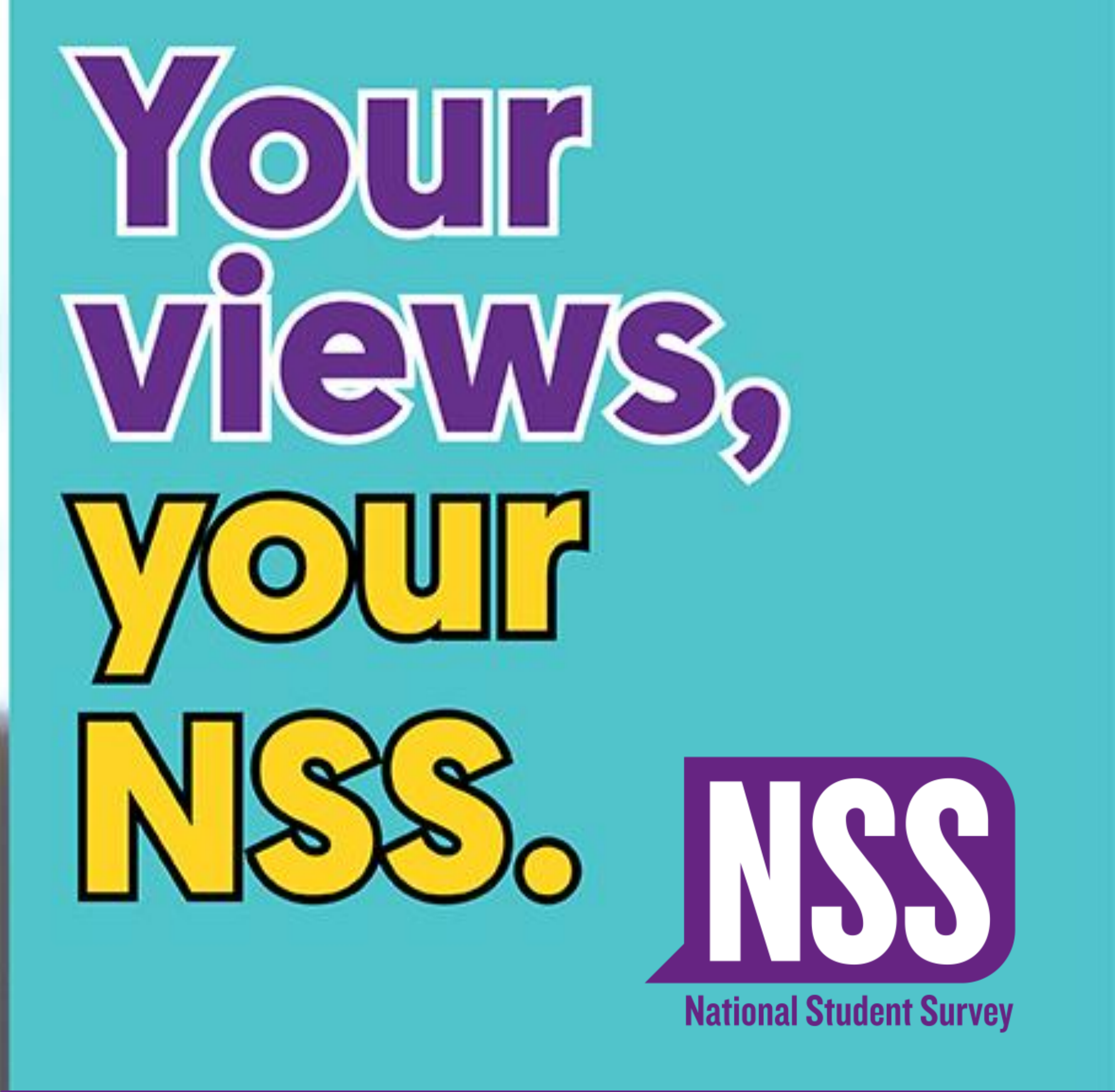
UNIVERSITY OF LIVERPOOL

MKIB 351: Global Strategic Management

Lecture 9 - Factors Affecting Global Strategic Formulation

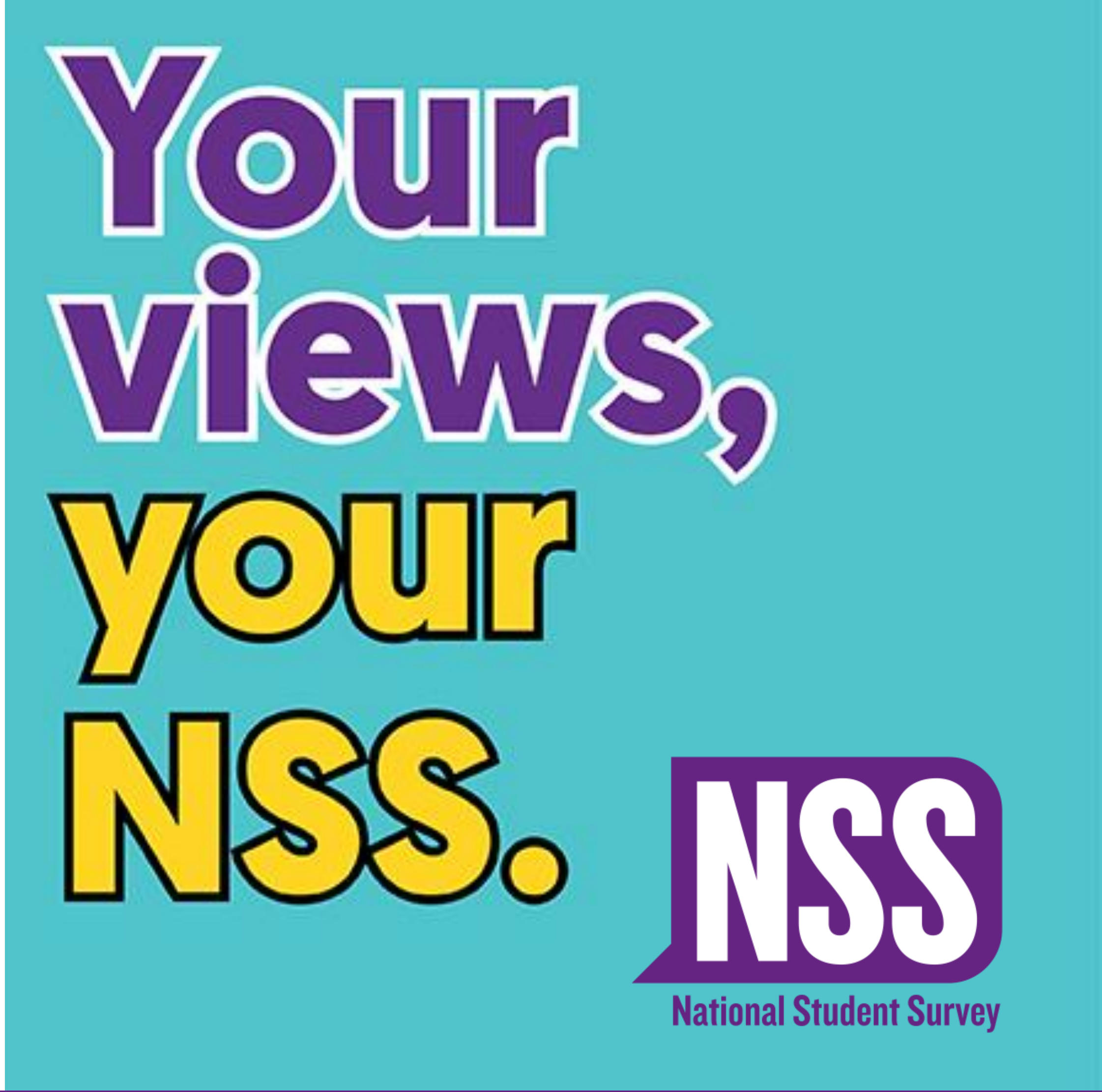
Dr Andreas Procopiou



National Student Survey 2023

NSS Completion Session 17th April (Today!)

ULMS Computer Suite
11am – 3pm



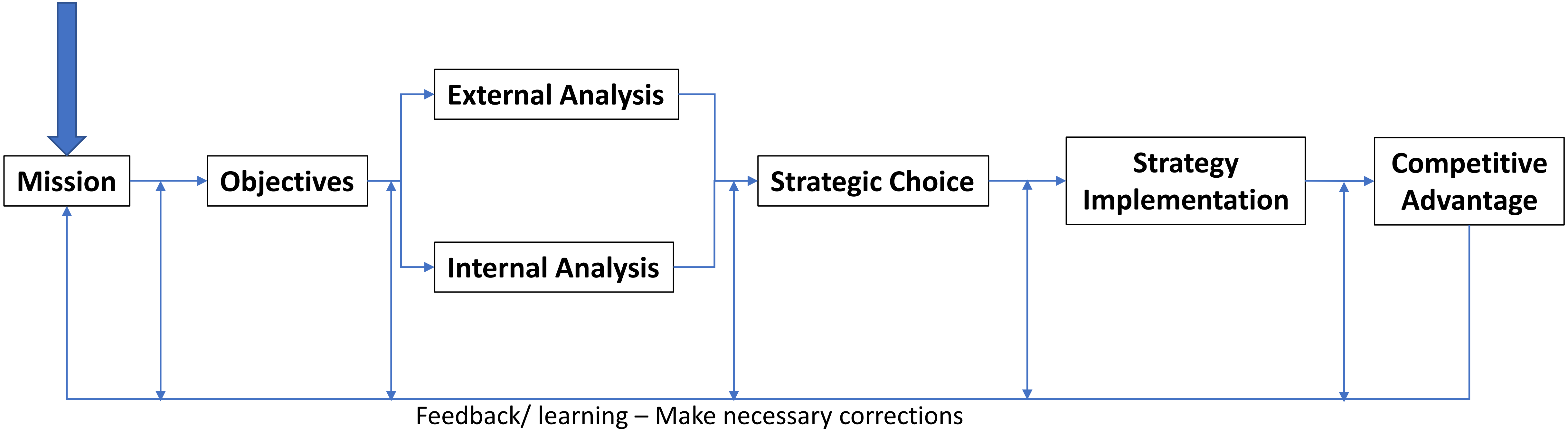
National Student Survey 2023

Agenda

- Corporate Governance
  - Owners
  - Managers
  - Board of Directors
- Corporate governance of MNCs
  - Characteristics of Owners/ Managers/ Board of Directors that influence the formulation of global strategy
    - Global Mindset
- Organisational Learning

Strategic management process

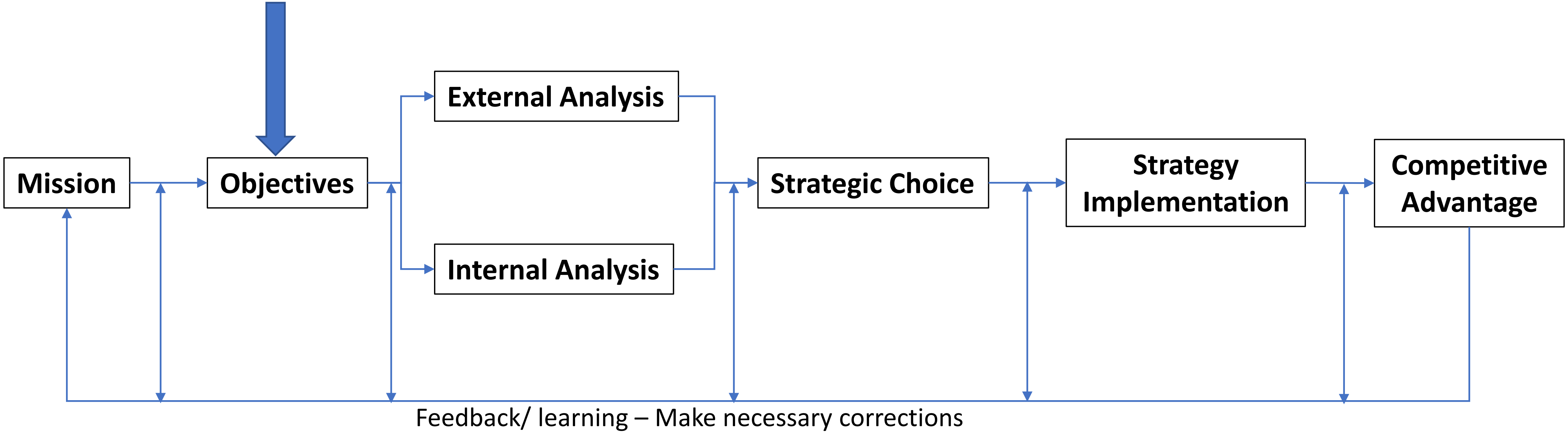
The strategic management process begins when a firm defines its mission.



From Barney and Hesterly (2006)

Strategic management process

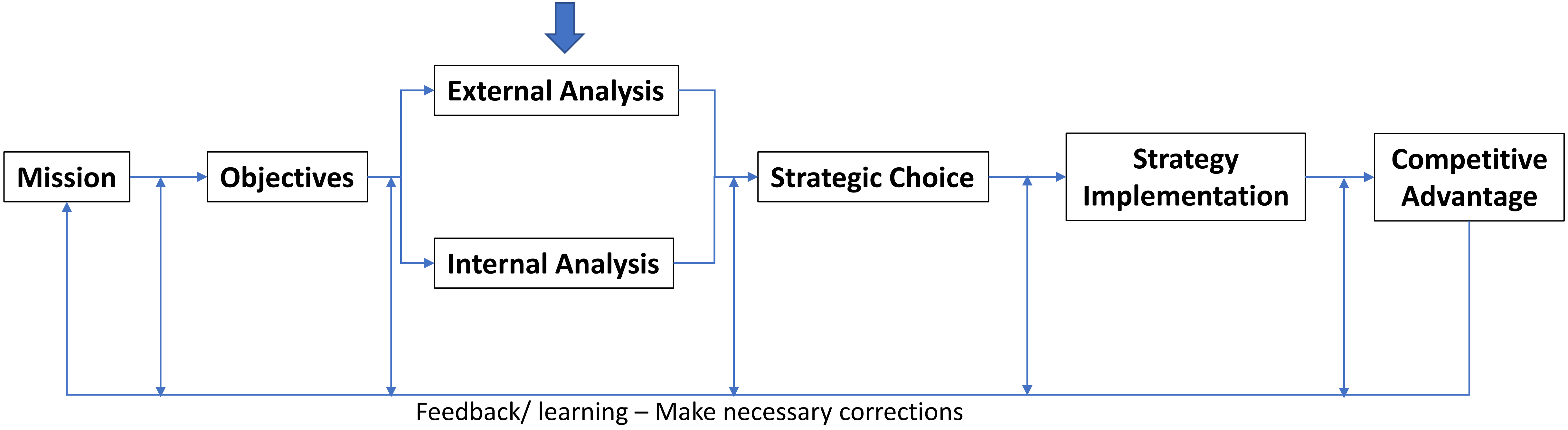
Objectives are based on firm's mission



From Barney and Hesterly (2006)

Strategic management process

Identify the critical threats and opportunities in firm's competitive environment.
Identify its organizational strengths and weaknesses.

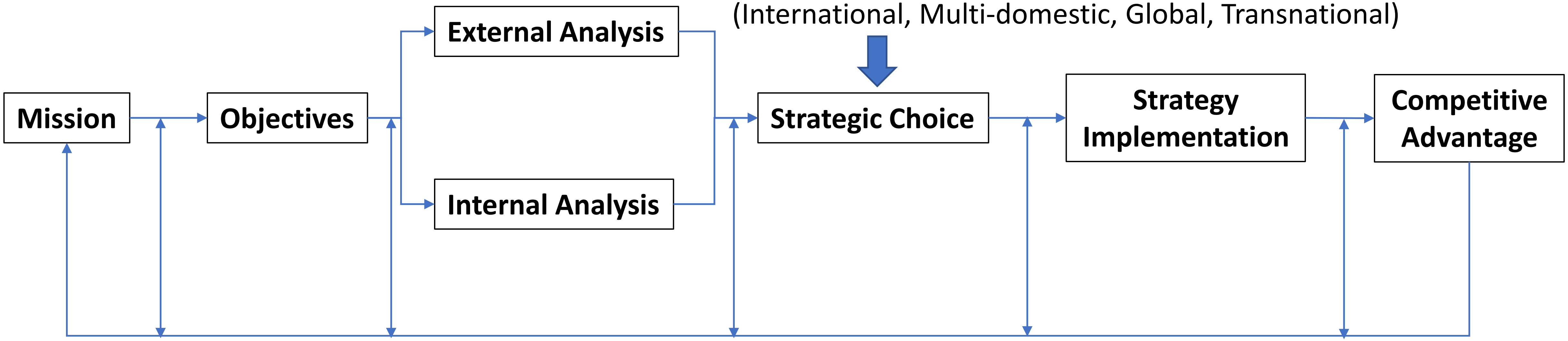


From Barney and Hesterly (2006)

Strategic management process

Given that a firm is equipped with a mission, objectives, and completed external and internal analyses, a firm is ready to formulate strategy for gaining competitive advantage.

What global strategy (AAA framework)
How (method) of going global (Internationalization theories: e.g. Uppsala, Network, Born Global)
Resulting firm types depending on International Strategies (International, Multi-domestic, Global, Transnational)

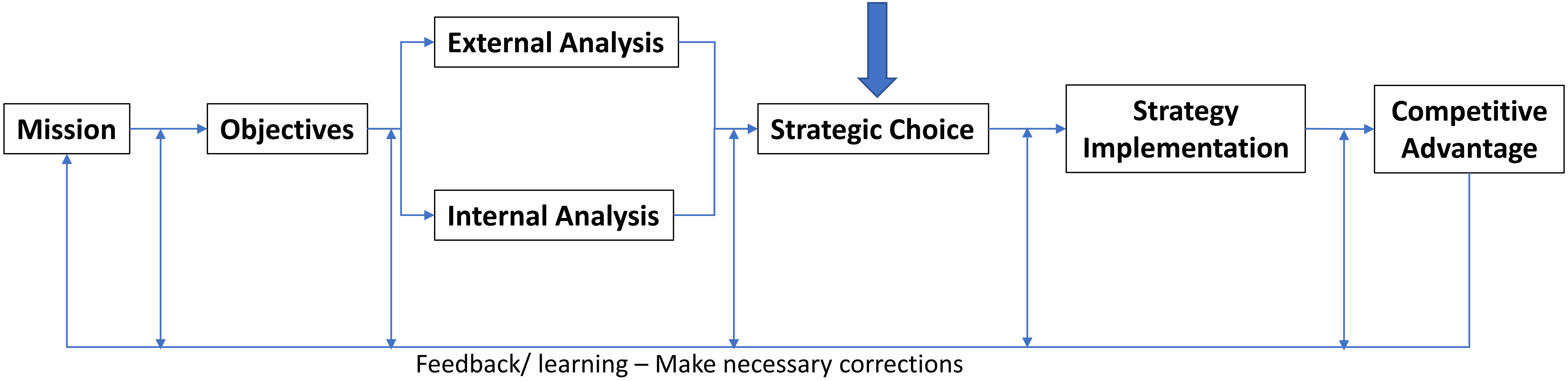


Feedback/ learning – Make necessary corrections

From Barney and Hesterly (2006)

Strategic management process

Corporate-level strategy (corporate strategy)
How a firm creates value through the configuration and coordination of its multimarket (global and local) activities.
Expansion strategies: Integration, Diversification, Cooperation

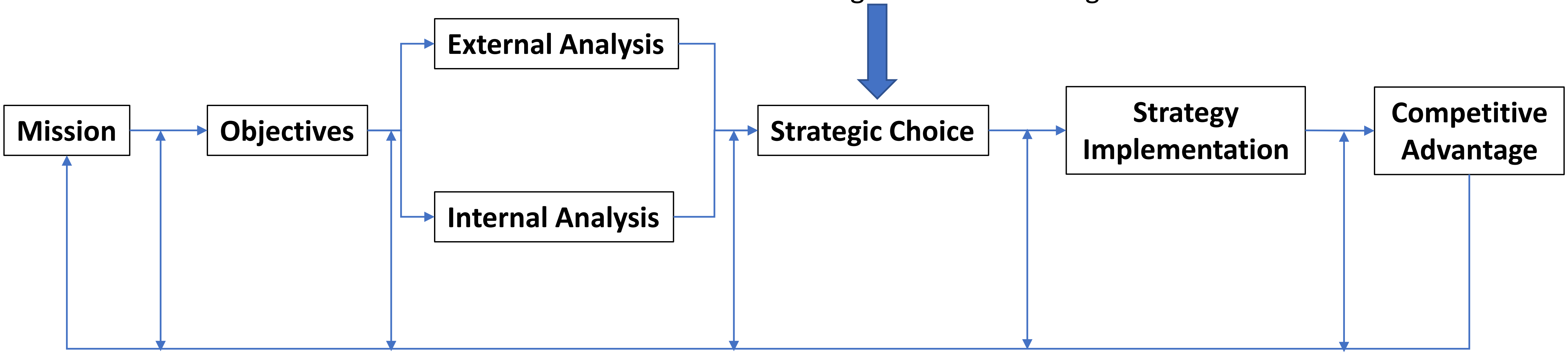


From Barney and Hesterly (2006)

Strategic management process

Why Do Firms Differ?

- Differences on the way of decision – making.
- Differences on organizations learning

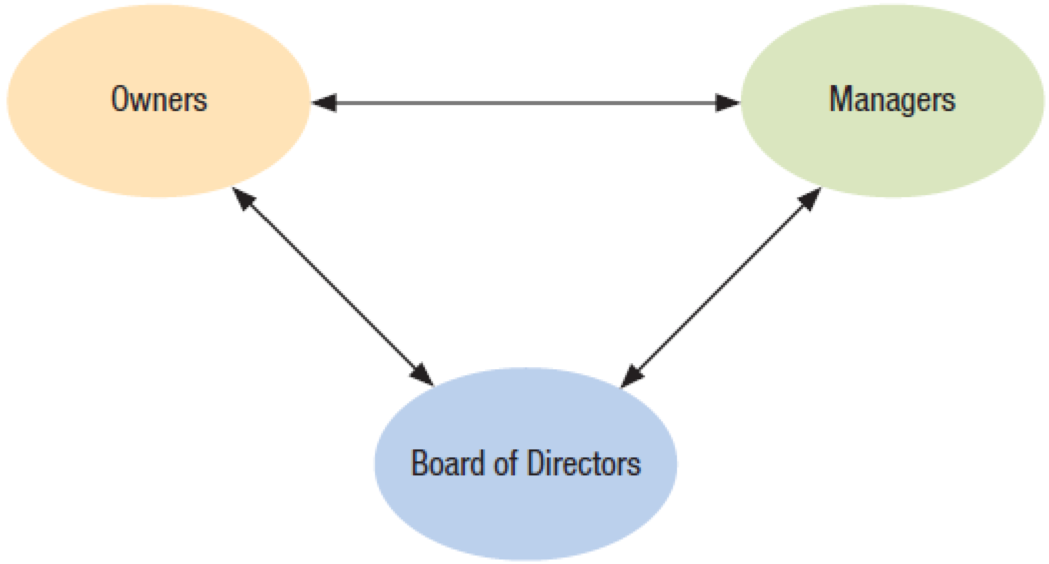


Feedback/ learning – Make necessary corrections

From Barney and Hesterly (2006)

Corporate Governance

- Is the set of mechanisms used to manage the relationships among key stakeholders and to determine and control the strategic direction and performance of firms.
- Corporate governance is concerned with identifying ways to ensure that decisions (especially strategic decisions) are made effectively and that they facilitate a firm's efforts to achieve strategic competitiveness.



From Peng (2014)

Owners

- Owners provide capital, bear risks, and own the firm
- Concentrated ownership
  - Ownership and control rights concentrated in the hands of owners.
- Diffused ownership
  - An ownership pattern involving numerous small shareholders, none of whom has a dominant level of control.
- Founders usually start firms and completely own and control these enterprises
  - If the firm aspires to grow and needs more capital, owners must accommodate other shareholders
- There is a separation of ownership (by dispersed shareholders) and day-to-day control (by managers)
- If majority or dominant owners (such as founders) do not personally run the firm, they are naturally interested in keeping a close eye on how the firm is run.
- Outside the Anglo-American world (US and UK), there is relatively little separation of ownership and control.
  - Most large firms are typically owned and controlled by families or the state

Owners

- Institutional investors
    - Financial institutions, such as mutual funds and pension funds, that control large-block shareholder positions.
    - Estimates of the amount of equity in U.S. firms held by institutional owners range from 60% to 75%
    - Have both incentives and resources to closely monitor and control managerial actions
    - The increased size of institutional holdings limits the ability of institutional investors to dump the stock
        - When one’s stake is large enough, selling out depresses the share price and harms the seller
- Family Ownership
    - A founding family maintains controlling interest, with firm control passed down to founder’s children
    - Advantages:
        - May provide better incentives for the firm to focus on long-term performance
        - Minimizes conflicts between owners and professional managers
    - Disadvantages:
        - May lead to the selection of less-qualified managers
        - Family conflicts can lead to destruction of value
        - Minority shareholders are discouraged to invest

Owners

- State Ownership
  - A means of production owned by the government, central or local, in which managers are employed by the state and firms governed by the state
  - Other than families, the state is a major owner of firms in many parts of the world
  - Beginning in the 1980s, state ownership was largely discredited, as one country after another—ranging from Britain to Brazil to Belarus—started to privatize their SOEs
  - Typically suffers from an incentive problem
  - In theory all citizens (including employees) are owners, but in practice, they have neither the rights to enjoy dividends generated from SOEs (as shareholders would) nor the rights to transfer or sell “their” property
  - SOEs staged a spectacular comeback recently
    - Represent approximately 10% of global GDP
    - Many are publicly listed and become hybrid organizations
    - Some have become more market-oriented, producing more competitive products and services

Managers

- Managers, especially executives on the top management team (TMT) led by the Chief Executive Officer, represent another important group of players in corporate governance.
- The TMT includes the officers of the corporation, defined by the title of vice president and above or by service as a member of the board of directors
  - The specific structure and composition of the team may vary depending on the company and industry.
- Top Management Team (TMT)
  - Chief Executive Officer (CEO) - The highest-ranking executive in an organization and is responsible for leading the company, making strategic decisions, managing stakeholders, and ensuring the firm’s financial sustainability.
  - Chief Financial Officer (CFO) - Responsibilities include financial planning, reporting, risk management, capital management, treasury management, tax management, and investor relations.
  - Chief Operating Officer(COO) - Overseeing the day-to-day operations of the company and ensuring that they are aligned with the company's strategic goals.
  - Chief Marketing Officer (CMO) - Responsible for developing and executing the company's marketing strategies and ensuring that the company's products and services are meeting customer needs.
  - Other top executives - Chief Technology Officer (CTO), Chief Information Officer (CIO), Chief Human Resources Officer (CHRO), General Counsel (oversees the firm's legal affairs)

Managers

- The interests of the shareholders and managers may not be always aligned.
- The relationship between shareholders and professional managers is a relationship between principals and agents
  - Principals are persons (such as shareholders) delegating authority
  - Agents are persons (such as managers) to whom authority is delegated
- Agency theory
  - To the extent that the interests of principals and agents do not completely overlap, there will inherently be principal-agent conflicts.
  - These conflicts result in agency costs
    - The principals' costs of monitoring and controlling the agents
    - The agents' costs of bonding (signalling their trustworthiness)
- When shareholders (principals) are interested in maximizing the long-term value of their stock, managers (agents) may be more interested in maximizing their own power, income, and perks (i.e. maximizing their own self-interest).

Managers

- Manifestations of agency problems include:
    - Excessive executive compensation (such as bonuses and stock grants, in addition to cash pay)
    - On-the-job consumption (such as corporate jets)
    - Low-risk short-term investments (such as maximizing current earnings while cutting long-term R&D)
    - Empire building (such as value-destroying acquisitions)
    - Excess CEO returns (CEO financial returns in excess of shareholder returns)
- In 1980, the average US CEO earned approximately 40 times what the average worker earned. Nowadays, the ratio is approximately 150 times.
- The primary reason agency problems persist is because of information asymmetries between principals and agents
    - Information asymmetry: Asymmetric distribution of information between two sides.
    - Managers (agents) almost always know more about the property they manage than shareholders (principals) do.
    - While it is possible to reduce information asymmetries through governance mechanisms, it is not realistic to completely eliminate agency problems.

Board of Directors

- The Board of Directors is a group of individuals elected or appointed by the shareholders of a company to monitor and advice the management of the company.
  - The board is responsible for making major corporate decisions, determining the overall strategy and direction of the company, and providing guidance to the executive team.
- Board composition
  - Inside directors are top executives of the firm.
  - Outside (independent) directors are defined as non-management members of the board
  - The trend around the world is to introduce more outside directors because they are presumably more independent and can better safeguard shareholder interests

Leadership structure

- Chairman of the Board
  - Responsible for leading and overseeing the work of the board. This includes presiding over board meetings, setting the agenda, providing guidance and support to board members, representing the company to stakeholders, and ensuring compliance with regulations and best practices.

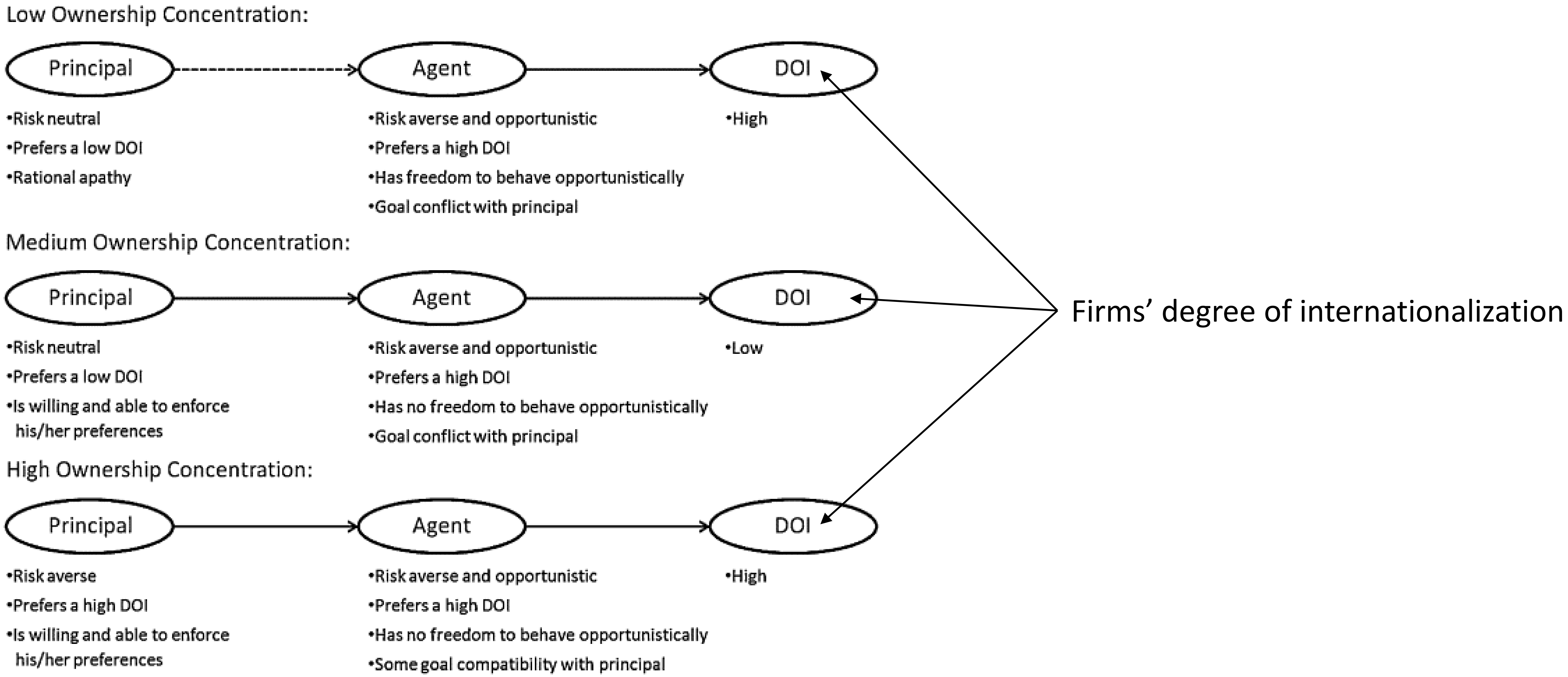
Board of Directors

- Leadership structure
  - The board can be led by a separate chairman or by the CEO who doubles as a chairman—a situation known as CEO duality
  - Advantages of CEO duality:
    - Strong, unified and unambiguous leadership (Anderson & Anthony, 1986; Stoeberl & Sherony, 1985)
    - Faster and greater effectiveness in decision-making
    - Reduced information costs between CEO and chairman
  - Disadvantages of CEO duality
    - Strong concentration of power and opportunism (Fama & Jensen, 1983)
    - Low standards of corporate governance due to ineffective monitoring
    - CEO entrenchment
  - Pressures have arisen for firms to split the two jobs to at least show that they are serious about controlling the CEO.
    - In 2002, 48% of the new CEOs around the world were also appointed as chair. In 2010, the percentage went down to 12%.
    - US firms typically favour CEO duality, S&P 500 firms practicing CEO duality fell from 78% in 2002 to 47% in 2019.

Board of Directors

- Board interlocks
  - Occur when one person affiliated with one firm sits on the board of another firm
  - Interlocking directorate has been created
    - Can share ideas and best practices, which can help to improve the overall performance of the companies
    - Associated with directors busyness, which may hinder board members from fulfilling their board functions effectively because it reduces the time available for giving advice and engaging in decision making (Fich & Shivdasani, 2006).
- The role of Boards of Directors
  - Advising on setting long-term strategic direction of the organization, including goals, objectives, and policies.
  - Monitoring the TMT
    - Responsible for hiring and evaluating the performance of the CEO and other senior executives.
    - Responsible to ensure that the firm has strong leadership and that the management team is capable of achieving the strategic goals set by the board.
    - Overseeing financial management
    - Risk management

Corporate governance of MNCs – Owners



From Oesterle, Richta and Fisch (2013)

Corporate governance of MNCs - Owners

- The owners' preferences regarding international diversification are a function of the size of their ownership stake
  - They are assumed to be risk-neutral and therefore to prefer a low degree of internationalization until they have invested a significant share of their wealth into a single firm. In this case, they become risk-averse and prefer some more international diversification for risk diversification reasons
- The presence of institutional investors has been identified as an important mechanism for reducing agency problems within MNCs
  - In U.S. firms with high level of institutional ownership, in particular, from pension funds and professional investment funds, are likely to pursue international diversification
    - Especially when boards are capable of monitoring and have incentives aligned with these owners' heterogeneous interests (Aguilera, Marano, & Haxhi, 2019)
- The impact of foreign investors on the managerial risk-taking and firms' internationalization efforts is mixed
  - Studies show empirical support for the existence of a positive relationship between foreign ownership and firms' exporting intensity (Filatotchev, Stephan, & Jindra 2008)
  - Others are unable to find any relationship between foreign ownership and firms' propensity to engage in FDI (Aguilera, Marano, & Haxhi, 2019)

Corporate governance of MNCs - Owners

- Family firms are less likely to internationalize via FDI or exporting than firms with other ownership structures
  - Preference for family members as managers who tend to be more risk averse and might lack an understanding of foreign markets
  - family-controlled firms might be hesitant about non-family co-investments due to their desire to keep family control
- State ownership has also been found to affect firms' degree and type of internationalization
  - State-owned enterprises may be less reluctant to invest in countries with weak rule of law, poor property rights protection and high corruption because they "can expect to be 'reimbursed' by the home state in cases of expropriation, or other types of negative outcomes, in unstable and risky institutional environments." (Knutsen, Rygh, & Hveem, 2011)
  - State ownership lowers firms' propensity to internationalize due to their managers' sensitivity to political considerations that favour preserving local employment opportunities and electorate support over profit maximization.
  - Find that state-owned enterprises' propensity to internationalize is shaped by their home countries' governance characteristics
    - State-owned enterprises internationalize more (less) than privately owned enterprises in coordinated (liberal) market economies. (Mariotti & Marzano, 2019)

Corporate governance of MNCs - TMT

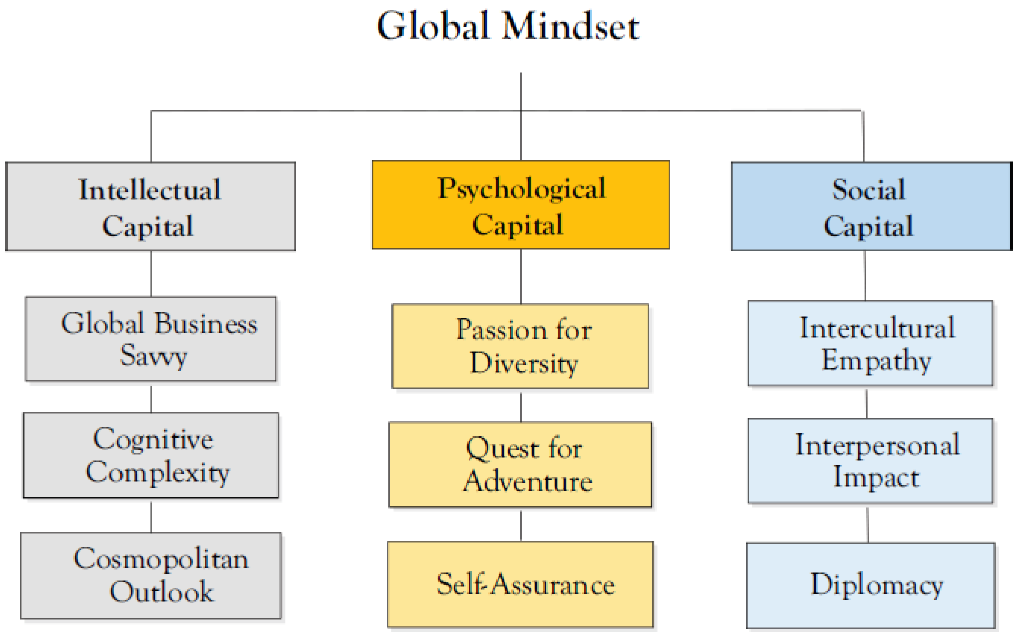
- CEOs' total compensation level is positively related to their respective firms' level of international expansion (Lin & Cheng, 2013).
  - A high level of compensation for executives not only can motivate them to handle the complexity of overseas operating units, but also can enable the firm to attract and retain experts with valuable experience in international operations.
- TMTs' total compensation level is positively related to their respective firms' level of international expansion (Lin & Cheng, 2013).
  - Disproportionate pay and gain are likely to lead to top executives' perceptions of inequity, which in turn may induce the executives to decrease their efforts in foreign expansion as a way of mitigating the perceived unfairness.
- The compensation-level gap between CEO and TMT is positively related to a firm's level of international expansion (Lin & Cheng, 2013).
  - Firms with smaller compensation gaps hardly motivate the desire of their TMT members to take over the CEO position and raise their compensation by engaging in risk taking
  - Such TMT members exhibit a passive attitude and a tendency to "play it safe," acting in a conservative manner. The compensation may be effective in encouraging the TMT members to pursue international expansion.

Corporate governance of MNCs - TMT

- Managers' willingness to increase their firms' international diversification would differ depending not only on the level of compensation they receive but also its form
  - Positive relationship between contingent pay (stock options and bonuses) and international diversification.
    - International diversification in general provides long-term opportunities for firms to extend their customer base, to acquire resources, or to hire talent for future growth.
    - Stock options may reduce the potential agency conflict between managers and shareholders with a long term interest in investing firms with higher international diversification (Tihanyi, Hoskisson, Johnson, & Wan, 2009).
  - Positive relationship between non-contingent pay (cash compensation) and international diversification.
    - Cash compensation provides a stable income stream to managers with little incentive for their higher efforts in identifying new opportunities (Tihanyi, Hoskisson, Johnson, & Wan, 2009).
    - Given the numerous challenges in the international environment, non-contingent pay may not provide appropriate incentives for managers to expand their businesses into foreign markets.

Corporate governance of MNCs - TMT

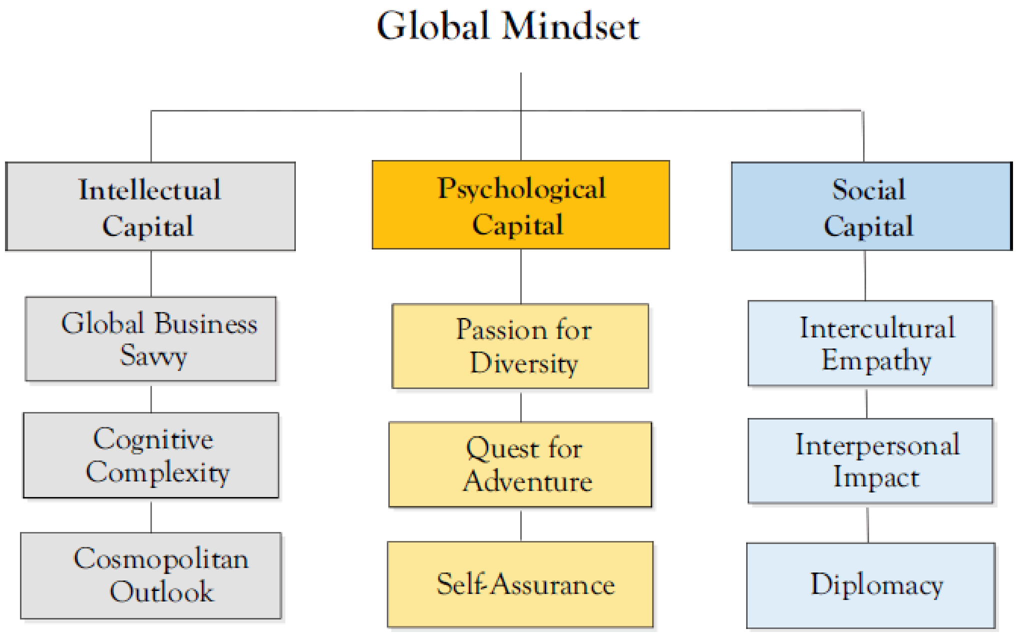
- TMTs' knowledge and experiences shape their strategic decision making
- Global mindset
  - The ability to avoid the simplicity of assuming all cultures are the same, and *at the same time*, not being paralyzed by the complexity of the differences
  - Has three main components:
    - Intellectual capital, which describes the ability to deal with global complexities.
    - Psychological capital defines the capacity and eagerness to deal with an unfamiliar situation.
    - Social capital assists in dealing with different cultures and situations requiring a high level of empathy.



From de Kluyver & Pearce Ii (2021)

Corporate governance of MNCs - TMT

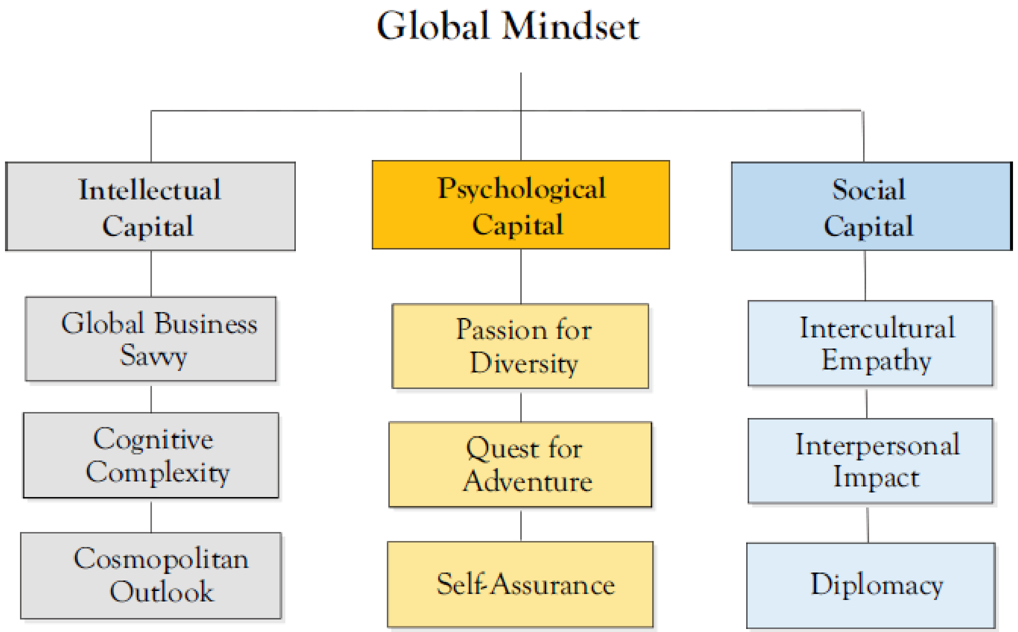
- Intellectual capital
  - It refers to how much and what the managers know about the global business in their industry and its broader macro environment, and how easy it is for them to analyse and interpret this information.
  - Global business understanding
    - Knowledge of the way business is conducted in different parts of the world:
      - Knowledge of global industry
      - Knowledge of global competitive business and marketing strategies
      - Knowledge of how to transact business and manage risk in other countries
      - Knowledge of supplier options in other parts of the world



From de Kluyver & Pearce Ii (2021)

Corporate governance of MNCs - TMT

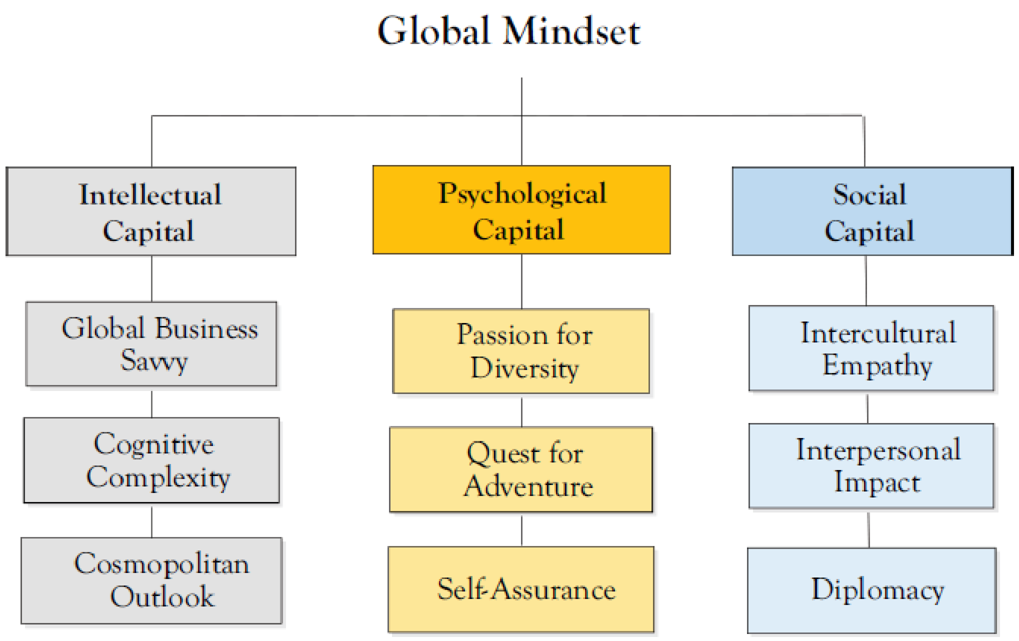
- Intellectual capital
  - Cognitive complexity
    - The manager's ability to interpret, and leverage the large amount of information embedded in global business savvy and cosmopolitan outlook.
      - Ability to grasp complex concepts quickly
      - Strong analytical and problem solving skills
      - Ability to understand abstract ideas
      - Ability to take complex issues and explain the main points simply and understandably
  - Cosmopolitan outlook
    - Understanding that things can be done very differently in different parts of the world.
      - Knowledge of cultures in different parts of the world
      - Knowledge of geography, history, and important persons of several countries
      - Knowledge of economic and political issues, concerns, hot topics, etc. of major regions of the world
      - Up-to-date knowledge of important world events



From de Kluyver & Pearce Ii (2021)

Corporate governance of MNCs - TMT

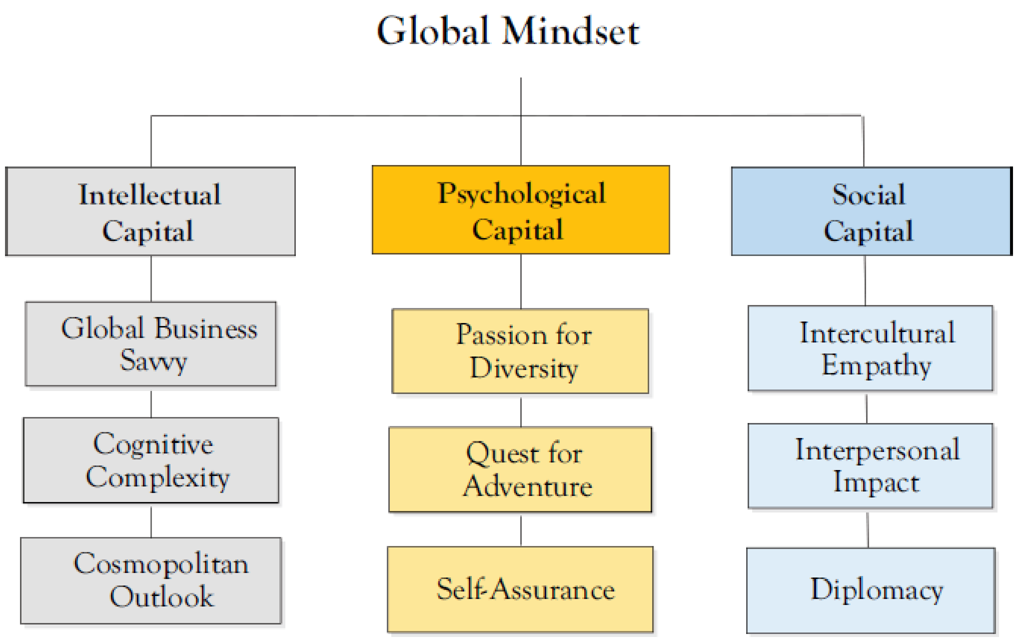
- Psychological capital
  - Refers to the manager's emotional energy and her willingness to engage in a global environment.
  - It reflects a positive and constructive attitude toward diversity of thought and action
  - Passion for diversity:
    - Curiosity about people in different parts of the world and how they do things differently. Joy in learning about and dealing with people from other countries and regions.
      - Interest in exploring other parts of the world
      - Interest in getting to know people from other parts of the world
      - Interest in living in another country
      - Interest in variety



From de Kluyver & Pearce Ii (2021)

Corporate governance of MNCs - TMT

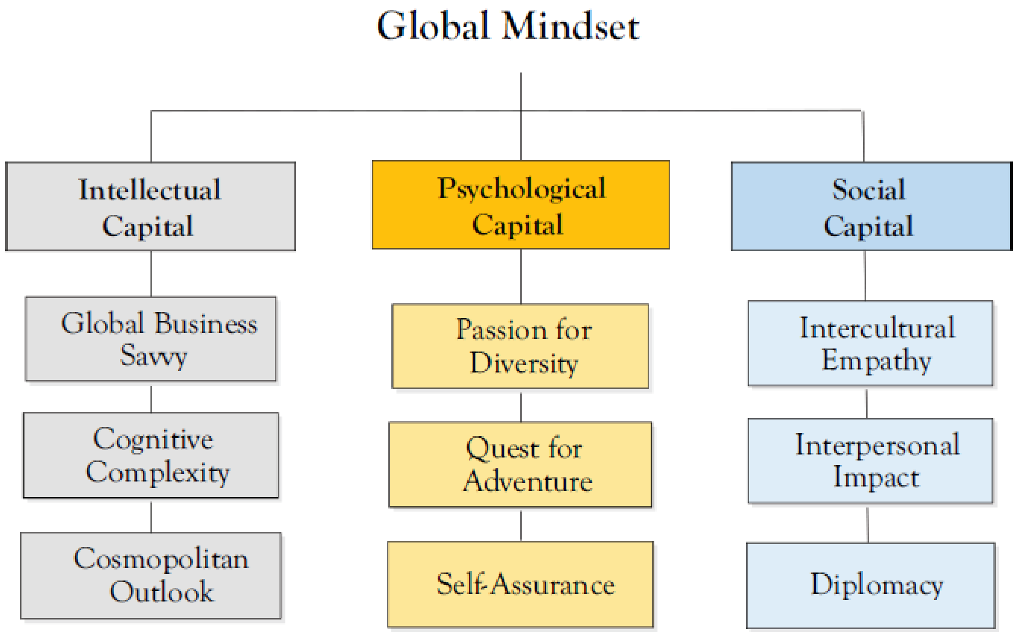
- Psychological capital
  - Quest for adventure
    - Engaging in a global role represents new and unfamiliar things.
    - Quest for adventure reflects the manager's willingness to deal with risks of unfamiliarity.
      - Interest in dealing with challenging situations
      - Willingness to take risk
      - Willingness to test one's abilities
      - Interest in dealing with unpredictable situations
  - Self-assurance
    - Having the energy and confidence to take on global roles and responsibilities.
      - Energetic
      - Self-confident
      - Comfortable in uncomfortable situations
      - Witty in tough situations



From de Kluyver & Pearce Ii (2021)

Corporate governance of MNCs - TMT

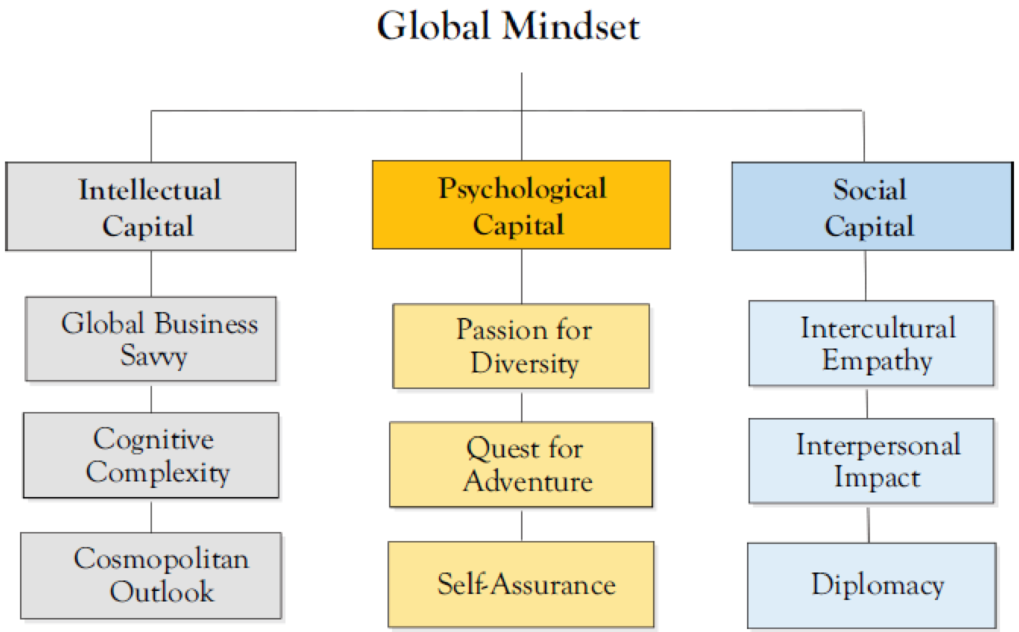
- Social capital
  - It reflects the individual's ability to act in a way that would help build trusting relationships with people from other parts of the world
  - Intercultural empathy
    - The ability to connect, communicate, and collaborate with people from other countries
      - Ability to work well with people from other parts of the world
      - Ability to understand nonverbal expressions of people from other cultures
      - Ability to emotionally connect to people from other cultures
      - Ability to engage people from other parts of the world to work together



From de Kluyver & Pearce Ii (2021)

Corporate governance of MNCs - TMT

- Social capital
  - Interpersonal impact
    - The ability to negotiate across borders and to build personal and professional networks of influence
      - Experience in negotiating contracts in other cultures
      - Strong networks with people from other cultures and with influential people
      - Reputation as a leader
      - Credibility
  - Diplomacy
    - The ability to make a positive impression on people from other parts of the world by acting in such a way that builds a lasting impression
      - Ease of starting a conversation with a stranger
      - Ability to integrate diverse perspectives
      - Ability to listen to what others have to say
      - Willingness to collaborate



From de Kluyver & Pearce Ii (2021)

Corporate governance of MNCs - TMT

- Firm/Managers Characteristics that are associated with finding Global Mindset (Javidan & Bowen, 2013):
  - Firm industry
    - Managers in the telecommunications industry have the highest average score on Global Mindset, and those in the manufacturing industry have the lowest average scores.
  - Organizational function
    - Managers in the communications, finance, and marketing groups had the top three scores on Global Mindset while those in administrative, IT, and manufacturing had the lowest scores.
  - Strong proficiency in more than one language
    - Managers who have high level of proficiency in other languages tend to have higher scores on Global Mindset
  - The number of countries one has lived
    - Longer lengths of stay result in even higher levels of Global Mindset but even living in other countries for 1—6 months will result in higher scores.
  - International graduate degree
    - A graduate degree in international management, international business, or international affairs have a higher average score on Global Mindset as well as the three capitals

Corporate governance of MNCs - TMT

- Firm/Managers Characteristics that are associated with finding Global Mindset (Javidan & Bowen, 2013):
  - Managers' age
    - In general, the higher the age, the higher the average overall scores as well as the scores for Intellectual and Social Capital.
    - Managers in the 30—50 year age group have the lowest score on Psychological Capital
      - They have the lowest average score on passion for diversity, quest for adventure, and self-assurance.
    - Managers in the 20—29 year age group have the highest score on quest for adventure but the lowest average score on global business savvy, cosmopolitan outlook, and cognitive complexity.
- Firm/Managers Characteristics that are *not* associated with finding Global Mindset (Javidan & Bowen, 2013):
  - Size of the corporation
    - Despite much bigger resources and potential global opportunities, managers working for larger corporations do not seem to have much of an advantage over those working in smaller companies.

Corporate governance of MNCs - TMT

- Firm/Managers Characteristics that are *not* associated with finding Global Mindset (Javidan & Bowen, 2013):
  - Gender
    - no significant difference among men and women in terms of the overall Global Mindset score.
    - However, women have higher average scores on Global Psychological Capital, passion for diversity, intercultural empathy, and self-assurance.
    - Men, on the other hand, have higher average scores on Global Intellectual Capital as well as global business savvy.
    - Men seem to have a higher cognitive profile while women have a higher psychological profile.
- The concept of a mindset does not just apply to individuals
  - It can be extended to organizations as the members' aggregated mindset.
  - At the organizational level, mindset also reflects whether its members interact mainly formally or informally and whether decision-making processes are hierarchical or informal.
  - The personal mindset of the CEO sometimes is the single most important factor in shaping the organization's mindset.
  - A organization's mindset determines how corporate challenges, opportunities, capabilities, and limitations are perceived.

Corporate governance of MNCs - TMT

- Other TMT characteristics that influence the formulation of global strategy (Tihanyi, Ellstrand, Daily, & Dalton, 2000)
  - International experience
    - International experience reinforces their understandings of “geographic markets, of modes of entry in these markets, and of methods of managing MNC activities throughout the world,” thus strengthening managerial ability to make good decisions with regards to the firm’s internationalization efforts.
  - Low average age
    - International expansion may be more attractive to younger, energetic managers willing to accept the risk associated with global expansion in exchange for the potential reward of career advancement
  - Long average tenure
    - Executives with longer tenure on the top management team may develop more accurate shared cognitive structures about new environments.
    - Longer tenure may provide the opportunity for team members to better assess firm capabilities suitable for international expansion.

Corporate governance of MNCs - TMT

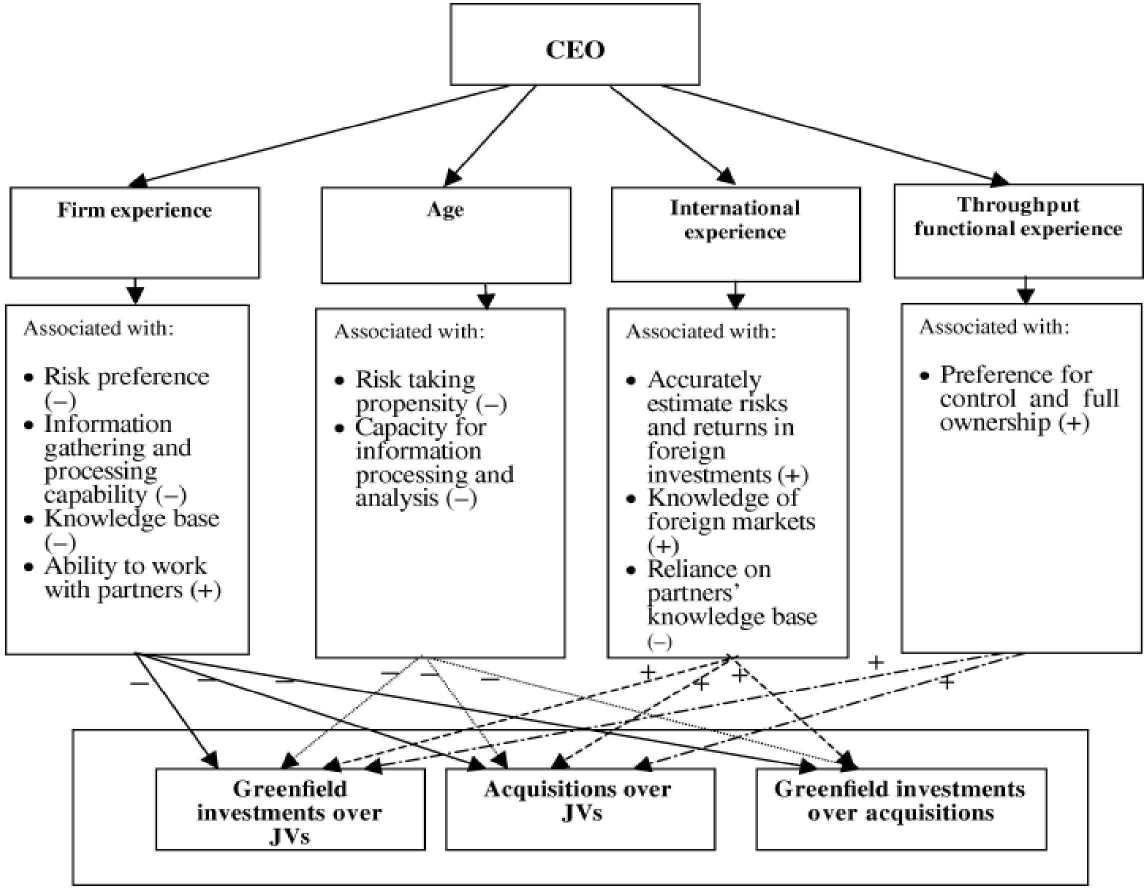
- Other TMT characteristics that influence the formulation of global strategy (Tihanyi et. al. 2000)
  - Elite education
    - Elite institutions may also provide students with unique international educational experiences and the opportunity to meet other elites from diverse international backgrounds.
    - Executives with an elite educational background may be more aware of international issues and may be more inclined to view international opportunities favourably
  - Team heterogeneity
    - Age diversity should encourage the exchange of a wide variety of viewpoints that can lead to greater acceptance of change.
      - This diversity of opinion might be particularly useful in the international arena where the environment is especially complex.
    - TMT composed of executives who have widely differing amounts of team tenure may possess a wealth of diverse beliefs based on both societal as well as organizational experiences
    - TMT with executives representing a broad and diverse educational base may be better equipped to deal with the wide range of relevant issues that must be considered.
    - TMT with a broader functional background will be better able to deal with environmental complexities
    - TMT with greater diversity of age, tenure, education or functional background may possess a more diverse set of values, experiences and beliefs.
      - Therefore may be better equipped to guide the firm into new foreign markets

Corporate governance of MNCs - CEO

- As the highest-ranking executive in an organization has the main responsibility for decisions regarding firm internationalization
- CEO’s characteristics such as the previously discussed for TMT are also associated with he firm's global strategy.
  - Global mindset, age, education, professional experience, international experience, tenure.
- CEO risk taking behaviour
  - The greater the risk propensity of a firm’s CEO, the greater the degree of that firm’s internationalization (Boustanifar, Zajac, & Zilja, 2022).
  - CEO overconfidence positively promotes the degree of firm’s internationalization (Lin, Li, & Olawoyin, 2020).

Corporate governance of MNCs - CEO

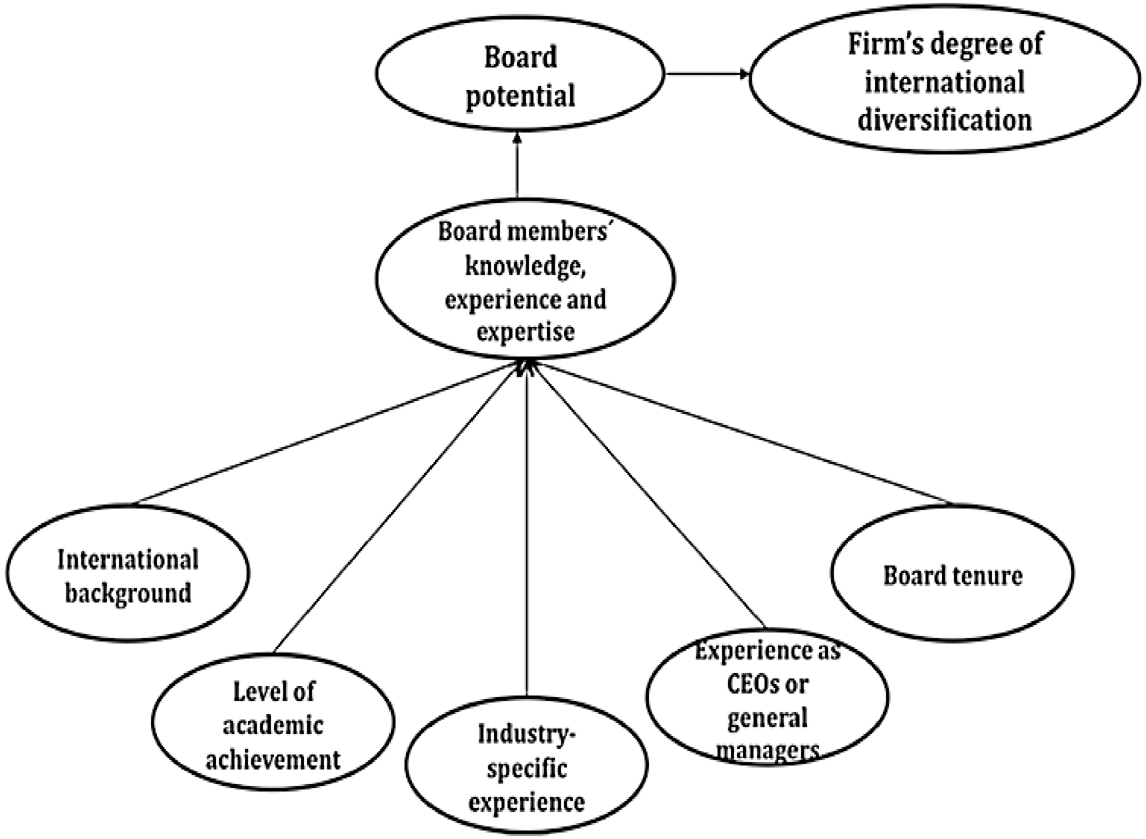
- CEOs characteristics also are found to influence choice of entry modes (Herrmann & Datta, 2006)
  - CEOs with greater international experience will favour:
    - acquisitions over joint ventures
    - greenfield investments over joint ventures
    - greenfield investments over acquisitions
  - CEOs with greater firm experience will favour:
    - joint ventures over acquisitions
    - joint ventures over greenfield investments over
  - Older CEO will favour:
    - joint ventures over greenfield investments
  - CEOs with dominant functional experience in production/operations, finance and accounting, information systems (throughput functional experience) will favour:
    - acquisitions over joint ventures
    - greenfield investments over acquisitions



From Herrmann and Datta (2006)

Corporate governance of MNCs - Boards of Directors

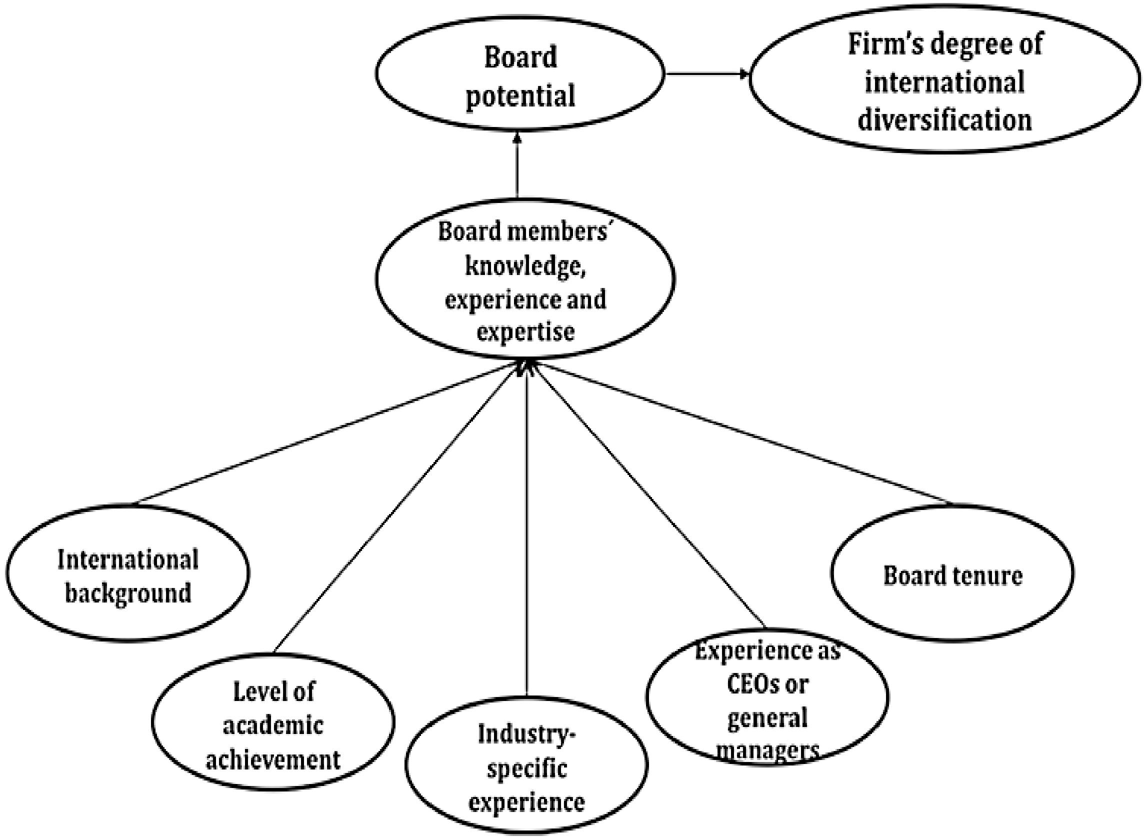
- Research shows that the board of directors plays a key strategic role within MNCs, which also extends to internationalization-related decisions (Aguilera & Jackson, 2010)
- Board composition (Barroso, Villegas, & Pérez-Calero, 2011):
  - The board members' level of knowledge, their experience and developed skills, help to define board's potential and is positively related to the firm's degree of international diversification.
  - Board members' firm tenure is negatively related to the firm's degree of international diversification
    - Long tenures are associated with a higher resistance to change i.e. reluctant to embrace new internationalization strategies.



From Barroso, Villegas and Pérez-Calero,(2011)

Corporate governance of MNCs - Boards of Directors

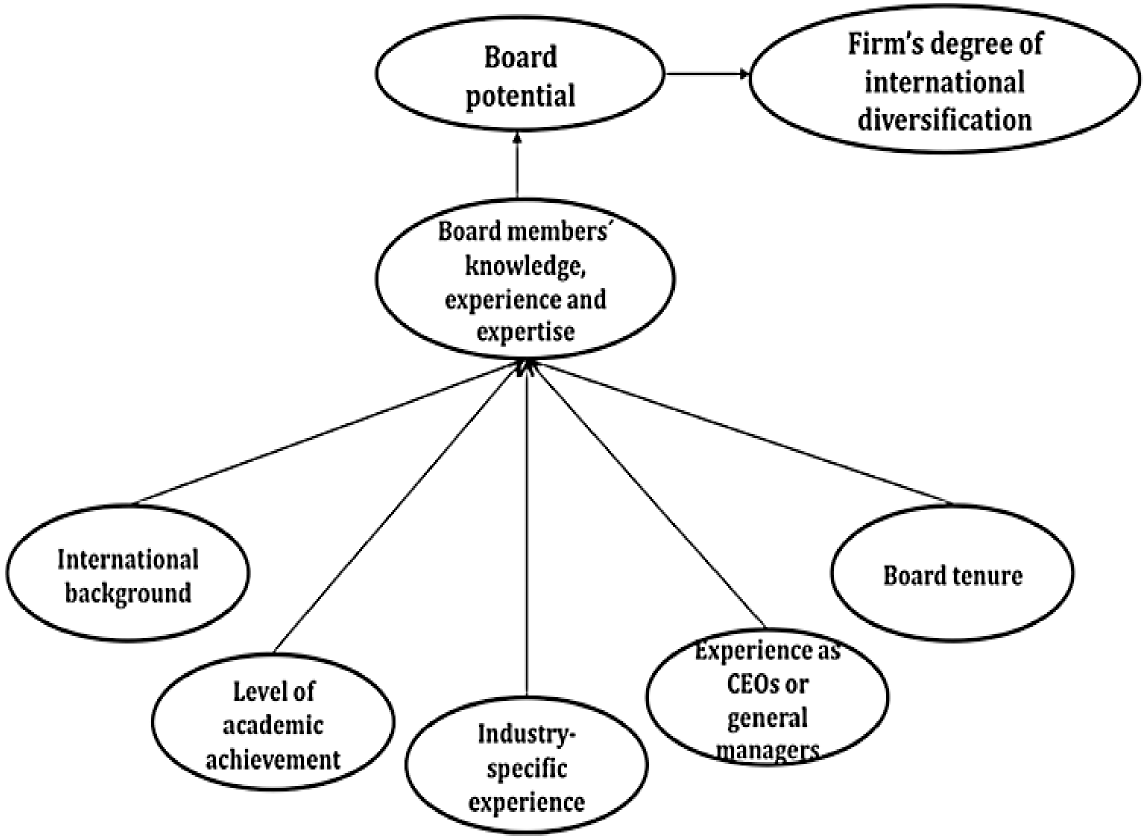
- Board composition (Barroso, Villegas, & Pérez-Calero, 2011):
  - Board members' experience in chief executive positions is positively related to the firm's degree of international diversification.
    - CEO experience in other firms enables them to bring inimitable knowledge, worldviews, and professional ties that give them a greater ability to manage the complex operations of a multinational company.
  - Board members' specific experience in the industry to which the firm's belongs is positively related to the firm's degree of international diversification.
    - Through positions in an industry, directors have developed goodwill and connections with industry players (supplers, distributors, major customer), through which directors can help the firm acquire critical resources for international growth strategies



From Barroso, Villegas and Pérez-Calero,(2011)

Corporate governance of MNCs - Boards of Directors

- Board composition (Barroso, Villegas, & Pérez-Calero, 2011):
  - Board members' international background (is positively related to the firm's degree of international diversification.
    - Board members with experience in international markets provide useful connections to existing institutions, companies, and networks in foreign markets.
    - Directors with a foreign education may be more aware of international issues and may be more inclined to look at international opportunities in a favourable way.
  - The board members' level of academic achievement is positively related to the firm's degree of international diversification.
    - Greater educational level is associated with receptivity to innovation and tolerance for ambiguity. fundamental aspects when board members deal with the firm internationalization.



From Barroso, Villegas and Pérez-Calero,(2011)

Corporate governance of MNCs - Boards of Directors

- Board Independence (Chen, 2011):
  - Boards with more independent directors may contribute to the strategic actions of firms by providing a broader range of expertise, information, and resources that enhance managerial capabilities in coping with uncertainty
  - Boards with more independent directors may increase top executives' capabilities in information search, analysis, and processing that consequently enable them to integrate multiple perspectives and develop more holistic alternative solutions ultimately leading to better planning of internationalization.
  - Positively moderates:
    - The relationship between TMT tenure and firm internationalization
    - The relationship between TMT age and firm internationalization
    - The relationship between TMT international experience and firm internationalization
      - *Improves the monitoring of TMTs*
      - *Provides an increased pool of expertise and resources that enable them to better understand organizational idiosyncrasies and international environments.*

Organizational learning

- Organizational learning is the process of building and transmitting knowledge within a firm.
  - The building of knowledge occurs through the collection of data that is analysed to gather information.
  - Information is then transferred and shared through communication among members of the organization.
  - Studies indicate that one of the main competitive advantages of MNEs rests on the ability to create and transfer knowledge internally (Luo, 2020).
- Experience influences learning, which in turn, affects future actions.
  - This is based on the assumptions that firms:
    - evolve as they accumulate experience
    - adjust reactions to similar problems
    - absorb feedback about past decisions
- The quality of learning depends on:
  - Degree of environmental diversity, which improves opportunities to learn, creating alternative opportunities for learning and capability building
  - Frequency of actions which influences familiarity with the antecedents, processes and outcomes
  - Information sharing within an organization.

Organizational learning

- Firms formulate their global strategies from what they have learned from observing others and from their own experiences relying on the logic of comparison (Brannen & Voisey, 2012).
- Modes of comparative learning for global strategy formulation (Brannen & Voisey, 2012):
  - Seeking best practice
    - The source of knowledge in this mode of comparative learning is external to the firm
    - E.g., Through continued interaction with and exposure to the foreign model the Japanese continued to adapt and improve organizational models borrowed from the West until they became distinctly 'Japanese' and among the most effective organizations of their kind in the world.
  - Surfacing universals
    - The intent here is to learn from the essential characteristics of firms by reducing complex sets of practices to their 'core' elements (i.e. core set of underlying universally applicable principles).
    - The source of knowledge in this mode of comparative learning is external to the firm
    - The learned, abstracted concepts offer flexibility in the way they are applied in formulating strategy for particular local contexts.

Organizational learning

- Modes of comparative learning for global strategy formulation (Brannen & Voisey, 2012):
  - Grounded strategizing
    - The generation of new knowledge that guides global strategy formulation is triggered by mismatches—unexpected outcomes—between earlier strategy formulation and implementation as the firm compares outcomes from implemented strategy in different contexts.
    - Unexpected outcomes lead to periods when managers engage in a process of reflection wherein they compare their formulated strategies with emergent implementation realities in local contexts
      - Managers search out and develop new theories that lead them to reformulate their firms' global strategies.
    - The changes brought about from implementing a new or revised strategy, in turn, alter the internal and external selection pressures on the firm as strategy meets cultural context.
      - This may result in further unexpected outcomes, triggering a new cycle of ongoing sensemaking and theorization, leading to ongoing revisions to global strategy.
    - May provide the most valuable source of learning for MNCs.
      - The empirical material is more accessible than other kinds of knowledge, such as of other firms' activities.
      - The knowledge developed seems likely to be more useful, since the within-MNC source of data effectively controls for parent, industry, and country of origin effects. This allows managers to develop better theories linking unanticipated variations to different cultural and country contexts.
      - The knowledge is likely to be more valuable as—unlike best practice or universals—it does not circulate widely in the environment and is not available to others except at high cost.

Assignment brief

- You are required to develop a *report* to critically answer the question: "*Why has General Motors (GM) failed in the Indian Market but succeeded in the Chinese Market?*".

Assignment Subsections	Words (indicative)	The report should include, but is not limited to:
Corporate Governance Characteristics - (15 marks)	300	Critical discussion of the differences of TMT of GM compared to the TMT of competitors that have succeeded in the Indian Market

- For this section you can find information about the TMT of firms from **BoardEx** (Recommended) or Bloomberg
  - **This week seminars will be on how to retrieve information on executives from BoardEx**.
  - Details on accessing Boardex are on Canvas in the Module Information section
- In here you are expected to compared TMT characteristics (that you consider relevant - 4 – 5 should be enough) of GM and the key competitors in Indian Market.
  - **Strongly suggest to include** analytic tables of the characteristics in the Appendix
  - Suggest to use the parent companies instead of the subsidiaries (where applicable)
  - Make sure that you provide a definition of which executives are included in the TMT (This can also be in the Appendix).
- Are those differences in TMT characteristics in line with the literature and/or the GM's failure in Indian Market can be attributed to theses characteristics? Discuss.

MKIB 351: Global Strategic Management

Thank You!