Module 5

International Business Strategy

Introduction

This module covers the following themes:

- Strategic elements of competitive advantage
- Setting up a global organisation
  - Developing competitive strategy
  - Sources of competitive advantage
  - National competitive advantage
  - Patterns of international organisational development
  - Design principles for international marketing organisation
  - Structuring for global brands
  - Strategic alliances
  - Designing global organisational structure
  - Managing multinationals

Upon completion of this unit you will be able to:

Outcomes

- *discuss and apply* the concepts of competitive advantage
- *explain* the sources of competitive advantage
- *explain* the basic structure of the global organisation and the types of structures.
- *discuss* issues in global strategic alliances, the new norm to explore market entry strategies.
- *describe* the context of organisational development and how modern organisations are coping with the process part of the same.
- *describe and apply* the steps required in managing multinational organisations

Terminology

Strategic Alliance:	Two or more firms creating a partnership to minimise risk while maximising leverage in the marketplace.
Subsidiary:	A company that is wholly or partially controlled by another company.

Equity:	The value of an ownership interest in a business.
Centralisation:	Tight control and strategic decision making concentrated at the headquarters.
Decentralisation:	Controls are relatively loose and simple from the headquarters to the subsidiaries.
Joint Ventures:	Collaborations of two or more organisation, sharing of risks, assets and profits.

Lesson notes[11]

As in the case of domestic markets, the essence of strategic marketing in Global Marketing lies in relating the competitive strengths of an organisation to its environment. This module exposes you to the strategic elements of competitive advantage in the Global Marketing environment. Conducting industry analysis is to one of the useful ways used by organisations to gain an insight into their competitors. Five major forces have been identified as those influencing competition in a given industry. These are threat of new entrants, threat of substitute products, bargaining power of buyers, bargaining power to suppliers and the competitive rivalry among the existing members of the industry.

In any industry, generic strategies for creating competitive advantage can be identified by firms. Another way of understanding competitive advantage is through understanding competitiveness as a function of the strategic intent of the firm.

The issue of global competition and national competitive advantage has been of critical importance in Global Marketing underlining the reason why a given country is a good home base for specific industries. Important factor conditions, demand conditions, position regarding related and supporting industries, firm strategy and structure as well as government policy determine the various facets of national competitive advantage in today's interconnected global market

Organisational structure becomes extremely relevant in the context of global organisations. The balance between autonomy and integration are two issues that are critical. Subsidiaries need autonomy in order to adapt to their local environment and business as a whole needs integration to implement global strategy. Global organisations need to achieve both integration and autonomy while fostering the increasingly important tasks of learning and knowledge transfer. Being able to transfer knowledge from one country to another provides a key source of advantage for multinational companies.

[11] Participants in the programme are encouraged to read *Global Strategic Management* by Philippe Lasserre, Palgrave Macmillan, 2003.

Four factors and their individual elements determine the crucial organisational forces that affect a company's ability to formulate and implement global strategy.

1. **Organisational structure** comprises the reporting relationships in business.

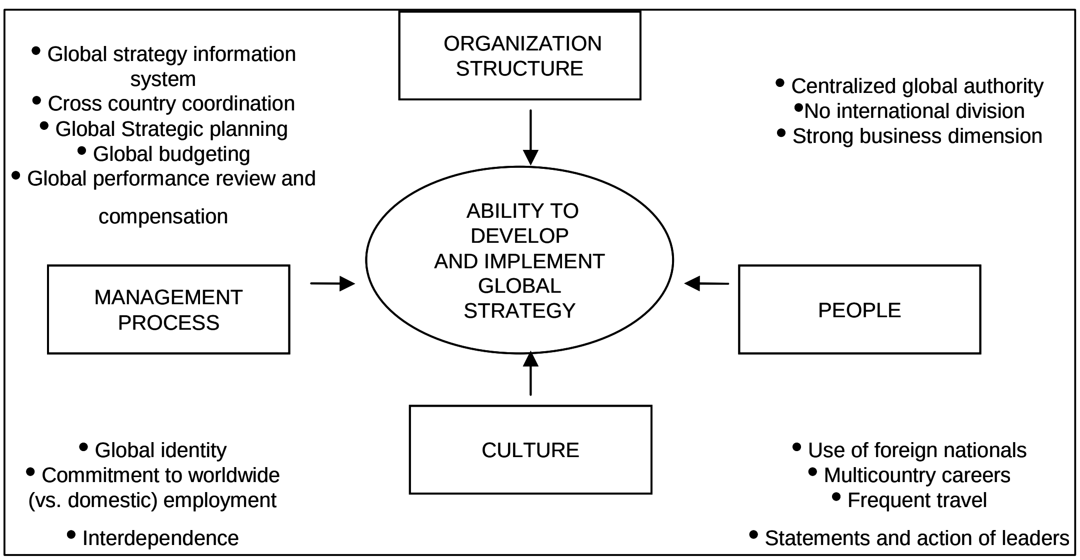
2. **Management processes** comprise the activities such as planning and budgeting that make the business run.

3. **People** comprise the human resources of the worldwide business and include managers and all other employees.

4. **Culture** comprises the values and unwritten rules that guide behaviour in a corporation.

Each of these factors directly affects the other and the use of global strategy. **Figure 1.1** lists the key factors and their main elements:

Figure 1.1



Source: Adapted from Yip, Loewe and Yoshino (1988)

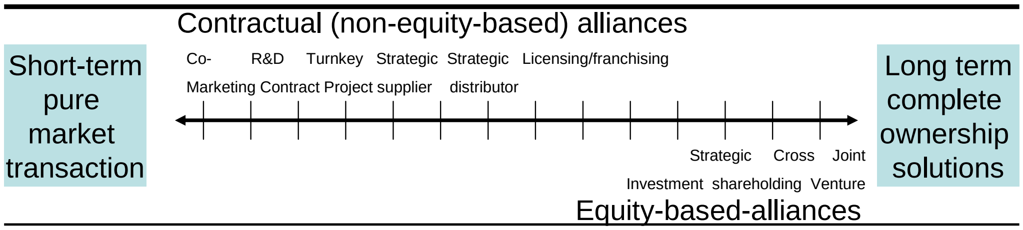
Each organisation factor and its elements have distinct effects on the use of each of the five global strategy levers. For example, having centralised global authority allows a more global approach to market participation by allowing countries to be chosen based more on their global strategic importance and less on which regional manager has more political power. The organisation and management requirements of a global business can also be contrasted with those of a multi-local or export-based business. For these different businesses, each organisation factor needs to stress different features. **Table 1.1** summarises the desired organisation features for each types of geographic strategy.

TABLE 1.1: **Desired Organisational Features or Types of Geographic Businesses**

Geographic Scope	Organisational Structure	Management Processes	People	Culture
GLOBAL	Centralised global authority No domestic-international spilt Strong business dimension relative to geography and function	Extensive coordination processes Global sharing of technology Global strategy information system Global strategic planning, budgets, performance review, and compensation	Multi-country careers Foreign nationals at home and third countries Extensive travel	Global identity Inter-dependence
MULTI-LOCAL	Dispersed national authority No domestic international split Strong geographic dimension relative to business and function	Transfer of technology from headquarters out National information systems National strategic planning, budgets, performance review, and compensation	Professional expatriates National run local businesses Limited travel	Multi-national identity Autonomy
EXPORT-BASED	Centralised home country control Separate domestic and international divisions May have strong functional dimension	Direction not coordination One way information flow to headquarters No technology transfer Focus on sales targets	Home country nationals run local marketing subsidiaries	Home country culture

Strategic alliances are “voluntary agreements” between firms involving exchanging, sharing, or co-developing of products, technologies or services. As shown in **Figure 1.2**, strategic alliances are compromises between short term, pure market transactions and long term complete ownership solutions.

Figure 1.2 – The variety of strategic alliances



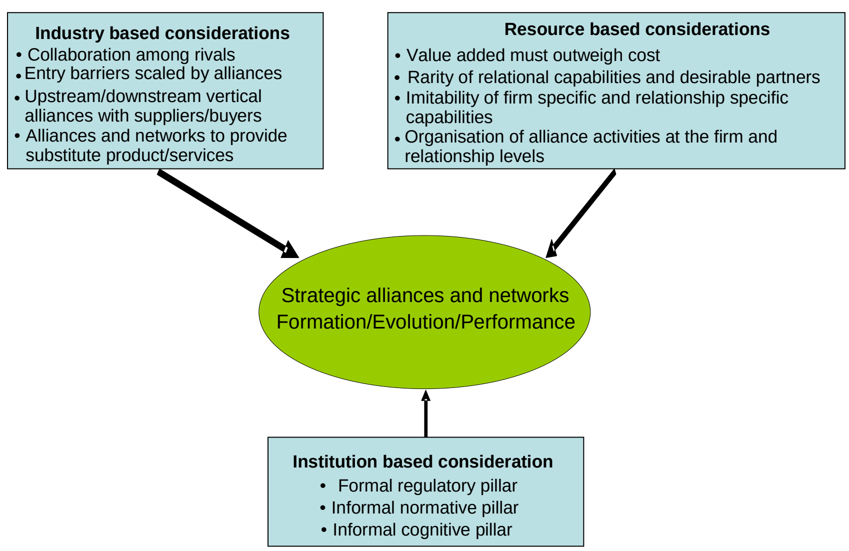
Source: *Global Strategy*, Mike W. Peng, Cengage Learning, 2007

Alliances are of two kinds, contractual and equity-based. The former includes co-marketing, research and development contracts, turnkey projects, strategic suppliers, strategic distributors and licensing/franchising. They require lower commitments and their scope is limited. By contrast, equity-based alliances require higher commitment, and include strategic investment, cross shareholding and joint venture. Another important aspect of strategic alliances is strategic networks, which are essentially joint ventures purely for gaining competitive grounds and gain from each other's strengths. The case of Renault-Nissan is one such example, where there is no new off-spring but mutual gain for each other.

Comprehensive model of strategic alliances and networks

The aspect of strategic alliance is based on the industry-based, resource-based and institution-based considerations. This is also illustrated in **Figure 1.3**.

Figure 1.3: A comprehensive model of strategic alliances and networks



Source: Global Strategy, Mike Peng, Cengage Learning, 2007

According to the **industry-based view,** most firms are independent players and are interested in maximising their own profits.

- Many firms within the business collaborate within themselves (horizontal alliances) to gain competitive grounds.
- Sometimes due to high entry barriers, the firms align within themselves to enter any market.
- In many cases the suppliers also collaborate within themselves to also enter new markets. The cartelisation helps them to gain foothold in those markets.
- Instead of treating the buyers and distributors as possible threats, establishing distribution alliances (also called as downstream alliance) may bind the local firms, buyers and distributors together.
- Finally, the market potential of substitute products may encourage firms to form strategic alliance and networks to materialise the commercial potential of these new products.

The **resource-based view** covers several aspect of value, rarity, imitability and organisational (VRIO framework) aspects of strategic alliance and networks.

- Strategic alliances and networks must create value for both parties. The strategic alliance and networks reduce costs, risks and uncertainties, they allow firms to tap into their partner's complementary assets and provide innovation and learning opportunity for partners.
- Rarity has two dimensions, capability rarity and partner rarity. The capability to handle inter-firm relationships is sometimes referred to as relational capabilities. This is about the kind of relationship skills which are required to foster trust and confidence with partners for sustaining the alliance in the long run. The partner rarity is about defining key parameters which will be important for organisations to look forward to while deciding on partners.
- The **imitability** aspect pertains to two levels, the firm and the alliance/network level. At the firm level it is about how well the resources and capabilities are imitated by the partners. The second aspect about the alliance/network is about trust and understanding, which forms the basis of any successful alliance.
- The last factor of the framework, **organisational**, also affects the firm and the alliance. This is about how firms over the years develop mechanisms and systems to handle alliances where operations are varied and large in nature. Especially for Multi National Enterprises there are separate departments that handle all alliances. These dedicated sections ensures successful running of the alliances and network as a part of the organisation.

The **institution-based view** includes the formal and informal aspects.

- Strategic alliances and networks function within a set of formal legal and regulatory frameworks. These formal institutions impact the antitrust concerns and entry mode requirements. They also impose sanctions and minimum requirements for the market entry modes.

- Informal institutions centre on collective norms, supported by a normative pillar. The institutional perspective suggests that because firms act to enhance or protect their legitimacy, copying other reputable organisations - even without knowing the direct performance benefits of doing so - may be a low-cost way to gain legitimacy. The second set of informal institutions stresses the cognitive pillar, which centres on the internalised, taken for granted values and beliefs that guide firm behaviour.

Types of Strategic Alliances

Alliances begin with the classic **equity alliance** or **joint venture**, which is formed when two or more distinct firms pool a portion of their resources in a separately joined owned organisation. In the case of two partner joint venture, the equity stakes may be equal or one of the partners may hold more than majority. These could be Greenfield Projects (completely new investments) or a divisional merger whereby parents contribute an existing division to the alliance. The second type of alliance is the **non-equity alliance** that involves no exchange of equity and no new company is formed. They are of several types, namely, licensing and technology, joint research and development, joint product development and joint distribution and marketing. Unlike equity alliance, they are easy to form and dissolve, since partnering firms have minimum or no stakes. The third kind of alliance, **minority equity alliance**, involves one partner making a minority investment in the other, and under this umbrella a variety of deals is made. Minority equity alliances are used frequently in industries which rely on high end technology and where the aspect of obsolescence is very visible. Industries like telecommunication, software and biotechnology are some of the places where they are deployed. The minority equity alliance can be a hedge, in that the larger firms may have an option to later purchase a majority equity stake in its smaller partner. Minority equity alliances are also used when there are governmental restrictions on full acquisitions.

The type of alliance forged is also dependant on the scope (global or local) and the objective (market access or capabilities enhancing) of the organisation. **Local alliance** would be the one in which the object is for a foreign company to penetrate a local market or to have access to a set of resources available in a particular country. A **global alliance** would be one in which the object would be either to develop a global market presence or to enhance the worldwide competitive capabilities of the firms. There are three broad types of global alliance. **Coalition** is an alliance of competitors, distributors and suppliers in the same industry pooling their capabilities to reduce cost or establish standards with the ultimate goal of developing market reach. **Co-specialisation** is an alliance of firms that combine their respective unique capabilities to complement each other in order to create a business or to develop new products/technology. When partners transfer know-how and develop new competencies together, the alliance is called a **learning alliance**.

Reading: Chapters 15 and 16

Reading

Keegan Chapter 15 and 16

You should now read Chapters 15 and 16 of the Keegan text (Global Marketing, 4th edition).

Note it!

In applying your understanding of this material, you should take note of the following:

- To respond to the opportunities and threats in the Global Marketing environment, organisational **leaders** must **develop** a global vision and strategy. Leaders must also be able to **communicate** that vision throughout the organisation and **build** global competencies. Global companies are increasingly realising that the “right” person for top jobs is not necessarily a home-country national.

- Identification of your **competitive advantage** in the context of your business environment is the basic building block of your competitive strategy. Industry analysis allows you to understand competition in your own industry, in the global market scenario. As explained in chapter 5, Michael Porter in his famous research on competitive advantage of nations, identified five forces that influence competition in a given industry. These are threat of new entrants, threat of substitute products, bargaining power of buyers, bargaining power of suppliers and the rivalry among existing competitors in the industry.

- Competitive advantage in an industry can be developed out of **generic strategies** like cost leadership and differentiation (broad market strategies), cost focus and focussed differentiation (narrow target strategies), or by developing and focusing on strategic intent of the firm.

- National competitive advantage is often a key to carving out a competitive stance in the global market arena. The national competitive advantage could develop out of **factor conditions** like the resource endowment position of a country or **demand conditions** in the form of patterns and composition of the home demand, or the existence of supporting and related industries in the home country or even government policy. The firm’s own strategy and structure in a given industry could also enable strong competitive advantage as exemplified by competitors like Apple, Dell and Compaq.

- In **organising** for the Global Marketing effort, the goal is to create a structure that enables the company to respond to significant differences in international market environments and to extend valuable corporate knowledge. Alternatives include an **international division structure**, **regional management centres**, **geographical**

structure, **regional** or **worldwide product division structure**, and the **matrix** design. Whichever form of organisation is chosen, balance between autonomy and integration must be established. Many companies are adopting the organisational principle of **lean production** that was pioneered by Japanese automakers.

- The differences between Global Marketing control practices and purely domestic **control** must be recognised. Appropriate adjustments should be made to the way in which global planning and control practices are formulated and implemented. The **Global Marketing audit** can be an effective tool for improving Global Marketing performance.

Reading: Chapter 17

Reading

Keegan Chapter 17

You should now read Chapter 17 of the Keegan text (Global Marketing, 4th edition).

Note it!

In applying your understanding of this material, you should take note of the following:

- The **digital revolution** had led to a paradigm shift impacting the conduct of transactions, including those in Global Marketing. The rising usage of the Internet and the World Wide Web for a vast amount of interaction and transaction has forever changed the way business is conducted today.

- The concept of an **electronic value chain** is central to our understanding of e-marketing and e-commerce today. The electronic value chain comprises a network of specialists who collectively provide the necessary facilitation skills organisations need to function and operate in this age of the internet and e-commerce.

- **Value chain specialists** include context suppliers (or portals) which offer access to the buyer and seller, sales agents who make available “address lists” of potential customers, purchase agents or facilitating web sites that provide friendly access to potential customers, market makers such as eBay which provide a virtual forum or marketplace for buyers and sellers to meet, and payment and logistics specialists such as the traditional VISA, Eurocard, and American Express credit card services, as well as PayPal, which supports sellers with no credit handling capabilities.

- Global Marketing practices keep getting redefined on account of **disruptive technologies** that are brought in by new players and that often redefine performance.

- **Global e-commerce activities** are broadly classified into three categories: Business-to-Customer (B to C), Business-to-Business (B to B) and Customer-to-Customer (C to C) accounted for a market worth $1.4 trillion in early 2012. Of these, B to B activities accounted for the largest share of business.

- **New products and services** like broadband, mobile commerce and wireless related services, smart phones and internet phone services are impacting the e-marketing and e-commerce practices in a variety of ways that have implications for marketing strategy planning in the global context.

Activity 5.1

Activity

Written Exercise

In preparing a marketing budget or plan, what factors should managers take into account?

Summary

Summary

In this module, you learned:

- The factors that help firms and countries achieve competitive advantage

- The forces that define competition in an industry according to Porter's five forces model

- The different organisational structures of global firms operating globally.

- Issues in global alliances, and the different market entry strategies for firms going international to consider.

- The context of strategic alliances, joint venture, coalition, co-specialisation and its impact on firms.

- Managing, controlling and auditing the performance of strategic partners in a firm's Global Marketing efforts.

Assignment

Assignment

Case Study: Napster and the global music industry

Read through the case study entitled, *Napster and the Global Music Industry* on pages 584-587 of the Keegan text and respond to the following questions:

1. How did the record companies find themselves in this situation? Are any of their wounds self-inflicted? What mistakes did they make?

2. Do you agree with the RIAA's decision to sue individuals who share music files on the Internet? Will the lawsuits deter others from sharing files or will they alienate consumers?

3. Compare Napster's subscription-based business model with iTunes' "a la carte" approach. Which of these business models will be most successful?

4. Put yourself in the shoes of a well-meaning, law-abiding individual who is speaking to a group of high school seniors about ethics. In your presentation, you explain that the unauthorised swapping of music files online is against the law. During a question-and-answer session, an audience member says, "Maybe the law is wrong and should be changed." How do you respond?

Submit your responses to case study questions to your instructor or tutor for evaluation.

Assessment

Assessment

1. Give examples of companies that illustrate the use of generic strategies discussed in the module, to gain a strategic competitive advantage.

2. Are top executives of global companies likely to be home-country nationals? Justify your answer.

3. In a company involved in Global Marketing, which activities should be centralised at headquarters and which should be delegated to national or regional subsidiaries?

4. Identify some of the factors that lead to the establishment of an international division as an organisation increases its global business activities.

5. "A matrix structure integrates four competencies on a worldwide scale." Explain.

6. In the automobile industry, how does "lean production" differ from the traditional assembly line approach?