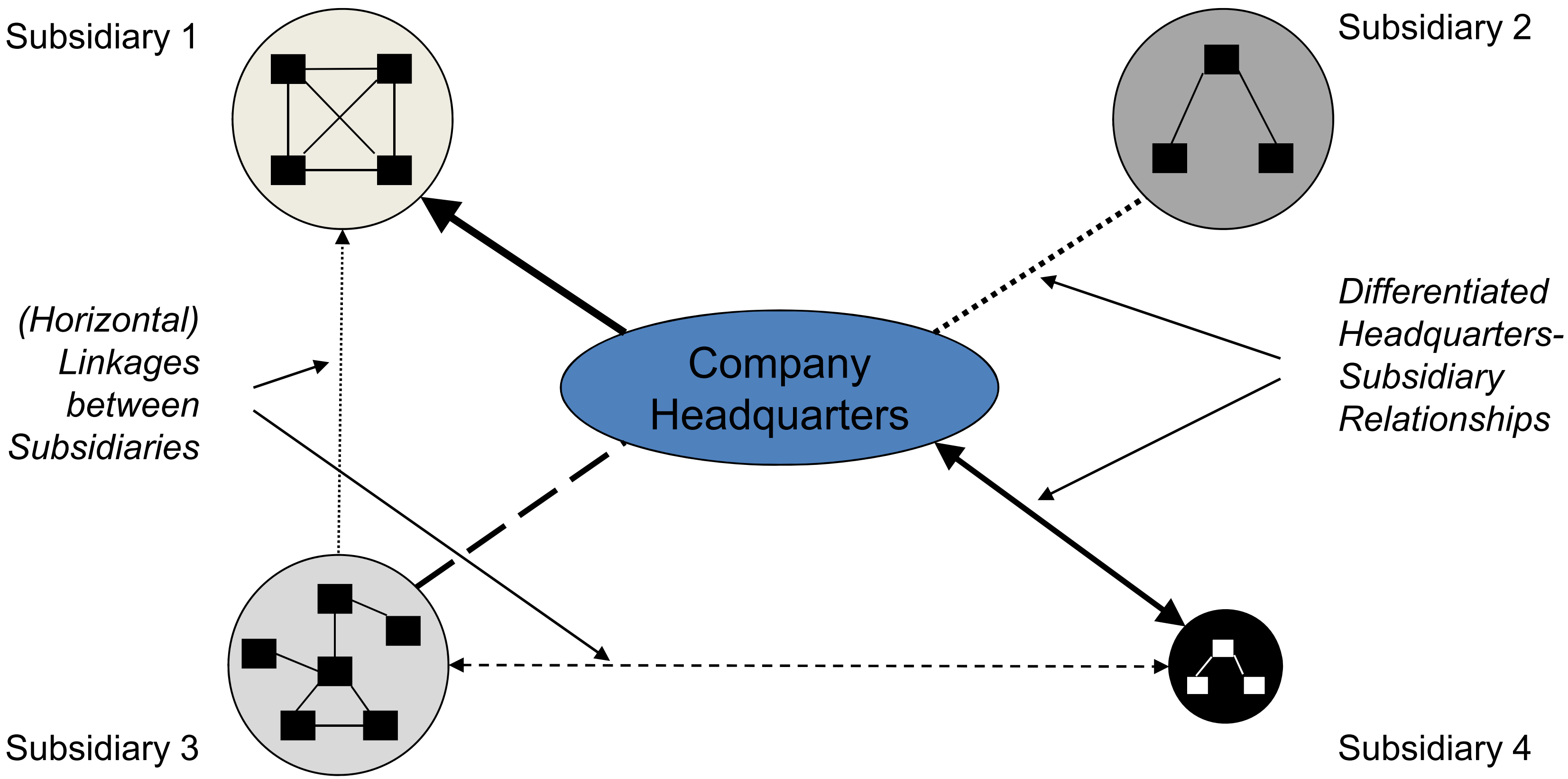
Adapted from Bartlett/Beamish 2018, p. 219-226.

MNC as Intra- & Inter-Organisational Networks



Adapted from Schmid/Kutschker 2003, p. 165

Structure of MNCs as Differentiated Networks



Source: Adapted from Nohria/Ghoshal 1997, p. 14.

3. Global Integration and Local Responsiveness

Learning Objectives

1. Comprehend the **conflict** between **standardization and adaptation**
2. Know how to build **efficiency, flexibility and learning** in a global context
3. Understand how to buil**d worldwide competitive advantage**
4. Be able to apply the **I/R and AAA framework** analysis
5. Recognize **strategic orientations**

Conflict between standardization and adaptation

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Conflicting Advice in the Strategy Literature

"Product standardization" (Levitt)	"Economies of scale" (Hout, Porter, Rudden)	"Broad product portfolio" (Hamel/Prahalad)

Three objectives

- **Efficiency** = value of outputs / value of inputs
- **Flexibility** = ability to manage risks and exploit opportunities arising from the diversity and volatility of the global environment
- **Learning** = worldwide stimuli as potential source of competitive information advantage

Three means

National differences	**Scope**	**Scale**

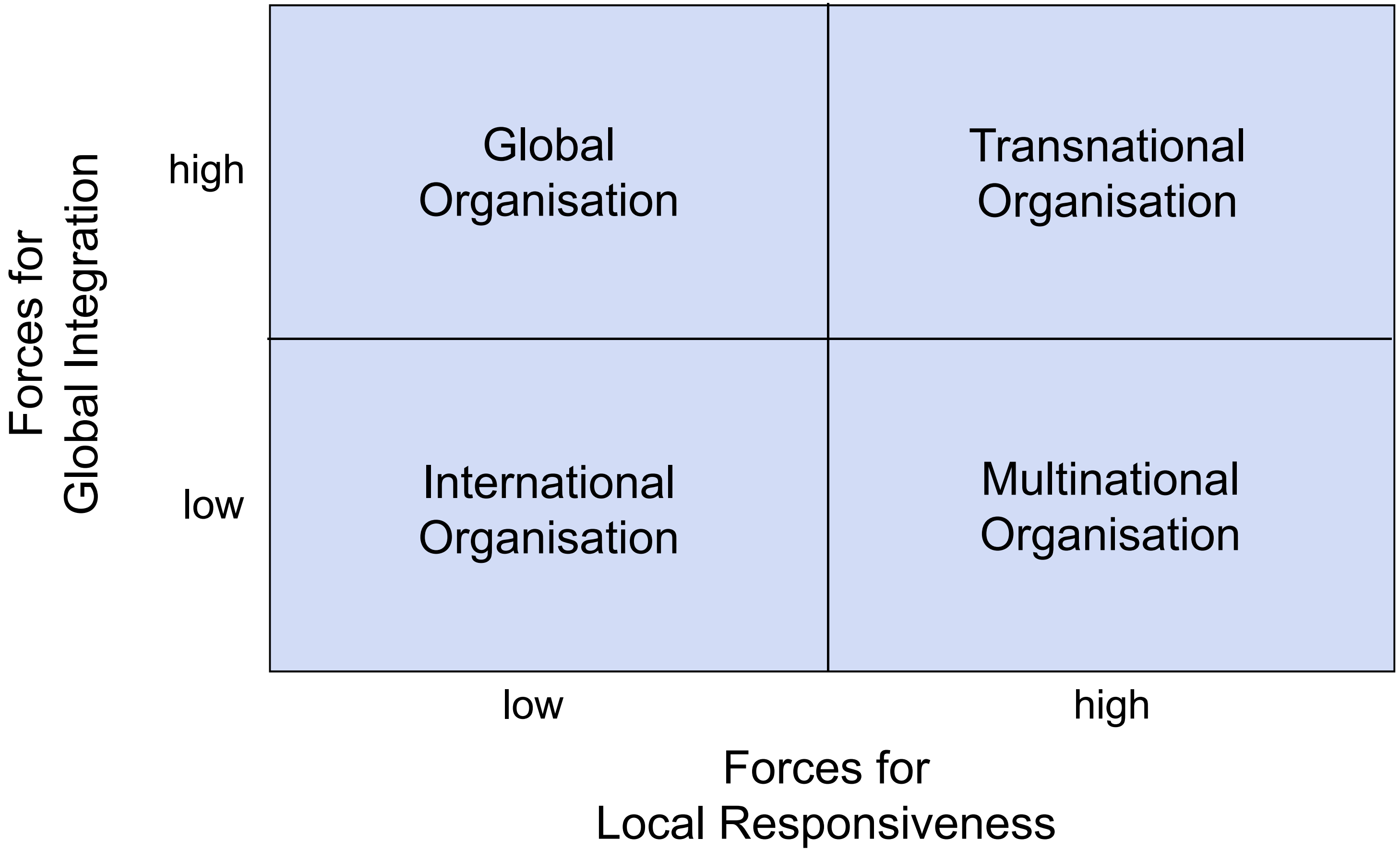
Bartlett/Beamish 2018, pp. 11-29

Worldwide Advantage: Goals & Means

	Sources of Competitive Advantage		
	National Differences	**Scale Economies**	**Scope Economies**
Achieving efficiency in current operations	Benefiting from differences in factor costs – wages and cost of capital	Expanding and exploiting potential scale economies in each activity	Sharing of investments and costs across markets and businesses
Managing risks through multinational flexibility	Managing different kinds of risks arising from market- or policy-induced changes in comparative advantages of different countries	Balancing scale with strategic and operational flexibility	Portfolio diversification of risks and creation of options and side bets
Innovation, learning & adaptation	Learning from societal differences in organizational and managerial processes and systems	Benefiting from experience – cost reduction and innovation	Shared learning across organizational components in different products, markets, or businesses

Bartlett/Beamish 2018, pp. 11-29

The Integration/Responsiveness-Framework



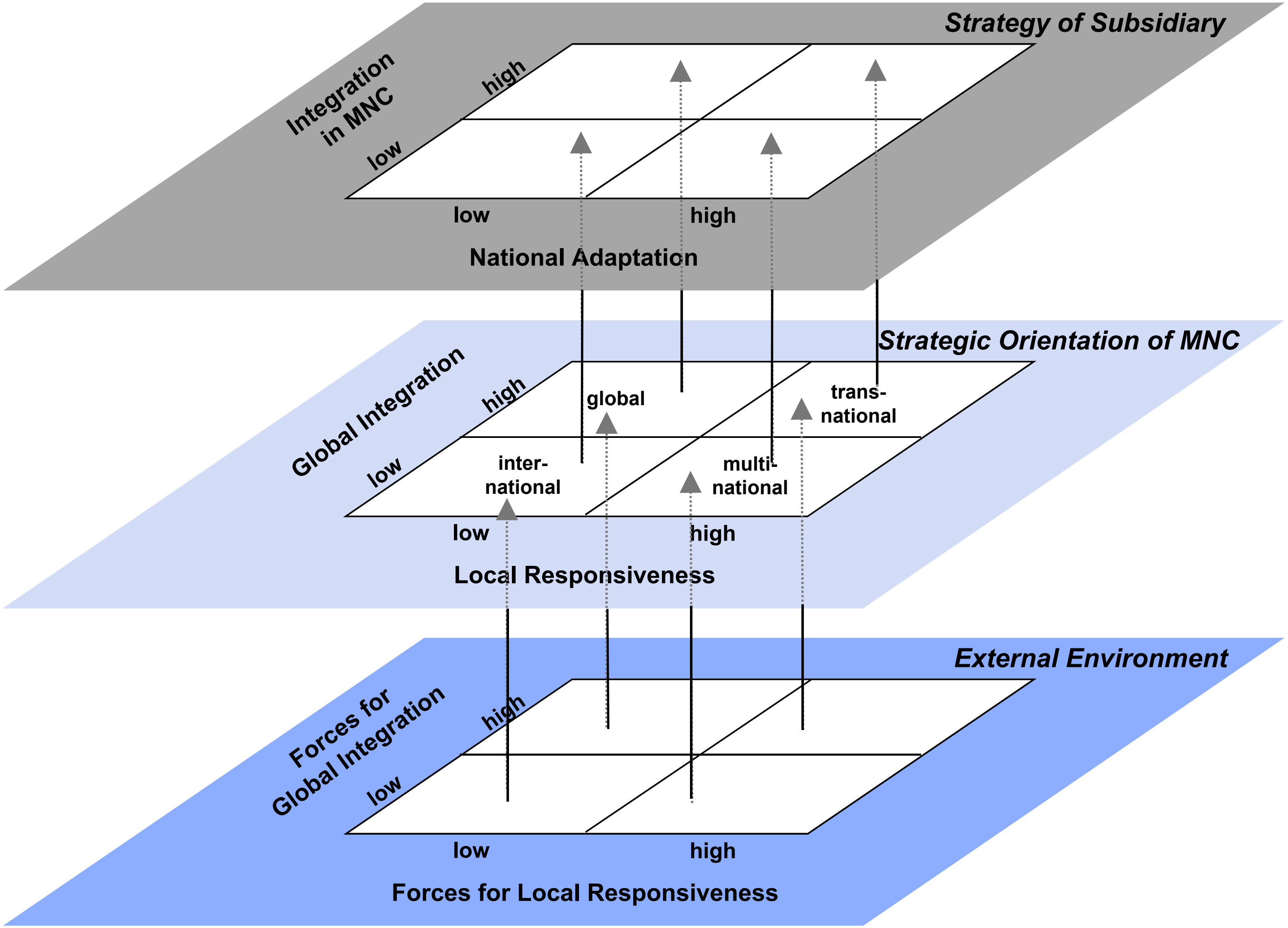
Source: Adapted from Bartlett/Ghoshal 1989, p. 438

Selected Characteristics of the Four MNC Types

	International	Global	Multinational	Transnational
Role of Subsidiary	sale of HQ products	implementation of HQ strategies	identification and exploitation of local opportunities	differentiated contribution to the worldwide competitive advantages of the MNC
Network Model	centralised hub	centralised hub	decentralised federation	integrated network
Vertical Product Flows	high, sequential	high, sequential	low	bidirectional
Inter-subsidiary Product Flows	low	low	low	high
Centralisation of Decisions	high	high	low	medium (decentralised centralisation)
Management Transfers, Visits, Joint Working Teams	low	high	low	high
Centres of Excellence	low	low	low	high
Product Modification	low	low	high	high
Local Production	low	low	high	medium
Dependency	strong dependence	strong dependence	in-dependence	inter-dependence

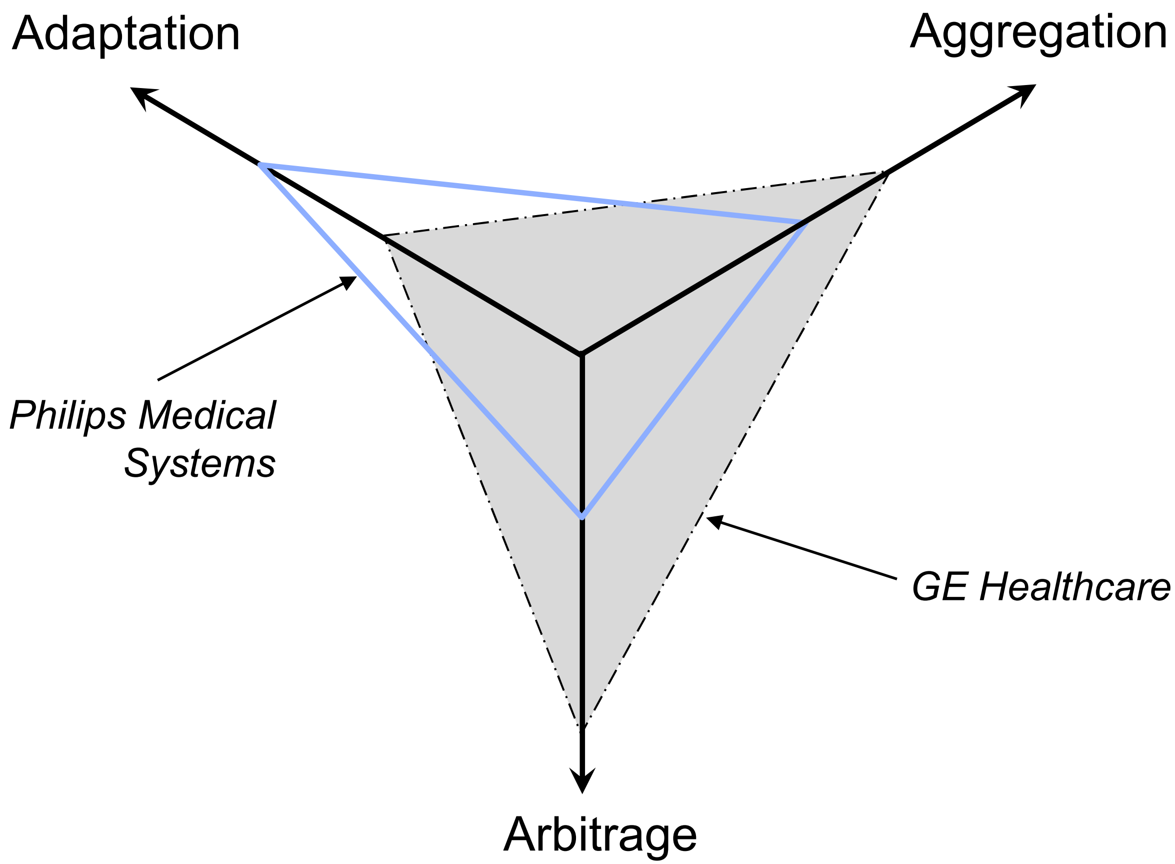
Source: Summarised and adapted from Macharzina 1993, p. 83, p. 102; Harzing 2000, p. 113; Bartlett/Beamish 2014, pp. 198-201

Three Levels of the I/R-Framework



Source: Morschett 2007, p. 396.

The “AAA” Global Strategy Framework
(with Profiles of Two Companies)



Source: Adapted from Ghemawat 2007, p. 66.

Selected Characteristics of the “AAA“ Global Strategy Framework

	Adaptation	Aggregation	Arbitrage
Competitive Advantage *Why should we globalize at all?*	to achieve local relevance through national focus while exploiting some economies of scale	to achieve scale and scope economies through international standardization	to achieve absolute economies through international specialization
Configuration *Where should we locate operations overseas?*	mainly in foreign countries that are similar to the home base, to limit the effects of cultural, administrative, geographic, and economic distance		in a more diverse set of countries, to exploit some elements of distance
Coordination *How should we connect international operations?*	by country, with emphasis on achieving local presence within borders	by business, region, or customers, with emphasis on horizontal relation-ships for cross-border economies of scale	by function, with emphasis on vertical relationships, even across organizational boundaries
Controls *What types of extremes should we watch for?*	excessive variety or complexity	excessive standardization, with emphasis on scale	narrowing spreads

Source: Ghemawat 2007, p. 61.

Perlmutter's EPRG Concept

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Ethnocentric Orientation

- Home country is superior to others
- Sees only similarities in other countries
- Assumes products and practices that succeed at home will be successful everywhere
- Leads to a standardized or extension approach

Polycentric Orientation

- Each subsidiary develops its own unique business and marketing strategies
- Often referred to as multinational
- Leads to a localized or adaptation approach that assumes Each country is unique
- products must be adapted to local market conditions

Regiocentric Orientation

- A region is the relevant geographic unit (Ex: The NAFTA or EU market)
- Some companies serve markets throughout the world but on a regional basis (Ex: General Motors had four regions for decades)

Geocentric Orientation

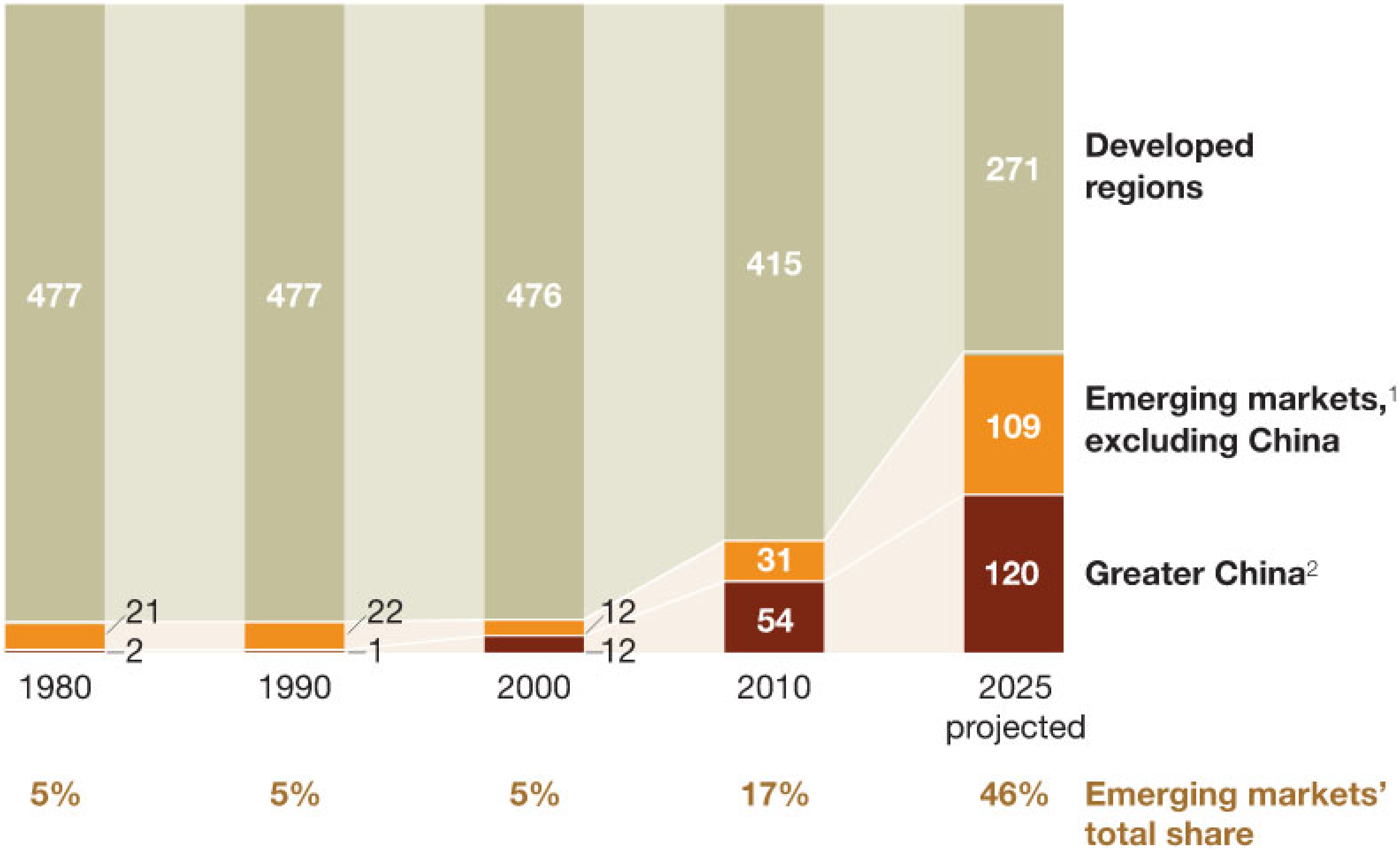
- Entire world is a potential market
- Strives for integrated global strategies
- Also known as a global or transnational company
- Retains an association with the headquarters country
- Pursues serving world markets from a single country or sources globally to focus on select country markets
- Leads to a combination of extension and adaptation elements

4. Emerging Country MNCs/ Role Models

Learrning Objectives

1. Recognize **emerging market MNCs** as important players in the international competitive environment.
2. Analyze primary **characteristics** of emerging country multinationals and **models of their international expansion**
3. Understand the **different roles subsidiaries** may play
4. Differentiate main **role typologies** and recognize their **applicability** in various companies
5. Know the **benefits and weaknesses of role typologies**

The Fortune Global 500 by Location



[1]Africa, Eastern Europe and Central Asia, Latin America, Middle East, South Asia, and Southeast Asia.
[2]China, Hong Kong, Macau, and Taiwan.

Source: McKinsey Global Institute CompanyScope database of companies with revenues ≥$1 billion a year

Global FDI Flows by Region (in billion USD)

Region	FDI inflows			FDI outflows		
	2017	2018	2019	2017	2018	2019
World	**1700**	**1495**	**1540**	**1601**	**986**	**1314**
Developed economies	950	761	800	1095	534	917
Developing economies	701	699	685	467	415	373
Africa	42	51	45	12	8	5
Asia	545	539	518	592	557	563
Eastern and South-Eastern Asia	433	426	403	531	488	506
Southern Asia	52	52	57	11	12	12
Western Asia	51	54	49	48	59	47
Latin America and the Caribbean	156	149	164	38		42
Oceania	49	71	43	6	7	4
Transition economies	50	35	55	38	38	24
Structurally weak, vulnerable and small economies	**49**	**47**	**46**	**6**	**2**	**1**
Least developed countries	21	22	21	2	1	-1
Landlocked developing countries	26	22	22	4	1	.5
Small island developing States	2	2	3			1
Memorandum: percentage share in world FDI flows						
Developed economies	55.9	50.9	52.0	68.4	54.1	69.8
Developing economies	41.2	46.8	44.5	29.2	42.0	28.4
Africa	2.4	3.4	2.9	0.8	0.8	0.4
Asia	32.1	36.0	33.6	37.0	56.5	42.8
Eastern and South-Eastern Asia	25.5	28.5	26.2	33.2	49.5	38.5
Southern Asia	3.0	3.5	3.7	0.7	1.2	0.9
Western Asia	3.0	3.6	3.2	3.0	5.9	3.6
Latin America and the Caribbean	9.2	10.0	10.7	2.4	0.0	3.2
Oceania	2.9	4.8	2.8	0.4	0.7	0.3
Transition economies	2.9	2.3	3.6	2.4	3.8	1.8
Structurally weak, vulnerable and small economies	2.9	3.1	3.0	0.4	0.2	0.1
Least developed countries	1.2	1.5	1.4	0.1	0.1	0.0
Landlocked developing countries	1.5	1.5	1.4	0.2	0.1	0.0
Small island developing States	0.1	0.1	0.2	0.0	0.0	0.1

Source: UNCTAD 2020

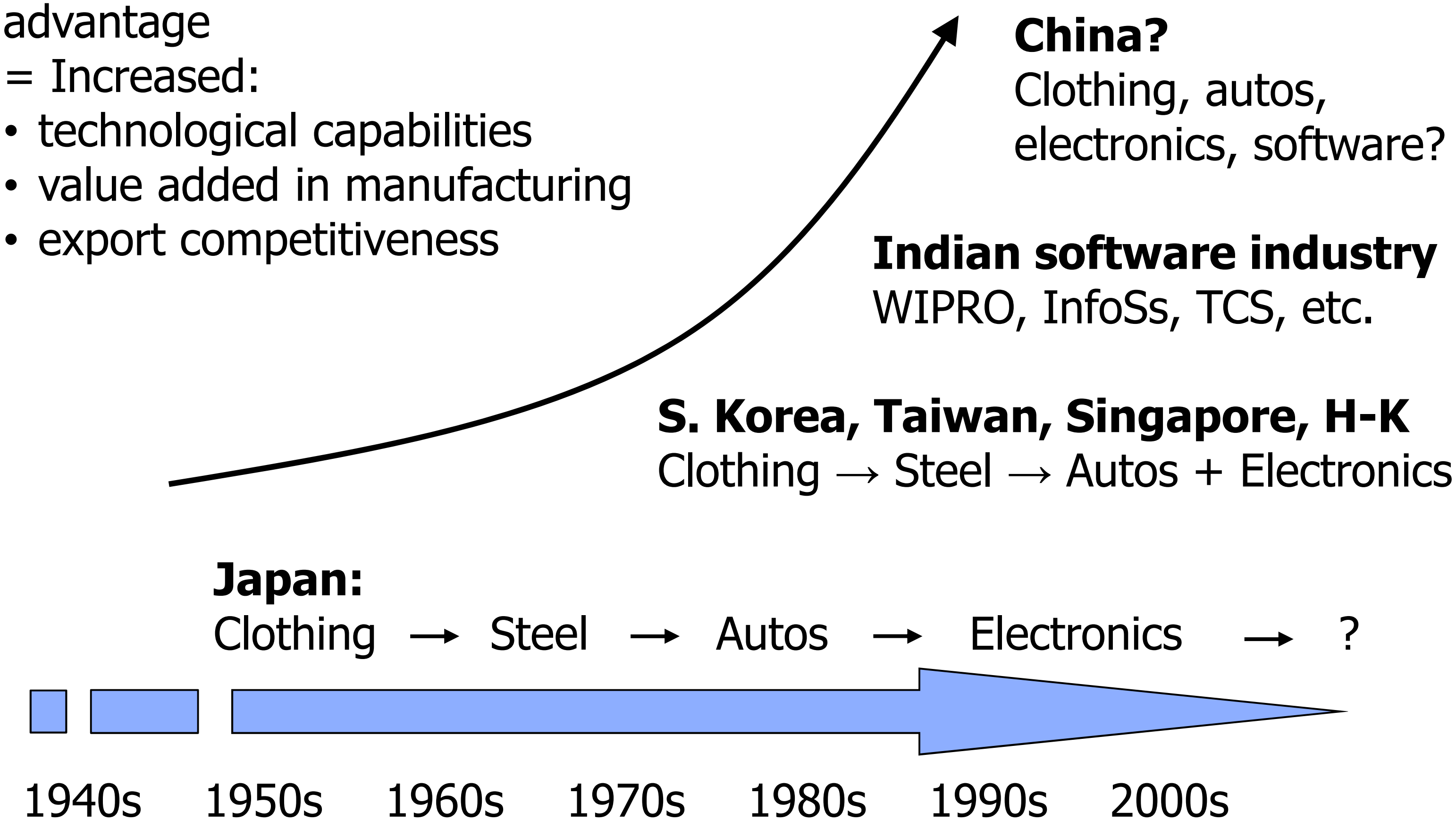
Characteristics of Emerging Country MNCs versus Traditional MNCs

Feature		Emerging Market MNCs	Traditional MNCs
Speed of Internationalization		accelerated	gradual
Competitive Advantages		weak: upgrading of resources required	strong: required resources available in-house
Political Capabilities		strong: firms are used to unstable political environments	weak: firms are used to stable political environments
Expansion Path	In Search of Markets	dual path: simultaneous entry into developed and developing countries	single path: from less to more distant countries
	In Search of Lower Costs	into less developed countries as home country development raises production costs	into less developed countries
	In Search of Strategic Assets	into more developed countries	into similar developed countries
Preferred Entry Mode		external growth: alliances, joint ventures, acquisitions	internal growth: wholly owned subsidiaries
Organizational Adaptability		high, because of their recent and relatively limited international presence, which enables them to adapt technologies to small-scale markets, excel at projects execution and adopt new technology quickly	low, because of their ingrained structure and cultures

Source: Guillén/García-Canal 2011, p. 17.

Development of Emerging Country Multinationals

Comparative and competitive advantage
= Increased:
- technological capabilities
- value added in manufacturing
- export competitiveness



Source: Rugman/Collinson 2012, p. 654.

Value Creation Strategies of Emerging Country Multinationals

<table>
<tr><th colspan="6">Transferability between Markets</th></tr>
<tr><th colspan="2"></th><th colspan="2">high</th><th colspan="2">low</th></tr>
<tr><td rowspan="10">Availability for the Firm</td><td rowspan="6">high</td><th colspan="2">I (Exploiters)</th><th colspan="2">II (Defenders)</th></tr>
<tr><th>Resource</th><th>Firm Example</th><th>Resource</th><th>Firm Example</th></tr>
<tr><td>◆ know-how (marketing, brand & distribution)</td><td>Astrid y Gastón, Concha y Toro, Bimbo, Pollo Campero</td><td>◆ market share</td><td></td></tr>
<tr><td>◆ market knowledge</td><td>América Móvil, Cemex</td><td>◆ customer-driven</td><td>Tenaris</td></tr>
<tr><td>◆ innovative capability</td><td>Tenaris</td><td>◆ competitor-driven</td><td>América Móvil, Cemex, Politec</td></tr>
<tr><td>◆ know-how (production)</td><td>Petrobas</td><td>◆ market-driven</td><td>Petrobas</td></tr>
<tr><td rowspan="6">low</td><th colspan="2">IV (Others)</th><th colspan="2">III (Resource Developers)</th></tr>
<tr><td colspan="2" rowspan="5">EMNCs use another form of access to resources lacked (e.g., imports)</td><th>Resource</th><th>Firm example</th></tr>
<tr><td>◆ leading technology/ knowledge</td><td>Bimbo, Politec, Natura</td></tr>
<tr><td>◆ financial resources</td><td>Cemex</td></tr>
<tr><td>◆ know-how (marketing: brand & distribution)</td><td>Bimbo</td></tr>
<tr><td>◆ natural resources</td><td>Vale, Petrobas</td></tr>
</table>

Source: Losada Otalora/Casanova 2012, p. 9.

Firm-Specific Advantages of Emerging Country Multinationals

Globalising…	Assets	Capabilities	Connections	Reputation
Innovation and Technology	patents, licenses, IPR. specialized tools, hardware, software, etc.	low-end (maintenance) to high-end (blue-sky R&D) expertise	strategic alliances, buyer and supplier links. R&D networks/global capability inputs	credibility, trust, track record, recognition
Marketing and Brands	own valued brands, logos, trademarks, awards, etc.	brand management protection, development of expertise	formal co-branding, supplier or buyer, distribution, and retailing affiliations	reputation for quality, price, innovation, etc., market positioning, brand recognition, market presence

Source: Rugman/Collinson 2012, p. 656.

Characteristics of the LLL-Framework

Criterion	LLL-Framework
Resource Utilisation	resources accessed through linkage with external firms
Geographic Scope	locations tapped as part of international network
Make or Buy?	bias towards operations created through external linkage
Learning	learning achieved through repetition of linkage and leverage
Process of Internationalisation	proceeds incrementally through linkage
Organisation	global integration sought as latecomer advantage
Driving Paradigm	capturing of latecomer advantage
Time Frame	cumulative development process

Source: Adapted from Mathews 2006, p. 21.

Differentiation of Subsidiary Roles

While numerous Role Typologies are described in the literature the most frequently used dimensions are:

External Context	• Relevance of host country of subsidiary • Complexity of environment of subsidiary
Internal Context	• Strategic orientation of MNC • Level of resources or competences of subsidiary
Coordination Variables	• Level of autonomy of subsidiary
Strategy	• Primary motives of establishment • Internal or external sales • Knowledge in– and outflows • Markets served, products offered • value-added activities carried out

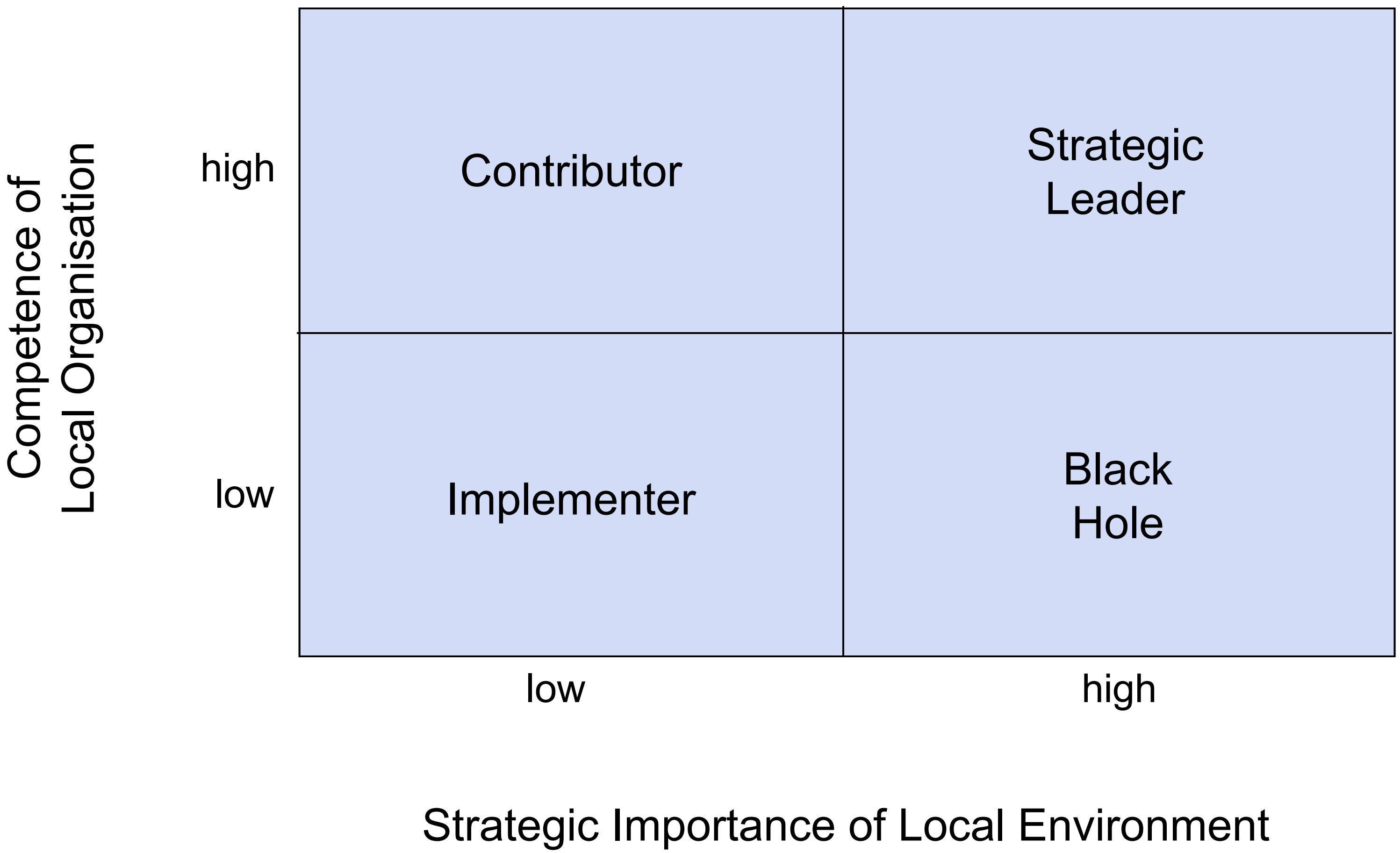
own presentation based on Schlegelmilch 2015, p. 55 ff.

Dimensions to classify Subsidiary Roles

Bartlett and Ghoshal 1986	White and Poynter 1984	Gupty and Govindarjan 1991, 1994	Andersson and Forsgren 1994
Competence of Local Organization	Market Scope	Outflow of Knowledge from Subsidiary	Internal Sales
	Product Scope		
Strategic Importance of Local Environment	Value added Scope	Inflow of Knowledge to Subsidiary	Internal Purchases

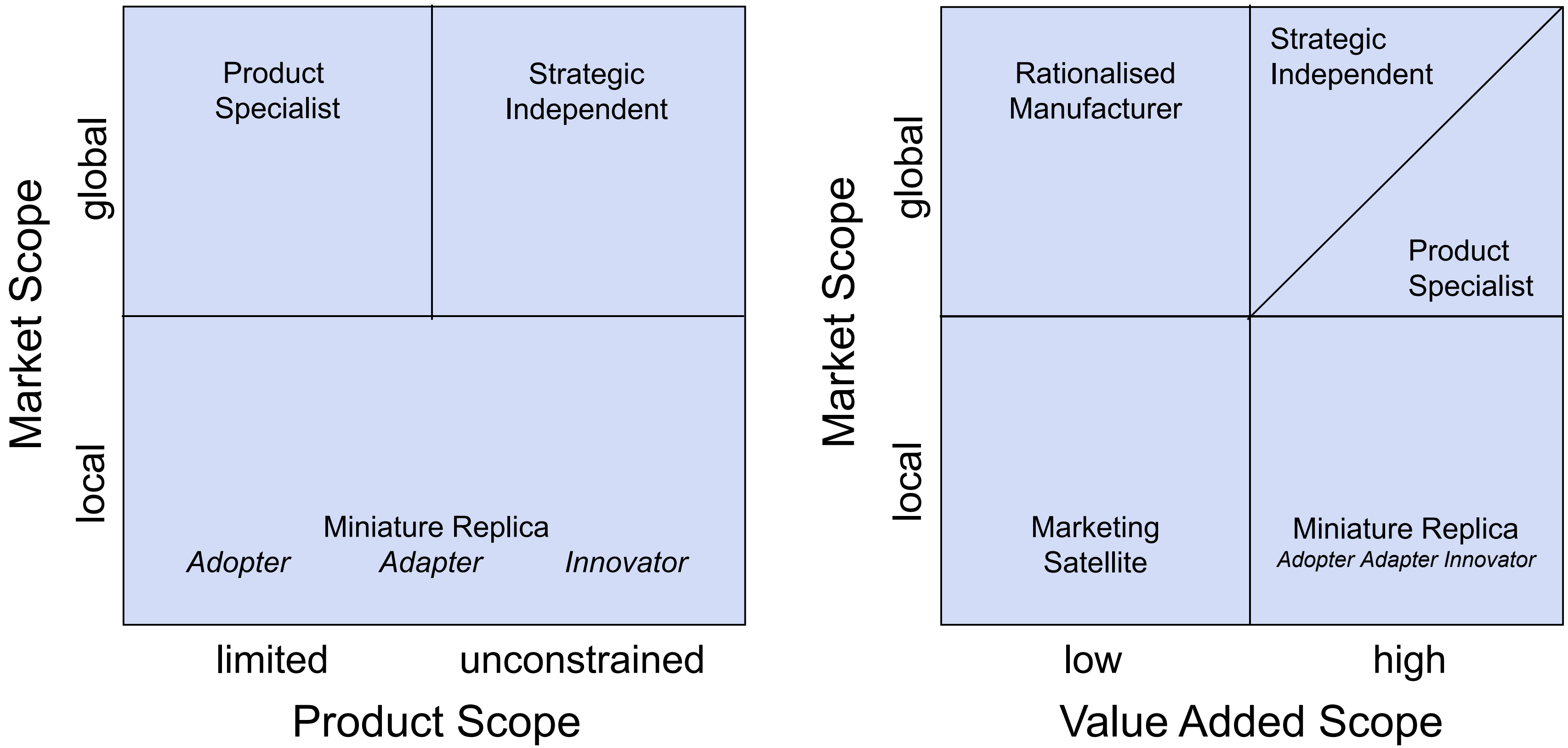
Source: Morschett et al. (2010) p. 51-60.

Role Typology by Bartlett/Ghoshal



Adapted from Bartlett/Ghoshal 1986, p. 90

Role Typology by White/Poynter



Adapted from White/Poynter 1984, p. 60

Role Typology by Gupta/Govindarajan

Outflow of Knowledge
from the Local Subsidiary
to the Rest of the Corporation

	low	high
high	Global Innovator (Knowledge Provider)	Integrated Player (Knowledge Networker)
low	Local Innovator (Knowledge Independent)	Implementor (Knowledge User)

Inflow of Knowledge
from the Rest of the Corporation to the Local Subsidiary

(In brackets, the terminology of Randoy/Li (1998) is displayed)

Gupta/Govindarajan 1991

Role Typology by Andersson/Forsgren

Internal Sales	Internal Purchases: low	Internal Purchases: high
high	Forward Vertical	Mutually Integrated
low	External	Backward Vertical

Andersson/Forsgren 1994, p. 15

5. Trade Theories, Market Barriers & Integration

Learning Objectives

1. Know the most important theories of international management
2. Compare and contrast the main categories of preferential trade agreements
3. Understand the rationale for the creation of both the European union and the euro zone
4. Explain the role of the world trade organization in facilitating global trade relations among nations
5. Understand the role and importance of preferential trade agreements and how they impact the international strategy of firms

Theories of International Trade and Investment

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Nation-level Explanations

Why do nations trade?

Classical Theories
- Mercantilism
- Absolute Advantage Principle
- Comparative Advantage Principle
- Factor Proportions Theory
- International Product Life Cycle Theory
- New Trade Theory

How can nations enhance their competitive advantage?

Contemporary Theories

- Competitive Advantage of Nations
- Michel Porter's Diamond Model
- National Industry Policy

Source: Cavusgil et. al. (2018), p. 145

Mercantilism and Neomercantilism

- **Mercantilism**: A belief popular in the 16th century that national prosperity results from maximizing exports and minimizing imports.
- **Absolute Advantage**: A country benefits by producing only those products which it can produce using **fewer resources** than another country.
- **Comparative Advantage**: What matters is the **relative efficiency** with which the two countries can produce the products.
- Today, some argue for **neomercantilism** --- the idea that the nation should run a trade surplus.
- Supporters of neomercantilism include:
  - Labor unions (who want to protect domestic jobs),
  - Farmers (who want to keep crop prices high), and
  - Some manufacturers (that rely on exports).

But is neomercantilism best for all?

Source: Cavusgil et. al. (2018), p. 145

Free Trade

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Free trade is usually best because it leads to:

- More and better choices for consumers and firms
- Lower prices of goods for consumers and firms
- Higher profits and better worker wages (because imported input goods are usually cheaper)
- Higher living standards for consumers (because their costs are lower).
- Greater prosperity in poor countries.

The absence of restrictions to the flow of goods and services among nations.

Source: Cavusgil et. al. (2018), p. 145

Factor Proportions Theory
(Hekscher/Ohlin theorem)

Factor Proportions theory argues that each country should produce and export products that intensively use relatively abundant factors of production and import goods that intensively use relatively scarce factors of production.

A counterexample was provided by the Wassiliy Leontief (Leontief paradox)

Source: Cavusgil et. al. (2018), p. 145 ff.

International Product Life Cycle Theory

- Each product and its associated manufacturing technologies go through three stages of evolution: introduction, maturity, and standardization.
- In the introduction stage, the inventor country enjoys a monopoly both in manufacturing and exports. Example: The television set.

Source: Cavusgil et. al. (2018), p. 145 ff.

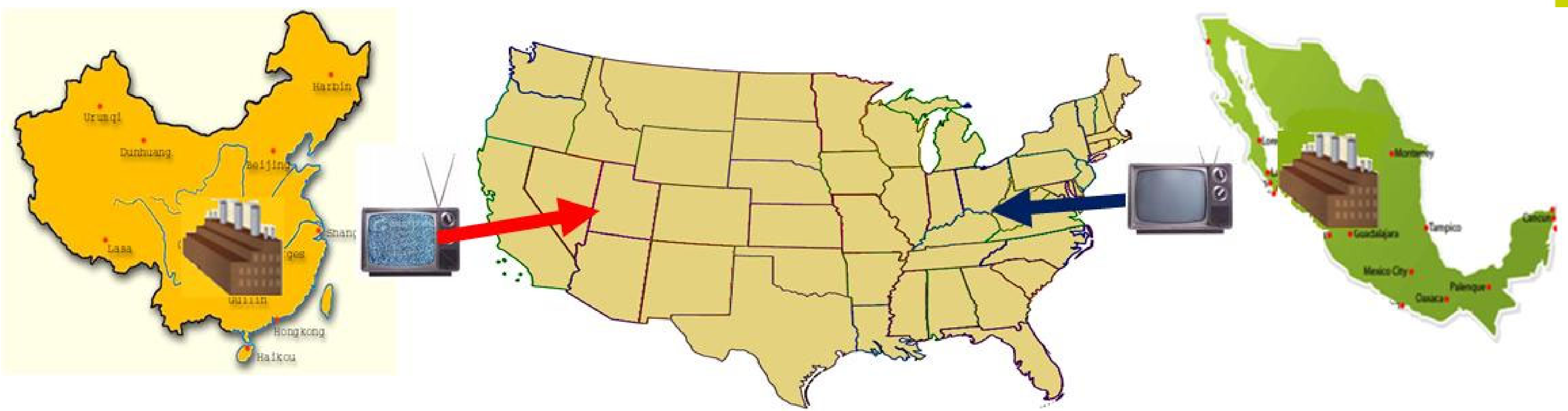
International Product life Cycle Theory (cont'd)

- In the maturity stage, the product's manufacturing becomes relatively standardized; other countries start producing and exporting the product.

Source: Cavusgil et. al. (2018), p. 145 ff.

International Product life Cycle Theory (cont'd)

- In the standardization stage, manufacturing ceases in the original innovator country, which then becomes a net importer of the product. Today under globalization, for many products, the cycle occurs quickly.



Source: Cavusgil et. al. 2018, p. 142 ff.

Economic Integration & Preferential Trade Agreements

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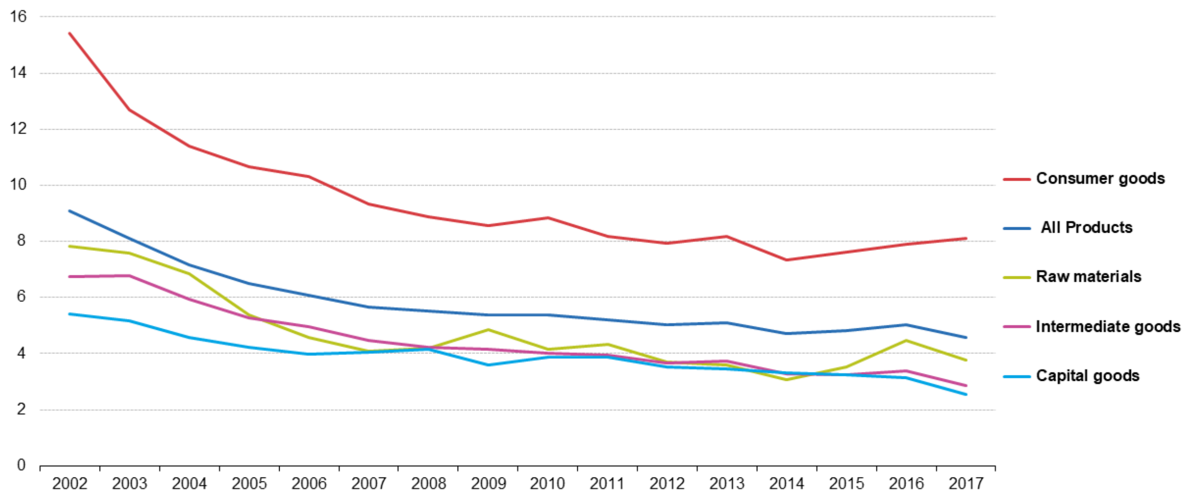
- Preferential trade agreements (PTAs) comprise a variety of arrangements that favor member parties over non-members by extending tariff and other non-tariff preferences.
- Many countries seek to lower barriers to trade within their regions
- PTAs give partners special treatment and may discriminate against others
- Over 300 PTAs have been notified to the WTO

Source: Cavusgil et al. 2014, p. 253-273

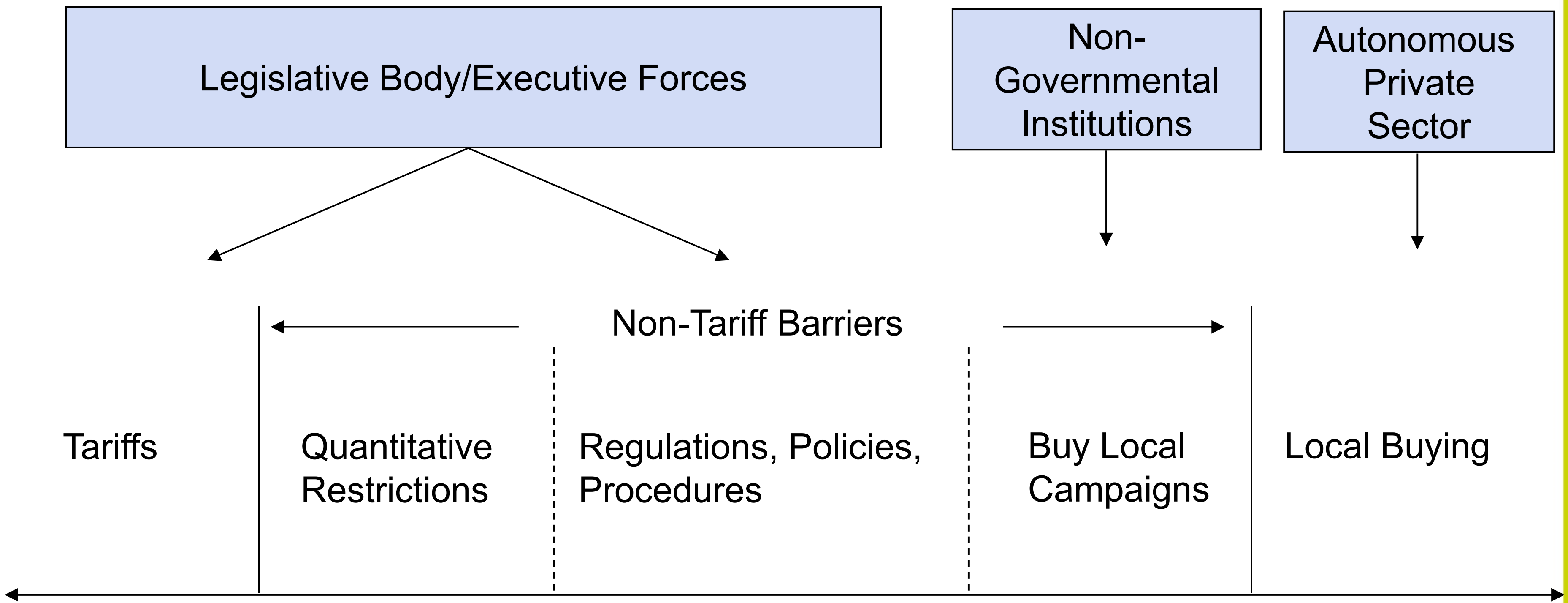
Tariffs applied to the value of imports, by processing stage, world average, 2002-2017
(%)



Note: trade-weighted average for effectively applied tariffs.
Source: World Bank, WITS (World Integrated Trade Solution)

eurostat

Forms of Market Barriers



Morschett et al. 2015, p. 151ta

The World Trade Organization

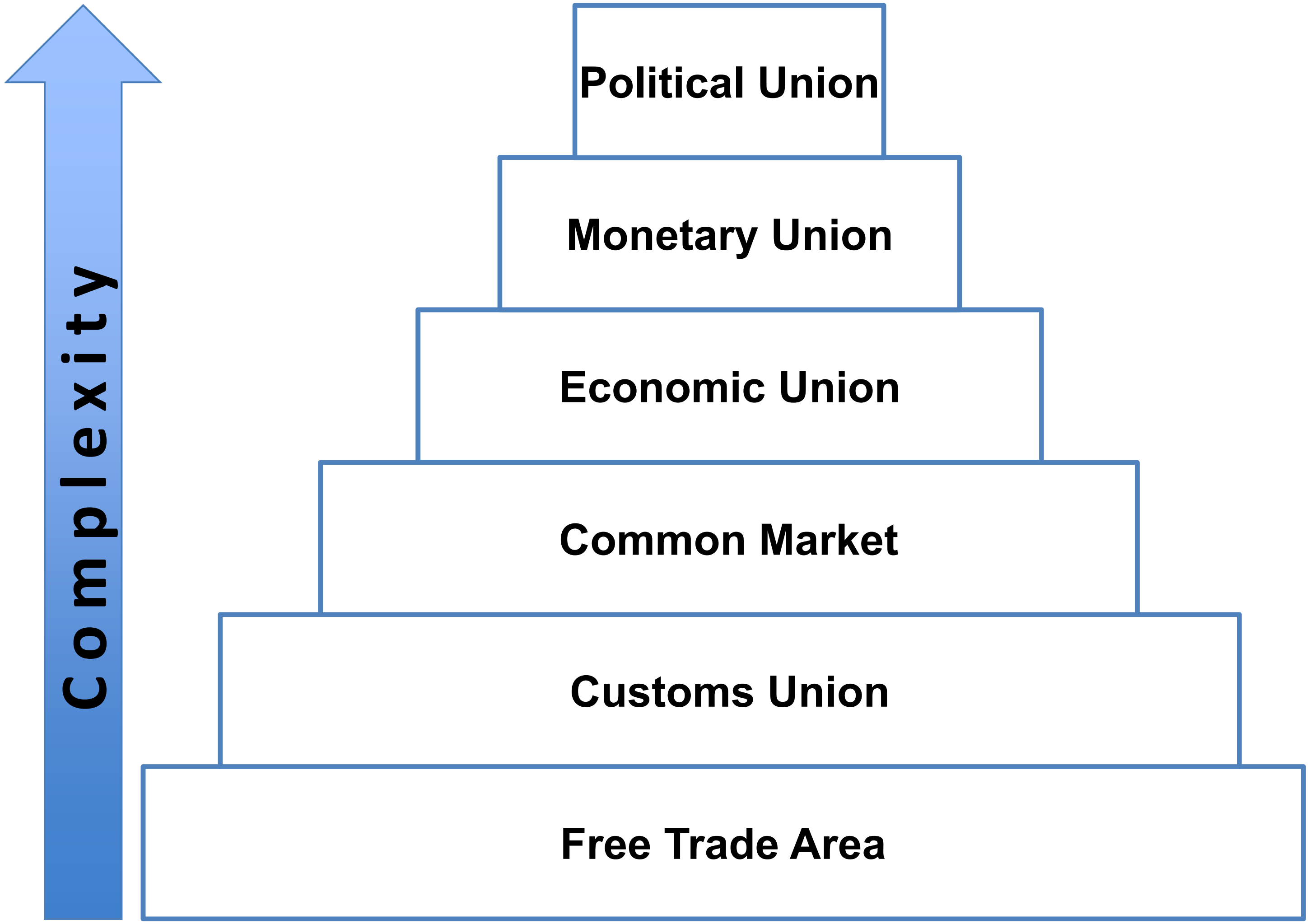
WTO predecessor: GATT - General Agreement on Tariffs and Trade

- Treaty among nations to promote trade among members established in 1947
- Handled trade disputes but lacked enforcement power
- Replaced by World Trade Organization in 1995

WTO -> Forum for trade-related negotiations among 164 members

- Based in Geneva
- promotes free trade on a global basis; in addition, countries in each of the world's regions are seeking to liberalize trade within their regions.
- Serves as dispute mediator through DSB (Dispute Settlement Body)
- Has enforcement power and can impose sanctions
- WTO members participating in these agreements are encouraged to notify the WTO when new agreements are formed.
- Check out the website: www.wto.org

Different Levels of Economic Integration



adapted from Morschett et al. 2015, p. 157

Economic Integration

Advantages

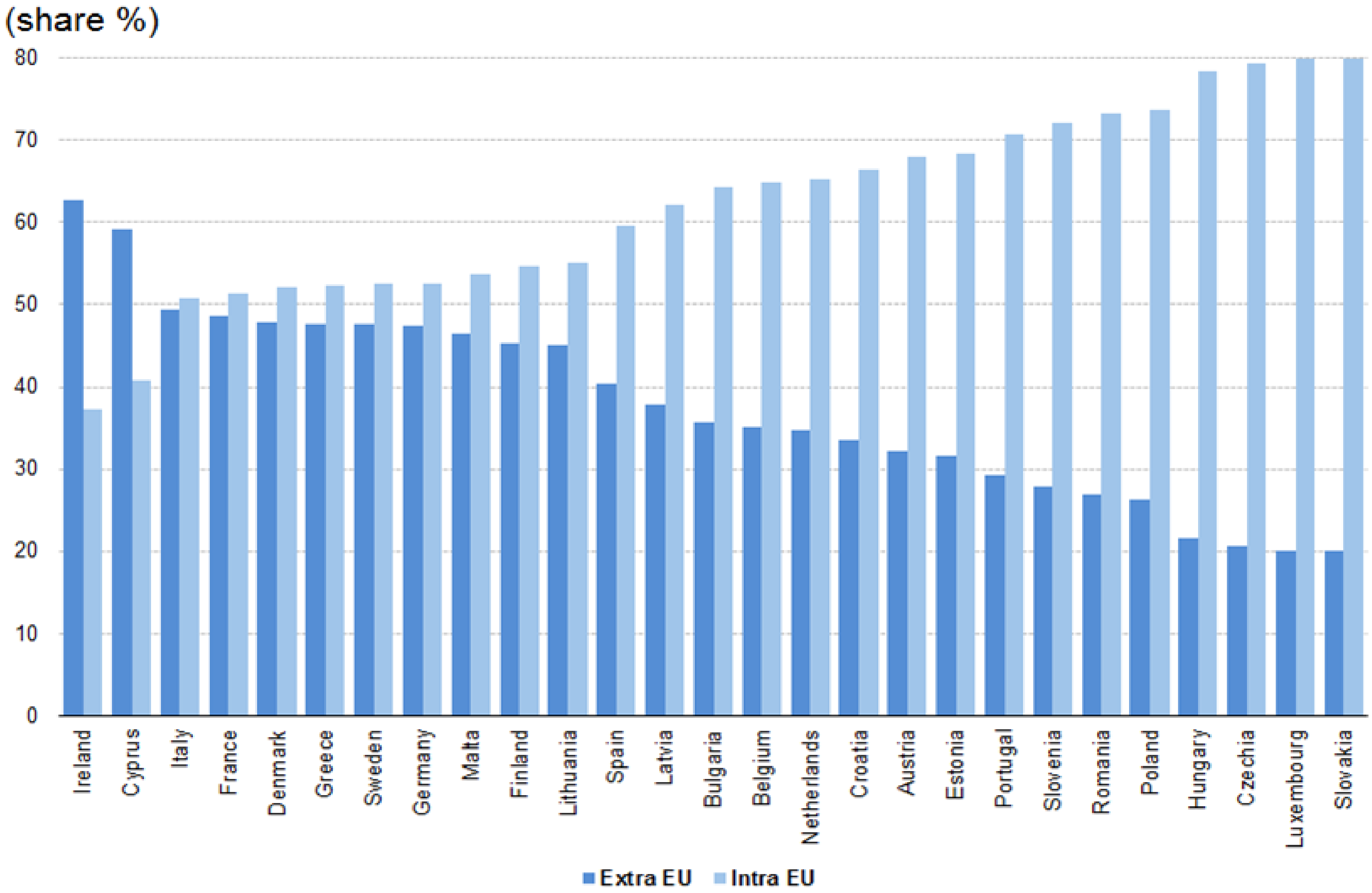
- Trade Creation
- Greater Consensus
- Political Cooperation
- Employment Opportunities

Disadvantages

- Creation Of Trading Blocs
- Trade Diversion
- National Sovereignty

Source: Cavusgil et al. 2018, p. 198 ff.

Comparison between intra-EU and extra-EU exports of goods, 2019



Source: Eurostat (online data code: DS-018995)

eurostat

Implications for the Firm

- **Internationalization** by firms **inside** the economic bloc
- **Regional** products and marketing strategy
- **Scale economies** and enhanced **productivity**
- **Mergers** and **acquisitions**
- **Internationalization** by firms from **outside** the bloc

DrRandomFactor / CC BY-SA (https://creativecommons.org/licenses/by-sa/3.0)

Source: Cavusgil et al. 2018, p. 198 ff.

6. Competitive Advantage of Nations

Learning Objectives

1. Recognize **why nations trade**

2. Understand the **diamond model** including the role of the government and the emergence of industrial clusters

3. Explain how **nations** can **enhance** their **competitive** advantage

4. Analyze how the **competitive advantage of nations and firms** are linked

Global Competitiveness Index Rating

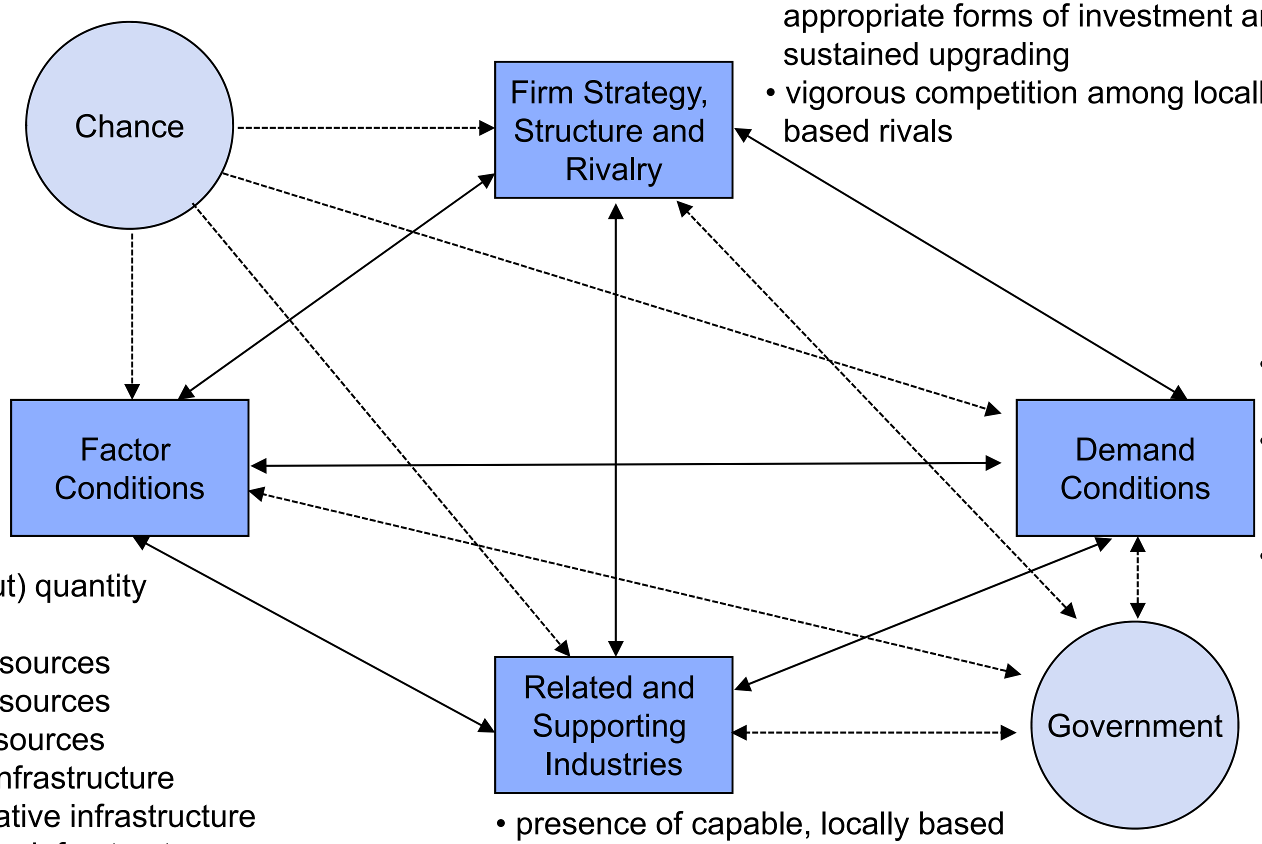
- published annually by the World Economic Forum
- "assesses the ability of countries to provide high levels of prosperity to their citizens"
- i.e. how productively a country uses available resources based on 12 pillars:

1. Institutions
2. Appropriate infrastructure
3. Stable macroeconomic framework
4. Good health & primary education
5. Higher education and training
6. Efficient goods markets
7. Efficient labor markets
8. Developed financial markets
9. Ability to harness existing technology
10. Market size (domestic and international
11. Production of new and different goods using most sophisticated production processes
12. Innovation

Determinants of National Competitive Advantage:

Porter‘s Diamond Model

- local context that encourages appropriate forms of investment and sustained upgrading
- vigorous competition among locally based rivals



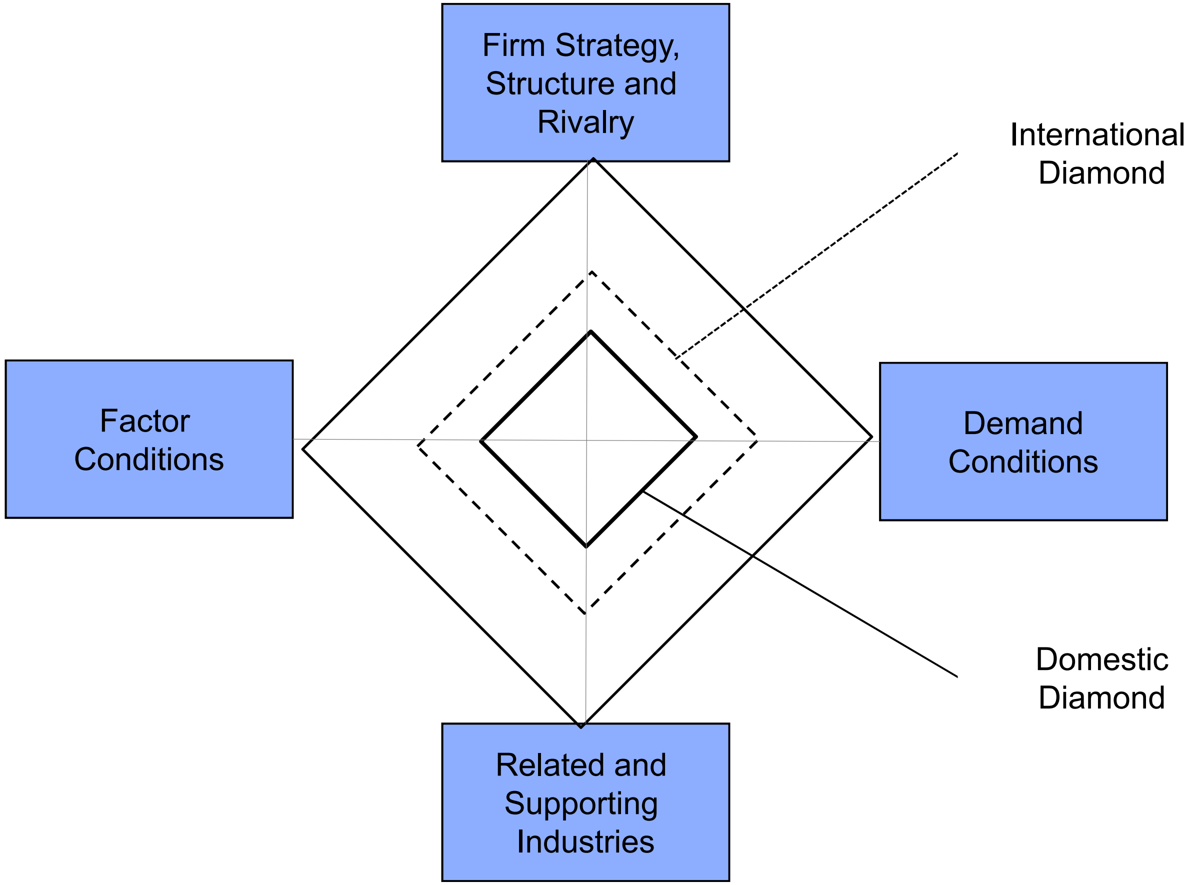
- sophisticated and demanding local customer(s)
- unusual local demand in specialized segments that can be served globally
- customer needs that anticipate those elsewhere

- factor (input) quantity and cost
  - natural resources
  - human resources
  - capital resources
  - physical infrastructure
  - administrative infrastructure
  - information infrastructure
  - scientific and technological infrastructure
- factor quality
- factor specialization

- presence of capable, locally based suppliers
- presence of competitive related industries

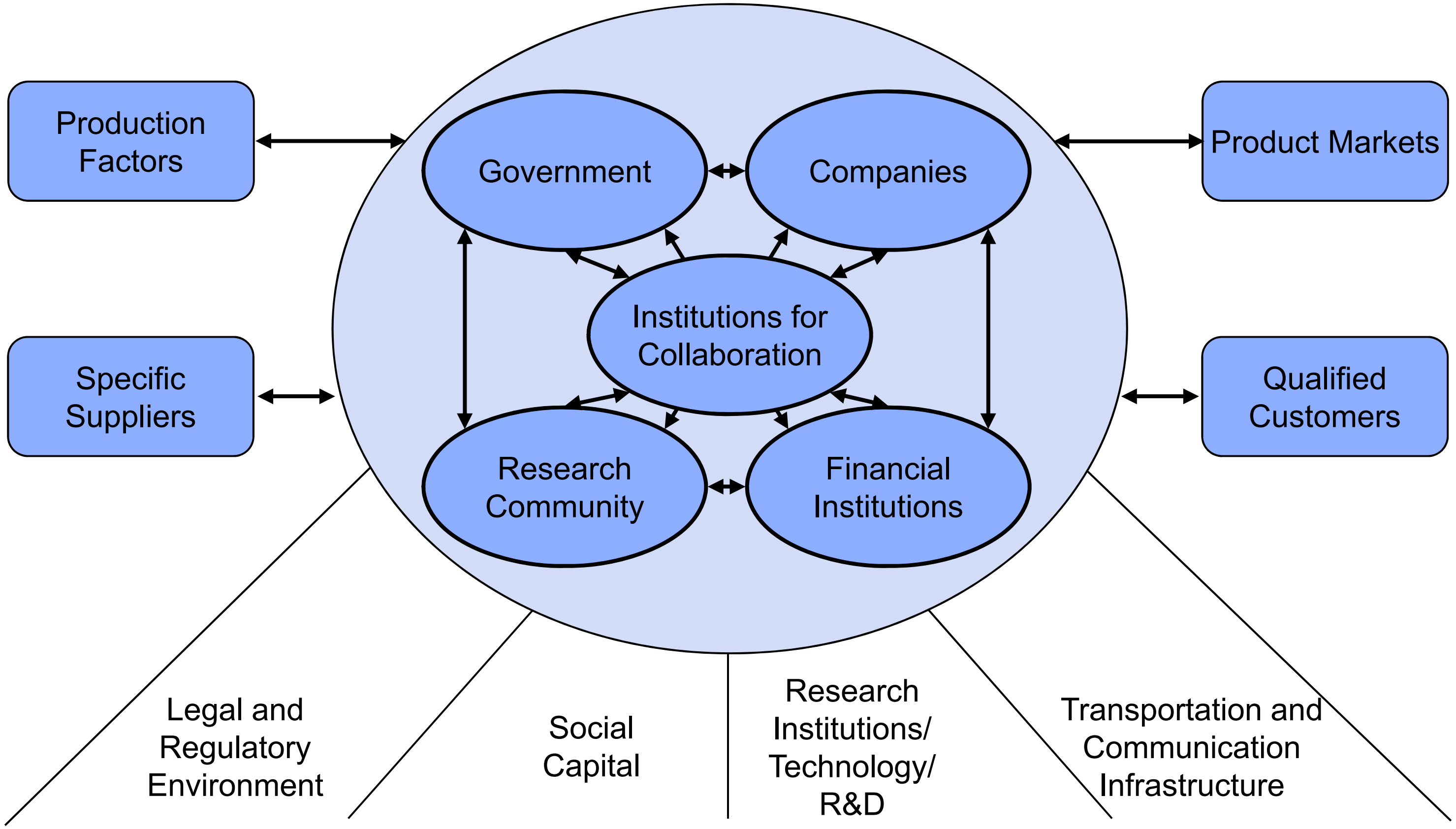
Porter 1990, p. 127

The Generalized Double Diamond



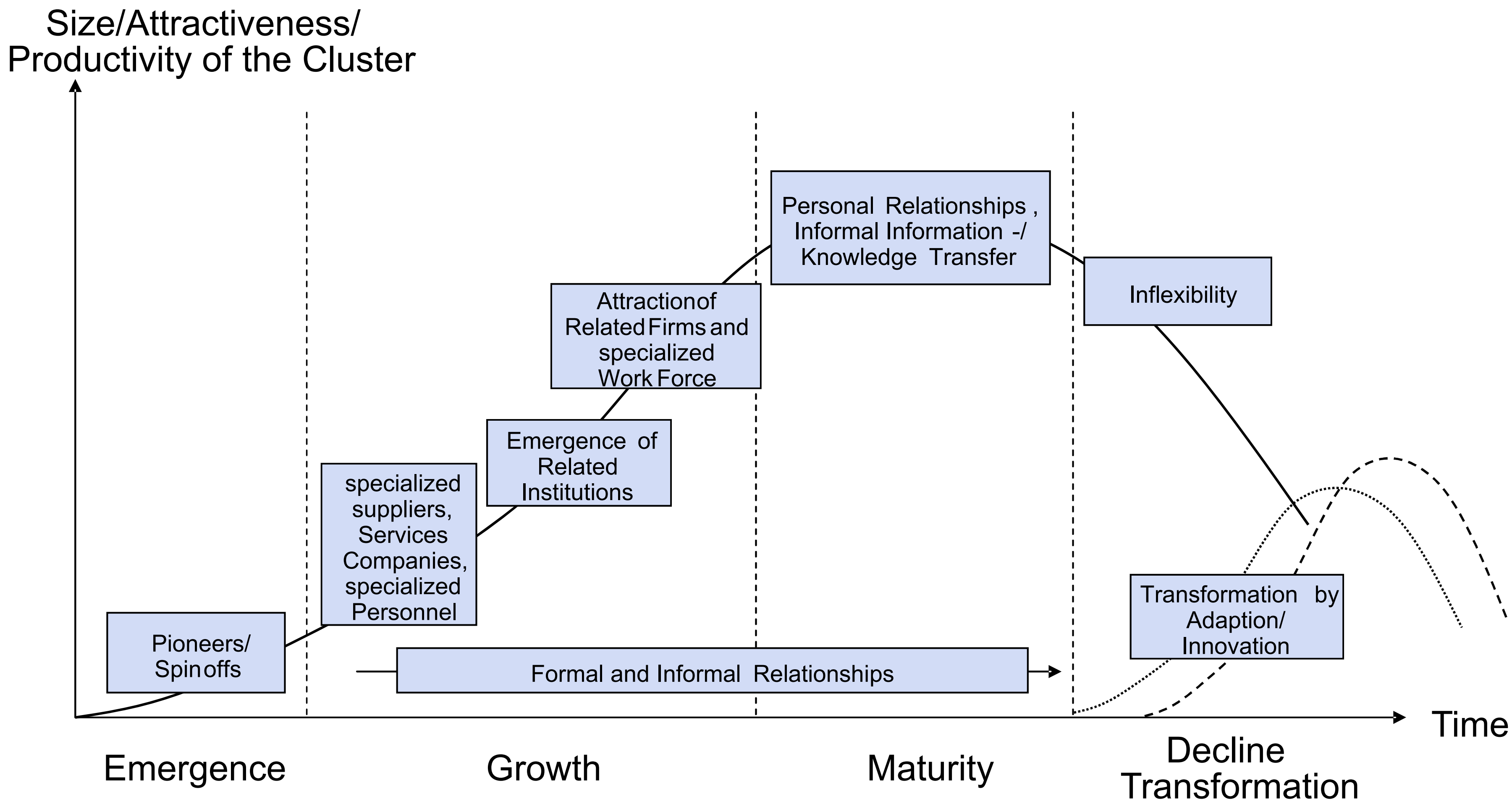
Adapted from Moon/Rugman/Verbeke 1998, p. 138

Actors in Regional Clusters



Adapted from Sölvell/Lindqvist/Ketels 2003, p. 18; Andersson et al. 2004, p. 31

Cluster Lifecycle



Adapted from Schramm-Klein 2005, p. 542; Menzel/Fornahl 2010, p. 218

7. **Country Culture**

Learning Objectives

1. Understand **cross-cultural risk** and the **key concepts of culture**
2. Know the **role of culture** in international business
3. Interpret **subjective** versus **objective dimensions** of culture
4. Be able to discuss contemporary issues in culture
5. Know how to overcome cross-cultural risk: **managerial guidelines**

What is Culture?

"Culture is the collective programming of the mind which distinguishes the members of one human group from another." (Hofstede 1980, p. 21)

A nation, an ethic group, a gender group, an organization, or a family may be considered as a human group.

"Culture only exists by comparison." (Hofstede)

Levels of Culture

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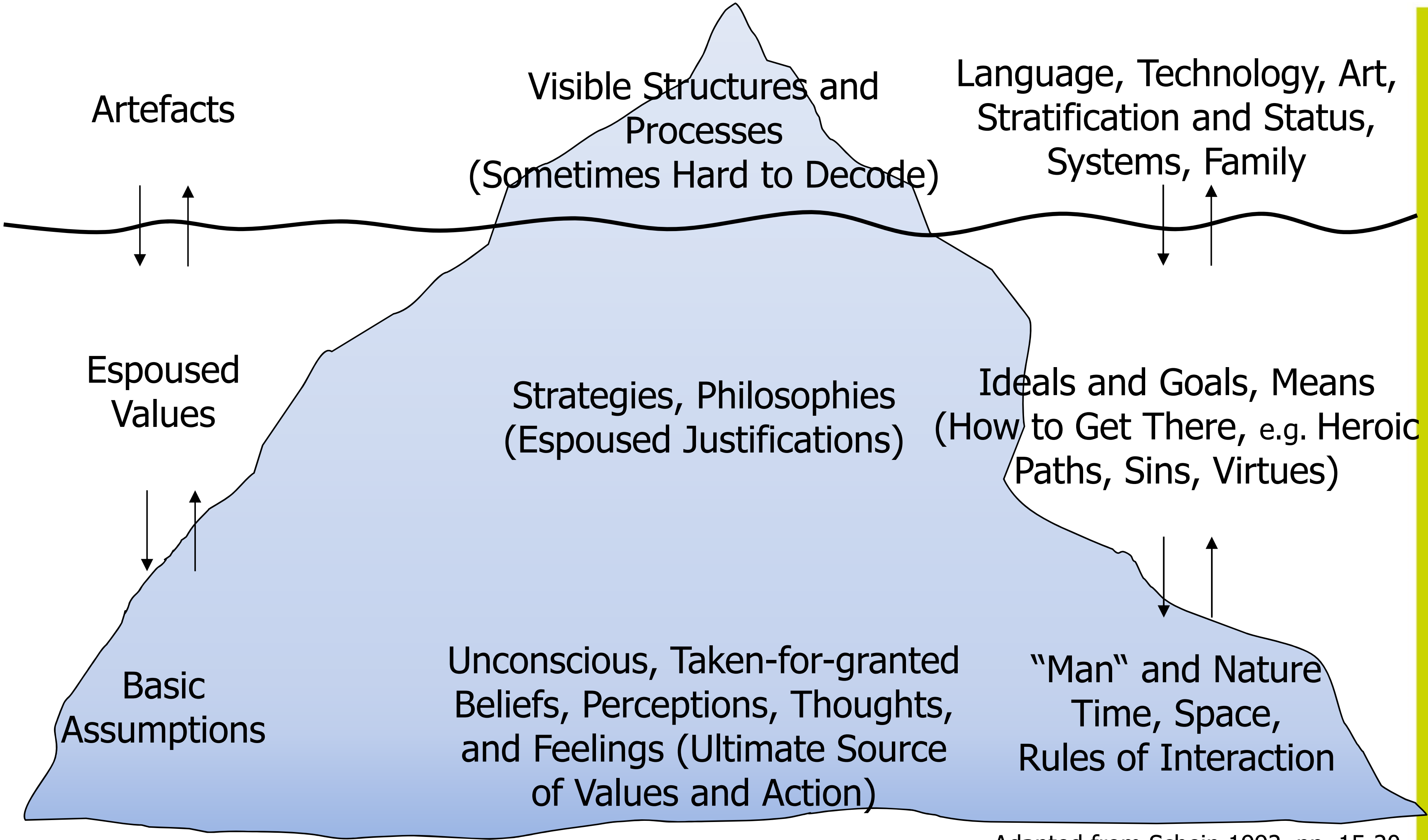
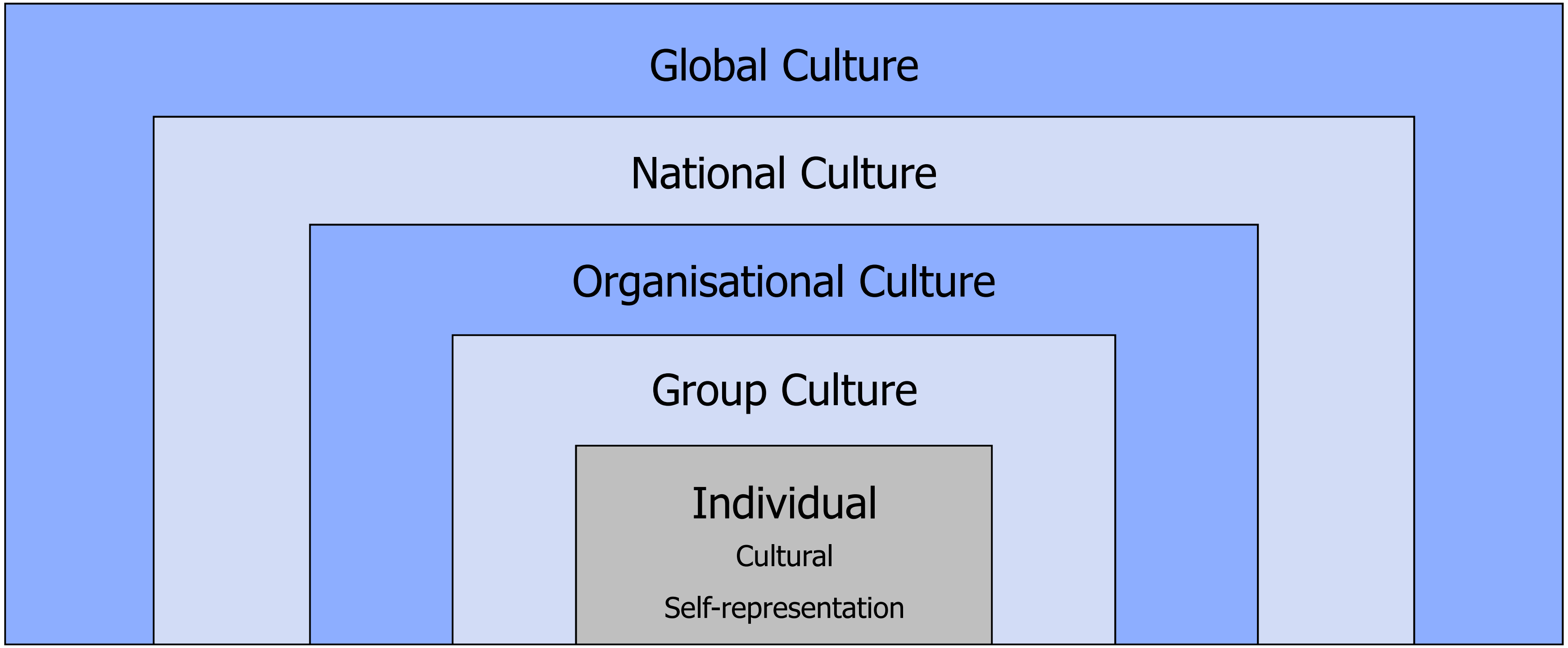


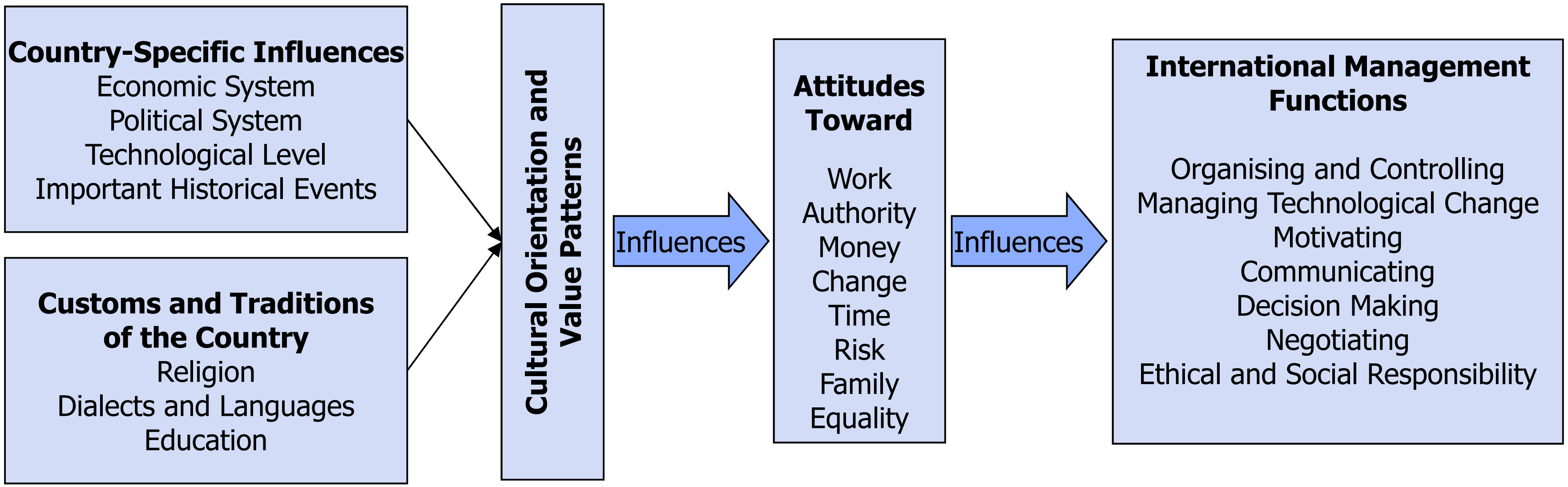
Adapted from Schein 1992, pp. 15-20

Layers of Culture



Adapted from Erez/Gati 2004, p. 288

Environmental Influences on International Management Functions



Adapted from Phatak/Bhagat/Kashlak 2009, p. 115

Examples of Cross-Cultural Business Contexts

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Face to Face

- Meetings
- Communication
- Negotiation

• Language
• Knowledge/ Expertise
• Behaviour
• Rituals

Company to Company

- Contracts
- Alliances
- JVs
- M&As

• Organisation
• Hierarchy and Decision Making
• Labor Relations
• Attitudes Toward Work

Company to Customer

- Marketing
- (New) Product Development

• Consumer Preferences
• Quality of Demand

Rugman/Collinson 2012, p. 136

Characteristics of Hall´s High Context & Low Context Cultures

Characteristic	Low Context/Individualistic (e.g. Western Europe, US)	High Context/Collectivistic (e.g. Japan, China, Saudi Arabia)
Communication and Language	• explicit, direct	• implicit, indirect
Sense of Self and Space	• informal handshakes	• formal hugs, bows and handshakes
Dress and Appearance	• dress for individual success, wide variety	• indication of position in society, religious rule
Food and Eating Habits	• eating is a necessity, fast food	• eating is social event
Time Consciousness	• linear, exact, promptness is valued, time = money	• elastic, relative, time spent on enjoyment, time=relationships
Family and Friends	• nuclear family, self-oriented, value youth	• extended family, other oriented, loyalty and responsibility, respect for old age
Values and Norms	• independence, confrontation of conflict	• group conformity, harmony
Beliefs and Attitudes	• egalitarian, challenge authority, individuals control destiny, gender equity	• hierarchical, respect for authority, individuals accept destiny, gender roles
Mental Process and Learning	• linear, logical sequential, problem solving	• lateral, holistic, simultaneous, accepting life's difficulties
Business/Work Habits	• deal oriented ("quickly getting down to business"), rewards based in achievement, work has value	• relationship oriented ("first you make a friend, then you make a deal"), rewards based on seniority, work is a necessity

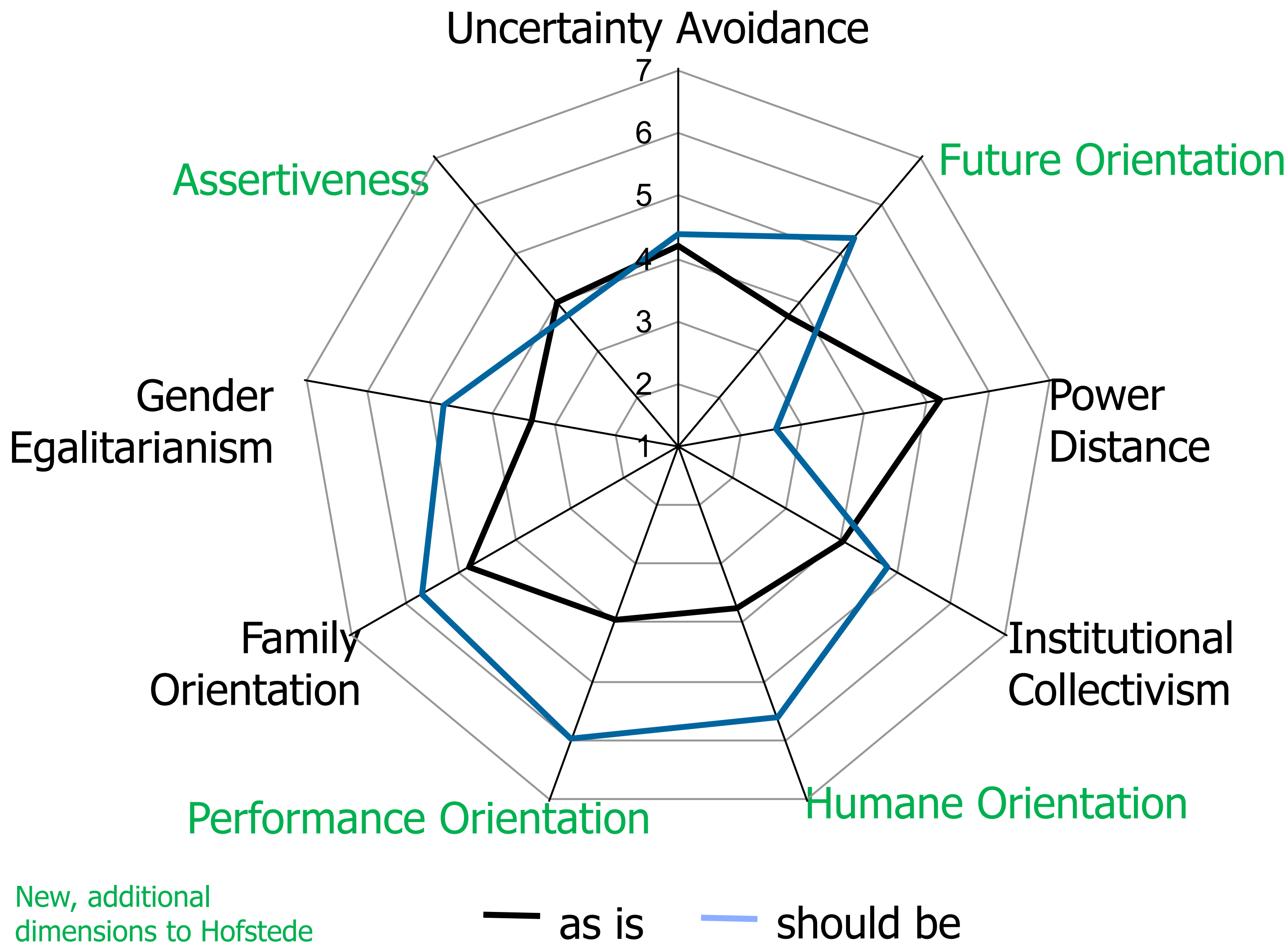
Hollenson 2014, p. 248

Hofstede's Culture Dimensions in Selected Countries

Country	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Long-Term Orientation
France	68	71	43	86	-
Germany	35	67	66	65	31
Hong Kong	68	25	57	29	96
India	77	48	56	40	61
Japan	54	46	95	92	80
Malaysia	104	26	50	36	-
Netherlands	38	80	14	53	44
Singapore	74	20	48	8	48
South Korea	60	18	39	85	75
Sweden	31	71	5	29	33
Switzerland	34	68	70	58	-
United Kingdom	35	89	66	35	25
United States	40	91	62	46	29

Hofstede 1991, pp. 312-313

GLOBE Example:
Latin Europe Cluster's Societal Culture Scores



New, additional dimensions to Hofstede

Jesuino 2002, p. 85

Organisation Types Reflecting Cultural Predispositions

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Cultural sensitivity = the state of awareness of the values and frames of reference of host country cultures.

	Imperialist	Interventionist	Interactive	Independent
Organisation	ethnocentric	ethnocentric	geocentric	polycentric
Structure	steep hierarchy	flat hierarchy	network	federation
Strategy	dictated	centrally decided	jointly specified	locally specified
Decision Making	centralised	distributed	shared	devolved

Rugman/Collinson 2012, p. 151

Managerial Guidelines for Cross-Cultural Success

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- Acquire factual and interpretive knowledge about the other culture; try to speak their language.
- Avoid cultural bias.
- Develop cross-cultural skills, such as perceptiveness, interpersonal skills, and adaptability.
- Self-reference criterion: The tendency to view other cultures through the lens of one's own culture ─ understanding this is the first step.
- Critical incident analysis: Method for analyzing difficult situations in cross-cultural interactions by developing empathy for other points of view.
    1. Identify situations where you need to be culturally aware to interact effectively with people from another culture.
    2. When confronted with “strange” or awkward behavior, discipline yourself to not make judgments.
    3. Develop your best interpretation of the foreigner’s behavior, and formulate your response.
    4. Learn from this process and continuously improve.

Deresky 2018, p. 90 ff.

Corporate Culture

1. Know the characteristics and types of corporate culture

2. Appreciate the benefits of company culture

Corporate Culture

"Pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems" (Schein 2004, p. 17)

"Company cultures are like country cultures. Never try to change one. Try, instead, to work with what you've got."

Peter Drucker
Economist,
Management
Consultant,
Author;
1909-2005

Generic Corporate Cultures

Degree of Risk Associated With the Company's Activities

	slow	fast
high	Bet-Your-Company Culture	Tough-Guy, Macho Culture
low	Process Culture	Work Hard/Play Hard Culture

Speed of Feedback from the Market

Adapted from Deal/Kennedy 1984, pp. 107-108

Effects of Corporate Culture As Coordination Mechanism

- **Reduction of complexity**: Facilitation of daily business
- **Providing a source of meaning and motivation**
- **Ensuring continuity**: Identification, Involvement, Loyalty

9. Foreign Operation Modes I

Learning Objectives

1. Oversee the **main foreign market entry strategies/ operation modes**

2. Comprehend **exporting** and its forms as primary the foreign market entry strategy for many SMEs.

3. Know the **export documentation,** the central **Incoterms** and **payment methods**

4. Realize that **countertrade** is a popular approach for emerging markets and developing economies

5. Understand how **importing**, **outsourcing** and **offshoring** are important for MNCs are essential in global competition.

Classification of Selected Foreign Operation Modes

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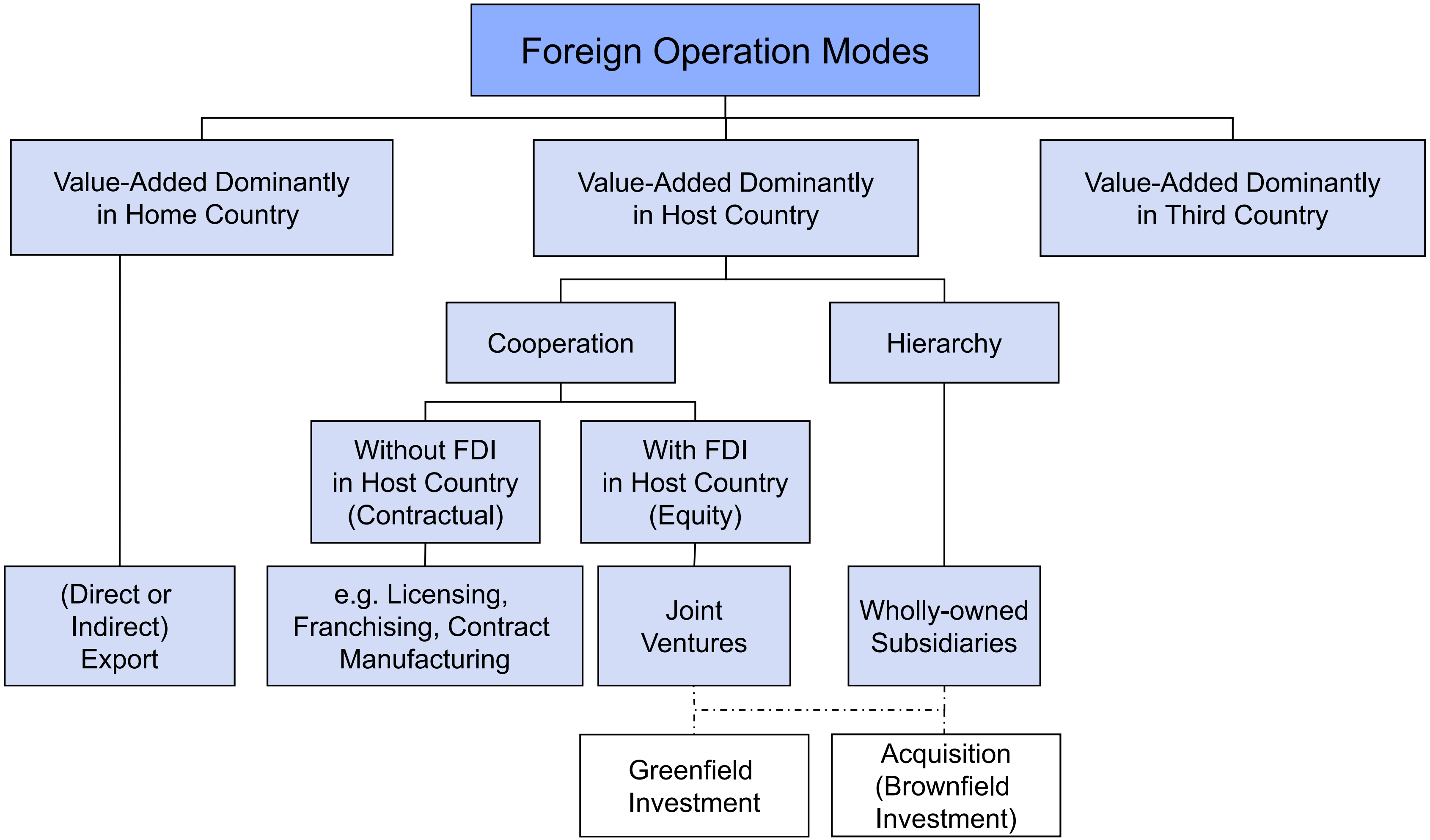
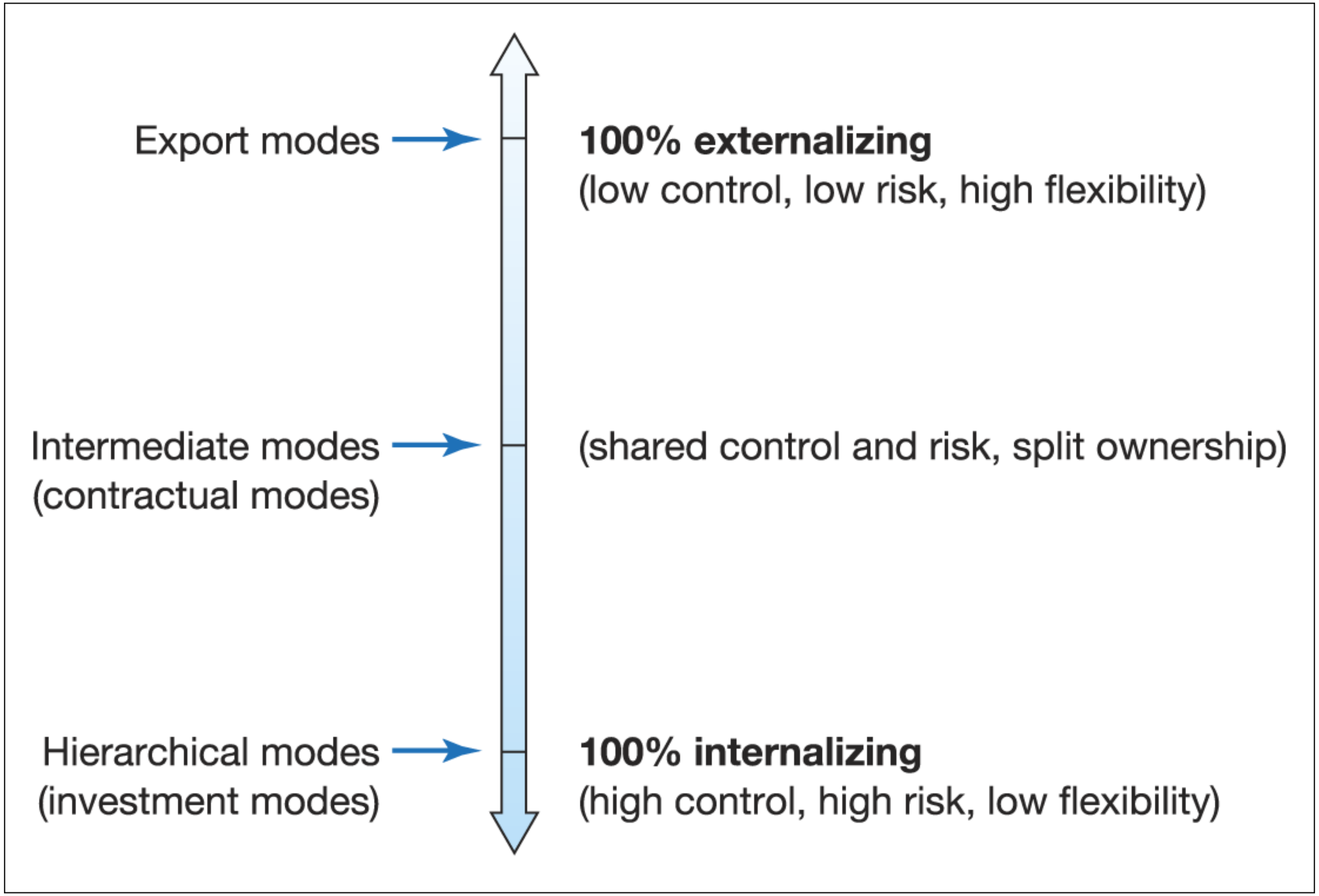


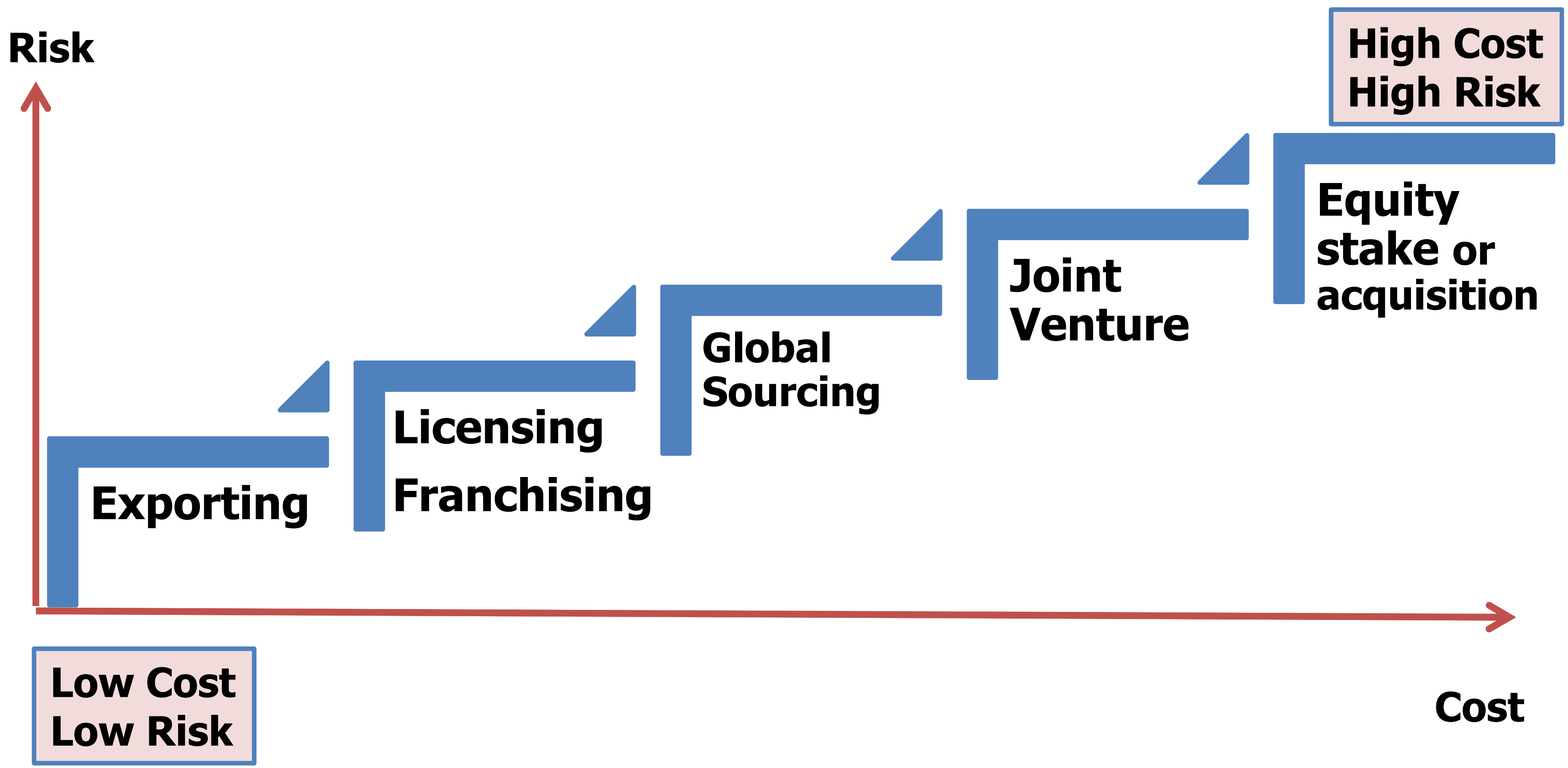
Adapted and expanded from Zentes 1993, p. 67.

Classification of market entry modes



Hollensen (2013), p. 201

Risk and Cost of Entry Strategies



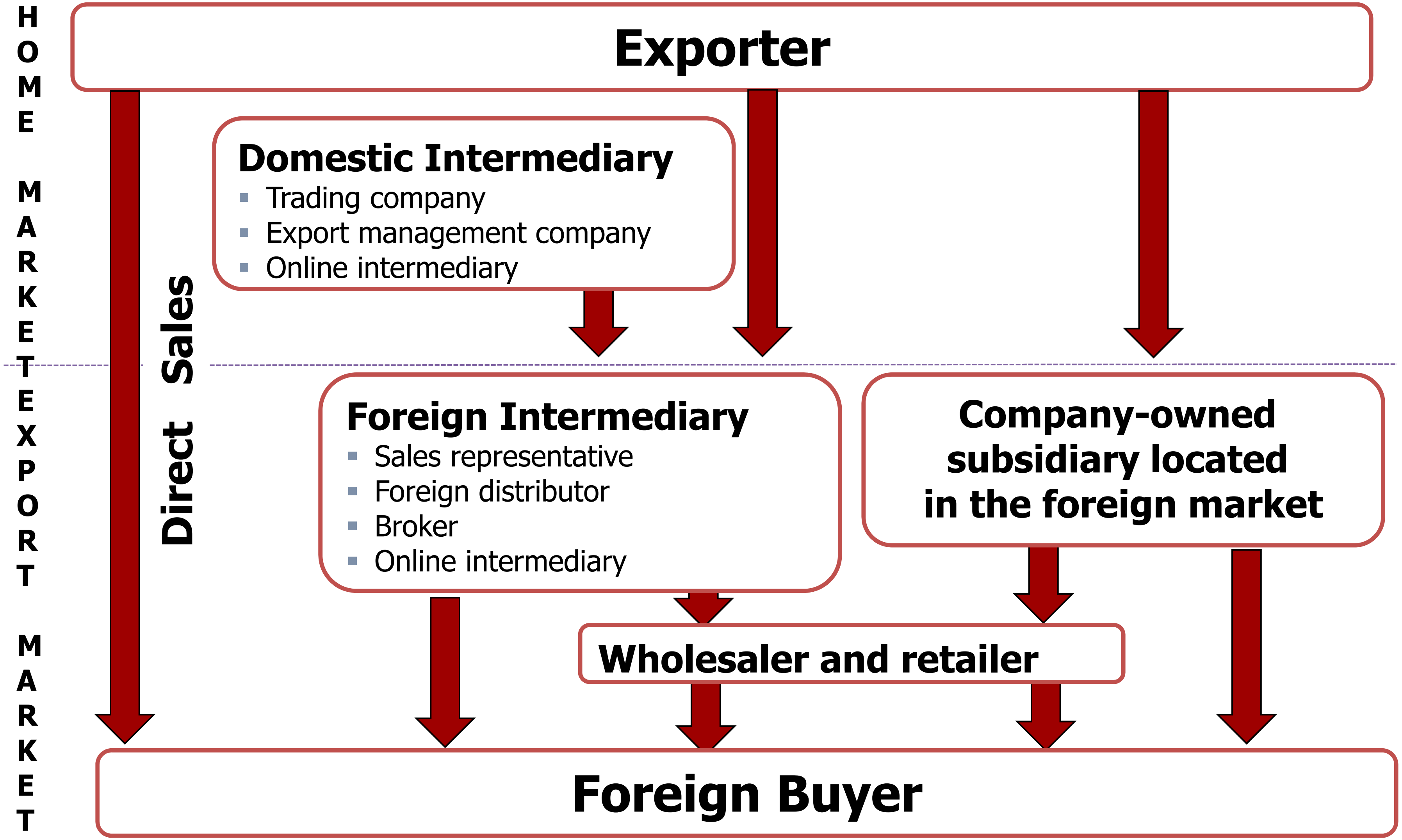
adapted from Keegan and Green (2017) Global Marketing, p. 285, Cavusgil et al. 2017, p. 376-377

Characteristics of Selected Foreign Operation Modes

	Export	Contractual Cooperation	Equity Cooperation	Wholly-owned Subsidiary
Control	low/medium/high	low	medium	high
Resource Commitment	low	low	medium	high
Flexibility	high	medium	medium-low	low
Knowledge Dissemination Risk	low	high	medium	low

Adapted from Driscoll/ Paliwoda 1997, p. 60.

Organizational Arrangements for Exporting



Cavusgil et.al. (2014) International Business, p. 397

Export Intermediation Options

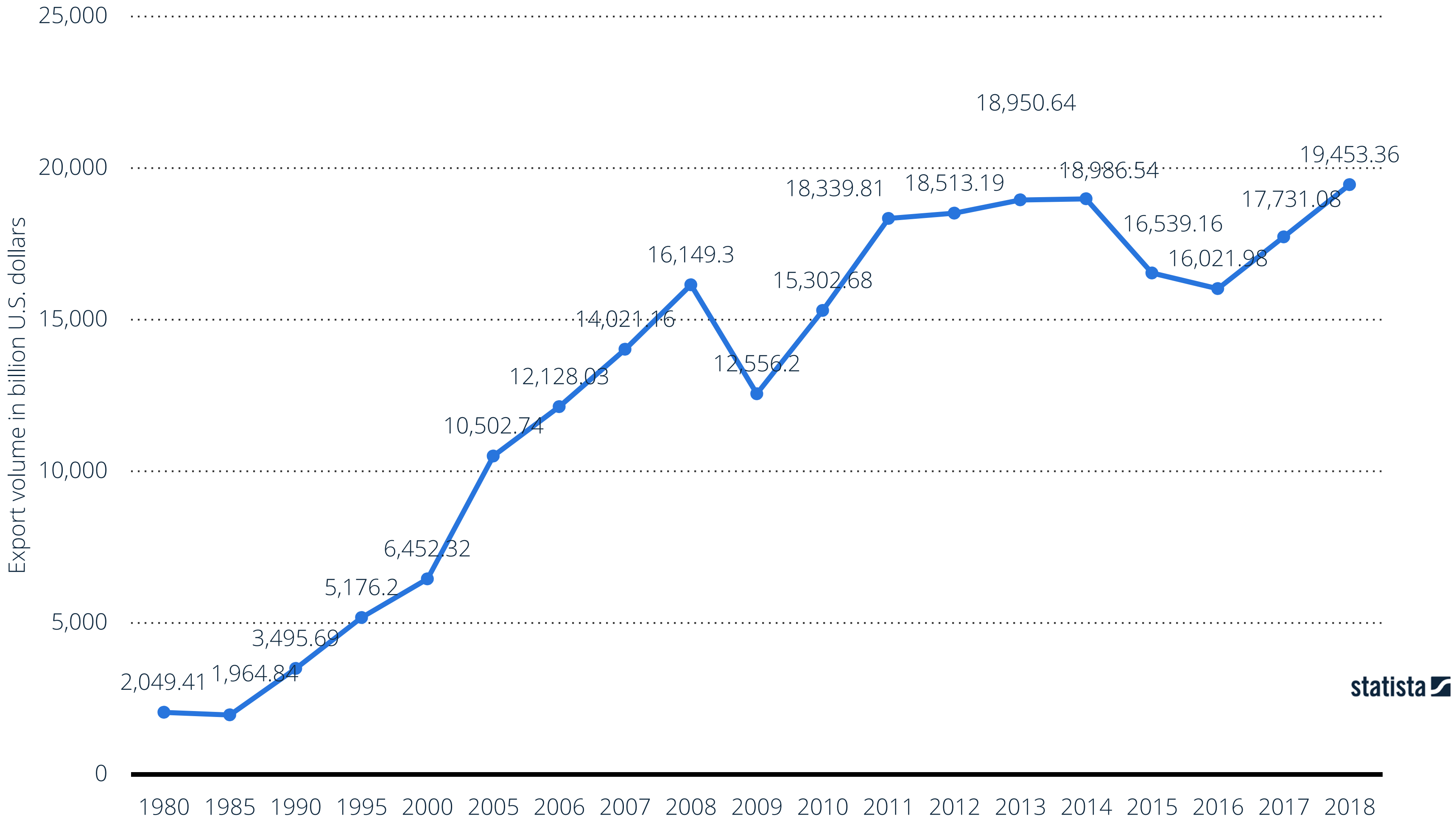
- **Indirect exporting**: Contracting with an intermediary in the firm's *home country* to perform all export functions, often an Export Management Company or a Trading Company. Common among firms new to exporting.

- **Direct exporting**: Contracting with intermediaries in the *foreign market* to perform export functions, such as distributors or agents. They perform downstream value-chain activities in the target market.

- **Company-owned foreign subsidiary**: Similar to direct exporting, except the exporter owns the foreign intermediation operation; the most advanced option.

Cavusgil et al. 2017, p. 379-377

Global export volume of trade in goods 1950 to 2018 (in billion U.S. dollars)



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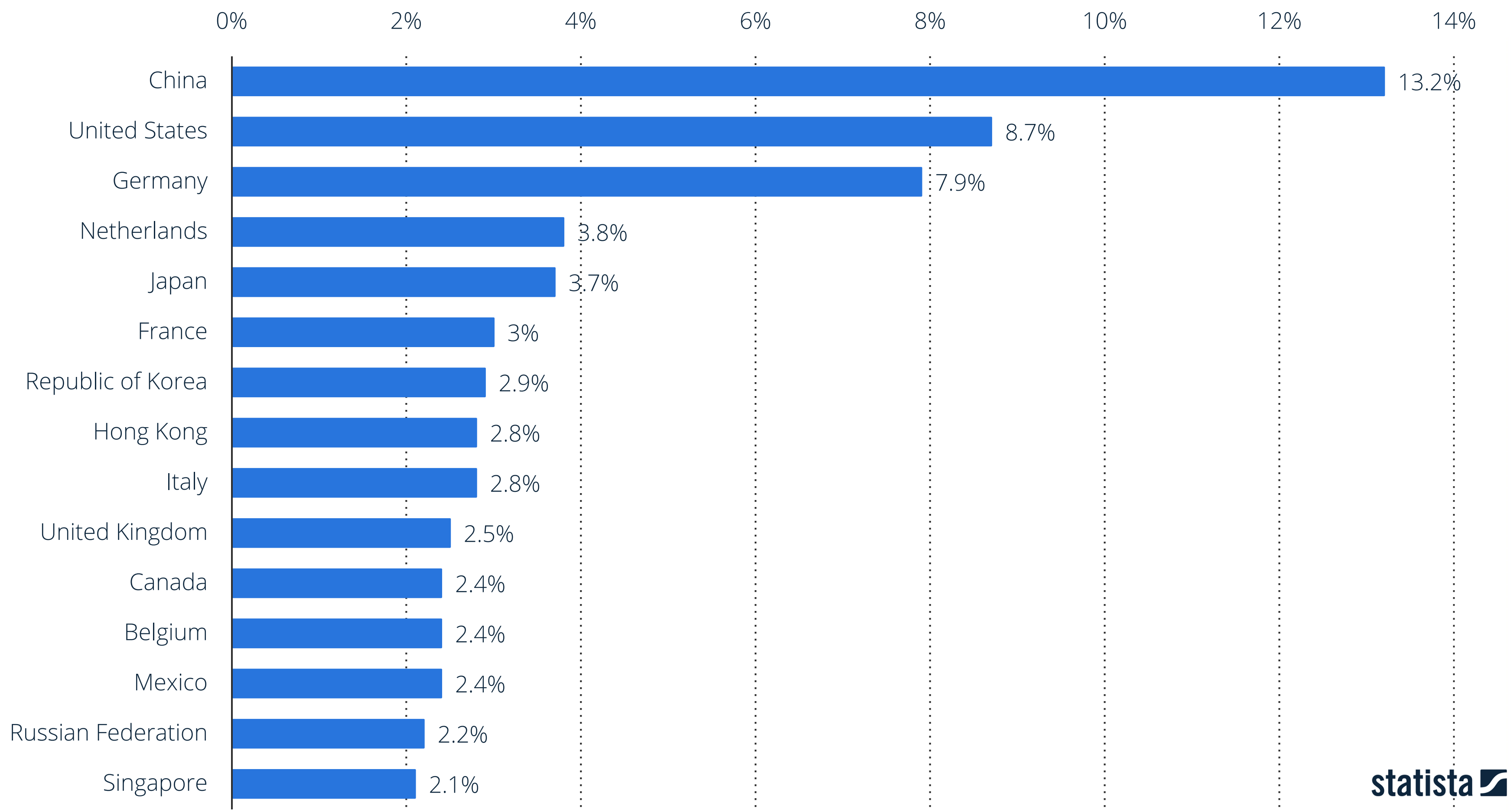
Leading Export Countries (Merchandise Trade): Share of World Trade 2019 (in %)



World Trade Statistical Review 2020, p.83

Advantages and Disadvantages of Exporting

Advantages

- Increase sales volume; improve market share.
- Generate better profit margins.
- Increase economies of scale.
- Diversify customer base.
- Stabilize sales fluctuations.
- Minimize the cost of foreign market entry.
- Minimize risk.
- Maximize flexibility.
- Leverage the capabilities of foreign distributors and other business partners located abroad.

Disadvantages

- Compared to FDI, exporting offers fewer opportunities to learn about customers, competitors, and other aspects of foreign markets.
- Firm must acquire and dedicate new capabilities in international sales contracts and transactions, international financing methods, and logistics and documentation, all of which can strain organizational resources.
- Exposes the firm to tariffs and other trade barriers as well as fluctuating exchange rates.

Cavusgil et al. 2017, p. 377-378

Export Documentation

Official forms and paperwork required to transport exported goods and clear customs.

- **Quotation or pro forma invoice**: Issued on request to advise a potential buyer about the price and description of the exporter's product or service.
- **Commercial invoice:** Actual demand for payment issued by the exporter when a sale is concluded.
- **Bill of lading**: Basic contract between exporter and shipper. Authorizes the shipping company to transport the goods to the buyer's destination.
- **Shipper's export declaration**: Lists the contact information of the exporter and buyer, full description, declared value, and destination of the products being shipped. Used by governments to collect statistics.
- **Certificate of origin**: The "birth certificate" of the goods, showing country where the product originated.
- **Insurance certificate**: Protects the exported goods against damage, loss, pilferage and, sometimes, delay.

Cavusgil et al. 2017, p. 380 ff.

Incoterms (**In**ternational **Co**mmerce Terms)

- System of universal, standard terms of sale and delivery.
- Commonly used in international sales contracts and price lists to specify how the buyer and the seller share the cost of freight and insurance, and at which point the buyer takes title to the goods

Find out more about Incoterms® 2020, read the full article on dhl.com

Methods of Payment

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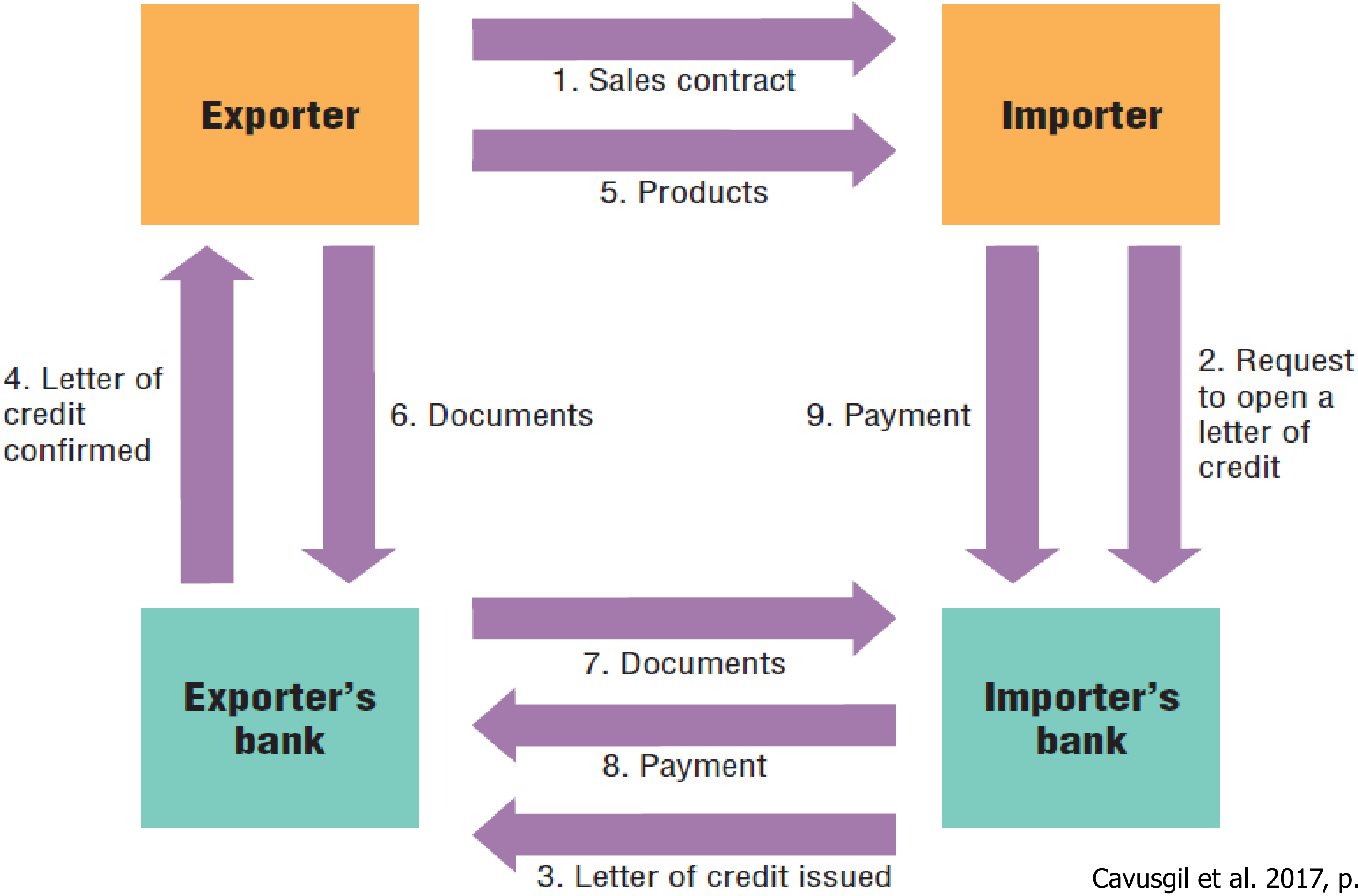
Receiving payment → more complicated in international business.

METHOD	ADVANTAGES	DISADVANTAGES
Cash in Advance	Best for the seller.	Risky from the buyer's standpoint, and thus unpopular; tends to discourage sales.
Open Account	Easy for the exporter, who simply bills the buyer, who is expected to pay at some future time as agreed.	Risky unless there is strong established relationship between exporter and buyer
Letter of Credit	A contract between the banks of the buyer and the seller. Largely risk-free, it helps establish instant trust.	Requires following a strict protocol, specified in the contract. Can involve much paperwork.

Cavusgil et al. 2017, p. 382 ff.

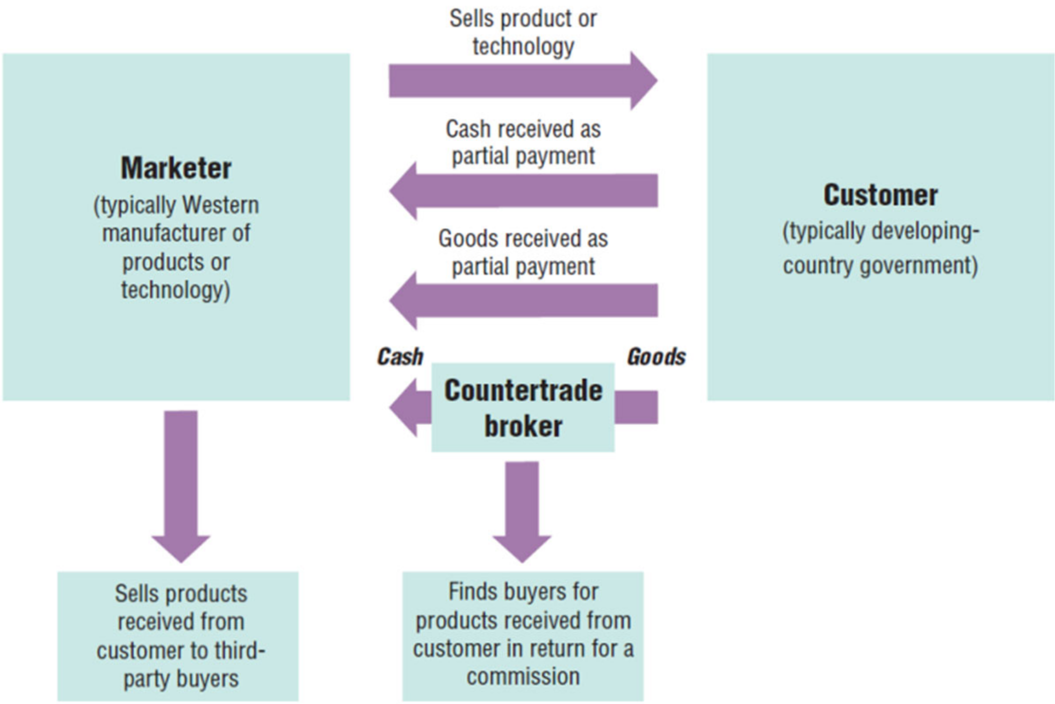
Letter of Credit Cycle



Cavusgil et al. 2017, p. 383

Countertrade

International business transaction in which all or partial payments are made in kind rather than cash.



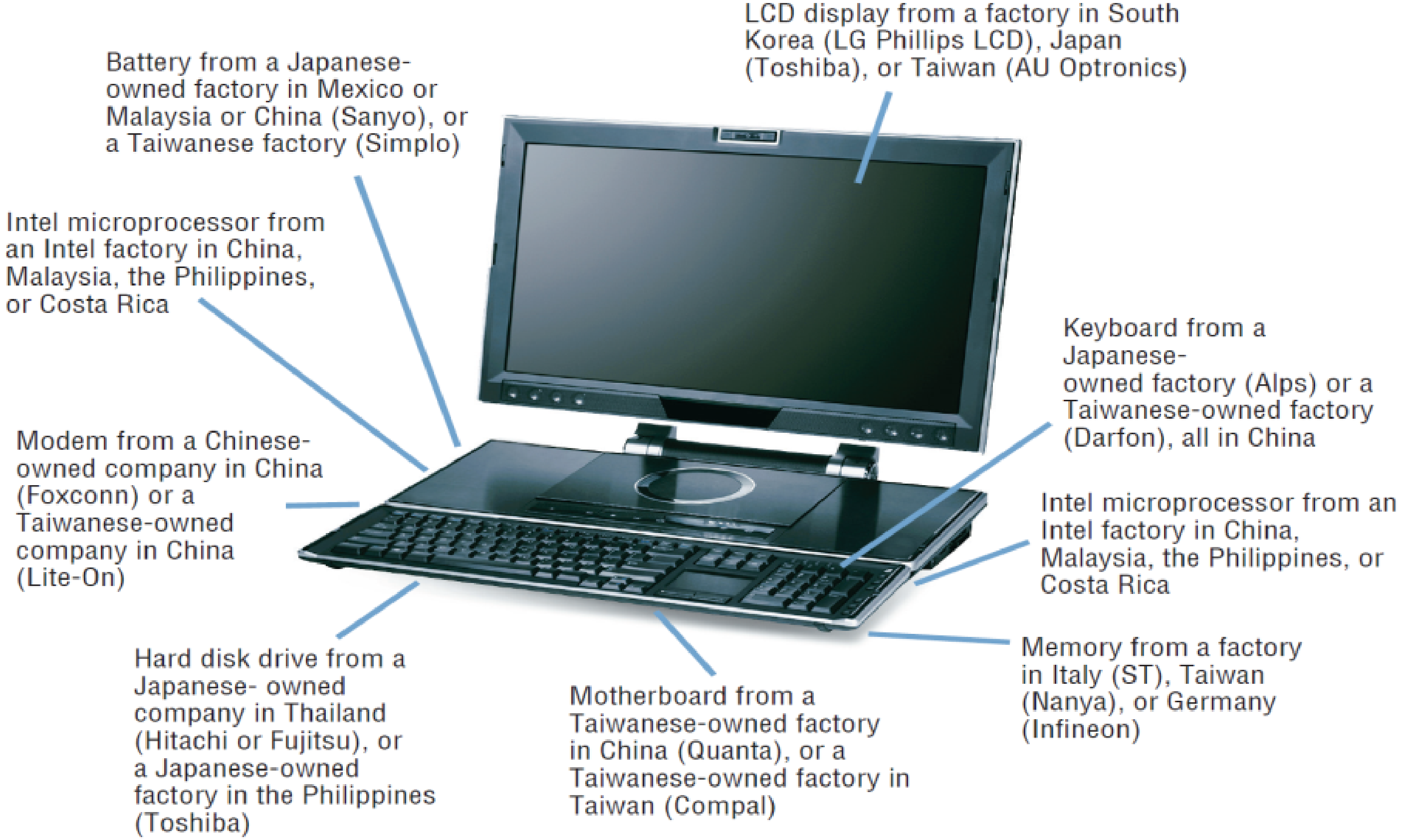
Types

- **Barter**: Goods are directly exchanged, without the transfer of any money.
- **Compensation deal**: Payment in goods *and* cash.
- **Counterpurchase**: Entails two distinct contracts. In the first, the seller agrees to a set price for goods and receives cash from the buyer, contingent on a second contract in which the seller agrees to purchase goods from the buyer.
- **Buy-back agreement**: Seller agrees to supply technology or equipment to construct a facility and receives payment in the form of goods produced by it.

Cavusgil et al. 2017, p. 384 ff.

Global Sourcing

Procurement of products or services from suppliers located abroad for consumption in the home country or a third country.



Based on "Dell's Current Suppliers," 2015, www.dell.com; Thomas Friedman, *The World Is Flat 3.0* (New York: Picado, 2007)

Drivers and Key Decisions in Global Sourcing

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Drivers

- Technological advances in communications, especially the Internet and international telephony.
- Falling costs of international business.
- Entrepreneurship and rapid economic transformation in emerging market countries.

Key Decisions

- **Decision 1: Outsource or Not?** Should each value-adding activity be conducted in-house or by an independent supplier
  - 'make or buy' decision
  - Firms internalize activities that are part of their core competence or that involve the use of valuable intellectual property.
- **Decision 2: Where in the World** Should Value-Adding Activities Be Located?
  - Which countries to cut costs, reduce transit time, access favorable factors of production, and access competitive advantages.

Cavusgil et al. 2017, p. 389 ff.

Benefits and Risks of Global Sourcing

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Benefits

Cost Efficiency, due to lower wages abroad, leading to improve profitability.

Ability to Achieve Strategic Goals

- Faster corporate growth
- Access to qualified personnel
- Improved productivity and service, especially when a task is outsourced to a firm specialized in that task
- Business process redesign
- Increased speed to market
- Access to new markets
- Technological flexibility

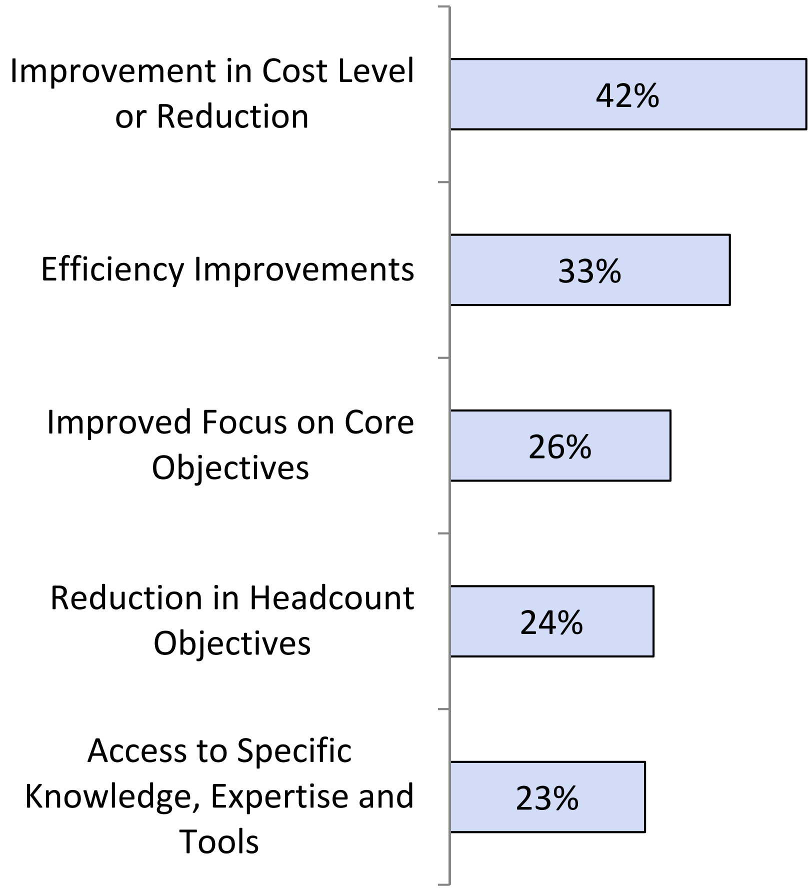
Risks

- **Lower-than-expected cost** savings
- **Environmental factors** (exchange rate fluctuations, trade barriers, labor strikes)
- **Weak legal environment** (can affect protection of intellectual property)
- **Inadequate or low-skilled** workers
- **Overreliance** on suppliers
- Risk of **creating competitors**.
- **Erosion of morale and commitment** among home-country employees, due to outsourcing jobs.

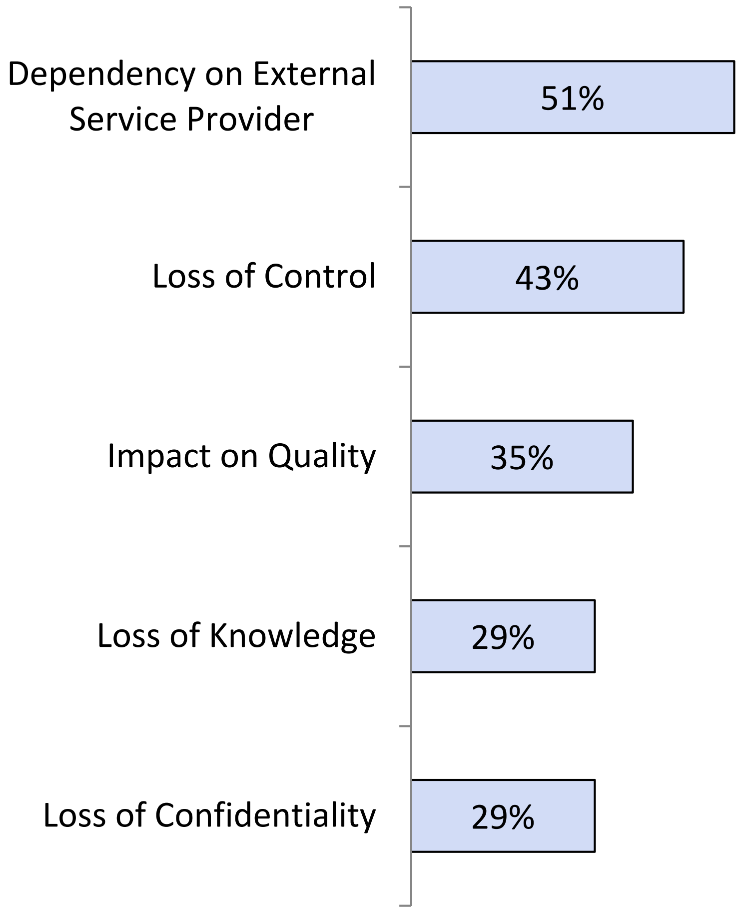
Cavusgil et al. 2017, p. 394 ff.

Outsourcing

Most Important Reasons



Most Important Risks



Ernst & Young 2013, p. 15.

Strategic Relevance/Competence-Matrix

Strategic Relevance	Strength of Competence: low	Strength of Competence: high
high	Develop	Use
low	Outsource	Transfer

Adapted from Krüger/Homp 1997, p. 105.

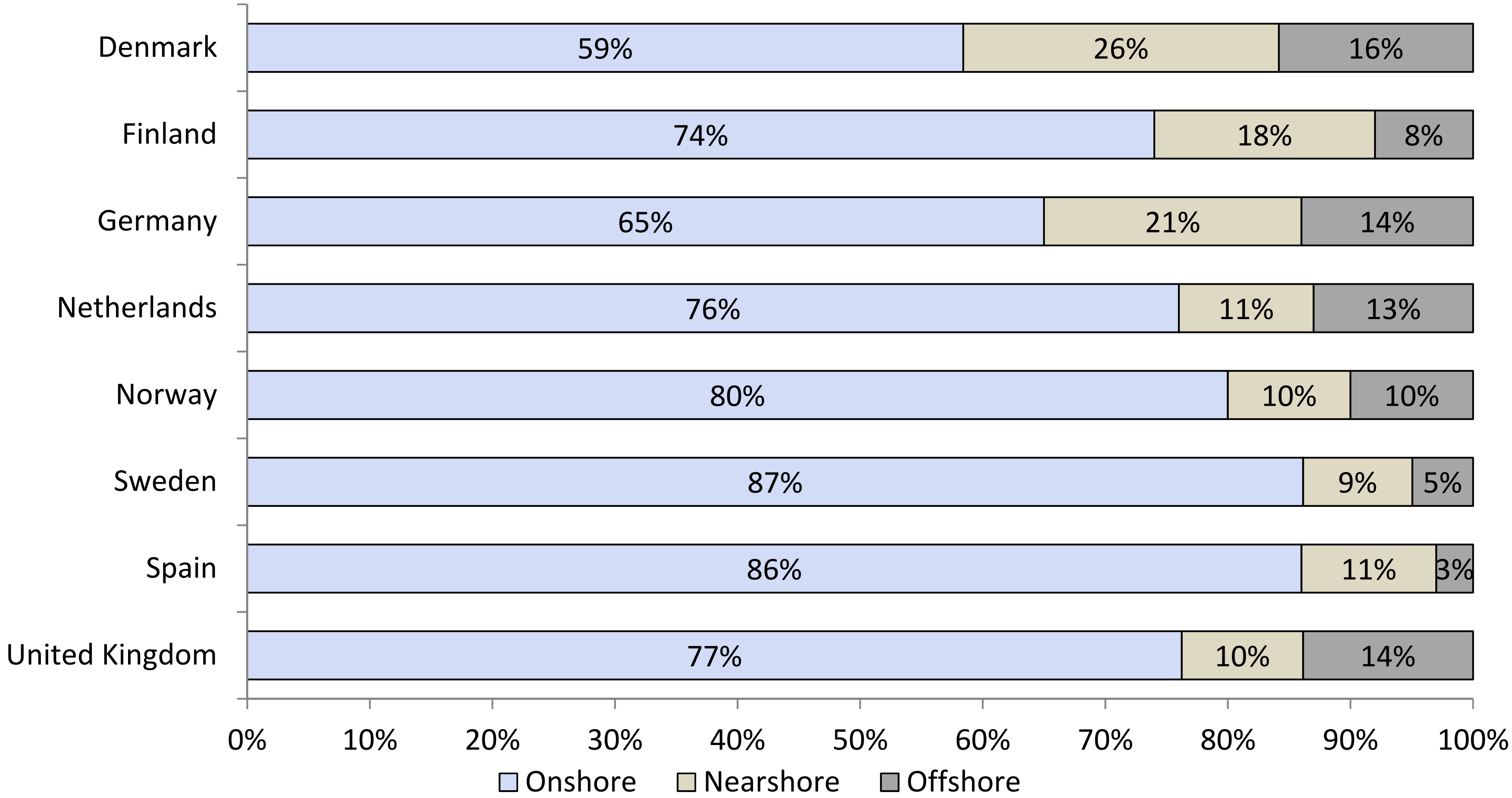
Transactional Modes and Configuration

Corporate Boundary Decision (Transactional Mode)		Home Country (Onshore)	Foreign Countries (Offshore/Nearshore)
	Insourcing	Domestic Units	Foreign Affiliates
	Outsourcing	Domestic Suppliers	Foreign Suppliers

Location Decision
(Configuration)

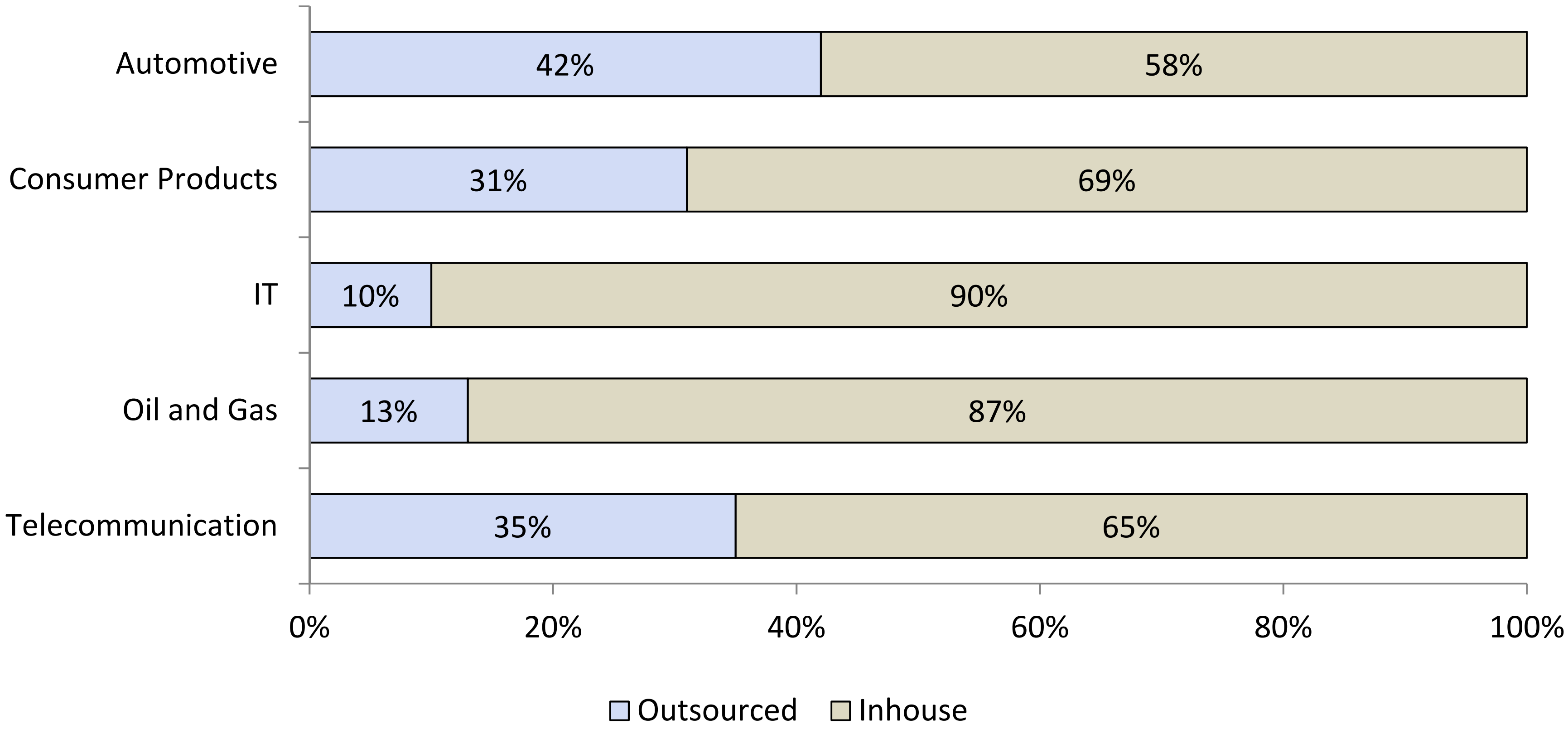
Adapted frim Abramovsky/Griffith 2006, p. 595.

Location of Outsourced Business Processes & Services by Country



Ernst & Young 2013, p. 13.

Outsourcing of IT Services per Industry



Ernst & Young 2013, p. 12.

9. Foreign Operation Modes II

Learning Objectives

1. Recognize the differences and applicability between **licensing** and **franchising**
2. Comprehend the forms and facets of **joint ventures**.
3. Understand **international collaborative ventures** and **strategic alliances**
4. Realize that **foreign direct investment** is a popular approach for emerging markets and developing economies
5. Describe the challenges to **cross border M&A**

Licensing ™ ® ©

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Licensing - Contractual agreement whereby one company (the licensor) makes an asset (Patent, Trade secret, Brand name, Product formulations,…) available to another company (the licensee) in exchange for royalties, license fees, or some other form of compensation.

Types of Licence Agreements

- Process Licences
- Product Licences
- Distribution Licences
- Brand Licences

Morschett et al. 2017, p. 392; Keegan/Green 2017, p. 254 - 309

Advantages & Disadvantages of Licensing

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Advantages	Disadvantages
• **Increases income** on products already developed as a result of expensive research. • **Permits entry** into markets that are otherwise closed due to high rates of duty, import quotas and so on. • A viable option where manufacture is near the customer‘s base. • Requires **little capital** investment and should provide a higher rate of return on capital employed. • There may be valuable **spin-offs** if the licensor can sell other products or components to the licensee. If these parts are for products being manufactured locally or machinery, there may also be some tariff concessions on their import. • The licensor is not exposed to the danger of **nationalization** or **expropriation** of assets. • Because of the limited capital requirements, new **products** can be **exploited rapidly**, on a worldwide basis, before competition develops. • The licensor can take immediate **advantage** of the **licensee‘s local marketing** and **distribution** organization and of existing customer contacts. • **Protects patents,** especially in countries that give weak protection for products not produced locally. • **Local manufacture** may also be an advantage in securing government contracts.	• The licensee may **prove** less **competent** than expected at marketing or other management activities. **Costs** may even **grow faster** than income. • The licensee, even if it reaches an agreed minimum turnover, may **not fully exploit** the **market**, leaving it open to the entry of competitors, so that the licensor **loses control** of the marketing operation. • Danger of the licensee **running short** of funds, especially if considerable plant expansion is involved or an injection of capital is required to sustain the project. This danger can be turned to advantage if the licensor has funds available by a general expansion of the business through a partnership. • **Licence fees** are normally a **small percentage** of **turnover**, about 5 per cent, and will often compare unfavourably with what might be obtained from a company’s own manufacturing operation. • **Lack of control** over licensee operations. • **Quality control** of the product is difficult - and the product will often be sold under the licensor’s brand name. • Negotiations with the licensee, and sometimes with **local** government, are **costly**. • **Governments** often impose **conditions** on transferral of **royalties** or on **component supply**.

Hollensen 2014, p. 390.

Franchising

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- Popular strategy for leading brands such as Avis, Hertz, Marriott, Holiday Inn, Radisson, McDonalds.
- Since it involves another party providing the financial resources it has proven to be fast method for expansion .
- Therefore a prevalent in capital-intense industries such as hotel organizations, travel intermediaries and ancillary services as well as airline, festival and event management companies

Franchising - Contract between a parent company-franchisor and a franchisee that allows the franchisee to operate a business developed by the franchisor in return for a fee and adherence to franchise-wide policies

Keegan/Green 2014, p. 254 - 309

Advantages & Disadvantages of Franchising

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Advantages for franchiser	Disadvantages for franchiser
▪ Low investment ▪ Can internationalize quickly to many markets ▪ Low effort, once established ▪ Can leverage franchisees' local knowledge	▪ Maintaining control over franchisees may be difficult ▪ Franchiser has limited control over its assets abroad ▪ Risks creating a future competitor.

adapted from Keegan and Green (2017) Global Marketing, p. 254 - 309

Joint Ventures

An entry strategy for a single target country in which two or more partners share ownership of a newly-created business entity. It builds upon each partner's strengths

Forms

- Non-equity joint ventures
  - Project JVs - (Global Strategic) Alliances
- Equity joint ventures
  - Minority JVs - 50/50 JVs - Majority JVs

\+ May be only way to enter a country

\- app. 50% of joint ventures fail

adapted from Keegan and Green (2014) Global Marketing, p. 254 - 309

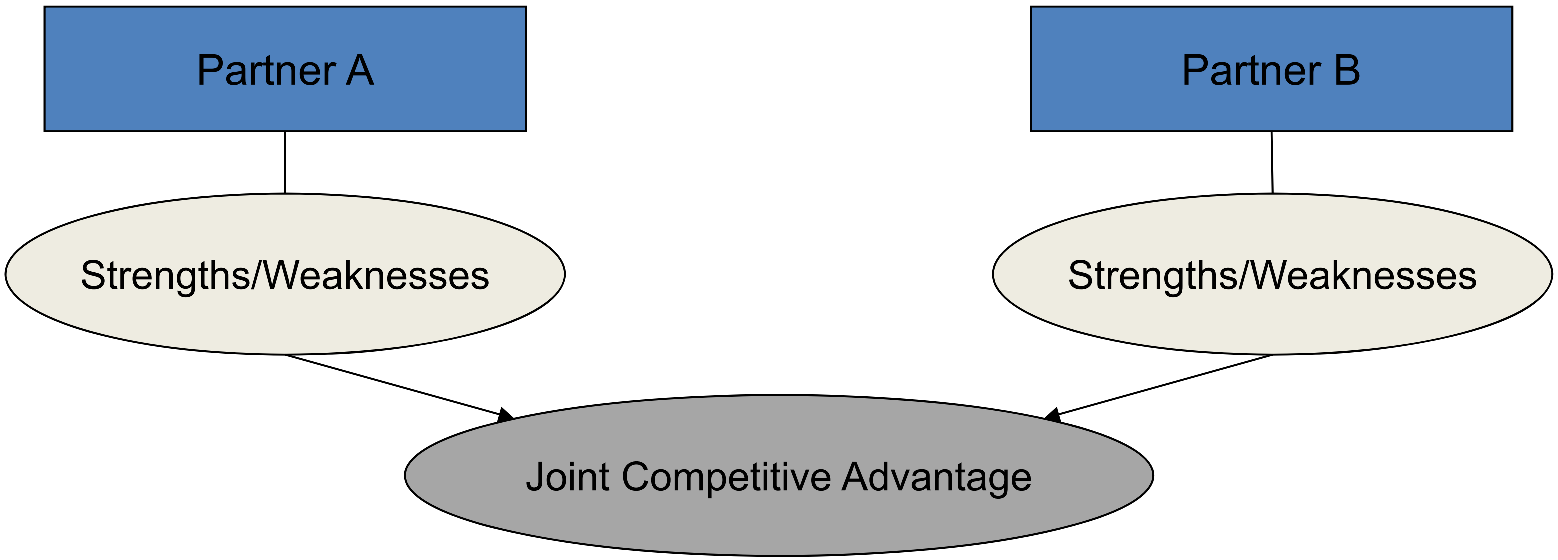
Advantages & Disadvantages of Equity Joint Ventures

Advantages	Disadvantages
• access to expertise and contacts in local markets • typically, international partner contributes financial resources, technological know-how or products, the local partner provides local skills and knowledge • reduced market and political risk • shared knowledge and resources, shared risk of failures • overcomes host government restrictions • may avoid local tariffs or non-tariff barriers • possibly better relations with local governments through having a local partner (meets host country pressure for local participation)	• objectives of respective partners may be incompatible, resulting in conflicts • contribution to joint venture can become disproportionate • loss of control over foreign operations • partners may become locked into long-term investments from which it is difficult to withdraw • transfer pricing problems as goods pass between partners • importance of venture to each partner may change over time • loss of flexibility and confidentiality • problems of management structures and dual parent staffing of equity joint ventures

Adapted from Hollensen 2014, p. 391.

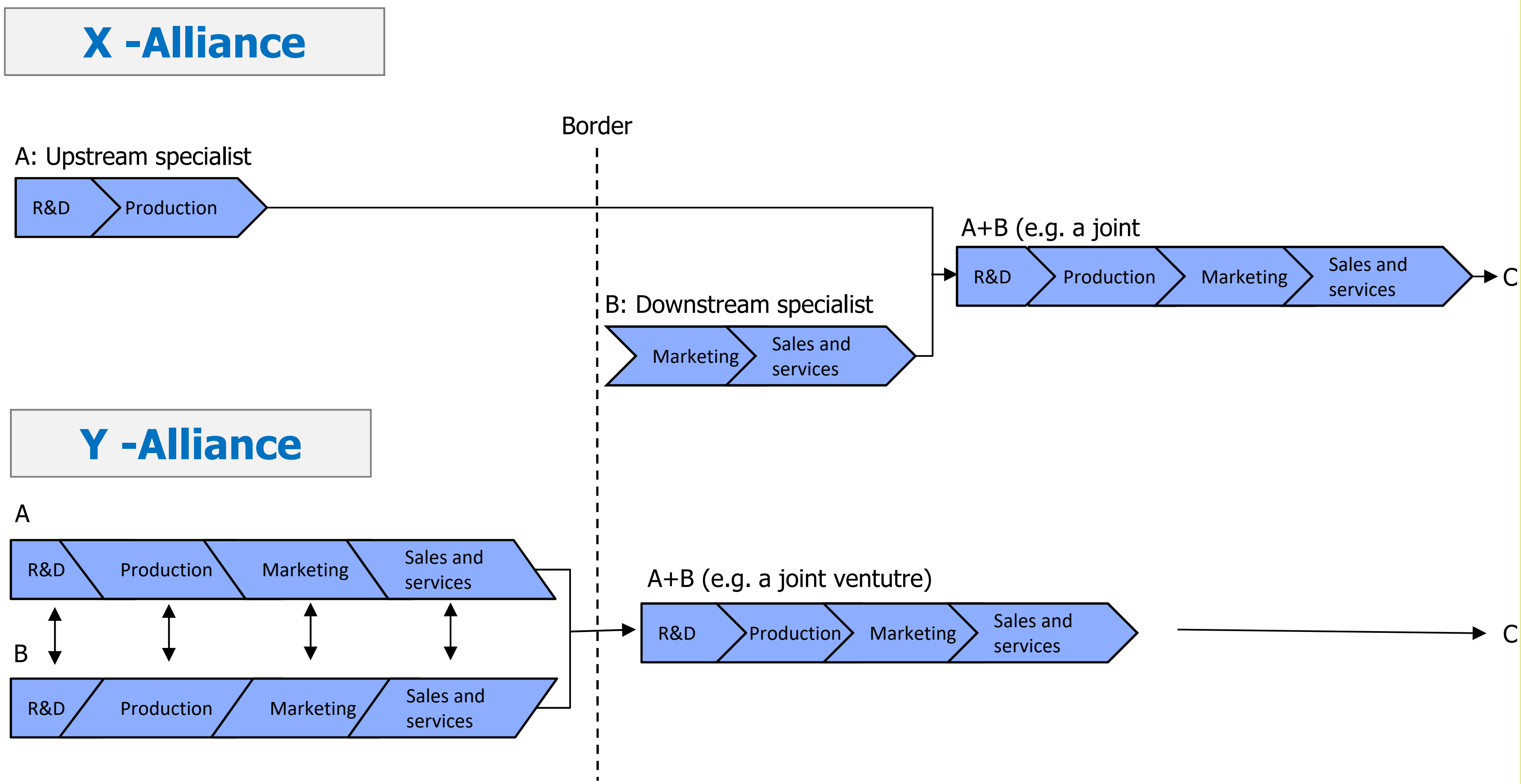
Strategic Advantages of Global Strategic Alliances

"A coalition of two or more organizations to achieve strategically significant goals that are mutually beneficial" (Kotabe/Helsen 2014, p. 282).



International Y-Alliances and X-Alliances

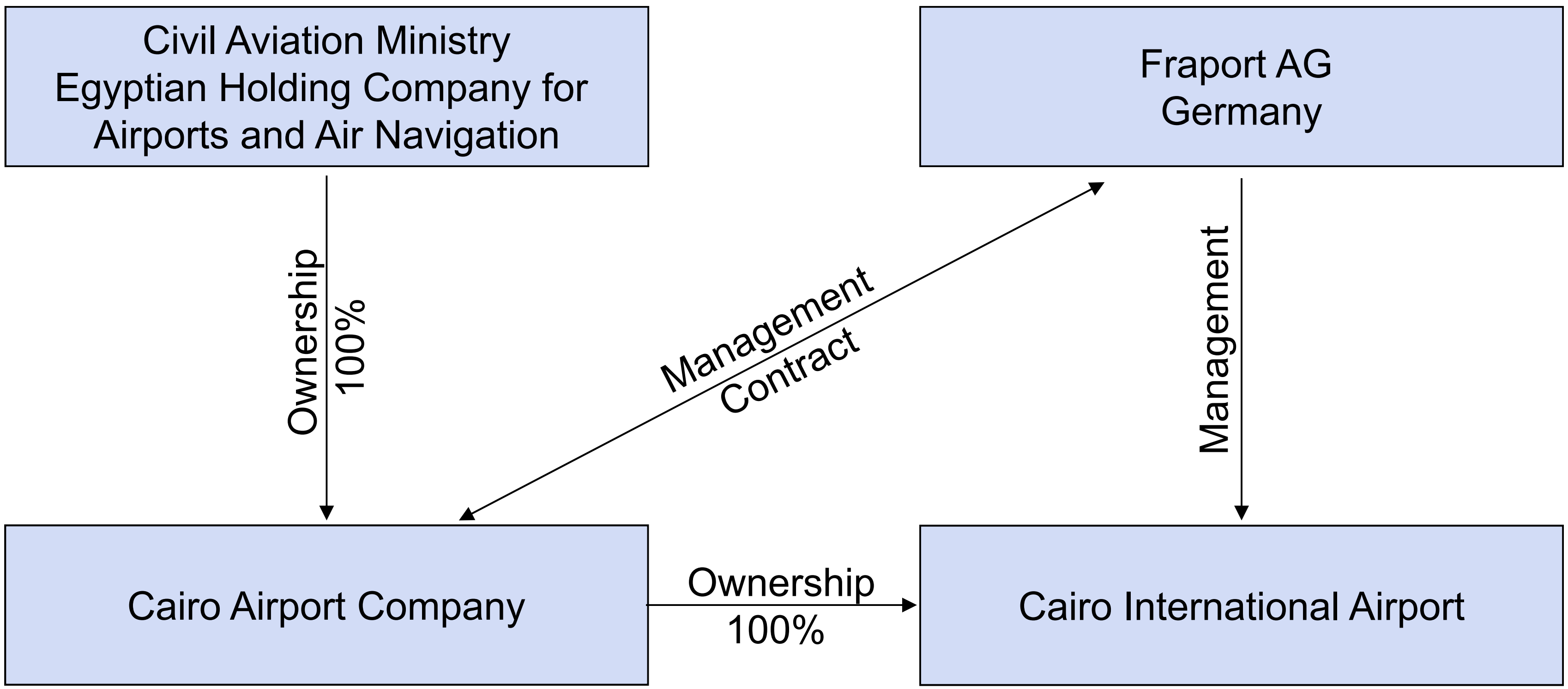
Examples



Note. A is the manufacturer, B is the partner and C is the customer

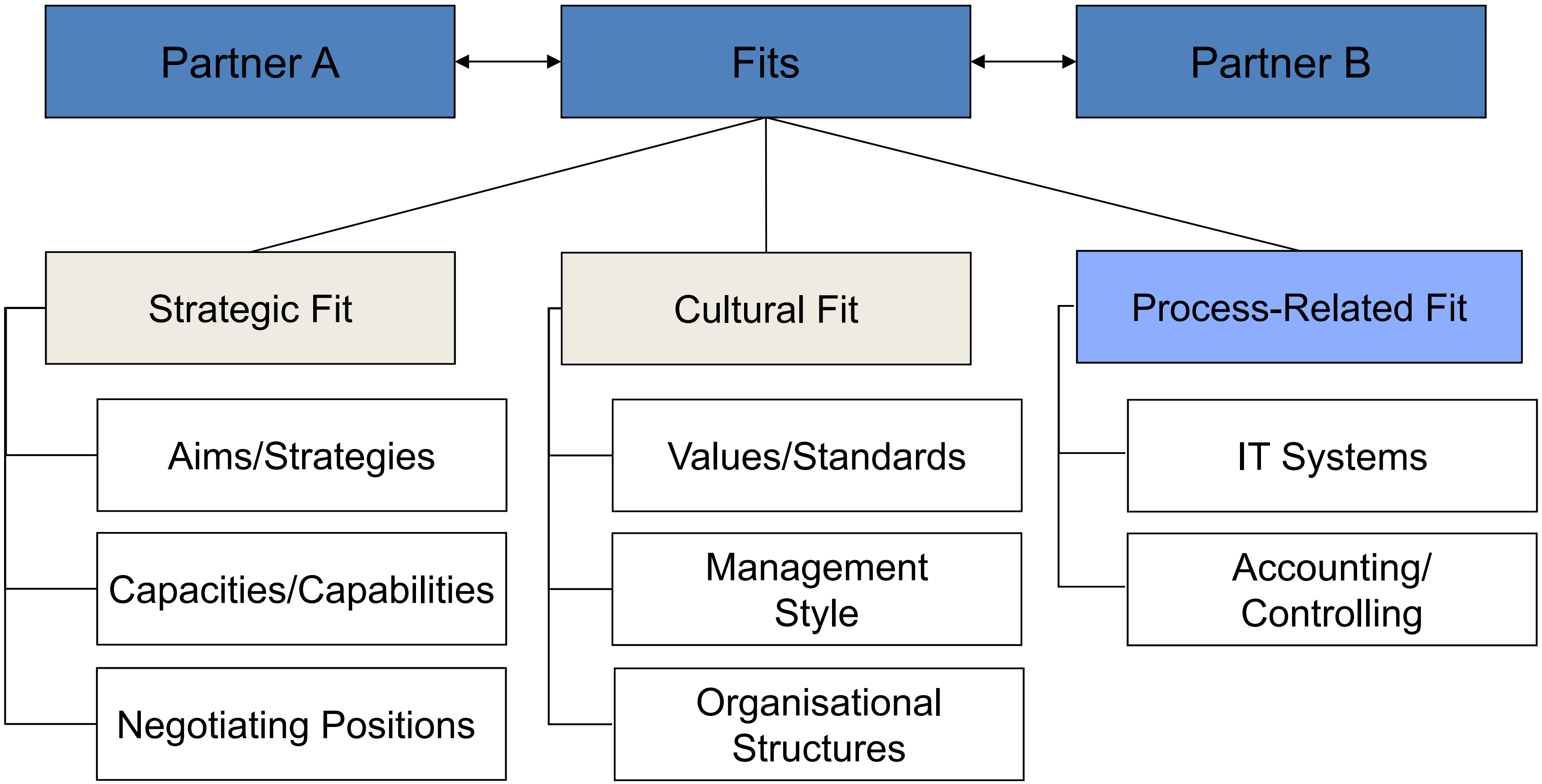
Adapted from Hollensen 2014, p. 370.

Structure of a Management Contract System in the Airport Industry



Fraport AG 2014.

Fits in Cooperative Agreements



Foreign direct investment (FDI)

A firm establishes a physical presence abroad by acquiring productive assets such as capital, technology, labor, land, plant, and equipment.

- The most **advanced, expensive, complex,** and **riskiest** entry strategy, involving the establishment of manufacturing plants, marketing subsidiaries, or other facilities abroad.
- **Undertaken by firms** from **advanced economies and emerging markets**.
- **Target countries** are **advanced economies and emerging markets**.

Greenfield Investment vs. M&As

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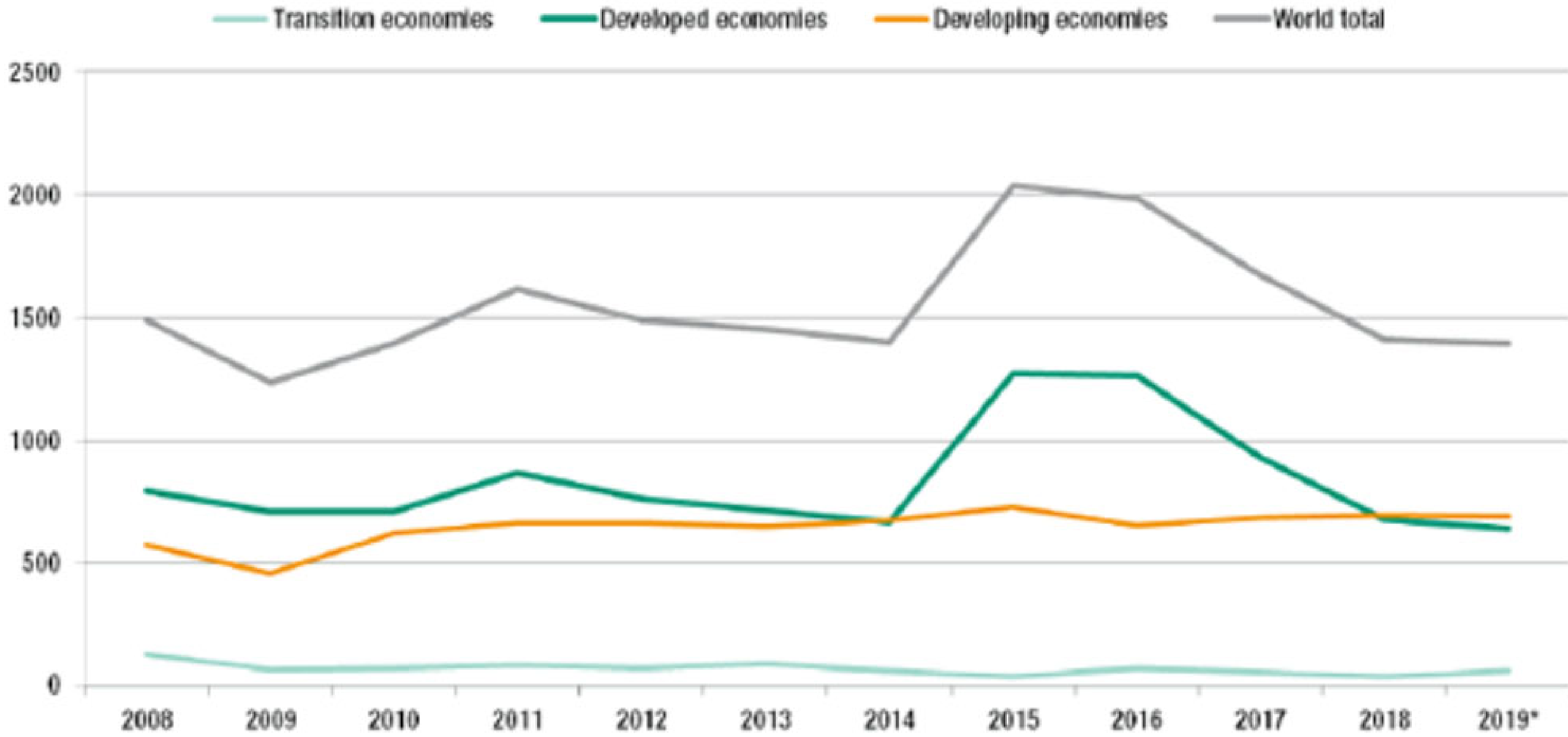
- **Greenfield investment:** The firm invests to build a new manufacturing, marketing or administrative facility, as opposed to acquiring existing facilities.
- **Merger**: Special type of acquisition in which two firms join to form a new, larger company.
- **Acquisition**: Direct investment or purchase an existing company or facility.

Global FDI Inflows (in billion USD)



UNCTAD 2020.

Advantages and Disadvantages of Wholly-owned Subsidiaries

<table>
<tr><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>

- direct and independent presence
- independent marketing activities
- pushing of own strategies, easy alignment of own structures
- uniformity of market appearance
- influence- and supervision options
- bundling and deployment of company know-how (supervision of inflow and outflow)
- increasing market power towards buyers, suppliers and competitors
- frequent settlement sponsorships by host countries

</td><td>

- investment requirements and barriers
- high risks especially in insecure countries
- build up of considerably resources
- cost intensive acquisitions and time consuming start up
- decision for investment much less reversible than other transaction forms
  - disadvantages in terms of flexibility because of capital commitment but advantages through decision superiority

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Adapted from Kutschker/Schmid 2011, pp. 908-909.

Types of M&A Strategies

Strategy	Method
Merger of Equals	Companies of equal size come together. Often, one of the merging companies is considered the “primus inter pares” once the merger has taken place.
Friendly Takeover	The management of the takeover target has a positive attitude towards the takeover.
Tender Offer	Public, open offer by an acquirer to all shareholders. The bidder contacts the shareholders directly, inviting them to sell their shares to the offer price.
Unfriendly/Hostile Takeover	The takeover target is unwilling to be acquired or the target’s management has no prior knowledge of the offer.
Proxy Contest	Specific type of a hostile takeover in which the acquiring company attempts to convince the existing shareholders to use their proxy votes to install a new management that is open for the takeover.
Builder Acquisition	The objective of the acquisition is to integrate the takeover target into the network of the MNC, e.g. to realise synergies, economies of scale, etc.
Raider Acquisition	Acquisitions that are conducted with the purpose of post-acquisition asset stripping.
Leveraged Buyout (LBO)	Acquisition of a company with cash that is raised with a preponderance of debt raised by the acquirer. Several different types of LBO exist, depending on the acquiring party, for example investor buyout, management buyout, or employee buyout can be distinguished.

Barriers to Cross-border M&As

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Technical Barriers	
Management	◆ two-tier boards which cannot be removed or changed quickly ◆ families dominate shareholding ◆ powers to issue shares with differential voting rights or to friendly persons ◆ powers to limit maximum voting rights; powers to override shareholders in company's interest
Information Barriers	
Accounting	◆ accounting statements not available, quality of information poor ◆ low compliance with international generally accepted accounting principles; accounting practice biased to avoid tax liability, or conservative, hence accounting statements opaque
Shareholders	◆ due to issue of bearer shares, shareholding structure not known
Regulation	◆ regulatory procedures not known or unpredictable
Culture and Tradition	
Attitude	◆ "to sell is to admit failure" syndrome; dislike of hostile bids; dislike of institutional constraints on dividends or short-term profits ◆ unwillingness to disclose information
Value system	◆ high premium on trust and confidence in negotiations rather than formal contracts
Structural Barriers	
Statutory	◆ strong powers for supervisory boards to block mergers; unions and workers' councils have say on takeovers and strong redundancy rights ◆ issue of bearer shares, double voting or non-voting shares; absence of one share, one vote (OSOV) principle ◆ discriminatory tax laws against foreign acquirers, e.g. withholding taxes on dividends
Regulatory	◆ antitrust regulation, foreign investment review, rules of stock exchange and professional self-regulatory bodies ◆ absence of statutory or voluntary bodies to regulate takeovers
Infrastructure	◆ absence of M&A services, e.g. legal, accounting, investment banking services

Adapted from Sudarsanam 2010, p. 231.

Adapted from Zentes/Swoboda/Morschett 2004, p. 658.

Advantages and Disadvantages of Cross-border M&As

Advantages	Disadvantages

◆ access to customers, distribution channels, materials, HR
◆ rapid market development
  ▪ time savings/synergy effects
  ▪ if applicable fast market entry in numerous geographic regions
  ▪ positive cash-flow
◆ scale effects
◆ gain of know-how
  ▪ complementary effects
◆ gain of market position/image
◆ fastest mode of diversification
◆ no increasing competition intensity in host
◆ country
  ▪ little danger of overcapacity
	◆ massive risk
	◆ huge capital availability as requirement
	  ▪ best case scenario: financial markets as balancing instrument
	  ▪ in reality: limited range of alternatives for SME
	◆ high information and search costs
	  ▪ adequate target company as basic requirement
	  ▪ negotiation problem (Information asymmetries)
	◆ necessity of coordination and integration of heterogeneous structures, systems, cultures
	◆ adaptation of market appearance required
	◆ provisos/resistances of local management
	  ▪ possibly brain drain
	◆ provisos/resistances of host country government (foreign infiltration)
	◆ growing management complexity

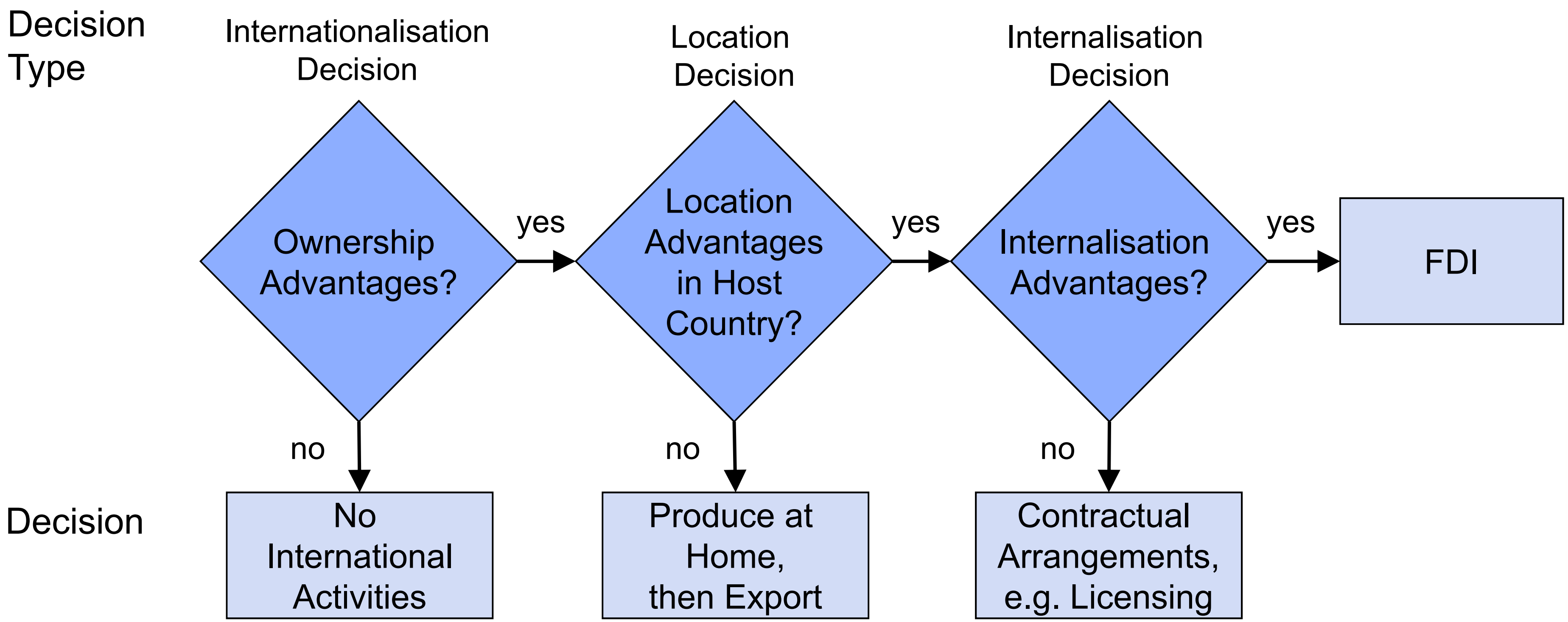
Adapted from Zentes/Swoboda/Morschett 2004, p. 658.

Causes of Failure and Success in Cross-border M&As

Cause of Failure	Cause of Success
◆ target management attitudes ◆ cultural differences ◆ no post-acquisition integration planning ◆ lack of knowledge of industry or target ◆ poor management of target ◆ no prior acquisition experience	◆ detailed post-acquisition integration plans ◆ speed of implementation ◆ clarity of acquisition purpose ◆ good cultural fit ◆ high degree of target management cooperation ◆ knowledge of target and its industry

Adapted from Sudarsanam 2010, p. 726.

The OLI Decision Process for Foreign Operation Modes



Adapted from Sudarsanam 2003, p. 201; Welch/Benito/Petersen 2007, p. 31

Summary of the Appropriateness of Market Entry Strategies/ Mode of Operations

Strategic Consideration	Indirect Exporting	Direct Exporting-Marketing Subs.	Licensing	Wholly Owned production	Joint Venture	Acquisition
Speed of entry	High	High	High	Low	Low	High
Ease of exit	High	Moderate	Moderate	Low	Low	Low
Rapidly changing technologies	Low	High	High	Moderate	Moderate	Moderate
Resource demands	Low	Moderate	Moderate	High	High	High
Profit potential	Low	High	Low	High	Moderate	Moderate
Competitive Intensity of market	Low	Moderate	Moderate	Moderate	Moderate	High
Integration into global network	Low	High	Low	High	Low	Moderate
Strategically important country	Low	High	Low	High	Moderate	Moderate
Unimportant market	High	Low	Moderate	Low	Low	Low
Cultural distance	High	Low	Moderate	Low	Moderate	Low
Congruence with host government's goals	Low	Low	Moderate	High	High	Moderate

Gillespie/Hennessey 2010, p. 250

10 . Coordination Mechanism/International Organization

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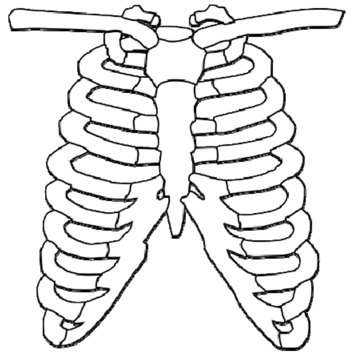
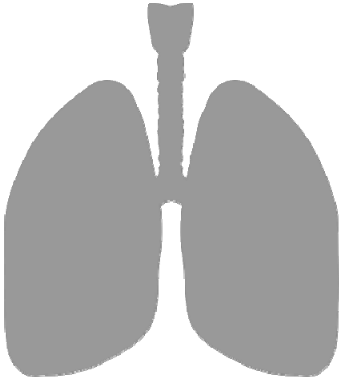
Learning Objectives

1. Understand formal and informal coordination mechanisms
2. Explain the selection of coordination mechanisms

Cooordination Mechanism in MNCs

The **anatomy** of the organization, i.e., the formal **organizational structure**; necessary but not sufficient.





Must be accompanied by the **physiology**, i.e. a **company's systems** and **decision processes**.

The final (crucial) component is **psychology**, i.e. the **organization's culture**.

Free pictures by pixabay

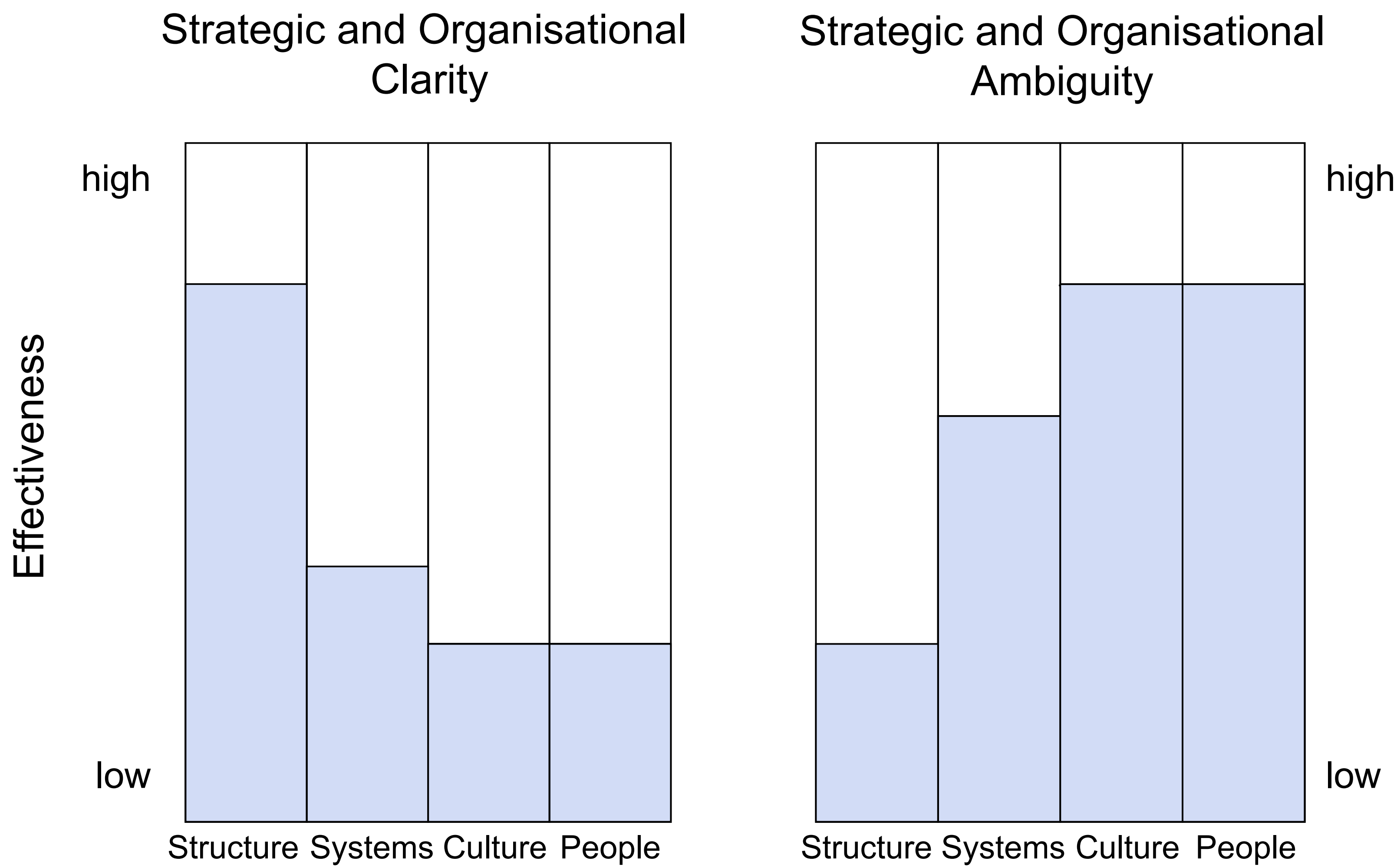
Bartlett/Beamish 2014, p. 287-289

The Most Relevant Sets of Coordination Mechanisms

Formal Mechanisms	Informal Mechanisms
organisational structure: departmentalisation or grouping of organisational units	**lateral or cross-departmental relations**: direct managerial contact, temporary or permanent teams, task forces, committees, integrators, and integrative departments
centralisation: centralisation or decentralisation of decision making through the hierarchy of formal authority	**informal communication**: personal contacts among managers, management trips, meetings, conferences, transfer of managers, etc.
formalisation and standardisation: written policies, rules, job descriptions, and standard procedures, through instruments such as manuals, charts, etc.	**normative integration**: building an organisational culture of known and shares strategic objectives and values by training, transfer of managers, career path management, reward systems, etc.
planning: strategic planning, budgeting, functional plans, scheduling, etc.	

Adapted from Martinez/Jarillo 1989, p. 491

Effectiveness of Different Coordination Mechanisms



Hamel/Prahalad 1983, p. 349.

10. International Organization

Learning Objectives

1. Understand the **importance** of appropriate **organizational structures** to effective strategy implementation.

2. Become familiar with the **types of organizational designs** suitable for the level and scope of internationalization of the firm.

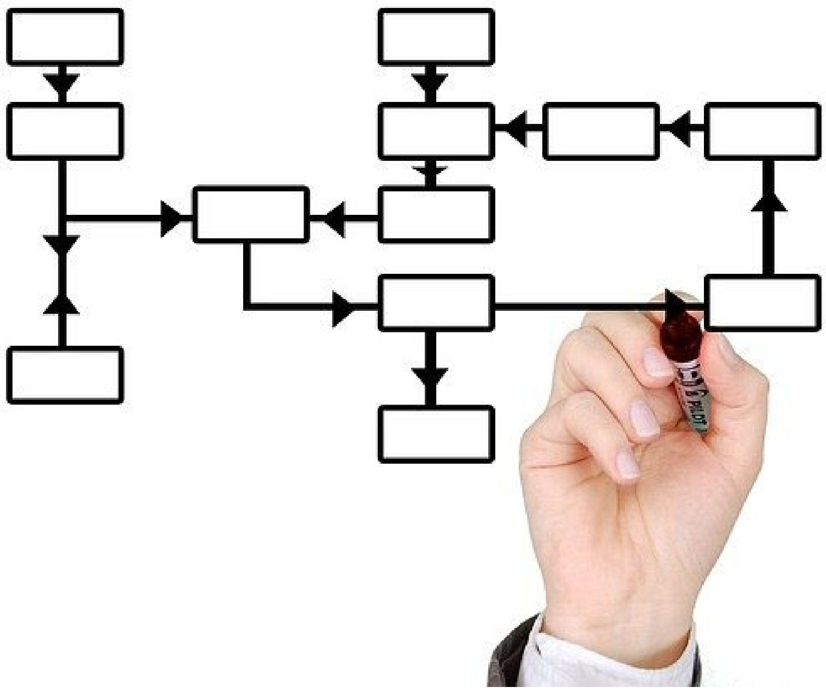
3. Appreciate the **role of “human networks**” in achieving business goals.

4. Realize how **organizational design affects manager’s job**, for example, on the level and location of decision making.

Types of Organizational Structures

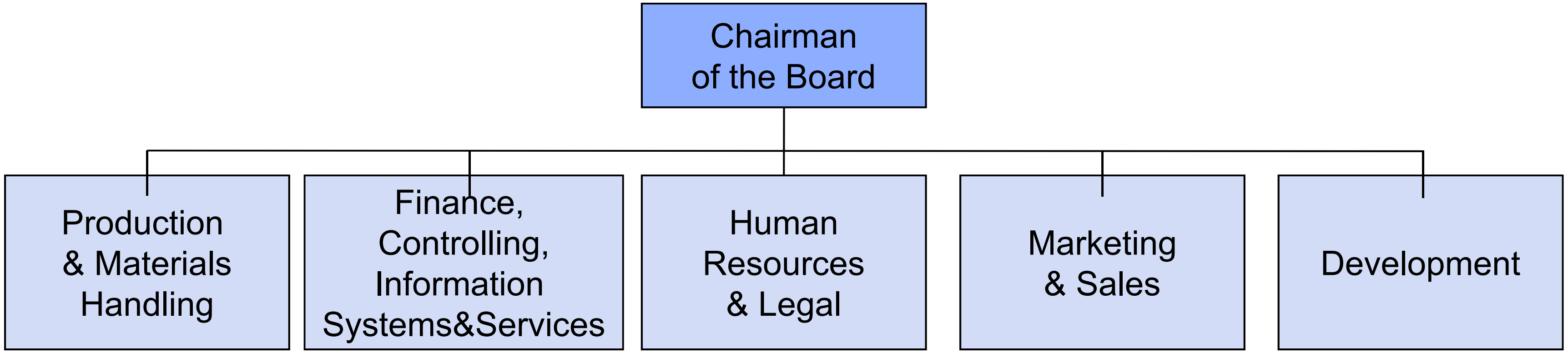
Most relevant organizational structures for international companies:

- domestic structure with export department
- international division
- global functional structure
- global product structure
- global area structure
- global matrix structure
- hybrid global structure.



Picture by Gerd Altmann auf Pixabay

Global Functional Structure at STIHL AG



STIHL 2014

Strengths and Weaknesses of a Global Functional Structure

Strengths	Weaknesses
◆ intensive knowledge transfer concerning the function ◆ focus on key functions ◆ functional expertise ◆ centralisation/standardisation ◆ helps to "unify" the corporation ◆ one line of responsibility ◆ avoidance of double work	◆ knowledge transfer concerning other fields rather low (specific requirements of certain product groups, regions, customer groups often neglected) ◆ potentially low motivation due to centralisation ◆ slow reaction to changes in certain countries due to standardisation and formalisation ◆ high requirements for information processing by top management ◆ potentially lack of market orientation ◆ difficult for subsidiaries with whole value-added chains

Zentes/Swoboda/Morschett 2004, p. 765

Global Product Structure at Liebherr

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Liebherr 2014

Chairman of the Board

- Earthmoving
- Mining
- Mobile cranes
- Tower cranes and concrete technology
- Maritime cranes
- Domestic appliances
- Machine tools and automotion systems
- Aerospace and transpor-tation systems
- Compo-nents

Strengths	Weaknesses
◆ intensive knowledge transfer concerning the product/product groups ◆ focus on differences between products ◆ expertise for specific products ◆ usually high market orientation of product divisions ◆ coordination in companies with heterogeneous products facilitated ◆ holistic view of the value chain ◆ promotion of entrepreneurial behaviour ◆ economies of scale easily exploited ◆ flexible response to changes in product requirements	◆ duplication of functions ◆ knowledge transfer concerning other fields (e.g. functions, regions) rather low ◆ coordination and cooperation between different product divisions more complicated ◆ risk of divisional egoism ◆ difficult for foreign subsidiaries with more than one product line ◆ lack of economies of scope

Adapted from Zentes/Swoboda/Morschett 2004, p. 767

Global Area Structure at Mondelez International

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Chairman and Chief Executive Officer

Mondelez International 2014

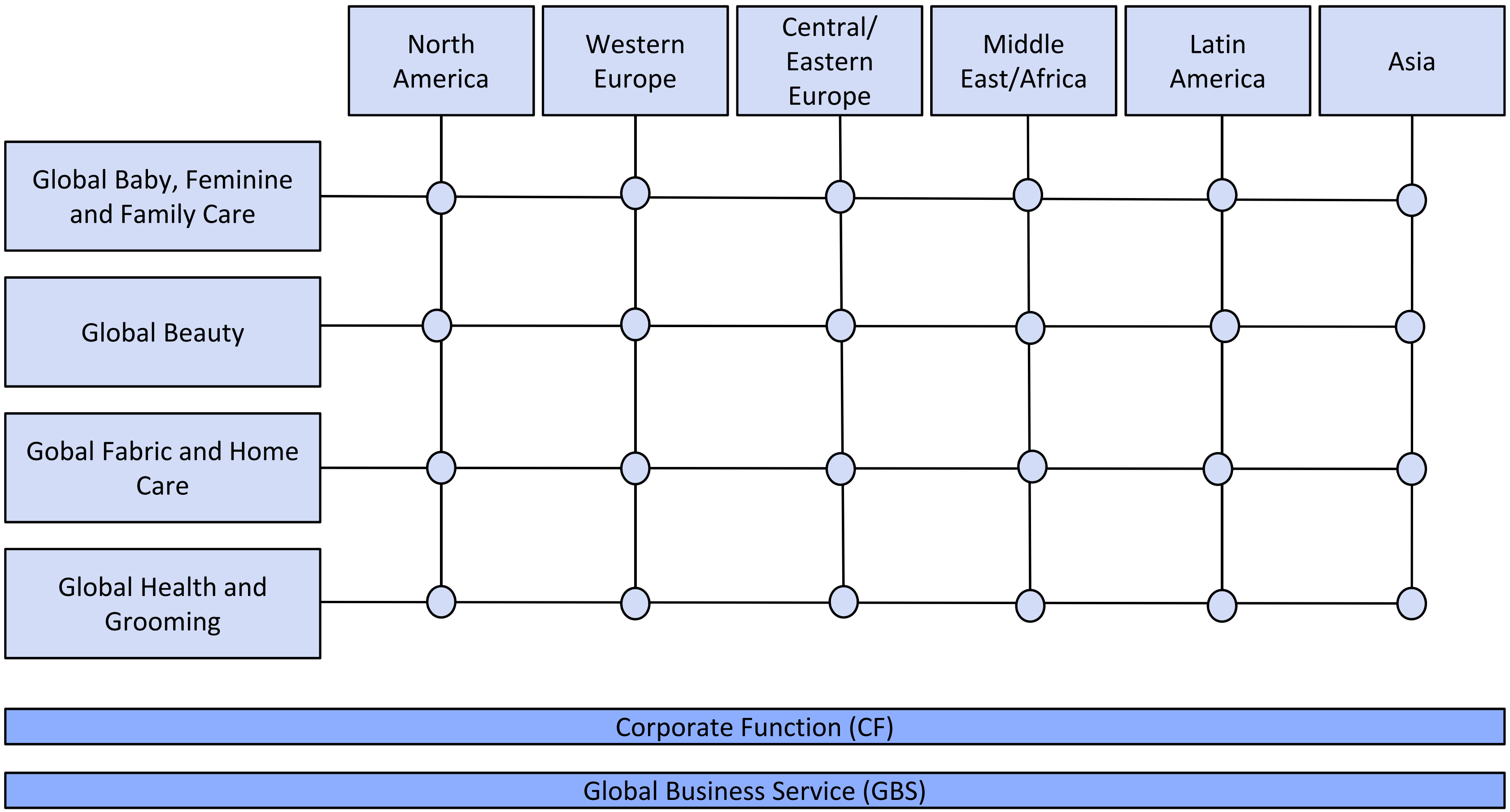
- Executive Vice President Latin America
- Executive Vice President North America
- Executive Vice President Europe
- Executive Vice President Asia Pacific and EEMEA*

*Eastern Europe, Middle East, Africa

Strengths	Weaknesses
◆ intensive knowledge transfer concerning the region ◆ focus on differences between regions ◆ regional expertise ◆ communication and coordination advantages: personal communication as coordination instrument easy to use, due to geographic proximity ◆ holistic view on business in the region ◆ uniform company image in the region ◆ flexible response to changes in local environment (local responsiveness easy)	◆ duplication of functions ◆ duplication of resources ◆ coordination and knowledge transfer across regions might be difficult and slow ◆ risk of regional egoism ◆ risk of overemphasis on regional differences ◆ risk of low cost efficiency and low economies of scale due to local adaptation ◆ diffusion of technology might be slowed down ◆ "not invented here" syndrome ◆ problems in technologically dynamic environments

Adapted from Zentes/Swoboda/Morschett 2004, p. 770

Global Matrix Structure at Procter & Gamble



Procter & Gamble 2014

Strengths & Weaknesses of a Global Matrix Structure

Strengths	Weaknesses
◆ provides access to advantages of the other organisational structures ◆ combination of two or more areas of expertise ◆ good knowledge transfer throughout the organisation ◆ simultaneous consideration of product, region and/or function ◆ better allocation of resources due to forced consideration of multiple aspects simultaneously ◆ good opportunity to decentralise the decision process	◆ complex and costly ◆ high requirements for information and communication ◆ high requirements for cooperative behaviour ◆ potential ambiguity of orders ◆ decisions may take longer, often extensive meeting culture ◆ risk of power struggles ◆ appropriate for firms with many products and unstable environments

Adapted from Zentes/Swoboda/Morschett 2004, p. 783; Griffin/Pustay 2013, pp. 401-402

Hybrid Global Structure at Coca-Cola

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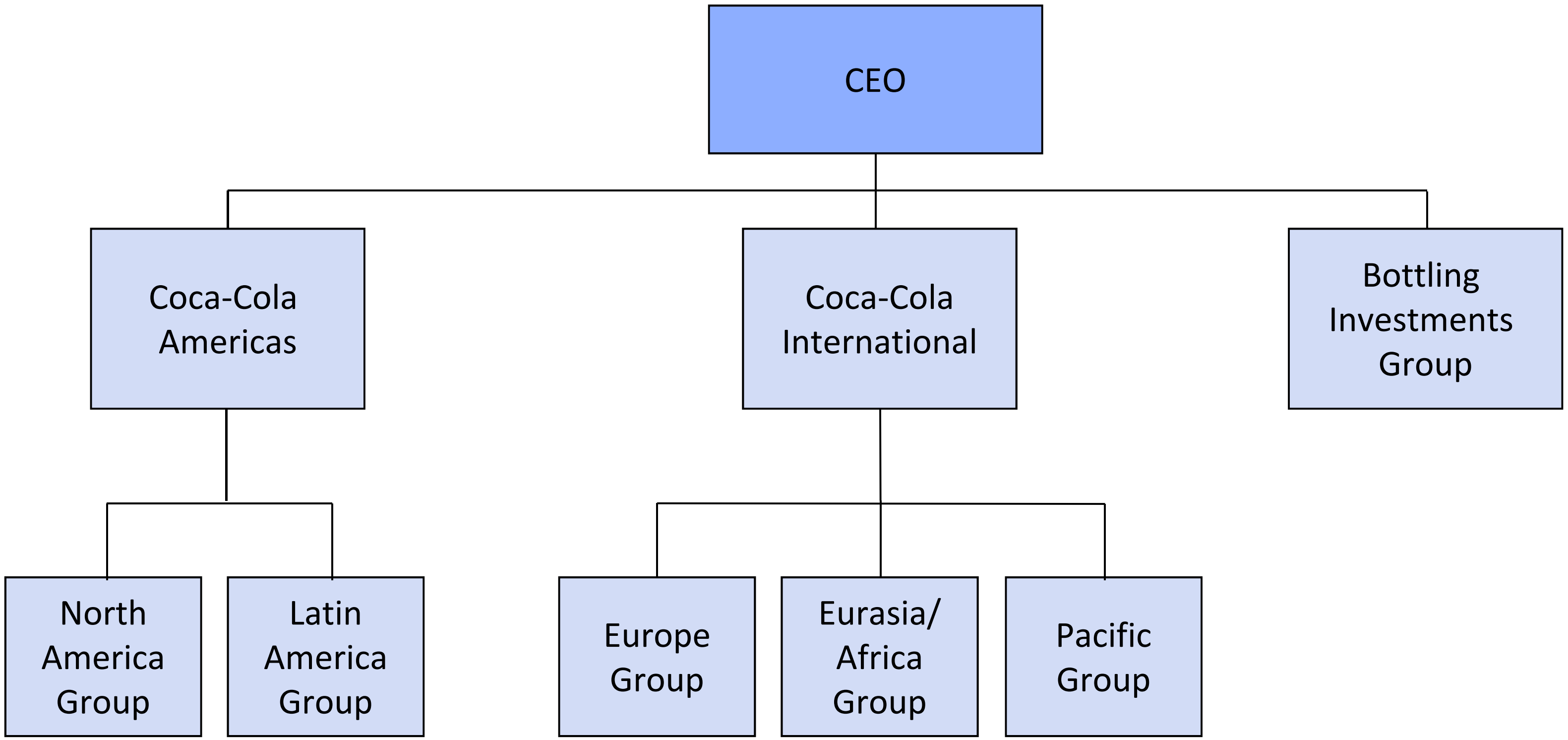
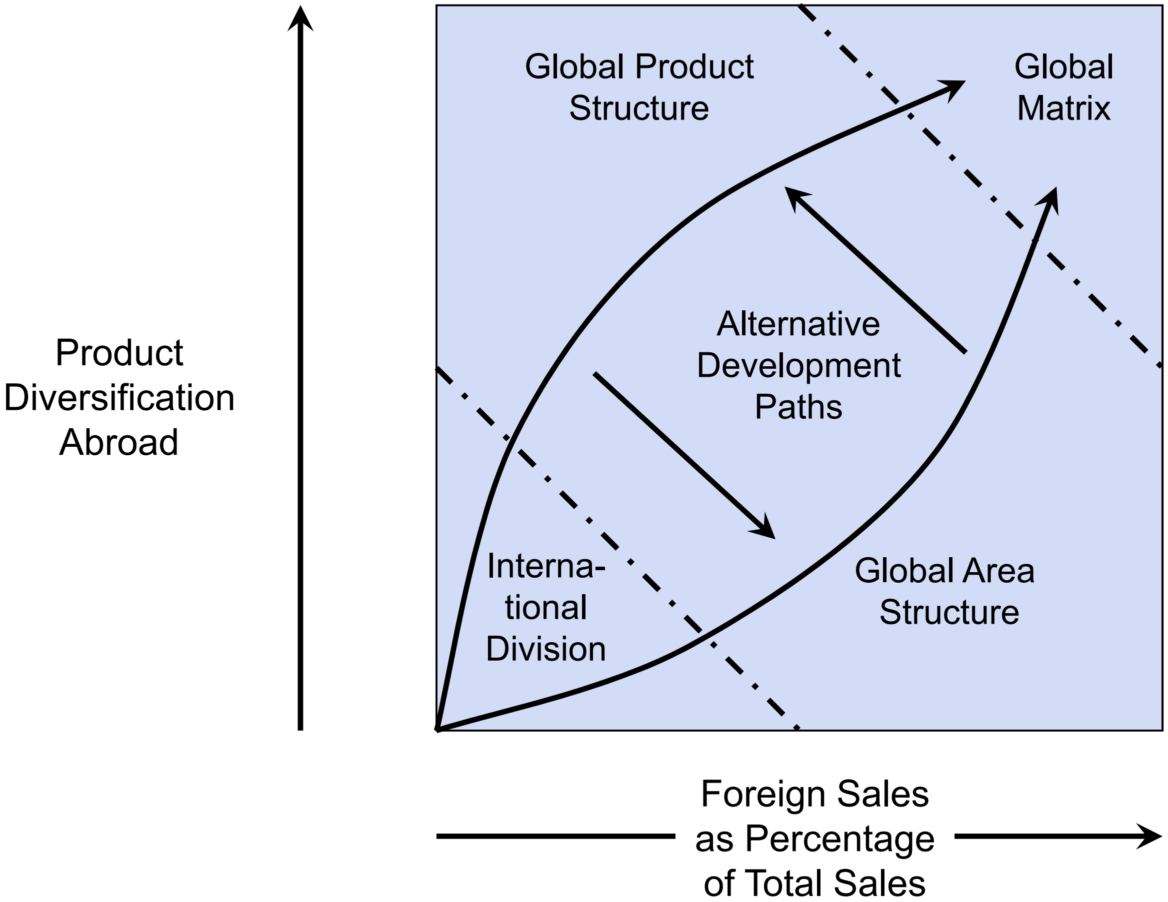


Coca-Cola 2014

The Stages Model of Stopford and Wells



Adapted from Stopford/Wells 1972, p. 65

11. Corporate Social Responsibility

Learning Objectives

1. Appreciate the **complexities** involved in the corporation's obligations and its various constituencies around the world.

2. Understand the **changing perceptions and demands** of corporations doing business in other countries, in particular the responsibilities toward human rights.

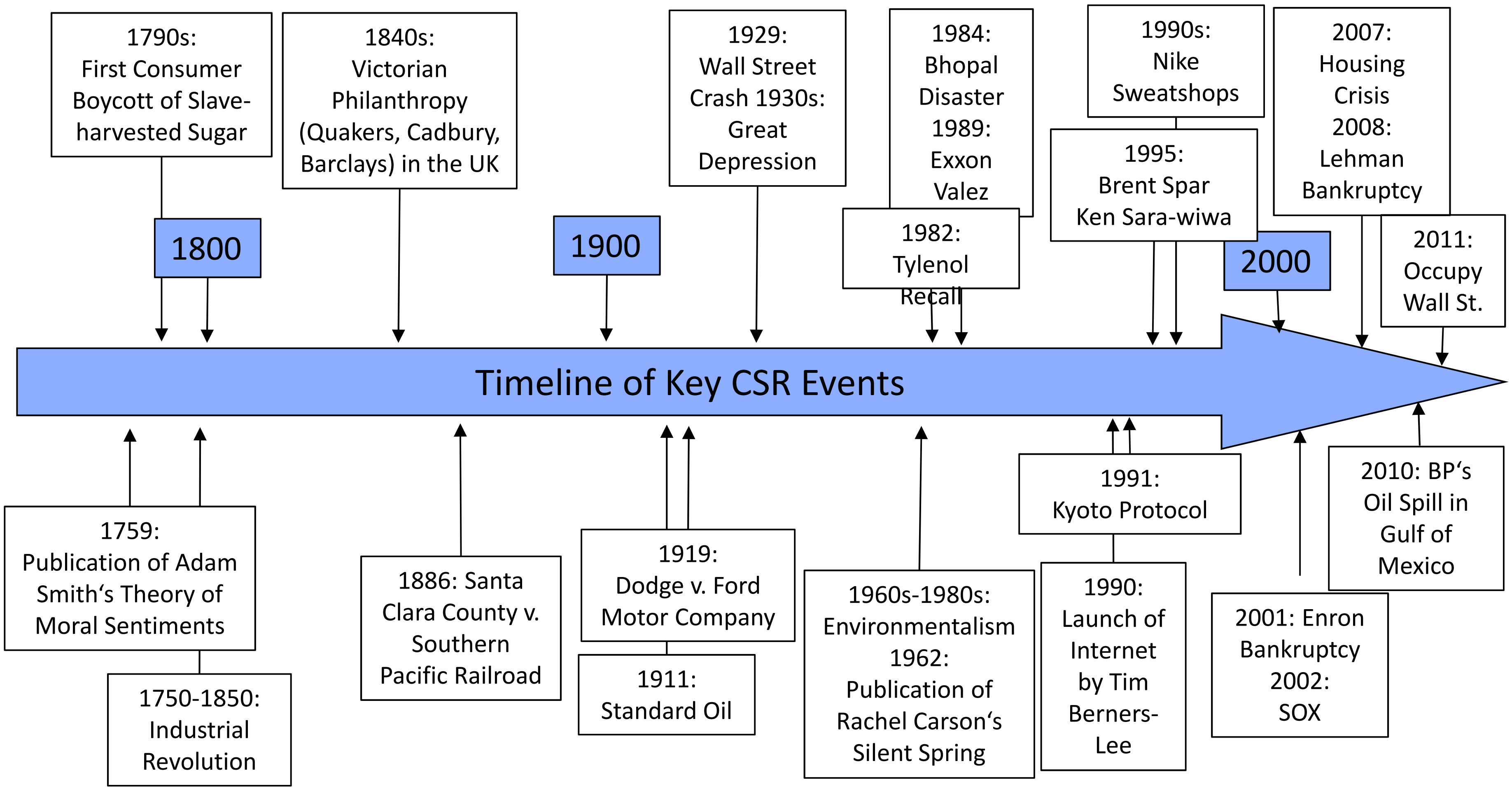
3. Acknowledge the **strategic role** that **CSR** and **codes of ethics** must play in global management.

4. Recognize that companies **must provide benefits to the host country** in which they operate in order to maintain cooperation.

5. Discuss the need for corporations to consider sustainability in their long-term plans in order to manage **environmental impacts on host locations**.

6. Identify the challenges involved in **human rights issues** when operating around the world.

Events in the Evolution and Development of CSR Adapted from Chandler/Werther 2014, p. 15.



Adapted from Chandler/Werther 2014, p. 15

The Triple Bottom Line Concept

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Measures to Capture the Triple Bottom Line

Economic	Environmental	Social
sales, profits, ROI	pollutants emitted	health and safety record
taxes paid	carbon footprint	community impacts
monetary flows	recycling and reuse	human rights, privacy
jobs created	water and energy use	product responsibility
supplier relations	product impacts	employee relations

The Goal:

Meeting humanity's needs without harming future generations.

Adapted from Savitz/Weber 2014, p. 5

Corporate Social Responsibility Pyramid

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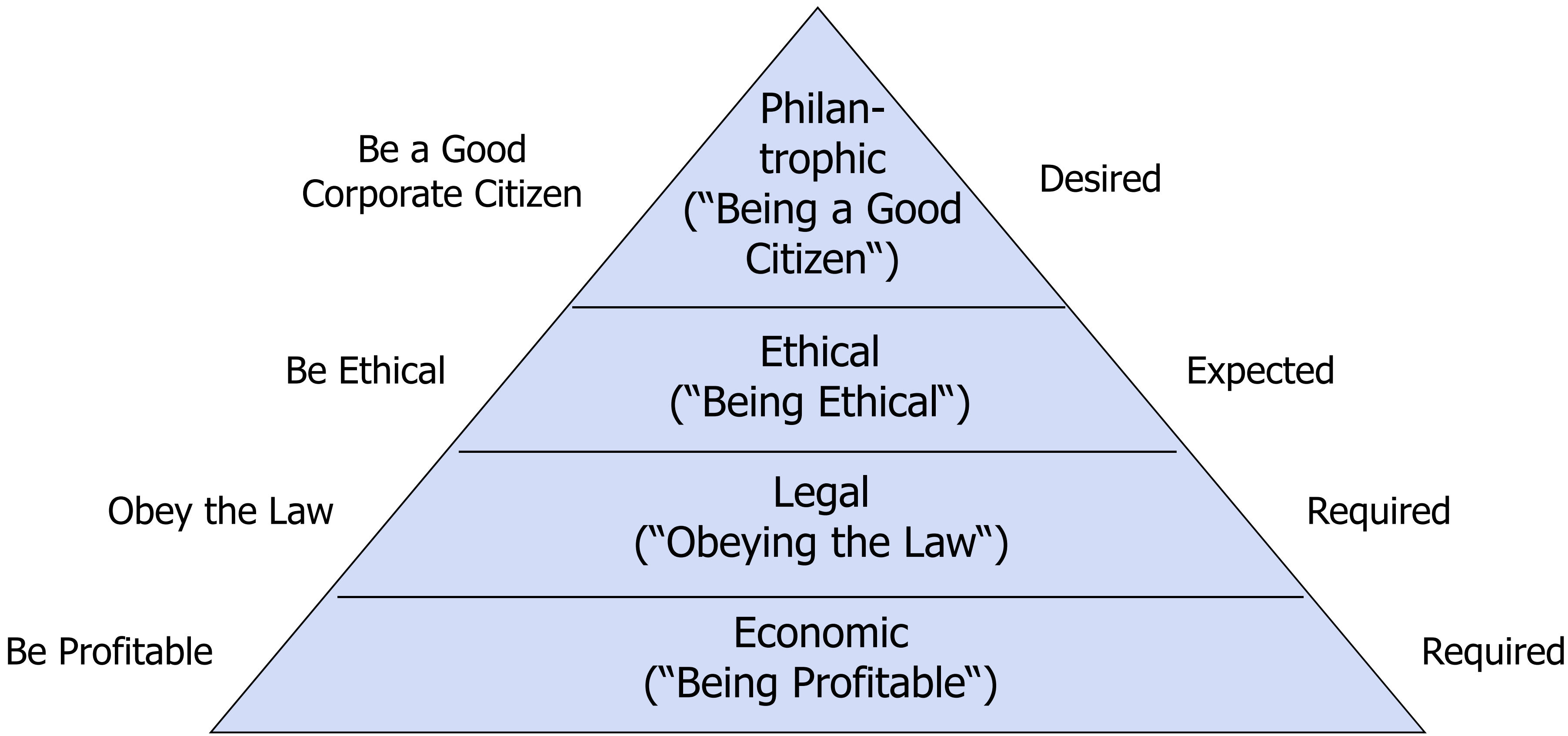

Carroll 1991

Stakeholders of MNCs

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Home Country
Owners
Customers
Employees
Unions
Suppliers
Distributors
Strategic Allies
Community
Economy
Government

MNC

Host Country
Economy
Employees
Community
Host Government
Consumers
Strategic Allies
Suppliers
Distributors

Society in General
Global Environment and Ecology
Sustainable Resources
Population´s Standard of Living

Adapted from Deresky 2014, p. 62.

Inappropriate Corporate Conduct Abroad

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Examples: Firms may…..

- Falsify or misrepresent contracts or official documents
- Pay or accept bribes, kickbacks, or inappropriate gifts
- Tolerate sweatshop conditions or abuse employees
- Use false advertising or other deceptive marketing
- Engage in deceptive or discriminatory pricing
- Deceive or abuse intermediaries in the channel
- Undertake activities that harm the natural environment

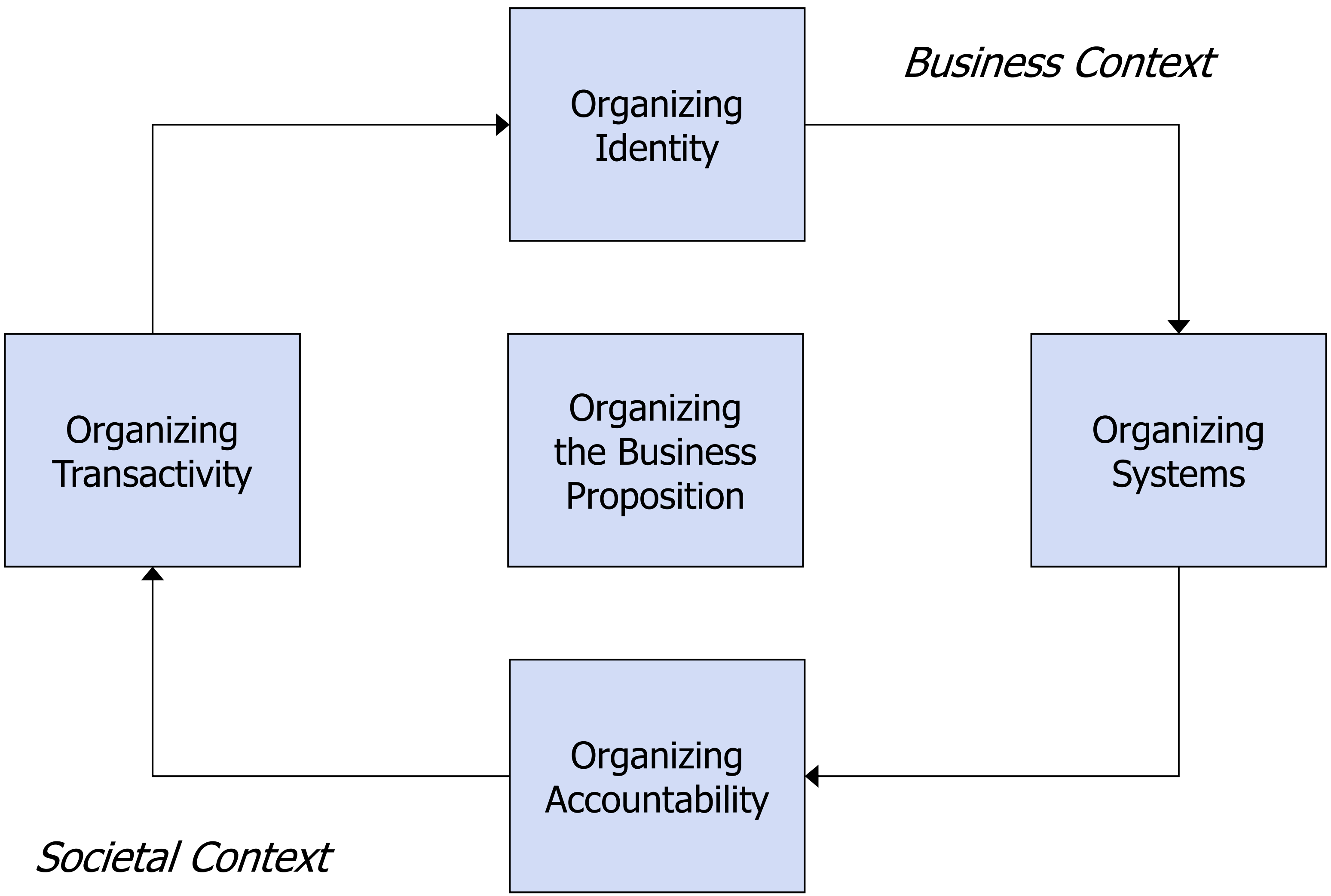
Source: Cavusgil et.al. (2014) International Business, p.146

MNCs Benefits & Costs to Host Countries

Benefits		Costs
Access to outside capital	⟺	Competition for capital
Foreign-exchange earnings	⟺	Increased interest rates
Access to technology	⟺	Inappropriate technology
Infrastructure development	⟺	Development investment exceeds benefits
Creation of new jobs	⟺	Limited skills development
More humane employment standards	⟺	Few managerial jobs for locals

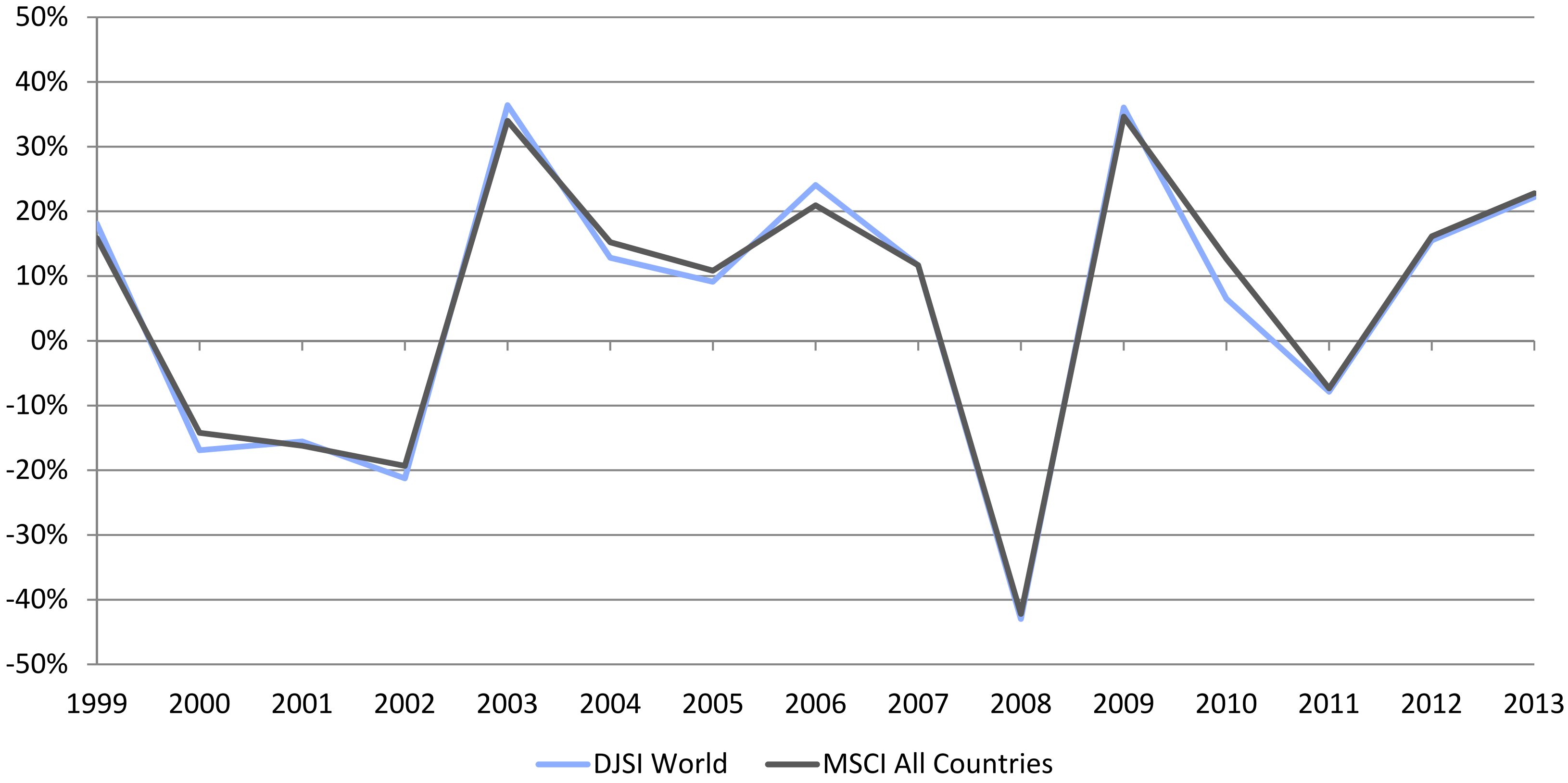
Source: Deresky 2017, p. 82

The CSR Management Model



Jonker/De Witte 2006, p. 5

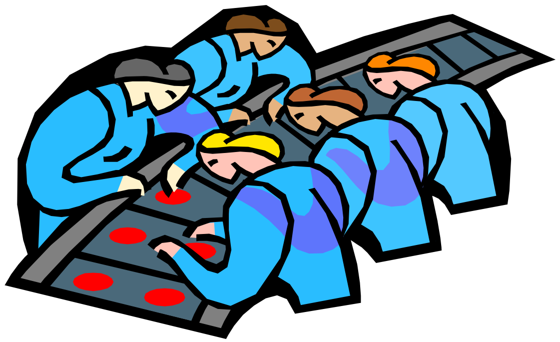
Development of DJSI World & MSCI World



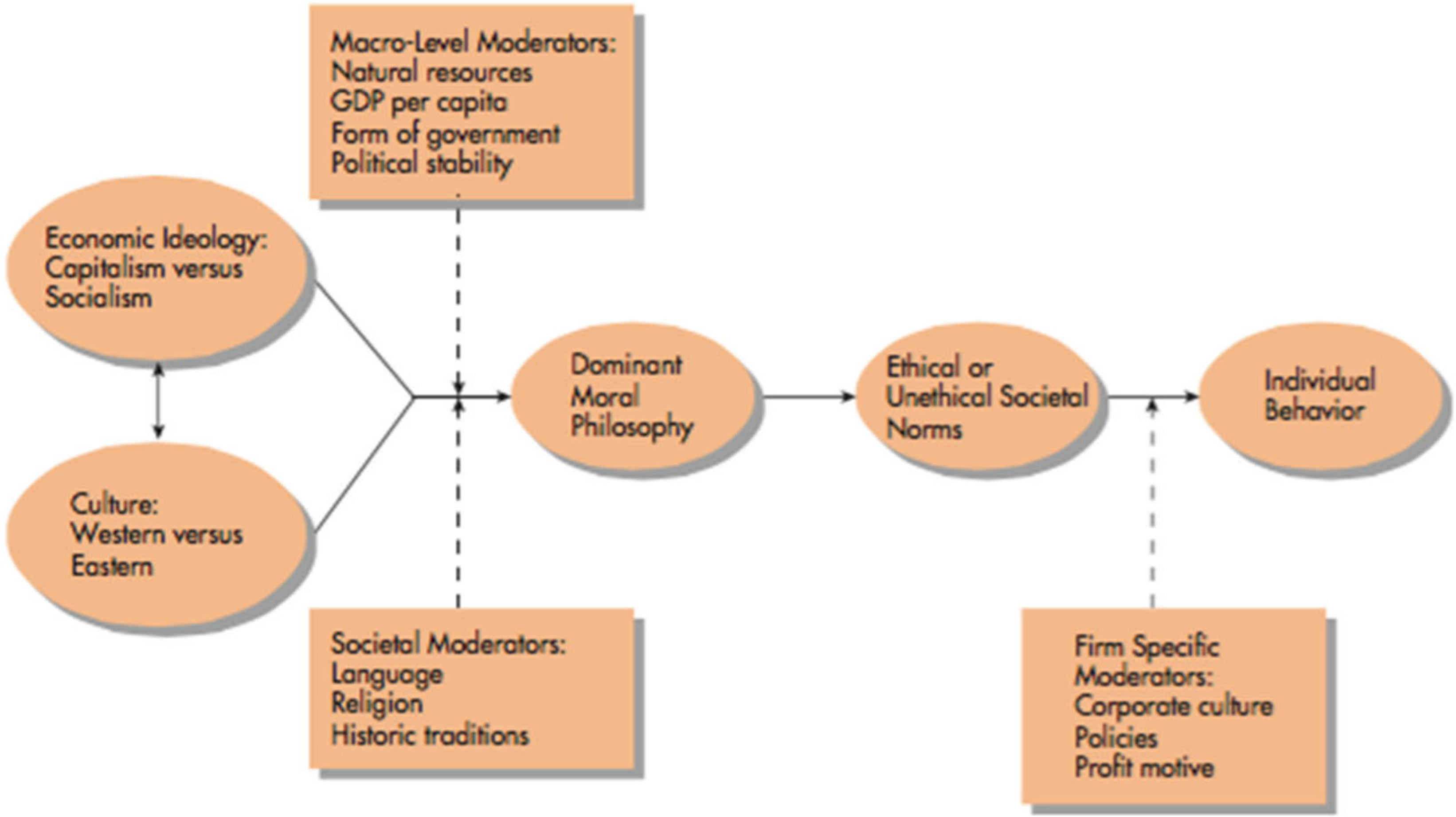
Robecosam 2014.

International Codes of Conduct

- The Business Social Compliance Initiative (BSCI)
- The Social Accountability 8000 (SA(8000)
- The Sweatshop Code of Conduct
- The Electronic Industry Code of Conduct (EICC)
- The UN 17 Sustainable Development Goals



A Moral Philosophy of Cross-Cultural Societal Ethics



Robertson/Crittenden 2003

Policies Help MNCs to Confront Concerns About Ethical Behavior and Social Responsibility

1. Develop worldwide code of ethics.
2. Build ethical policies into strategy development.
3. Plan regular assessment of the company’s ethical posture.
4. If ethical problems cannot be resolved, withdraw from that market.

How to embed Sustainability in a Company?

- Codes of Conduct
- Impact Measures
- Company Structure and Policies
- Purchasing and Supply Chain Initiatives
- Communications and Dialogue
- Employee Training and Workshops
- Company Visits
- Employee Volunteering Opportunities

Haugh and Talwar, 2010

12. International Marketing

Learning Objectives

1. Know the Global Marketing Strategies and the key decisions in international marketing between standardization and adaptation

2. Know the major issues, tactics and strategies in the Global Marketing Mix:
   - Global branding and product development
   - International pricing
   - International marketing communications
   - International distribution

3. Be able to systematically screen country markets

Organizing Framework for Marketing in the International Firm

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Adapted from Cavusgil et.al. 2017, p. 499

Classification of Marketing Strategies

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International Marketing Strategy

HQ

Border

All Countries

Undifferentiated use of the same marketing mix in all countries (1,2,…,n).
Product $_{1,2,\dots,n}$
Price $_{1,2,\dots,n}$
Place $_{1,2,\dots,n}$
Promotion $_{1,2,\dots,n}$

Multinational Marketing Strategy

HQ

Border

Country 1	Country 2	Country n
Product $_1$	Product $_2$	Product $_n$
Price $_1$	Price $_2$	Price $_n$
Place $_1$	Place $_2$	Place $_n$
Promotion $_1$	Promotion $_2$	Promotion $_n$

Each country/market has its own marketing mix.

Global Marketing Strategy

HQ

Development of Global Marketing Strategy

Border

All countries

Undifferentiated use of global marketing mix in all countries (1,2,…,n).
Product $_{1,2,\dots,n}$
Price $_{1,2,\dots,n}$
Place $_{1,2,\dots,n}$
Promotion $_{1,2,\dots,n}$

Transnational Marketing Strategy

HQ

Development of Guidelines for Marketing Strategy („Pattern Standardization")

Border

Country 1	Country 2	Country n
Product $_1$	Product $_2$	Product $_n$
Price $_1$	Price $_2$	Price $_n$
Place $_1$	Place $_2$	Place $_n$
Promotion $_1$	Promotion $_2$	Promotion $_n$

Patterns are transferred to each country/ market with only as much adaption as necessary.

Adapted from Hollensen 2014, p. 474.

Tradeoffs between Standardization & Adaptation

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Standardization

Exemplifies global integration and is more appropriate in global industries.

Pursue when:

- Similar market segments exist across countries
- Customers seek similar features
- Products have universal specifications
- Business customers have converging expectations

Adaptation

Exemplifies local responsiveness and is more appropriate in multidomestic industries.

Pursue when there are distinct:

- National preferences
- Laws and regulations
- Living standards and economic conditions
- National infrastructure

Complete Standardization ⟷ **Complete Adaptation**

Advantages (Standardization)

- Cost reduction
- Improved planning and control
- Ability to portray a consistent image and build global brands

Advantages (Adaptation)

- Meet needs of customers more precisely
- Enjoy unique appeal
- Comply with government regulations
- Achieve greater success in combating customer resistance

Selected Factors Favoring Standardisation vs. Differentiation

Factors Favouring Standardisation	Factors Favouring Differentiation
◆ economies of scale, e.g. in R&D, production and marketing (experience curve effects) ◆ global competition ◆ convergence of tastes and consumer needs (consumer preferences are homogeneous) ◆ centralised management of international operations (possible to transfer experience across borders) ◆ a standardised concept is used by competitors ◆ high degree of transferability of competitive advantages from market to market ◆ easier communication, planning and control (e.g. through Internet and mobile technology) ◆ stock cost reduction	◆ local environment-induced adaptation, e.g. government and regulatory influences, legal issues, differences in technical standards (no experience curve effects) ◆ local competition ◆ variation in consumer needs (consumer needs are heterogeneous, e.g. because of cultural differences) ◆ fragmented and decentralised management with independent country subsidiaries ◆ an adapted concept is used by competitors ◆ low degree of transferability of competitive advantages from market to market

Adapted from Hollensen 2014, p. 477.

International Marketing Mix: International Product Strategies

- **Extension** of the home-grown product strategy to foreign markets and selling the same product abroad
- **Modification** of products for each local market according to local requirements
- **Invention** strategy involving designing new products for the global market
- incorporating all differences into one flexible product design and introducing a **standardized product**.

Czinkota/Ronkainen 2013, pp. 358- 359; Kotabe/Helsen 2014, pp. 332-334

Local, International, & Global Brands

Global brands	International or regional brands	Local brands
designed to meet the needs of a global market rather than the needs of an individual country or a well-defined regional market.	originally intended for a single home-country market or a specific geographic region; offer extension possibilities.	achieved success in a single national market, represent the lifeblood of domestic companies
Global brands have the same name and similar image and positioning throughout the world	Smart car was designed for the needs of the European market,	deep-rooted local brands can be a significant competitive hurdle to global companies
Examples: Sony Walkman, Colgate's Total toothpaste, Cisco Systems' network routers	GE had success in exporting full-sized refrigerators to Japan where consumers have responded favorably to the simple designs.	Coca-Cola's Georgia-brand canned coffee, Vegemite - a vegetable food spread popular only in Australia.

Check out: Interbrand Top Global Brands at www.interbrand.com

Keegan/Green 2014), p. 314 - 346

International Pricing

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Analysis

Internal Factors

- Profitability
- Transportation Cost
- Production Cost
- Channel Cost
- Tariffs/Taxes

Market Factors

- Income Level
- Buyer Power
- Competition

Environmental Factors

- Foreign Exchange Rate
- Inflation rate
- Price Controls
- Dumping Regulations

Global Pricing Strategies

Decision

- **Ethnocentric Pricing**
- **Geocentric Pricing**
- **Polycentric Pricing**

Managerial Issues

- Transfer Pricing
- Foreign Currencies
- Parallel Imports
- Export Price Escalation
- Global Pricing

Source: adapted from Gillespie (2011)
Keegan/Green (2014) p. 350-377

Factors Influencing International Pricing Strategy

Company and Product-specific Factors	Market Factors	Environmental Factors
◆ corporate and marketing objectives ◆ firm and product positioning ◆ degree of international product standardisation or adaptation ◆ product range, cross subsidisation, life cycle, substitutes, product differentiation and unique selling proposition ◆ cost structures, manufacturing, experience effects, economies of scale ◆ marketing, product development ◆ available resources ◆ inventory ◆ shipping cost	◆ consumers' perceptions, expectations and ability to pay ◆ need for product and promotional adaptation, market servicing, extra packaging requirements ◆ market structure, distribution channels, discounting pressures ◆ market growth, demand elasticities ◆ need for credit ◆ competition objectives, strategies and strength	◆ government influences and constraints ◆ tax, tariffs ◆ currency fluctuations ◆ business cycle stage, level of inflation ◆ use of non-money payment and leasing

Adapted from Doole/Lowe 2012, pp. 358-359.

International Price Escalation

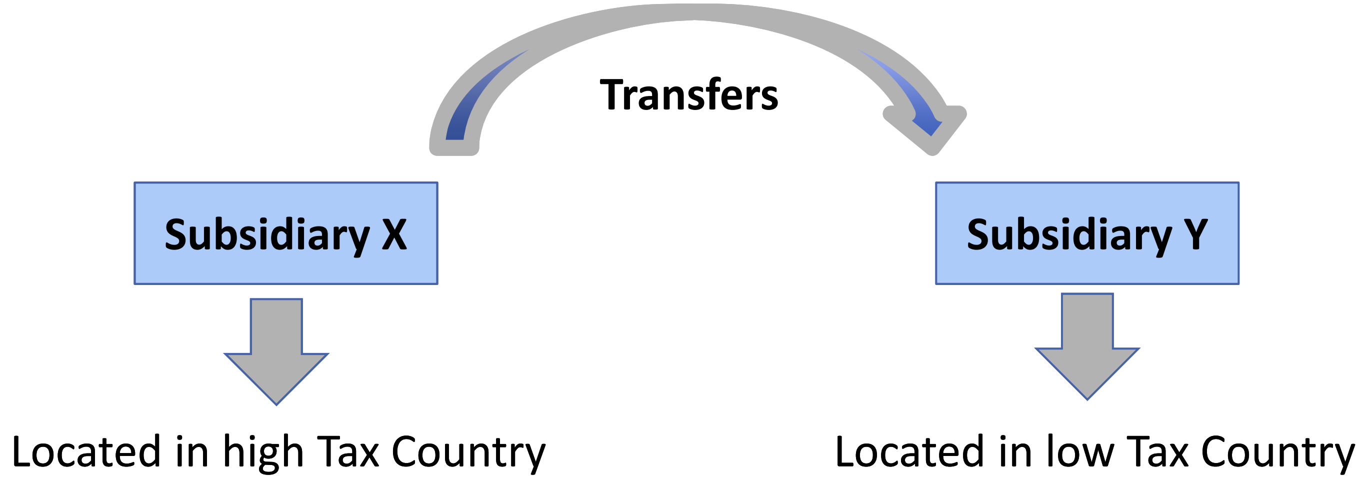
- Various factors can push up prices of the firm's products in export markets. Causes include multilayered distribution channels, intermediary margins, tariffs, and other costs associated with foreign market.
- May result in overly high retail price in the target market, a competitive disadvantage for the exporter.
- Management can employ various strategies to reduce price escalation.

Expense	Domestic Example	Export Example (same channel, wholesaler Import)
Manufacturing	$3.25	$3.25
Transportation(CIF)	NA	$1.10
Tariff (20% of CIF)	NA	$0.87
Wholesaler pays landed cost	$3.25	$5.22
Wholesale margin	$1.08	$1.73
Retailer pays	$4.33	$6.95
Retailer Margin	$2.17	$3.48
Retail Price	$6.5	$10.48

Keegan/Green 2109; Morschett 2015, pp. 481-494

Transfer Pricing

- The pricing of intermediate or finished goods exchanged among the subsidiaries and affiliates of the same corporate family located in different countries.
- May be used to repatriate profits from countries that restrict MNEs from taking their earnings out of the country.
- May be used to shift profits out of a high corporate tax county into a low corporate tax one, thereby increasing company-wide profits.



Morschett 2015, pp. 481-494

Gray Markets /Parallel Imports

- Legal importation of genuine products into a country by other than authorized intermediaries.
- Gray marketers buy the product at a low price in one country, import it into another country, and sell it there at a higher price.

  (Examples: consumer electronics, pharmaceuticals, luxury products)

Causes:

- Large difference in pricing of same product between two countries, often the result of company strategy.
- Exchange rate differences of products priced in two different currencies.

Picture by Pexels on Pixabay

Morschett 2015, pp. 481-494

International Advertising

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- Firms conduct advertising via media, which includes direct mail, radio, television, cinema, billboards, transit, print media, and the Internet.
- Advertising spending on major media amounts to more than $100 billion in each of Asia-Pacific and Western Europe.
- In the United States, advertising expenditures total nearly $200 billion.

Free Picture by pixabay

- Advertising is influenced by local factors, such as availability of media, literacy, regulations, culture, and local customs, as well as the goals of the firm.

Morschett 2015, pp. 481-494

Communication Tools in International Marketing

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Advertising	Public Relations	Sales Promotion	Direct Marketing	Personal Selling
◆ newspapers ◆ magazines ◆ journals ◆ directories ◆ television ◆ radio ◆ cinema ◆ outdoor ◆ Internet	◆ annual reports ◆ house magazines ◆ press relations ◆ events ◆ lobbying ◆ sponsorships	◆ rebates and price discounts ◆ catalogues and brochures ◆ samples, coupons, gifts ◆ competitions	◆ direct mail ◆ database marketing ◆ Internet marketing ◆ mobile marketing (SMS, MMS) ◆ social media marketing ◆ viral marketing ◆ location-based marketing ◆ advertising games	◆ sales presentations ◆ sales force management ◆ trade fairs ◆ exhibitions

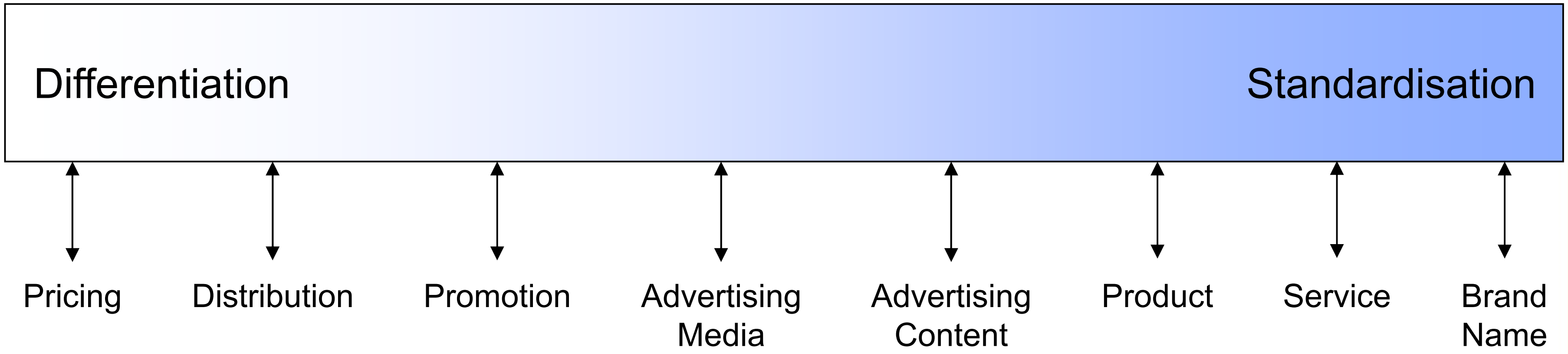
Adapted from Zentes/Swoboda/Schramm-Klein 2013, p. 389

International Distribution

International distribution strategy is closely connected to foreign operation modes and relates to

- **International channel structure and channel design**
  - types of intermediaries (alternative distribution channels),
  - coverage (intensive, selective, exclusive),
  - length (number of levels), control resources & degree of integration
- **International marketing logistics**
- The firm should seek to minimize channel length, to minimize final prices and decrease complexity.
- Distribution is the most inflexible of the marketing program elements – once established, it may be difficult to change.
- The most common international distribution approaches are via independent intermediaries (for exporters) and establishing a subsidiary directly in the market (FDI).

General Standardization Level for Different Elements of the Marketing Mix



Adapted from Zentes/Swoboda/Schramm-Klein 2013, p. 449.

13. International Human Resource Management

Learning Objectives

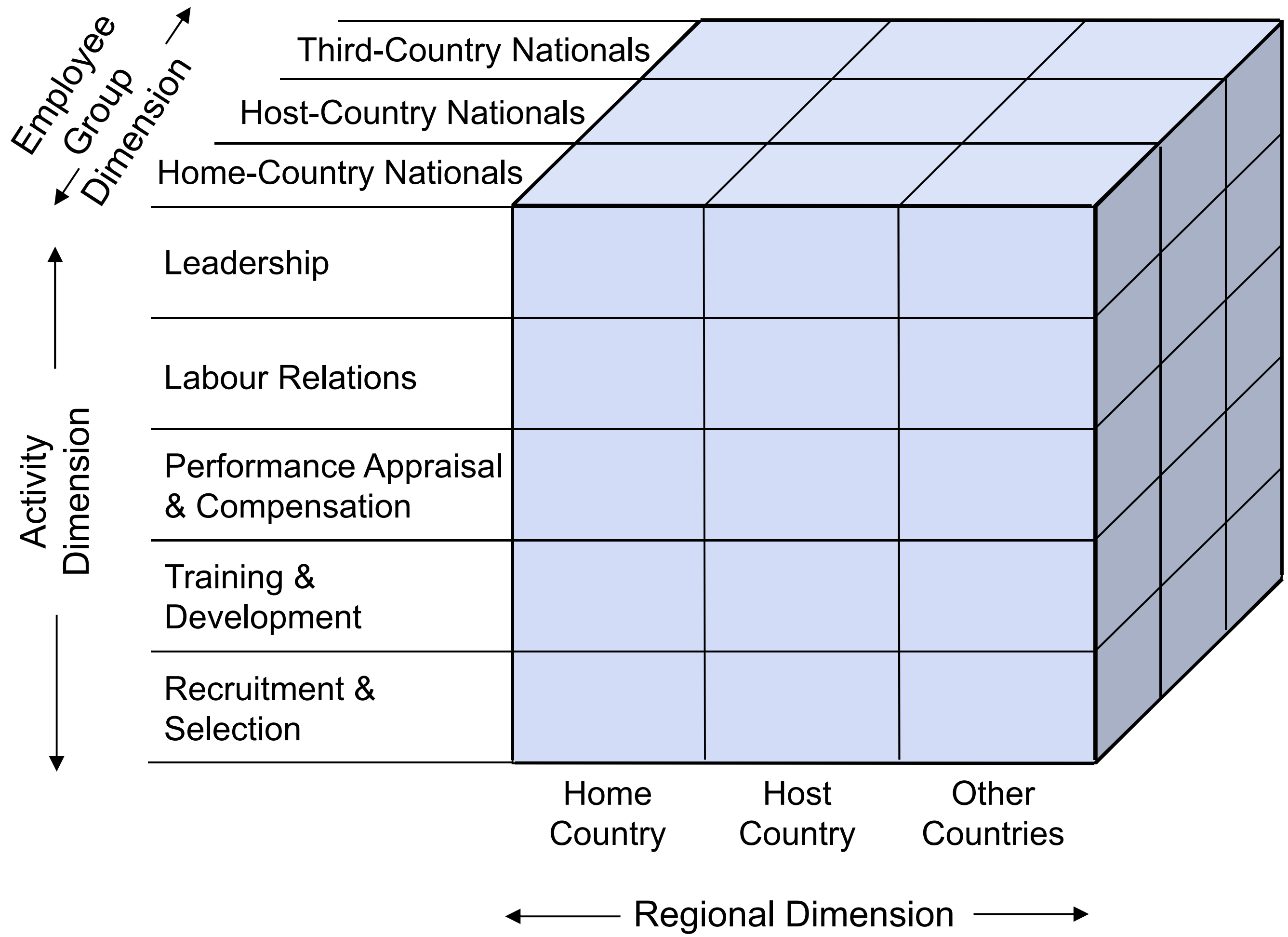
1. Understand the **strategic importance** to the firm of the **IHRM** function and its various responsibilities

2. Know the major **staffing options** for global operations and the factors involved in those choices

3. Emphasize the need for managing the performance of **expatriates** through careful selection, training, and compensation

4. Discuss the role of **host country managers** and the need for their **training** and appropriate **compensation** packages

Dimensions of International Human Resource Management



Adapted from Morgan 1986, p. 44

Key Advantages and Drawbacks of Global Staffing Practices

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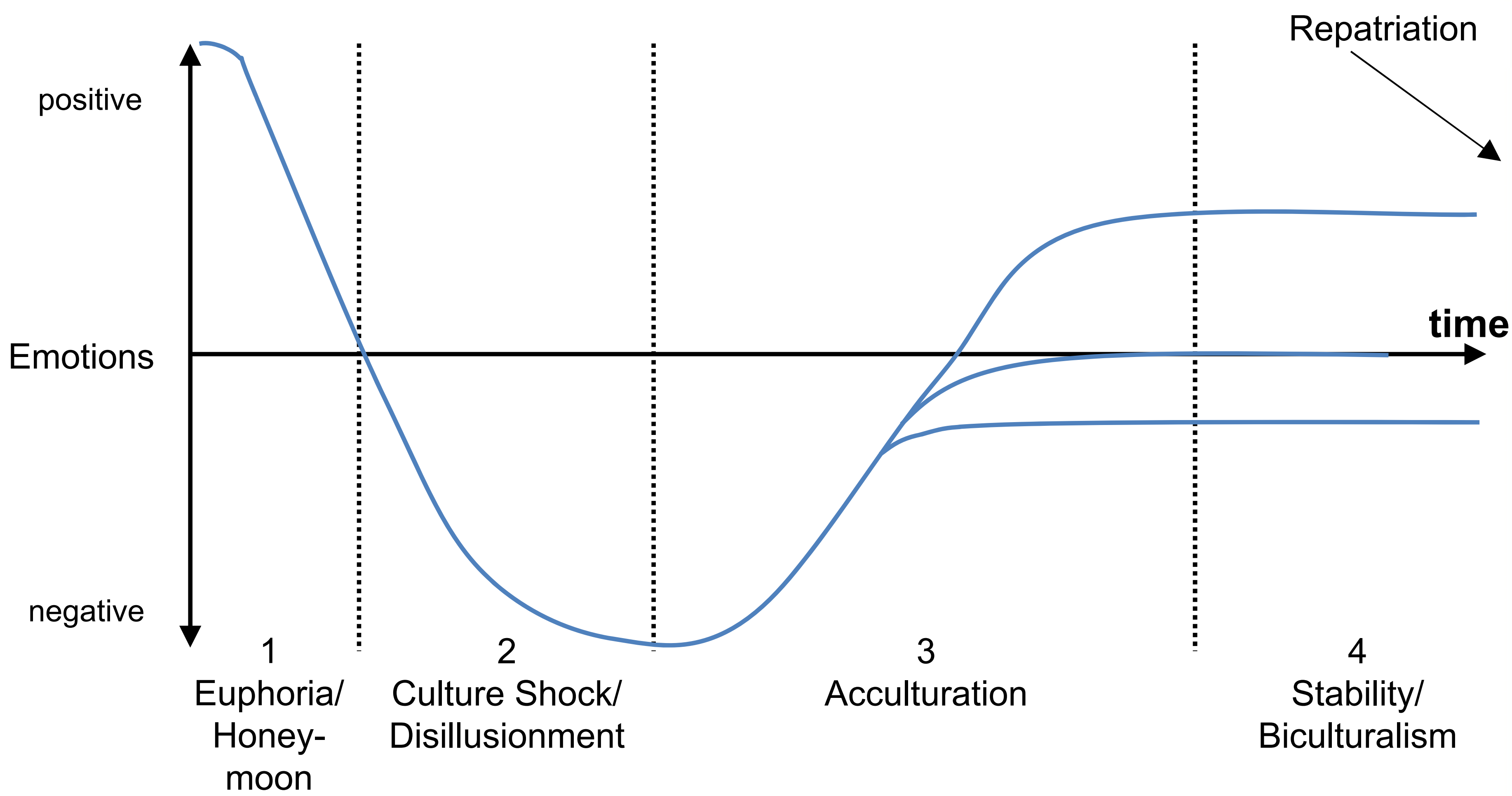
	Advantages	Drawbacks
PCNs	• Transfer and control firm strategy	• Costly to relocate family
	• Assignments abroad develop managers	• Little development of HCNs
	• Integrate knowledge firm-wide	• Lack local familiarity/contacts
	• Suitable managers not available locally	• PCN/family adaptation problems
	• Protect proprietary technology	• Limits use of global skills/ideas
HCNs	• Firm "acts local"; develops HCNs	• May have short-term loyalty
	• Familiarity with culture, procedures, politics, language, contacts, laws	
	• Fulfill government hiring requirements	
	• Can hit the ground running vs PCNs	
	• Likely to be less costly	• Less firm-wide coordination
	• Local role model; employee morale	• Possible conflict of interests
	• Business may be more accepted	
TCNs	• Broad global experience	• Little development of HCNs
	• Pool of shared learning	• May lack local contacts
	• Cultural flexibility and adaptability	• Complex to manage and harmonize
	• Language skills	
	• Often more acceptable than PCNs	• Less acceptable than HCNs
	• Often less-costly transferees	• Costly compared to HCNs
	• Liaison between HQ and local firm	
Inpatriates	• Linking pin between firm HQ and local host subsidiaries	• Does not replace need for PCNs or HCNs
	• Utilizes overseas experience and contacts to coordinate global operations	• Probably still perceived as an HQ manager
	• Provide continuity among revolving PCNs and HCNs	• Difficulty in gaining trust
	• Facilitate global multicultural teams	

Deresky 2017, p. 380

Relationships among Strategic Mode, Organizational Variables, and Staffing Orientation

Aspects of the Enterprise	Orientation: Ethnocentric	Polycentric	Regiocentric	Global
Primary strategic orientation/stage	International	Multidomestic	Regional	Transnational
Perpetuation (recruiting, staffing, development)	People of home country developed for key positions every-where in the world	People of local nationality developed for key positions in their own country	Regional people developed for key positions anywhere in the region	Best people every-where in the world developed for key positions everywhere in the world
Complexity of organization	Complex in home country; simple in subsidiaries	Varied and independent	Highly interdependent on a regional basis	"Global Web": complex, worldwide alliances/network
Authority; decision	High in headquarters	Relatively low in headquarters	High in regional headquarters and/or high collaboration among subsidiaries	Collaboration of headquarters and subsidiaries around the world
Evaluation and control	Home standards applied to people and performance	Determined locally	Determined regionally	Globally integrated
Rewards	High in headquarters; low in subsidiaries	Wide variation; can be high or low rewards for subsidiary performance	Rewards for contribution to regional objectives	Rewards to inter-national and local executives for reaching local and worldwide objectives based on global company goals
Communication; information flow	High volume of orders, commands, advice to subsidiaries	Little to and from headquarters; little among subsidiaries	Little to and from corporate headquarters, but may be high to and from regional headquarters and among countries	Horizontal; network relations; "virtual" teams
Geographic identification	Nationality of owner	Nationality of host country	Regional company	Truly global company, but identifying with national interests ("glocal")

Phases in Cultural Adjustment



Adapted from Hofstede 2001, p. 259; Griffin/Pustay 2013, p. 547