UNIVERSITY OF LIVERPOOL

MKIB 351: Global Strategic Management

Lecture 7 - Corporate-level strategies – Part 3

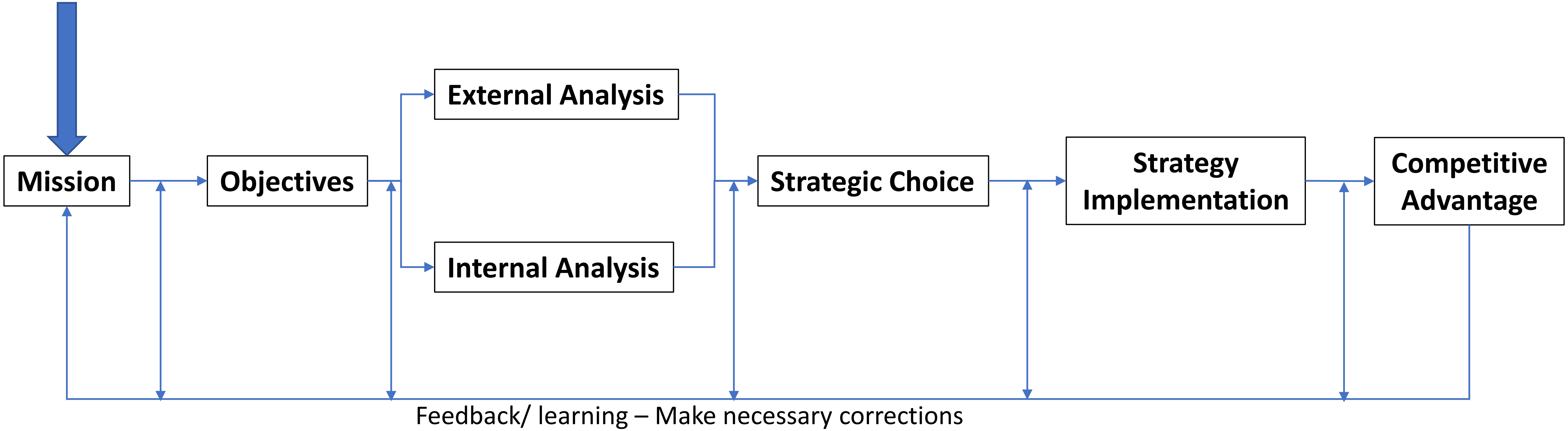
Dr Andreas Procopiou

Agenda

- Corporate, business unit and global strategy
- Linking corporate and global strategy
- Strategic Flexibility
  - Triggers of strategic flexibility
  - Enablers of strategic flexibility
  - Barriers to strategic flexibility
  - Outcomes of strategic flexibility
- De-internationalization
  - Determinants of de-internationalization
  - Performance consequences of de-internationalization
  - Re-internationalization

Strategic management process

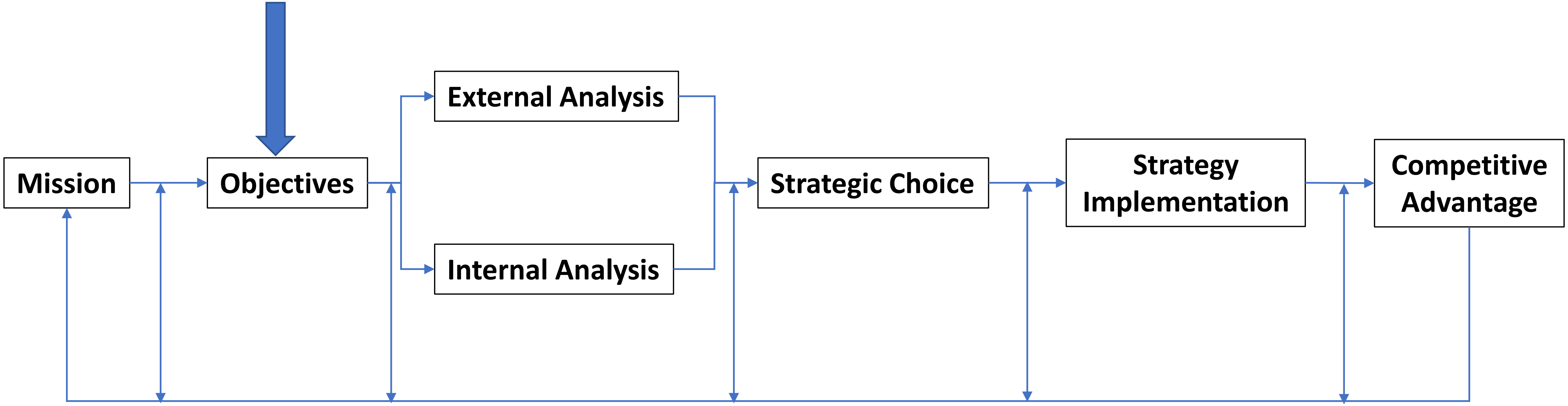
The strategic management process begins when a firm defines its mission.



From Barney and Hesterly (2006)

Strategic management process

Objectives are based on firm's mission

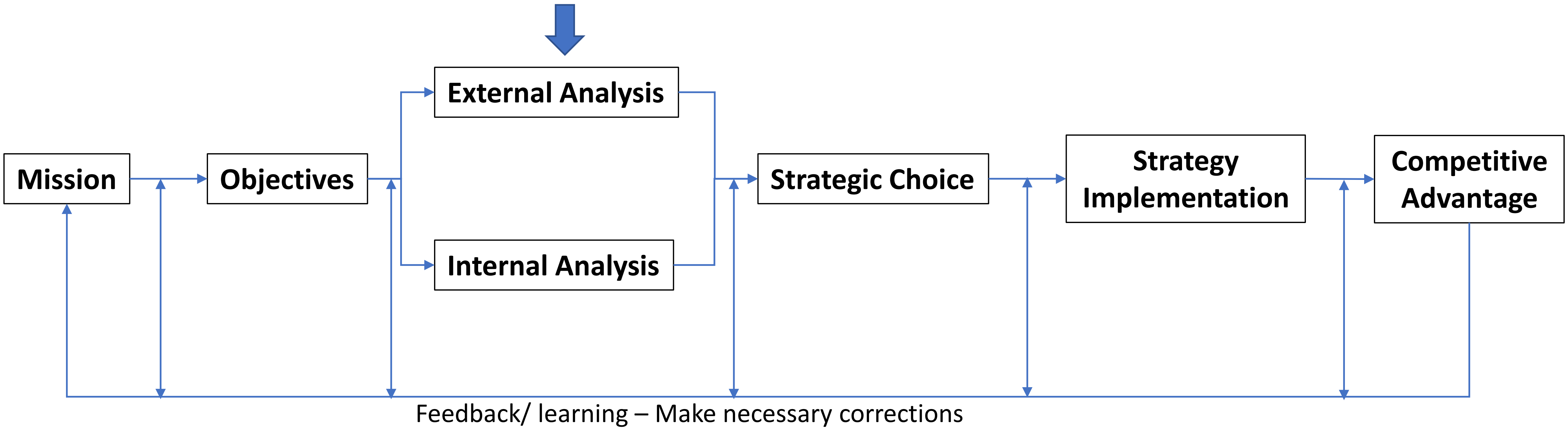


Feedback/ learning – Make necessary corrections

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.

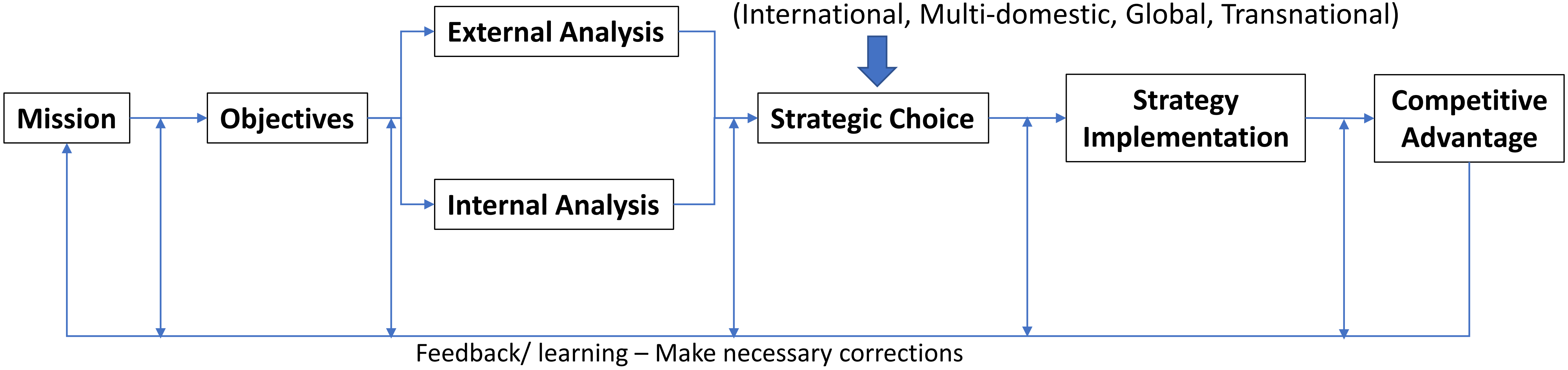


From Barney and Hesterly (2006)

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.

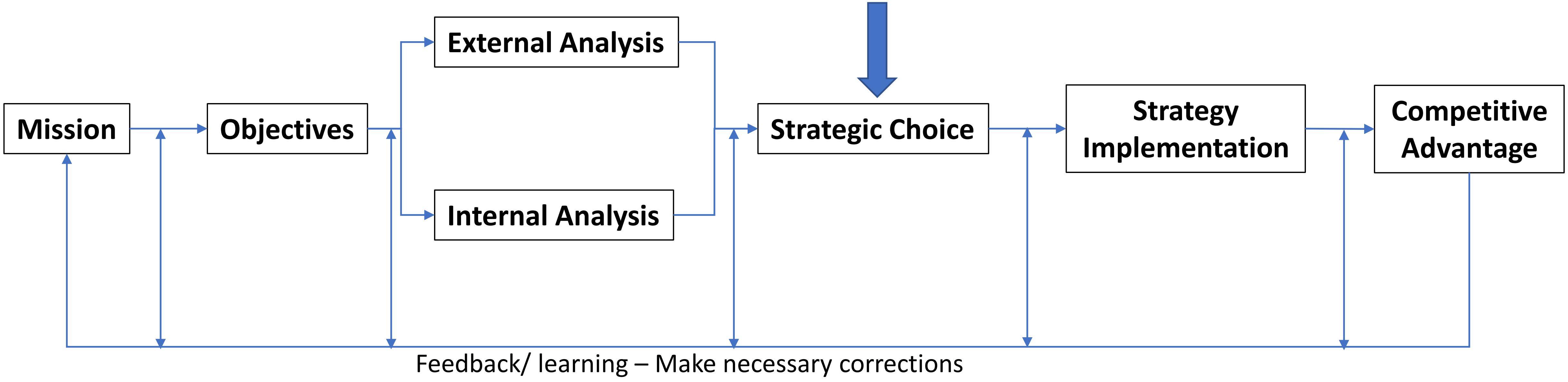
What global strategy (AAA framework)
How (method) of going global (Internationalization theories: e.g. Uppsala, Network, Born Global)
Resulting firm types depending on International Strategies (International, Multi-domestic, Global, Transnational)



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)

Corporate, business unit and global strategy

- *Corporate strategy* is about determining in what businesses a company should be engaged.
  - Defines the direction the firm is taking and the role each business unit will play in pursuing that direction.
- *Business unit strategy* (for non single-product/region firms) seeks to determine how a firm should compete in each of its businesses or regions worldwide.
  - Each business unit or region may have its strategy that defines the products or services it will offer and the customers it wants to reach.
- At the corporate level, global strategy focus on the following key questions:
  1. Identifying where to expand internationally and why
     - Depends on:
       - Firm's Environments (External and internal)
       - Objectives of the firm
       - Arbitrage opportunities
       - Geographic diversification

Corporate, business unit and global strategy

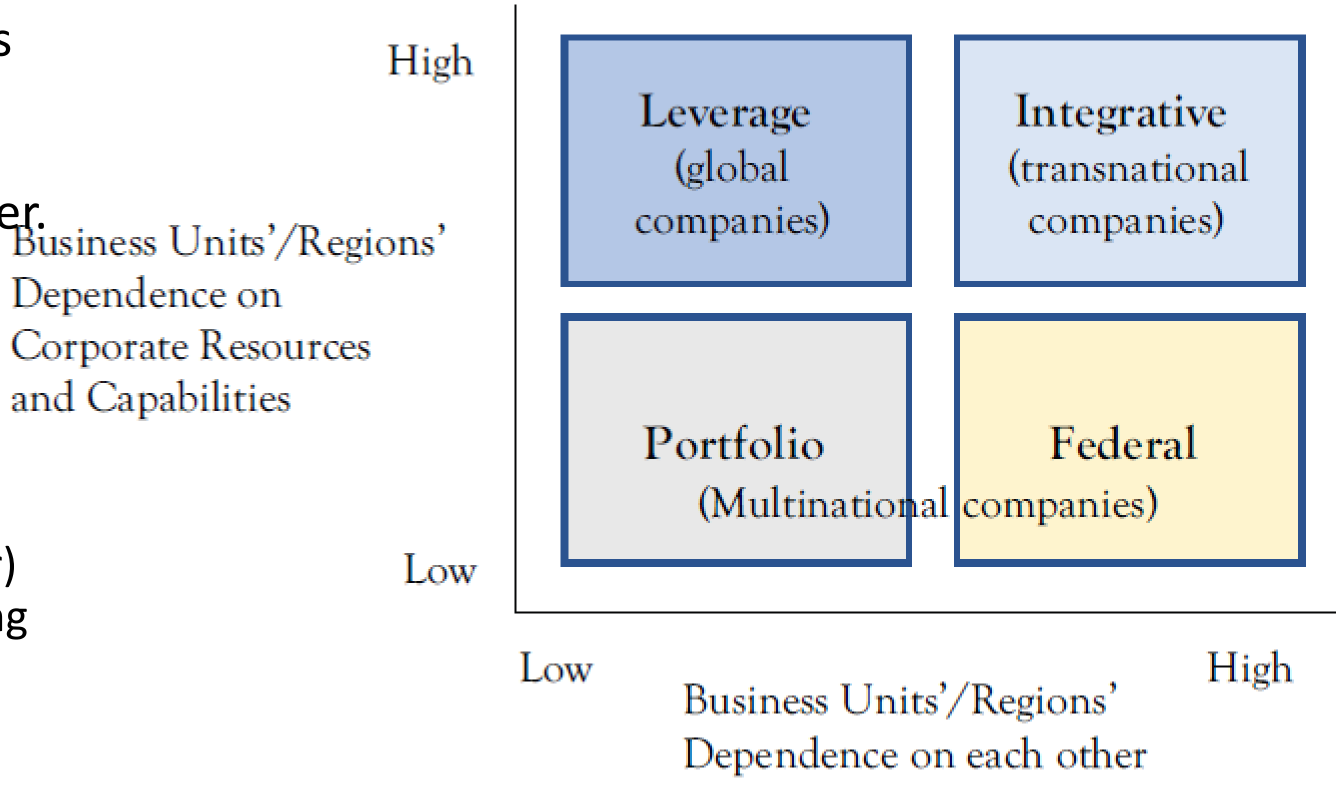
- At the corporate level, global strategy focus on the following key questions:
  2. Deciding what products and services to offer
     - Depends on:
       - The degree to which products and processes are standardized across geographic boundaries and on harmonizing business unit or regional strategies into a more homogeneous format
       - Integration
       - Product diversification
  3. Selecting the best method and timing of entry into a new foreign market.
     - Export, strategic alliance (Equity/ Nonequity alliance), M&A, greenfield
     - Decision time to enter will depend on:
       - How fast market growth is anticipated
       - The relative presence of competitors in the market
       - The attractiveness of the host country
       - The level of risk
     - A country with significant growth prospects and a low-risk environment is more likely to attract foreign firms to enter early.

Corporate, business unit and global strategy

- At the corporate level, the objectives of global strategy development include reducing the complexity of managing diverse markets and achieving an appropriate balance between local responsiveness and economies of scale.
  - International and global strategies emphasize economies of scale.
  - Multidomestic strategies emphasize local responsiveness.
  - A transnational strategy tries to do both.
    - exploit economies of scale in one part of the value chain, say research and development (R&D) or sourcing, while using adaptation in another, such as product design or marketing
- At the business unit or regional level, global strategy is focused on creating a strategy for each business unit or country in which the firm operates.
  - Global strategy must be sensitive to the national context and be responsive to the local competitive landscape.
  - When a company operates in several countries, the complexity of handling too many national strategies will lead the firm to introduce a more harmonized global approach.

Linking corporate and global strategy

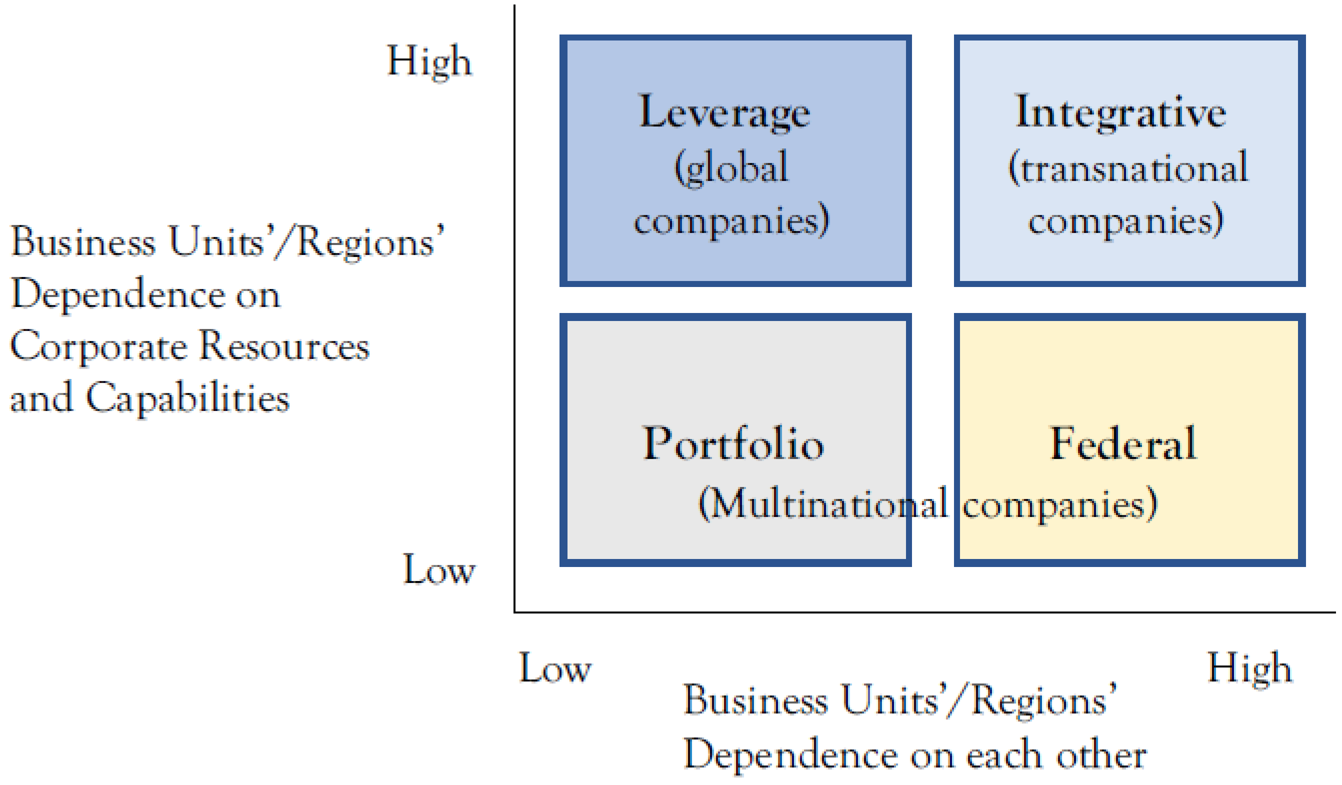
- The degree at which the global strategic decision are taken on corporate or business unit level depends on linkage between corporate and business units and the dependence of business units on each other.
- The matrix shows four distinct logics underlying corporate strategy
- Horizonal Axis: The Business Unit/Region Dependence on each other
    - Represents how dependent (on each other) the business units or regions are on creating and capturing value.
- The vertical axis: The Corporate/Business Unit/Region Linkage
    - Shows the dependence of business units or regions on corporate resources and capabilities to capture or create value.



From de Kluyver & Pearce Ii (2021)

Linking corporate and global strategy

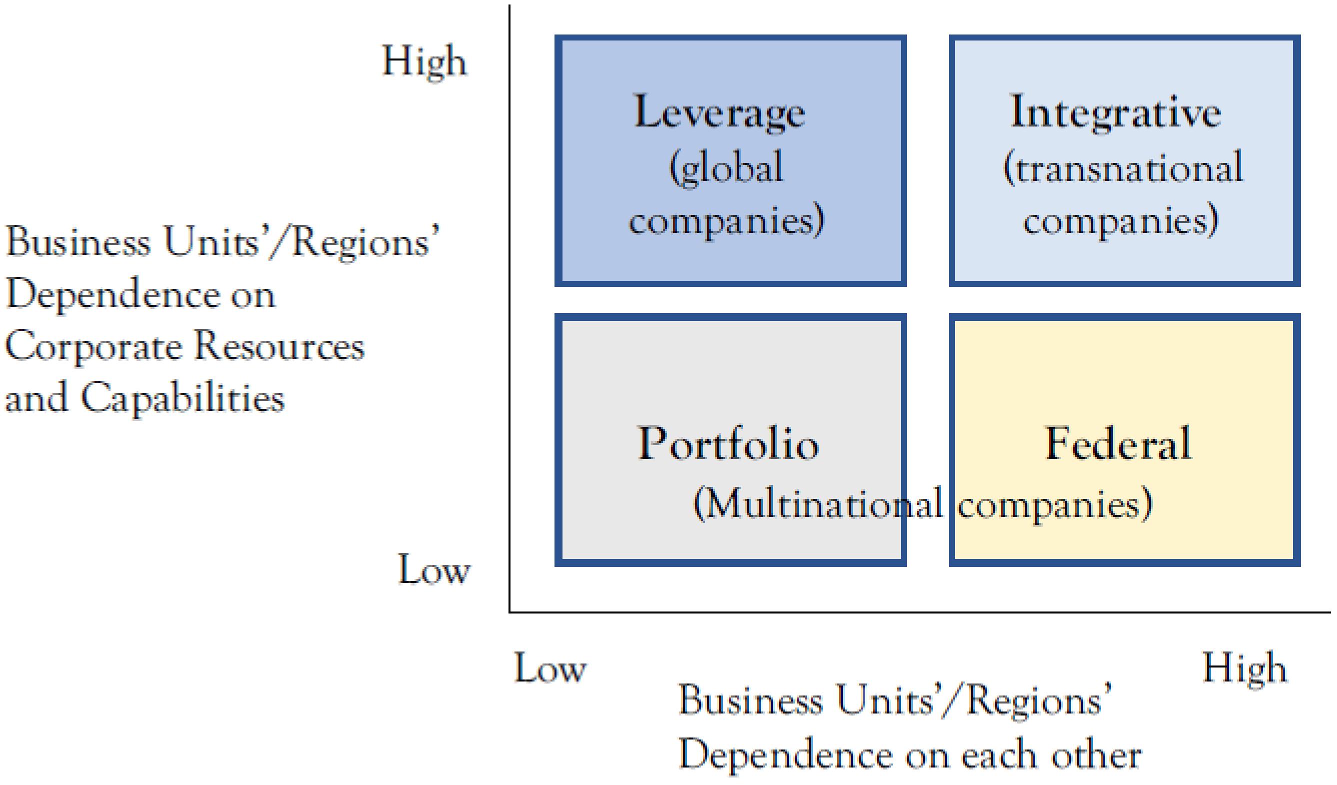
- Portfolio logic
  - A portfolio logic is used by *multidomestic* companies and applicable when business units or regions can operate independently of corporate and each other. Under a portfolio logic:
    - The role of corporate strategy is to decide which businesses or regions to enter or exit and how to allocate corporate resources.
    - Business units or countries or regions have considerable latitude in formulating their business strategy, that is, business units or regions are the primary decision makers about where and how to expand and to what extent to use adaptation, aggregation, and arbitrage principles.
  - Unilever provides a good example of a company operating this way.



From de Kluyver & Pearce Ii (2021)

Linking corporate and global strategy

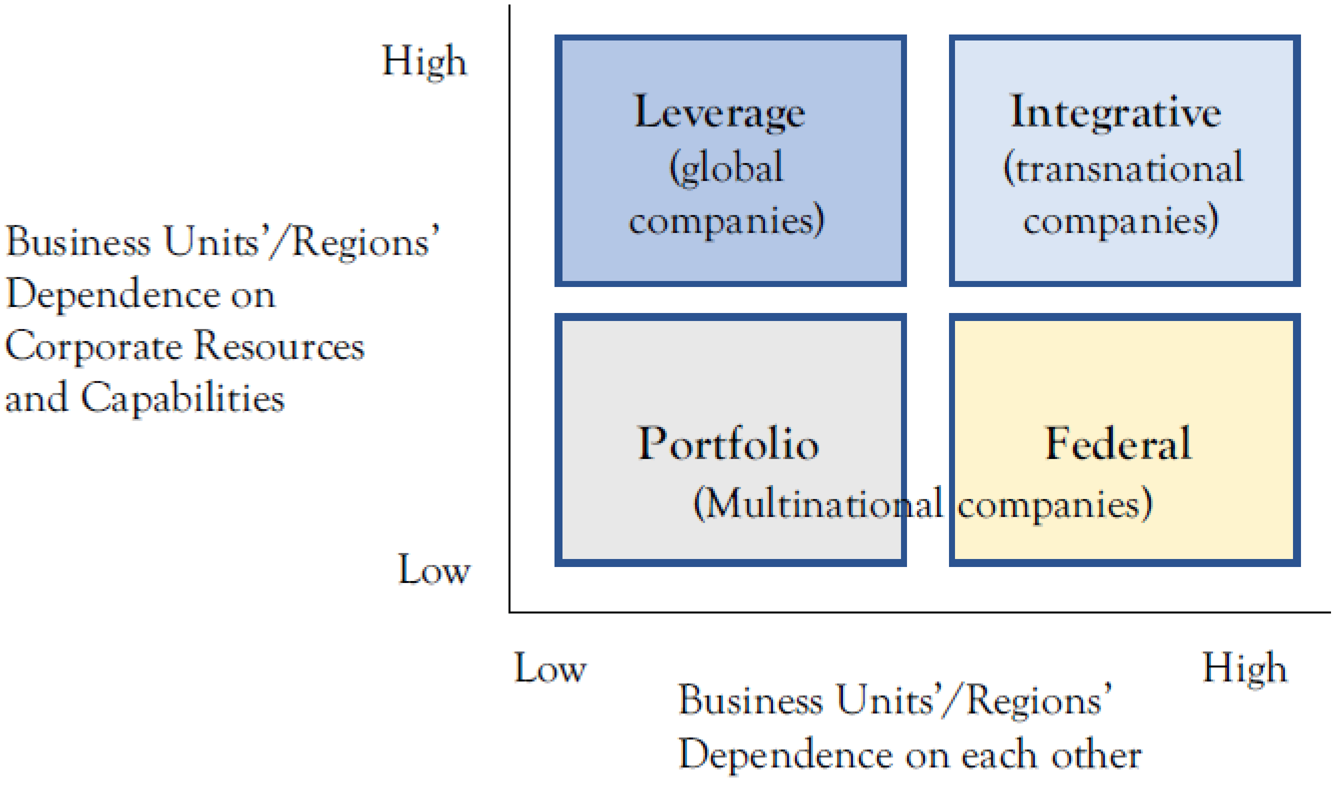
- Leverage logic
  - A leverage logic is used by *global* companies whose business units or regions rely heavily on the corporate brand, a core technology, or other common expertise. With this logic:
    - Corporate decides how to develop and leverage corporate resources and competencies and where to expand.
    - Business units or regions do not formulate standalone strategies because centrally applied aggregation and arbitrage principles are deemed more important than local adaptation decisions to competitive success.
  - Microsoft is a company that uses a leverage corporate strategy.



From de Kluyver & Pearce Ii (2021)

Linking corporate and global strategy

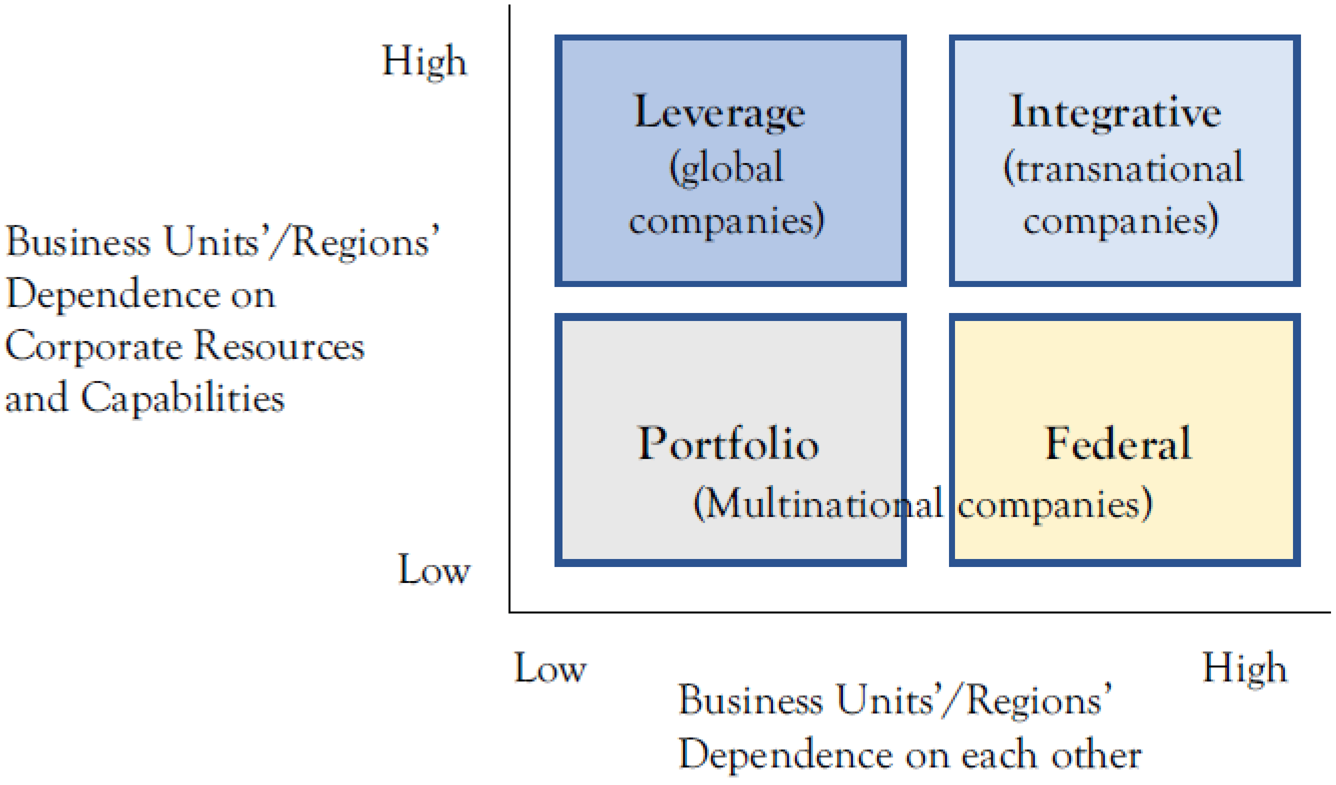
- Federal logic:
    - A federal logic defines a loose configuration of business units or regions that share business leads and best practices but do not rely on a corporate parent's resources or capabilities. Sometimes found in multidomestic portfolio investment companies, under this logic:
        - No explicit corporate strategy is visible. The primary function of corporate is to coordinate and consolidate and report results.
        - Business units or regions develop standalone business strategies and work together to share business leads and resources where appropriate.
    - Berkshire Hathaway provides an example of a federal corporate strategy.



From de Kluyver & Pearce Ii (2021)

Linking corporate and global strategy

- Integrative logic
  - An integrative logic is used by *transnational* companies and applicable when business units or regions rely heavily on each other and corporate resources and competitive success capabilities. Under an integrative corporate strategy:
    - Key global strategy decisions such as which businesses or regions to enter, how resources are developed and allocated, and how business units or regions should work together are made centrally
    - Business unit or regional strategy is about supporting the corporate strategy.
  - IBM is an examples of companies that use an integrative corporate strategy.



From de Kluyver & Pearce Ii (2021)

Linking corporate and global strategy

- The questions in these charts can help to crystallize the underlying logic that drives a corporate strategy.

CORPORATE-BUSINESS UNIT LINKAGE: UNITS' DEPENDENCE ON CORPORATE RESOURCES AND CAPABILITIES	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Corporate brands, technology, and other resources allow our units to charge a price premium relative to competitors.	1	2	3	4	5
Corporate economies of scale, bulk purchasing, operational expertise, or other factors give our business units a significant cost advantage relative to competitors.	1	2	3	4	5
Corporate resources or capabilities are hard to imitate and protect us from rivals and new entrants.	1	2	3	4	5
Switching from corporate services (for example, legal, human resources, or accounting) to outside vendors would dramatically hurt the performance of business units.	1	2	3	4	5
Our business units could not compete as stand-alone businesses without corporate support.	1	2	3	4	5
	Average score:				

From Sull, Turconi, Sull, and Yoder (2018)

Linking corporate and global strategy

BUSINESS UNIT-BUSINESS UNIT LINKAGE: UNITS' DEPENDENCE ON ONE ANOTHER	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Our business units need to coordinate with one another to serve the same customers.	1	2	3	4	5
Our business units offer complementary products or services.	1	2	3	4	5
Our company sells integrated solutions that draw on different parts of the business.	1	2	3	4	5
Our company needs to provide a unified customer experience across different parts of the business.	1	2	3	4	5
Our business units need to share knowledge, expertise, or technology to compete effectively.	1	2	3	4	5
	Average score:				

From Sull, Turconi, Sull, and Yoder (2018)

Linking corporate and global strategy

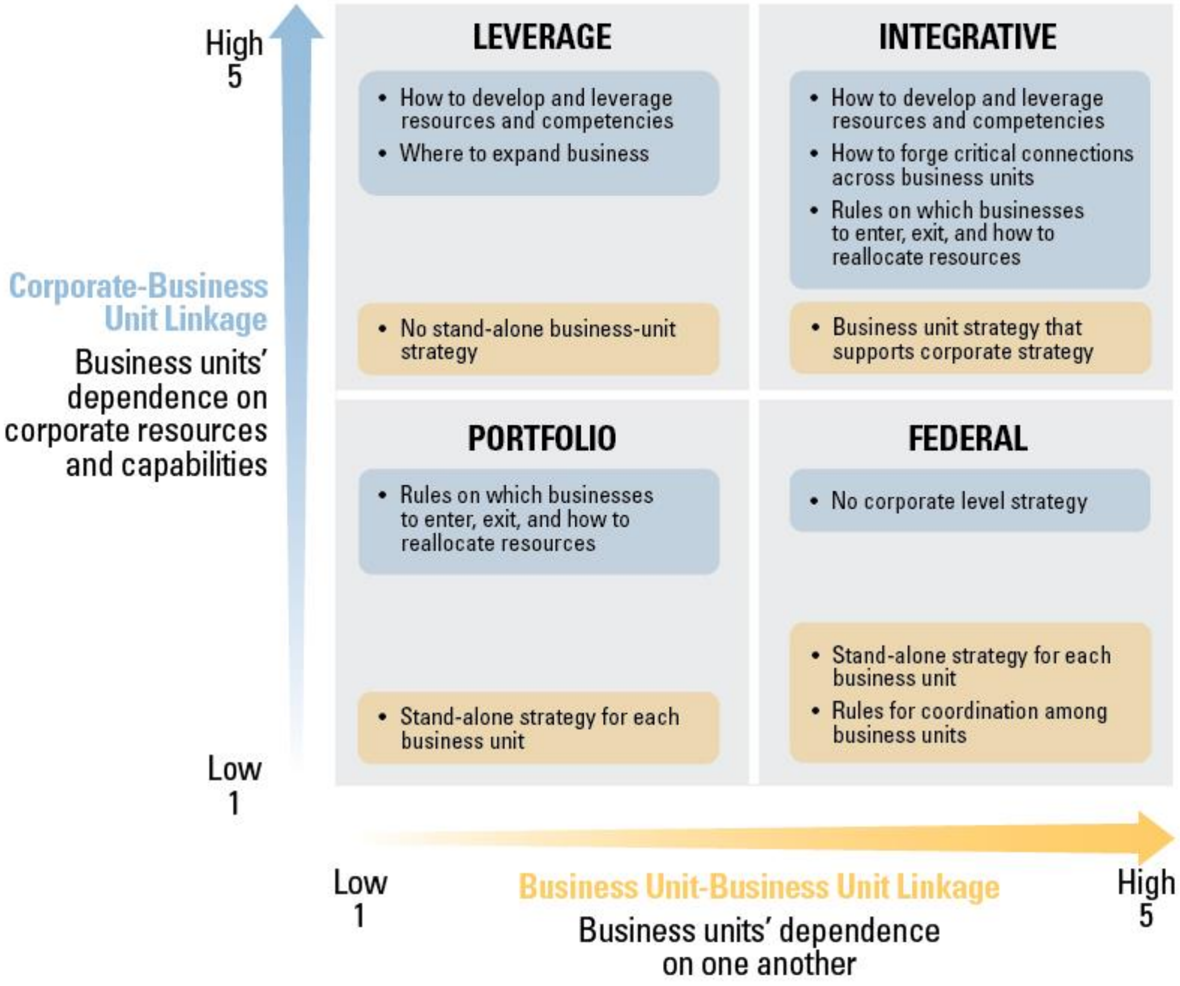
- Let's answer these questions for Apple Inc.

CORPORATE-BUSINESS UNIT LINKAGE: UNITS' DEPENDENCE ON CORPORATE RESOURCES AND CAPABILITIES	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Corporate brands, technology, and other resources allow our units to charge a price premium relative to competitors.	1	2	3	4	5
Corporate economies of scale, bulk purchasing, operational expertise, or other factors give our business units a significant cost advantage relative to competitors.	1	2	3	4	5
Corporate resources or capabilities are hard to imitate and protect us from rivals and new entrants.	1	2	3	4	5
Switching from corporate services (for example, legal, human resources, or accounting) to outside vendors would dramatically hurt the performance of business units.	1	2	3	4	5
Our business units could not compete as stand-alone businesses without corporate support.	1	2	3	4	5
From Sull, Turconi, Sull, and Yoder (2018)	Average score: 4.4				

Linking corporate and global strategy

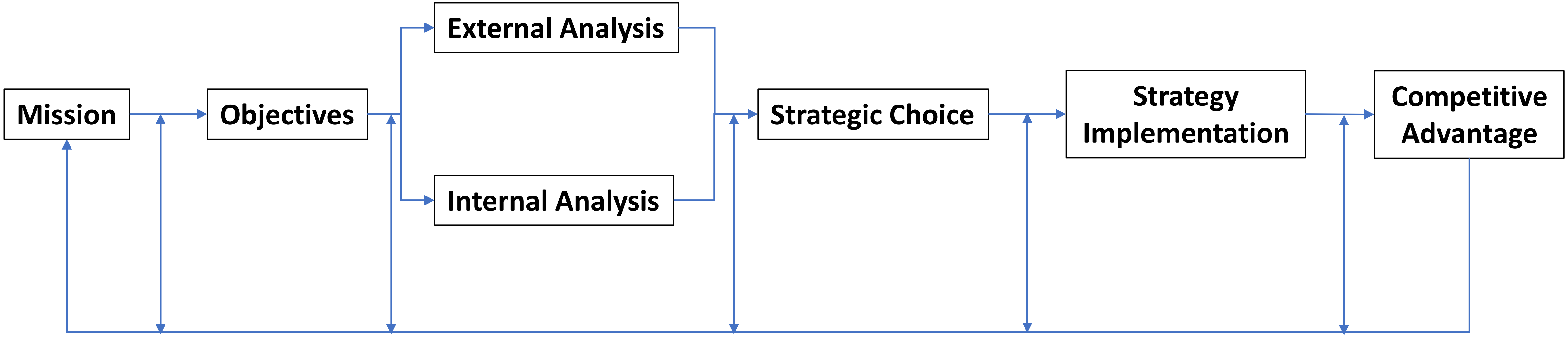
BUSINESS UNIT-BUSINESS UNIT LINKAGE: UNITS' DEPENDENCE ON ONE ANOTHER	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Our business units need to coordinate with one another to serve the same customers.	1	2	3	4	5
Our business units offer complementary products or services.	1	2	3	4	5
Our company sells integrated solutions that draw on different parts of the business.	1	2	3	4	5
Our company needs to provide a unified customer experience across different parts of the business.	1	2	3	4	5
Our business units need to share knowledge, expertise, or technology to compete effectively.	1	2	3	4	5
From Sull, Turconi, Sull, and Yoder (2018)	Average score: 2.2				

Linking corporate and global strategy



From Sull, Turconi, Sull, and Yoder (2018)

Strategic Flexibility

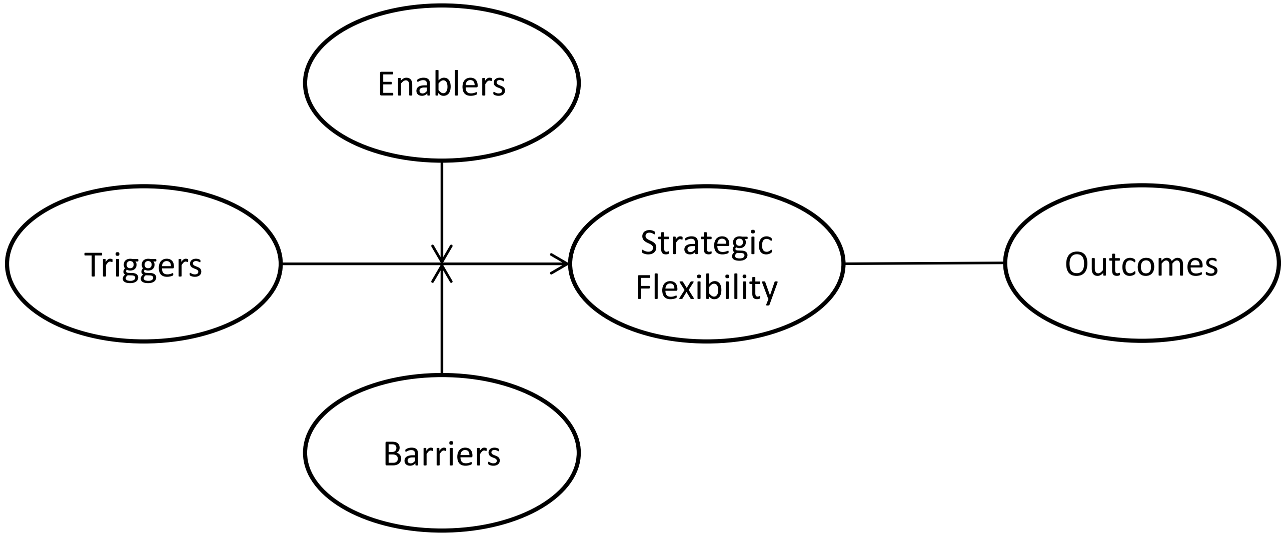


Feedback/ learning – Make necessary corrections

From Barney and Hesterly (2006)

Strategic Flexibility

- The capability of the firm to proact or respond quickly to changing competitive conditions and thereby develop and/or maintain a competitive advantage (Hitt, Keats, & Demarie, 1998)
- Strategic flexibility can be:
  - Reactive
    - Firm's ability to react to changes in the business environment
  - Proactive
    - Firm's ability to model, shape and transform its environment.



From Brozovic (2018)

Triggers of strategic flexibility

- Changes in the environment
  - Environmental changes may increase the likelihood of strategic reorientation
    - Can be either predictable or unpredictable
    - Can be classified as opportunities or threats
  - However, firms may tend to maintain the status quo in high environmental uncertainty, thereby disapproving of strategic flexibility (Shimizu & Hitt, 2004)
- Competitive intensity
  - The strength and activity of competitors
    - Firms that want to maintain a competitive advantage must continuously be one step ahead of their competitors
  - However, competitive pressure may reduce the resources available
- Demand uncertainty
  - Degree of uncertainty about customer demand
  - Markets with more variation in demand may favour more flexible firms

Enablers of strategic flexibility

- For a firm to have strategic flexibility, it must possess strategic options.
  - Strategic options exist when firms have the ability, but not the obligation, to invest in a particular strategy.
    - Having a portfolio of strategic options predisposes a firm to benefit from upside opportunities and mitigates its downside risk
  - E.g.,
    - The option to defer
      - An oil company leases land for potential exploration instead of buying it.
    - The option to grow
      - A firm builds a plant with the ability to add capacity at low cost.
    - The option to shut down and restart
      - A firm outsources distribution to a firm that distributes the products of many firms instead of outsourcing distribution to a firm that distributes only its production.
    - The option to expand
      - A firm invests to create one product because that investment could lead to the development of other products in the future.
  - For many firms, the cost of developing and maintaining strategic options may outweigh the benefits.

Enablers of strategic flexibility

- Slack resources
  - Degree to which uncommitted resources are available
  - Work as a cushion that enables a firm's response to emerging opportunities and threats, and changing conditions in general
  - Allow the firm to deploy and redeploy resources as necessary toward the adaption and accommodation or the development and generation of change in a firm's conditions and situations
    - Organizations without uncommitted liquid resources are less likely to adapt to environmental changes
- New technologies
  - Artificial Intelligence offers exciting new possibilities to exercise strategic flexibility and adds to strategic variety because of the power of digital technologies to reconfigure existing markets and shape new ones
- The literature appears to indicate the broadness of the enablers of strategic flexibility, implying that firms may have a numerous ways from which they can source the strategic variety at their disposal (Brozovic, 2018)

Barriers to strategic flexibility

- Rigidity
  - Managers are content to leave employees and resources where they are, even in the face of adverse threats
  - Smaller firms may be more dynamic than larger firms, which tend to have greater structural inertial
  - Younger firms may shift their strategies more frequently than older firms, which focus on the status quo
  - Past success may reinforce the value of existing strategies
- Poor management practices
  - The attitudes, practices and behaviour of the management pose an obstacle to proper responses to environmental changes
- A lack of financial resources
  - Costs increase in the short-term, whereas the benefits of strategic flexibility are experienced in the long-term
- Lack of proper information and feedback from the business environment

Outcomes of strategic flexibility

- Superior performance
  - Generally, the higher the level of strategic flexibility, the higher a firm's financial performance
    - Strategic flexibility is promoted by firms' latent abilities to renew, augment and adapt their routines over time
    - Strategic flexibility, in exploiting and controlling resources, explains why some firms move more quickly into new niches and are thus more successful
    - Having a portfolio of strategic options improves performance
  - However:
    - Given that investments in strategic flexibility require a firm to possess surplus resources, thereby reducing the firm's efficiency and its corresponding performance.
    - The switching costs or costs of changing trajectories and acquiring knowledge unrelated to the asset base can be high
    - Strategic flexibility may distract managers from making the long-term commitments needed to implement long-term strategies successfully
    - Strategic planning improves firm performance through increased continuity and efficiency

Outcomes of strategic flexibility

- Competitive advantage
  - Competitive advantage is achieved by employing the process of strategic flexibility, thereby allowing managers to face environmental uncertainties and increase their firm's abilities to adapt.
  - Competitors will struggle to imitate particular strategic options
  - Strategic flexibility enables firms to reposition their product–market strategies to sustain a competitive advantage
  - However:
    - A capability is not valuable unless a reliable and consistent ‘practice’ has evolved over time (Schreyogg & Sydow, 2010).
    - Valuable resources are developed over time through experience, and experience is gained through adherence to strategic actions
- Reduces risk and uncertainty
- Increases resistance to crises and stability
- It can initiate possibilities for creating new markets and enabling innovation activities in a firm
- The outcomes of strategic flexibility are highly contextual (Grewal & Tansuhaj 2001)

De-internationalization

- Regardless of the mode of internationalization adopted, firms often make (or are forced to make) the decision to either reduce the depth and spread of their international footprint in certain markets or to withdraw from those markets completely.
- Dimensions of de-internationalization
    - Partial de-internationalization
        - The firm exits from some of the foreign markets it operates (while maintaining its presence in other markets) and/or reduces the degree of its resource commitment and investment in one or more foreign markets.
            - The latter implies that it may still maintain presence in existing foreign markets but the scale will be smaller.
            - Partial de-internationalization occurs when a firm liquidates or sells some of its foreign subsidiaries, ceases exporting to some of its foreign markets and/or reduces its resources commitment, operations, and involvement in those markets.
    - Full-scale de-internationalization
        - The firm stops exporting completely and/or liquidates or sells active operations in all foreign markets. When a full-scale de-internationalization of the firm occurs, the firm confines itself to its home market only.

De-internationalization

- Dimensions of de-internationalization
  - Voluntary de-internationalization
    - The foreign market exit occurs as part of the (willing) strategic change of the firm's portfolio of foreign activities (Berry, 2013).
    - This may occur when:
      - Certain markets lose their appeal (while the home market or other markets become more profitable)
      - Other locations offer advantages that can help the firm achieve its goals
    - This can be triggered by:
      - loss of competitiveness
      - falling demand in foreign markets
      - increased competition
      - difficulty in responding to new institutional requirements and restrictions imposed by host-country government

De-internationalization

- Dimensions of de-internationalization
  - Forced de-internationalization
    - The foreign market exit are imposed on the firm.
    - This includes:
      - cases of nationalization by the host-country government (e.g., expropriation of assets),
      - situations in which the firm faces economic boycotts (Vissak & Francioni, 2013),
      - changes in trade agreements between countries (e.g., Brexit and other changes in the European Union).
      - institutional forces and government policies change in the home country of the firm.
        - Indeed, we have recently seen protectionism and deglobalization trends (Cuervo-Cazurra et al., 2020) in which home country governments impose bans and restrictions on internationalization for geopolitical, strategic, or technology-related reasons.

Determinants of de-internationalization

- Firm-specific determinants
  - Firm capabilities and advantages
    - Subsidiaries that develop their own capabilities reduce the likelihood of being divested or sold (Konara & Ganotakis, 2020).
    - Marketing capabilities that can result in increased brand equity, as is the case for R&D, provide competitive advantages and increase firm performance, thus reducing the chances of de-internationalization (Schmid & Morschett, 2020).
  - Product diversification may increase the likelihood of exit
    - Subsidiaries that commercialize products unrelated to the MNE's core business are more likely to be divested
      - Complexity of managing
      - Limited scope for knowledge transfer between the MNE and the subsidiary
    - Subsidiaries with related business activities develop interdependencies with other units thereby increasing their importance and value to the corporate network.
  - Geographic diversification reduces the likelihood that a firm will divest from a foreign country (Chung et al. 2013)

Determinants of de-internationalization

- Firm-specific determinants
  - Prior performance and the financial resources
    - Poor performance signals the failure of strategic decisions and operations and implies that action should be taken often in the form of reducing activities in certain markets while re-directing resources to more successful ventures.
      - MNEs may divest underperforming subsidiaries that have a negative effect on their overall market value
  - The speed at which firms internationalise or enter different markets may lead to de-internationalization
    - Rapid international expansion reduces firms' ability to evaluate their foreign experience, assimilate it, and apply it to commercial ends (Vermeulen & Barkema, 2002).
- Factors external to the firm
  - Host country's institutional and economic environments have crucial impacts on firms' de-internationalization.
    - Factors like instability, foreign policies, intellectual property rights (IPR) protection, trade tariffs and labour rights, can affect the likelihood of de-internationalization as they increase complexity related to decision making
      - Policy uncertainty and political risk not only prevent firms from entering a host country but also push foreign entrants to leave

Determinants of de-internationalization

- Factors external to the firm
  - Home country's institutional and economic environments
    - Protest, political freedom, and institutional transparency in a firm's home country may increase the likelihood of the firm's divestment (Soule et al. 2014).
    - Socio-political factors may imply that foreign production generates stakeholder conflict that make maintenance of foreign operations in certain locales challenging because of consumer or shareholder backlash
    - Increased product demand domestically can force firms to switch attention to the home market
    - Changes in governmental policies towards a more protected market environment and the effects of Covid-19 require MNEs to reconsider their position in certain markets and engage in different forms of de-internationalization including back-shoring and repositioning their supply chains at a more regional level (Cuervo-Cazurra et al., 2020).
  - The distance and difference between host and home countries
    - Culturally distant countries are more prone to reduce their presence in those markets, particularly when they are experiencing lower levels of performance (Sousa & Tan, 2015).
    - Economic and political differences may impede foreign firms' survival in a host country and result in their exit (Demirbag et al. 2011).

Performance consequences of de-internationalization

- For born global firms de-internationalization can threaten their survival
  - Scale down foreign activities experience a long-term reduction in output and employment levels.
  - It can also adversely affect a firm's overall competitiveness because less internationalized firms are less likely to benefit from technological advances in foreign markets
- Potential positive performance effects of de-internationalization when they are coupled with a proactive restructuring of all foreign and domestic activities
  - A planned market exit can:
    - Reduce risk exposure and coordination costs
    - Improve the management of the remaining operations
    - Enable the optimization of resources

Re-internationalization

- Set of actions that subsequently escalate a firm's involvement or exposure to foreign markets following a period of reduced activity.
- Some of these determinants are internal to the firm while other determinants concern the firm's external environment.
- Internal to the firm determinants
    - Foreign market experience helps firms assimilate information about foreign market conditions and assists them in overcoming some of the difficulties associated with re-entering foreign markets
    - Higher confidence to re-enter a foreign market when firms possess substantial market-specific experience.
        - Firms that re-enter the same market may also receive information from prior partners, reducing the firm's effort in gathering and analysing information
    - Companies learn from their mistakes and reconsider how they approach re-entry and the resources that may need to be mobilized (Aguzzoli, Lengler, Sousa, & Benito, 2021)
    - However, due to previous adverse exits, the managerial risk aversion increases, which may results to reduces the value of prior experiential knowledge, and slows down their reaction to new opportunities.

Re-internationalization

- External to the firm determinants
  - Firms need more time to complete the re-internationalization process in countries with weak or unstable institutional environments.
    - It takes longer to develop capabilities and learn how to operate when formal institutions are lacking or are not enforced, but also deal with institutional ambiguities, and adapt to possible change.
  - Stable environments increase the likelihood that firms can transfer and use prior internationalization knowledge, particularly when these markets are characterised by similar institutional conditions.
  - Given that firms de-internationalization may be initiated because of favourable home market conditions, the re-internationalization may start again if this conditions no longer exit.
    - However, this may signal that the firm was ineffective or faced strong competition.
- Performance consequences
  - The initial internationalization experiences of an organization are positively related to re-internationalization performance
  - Retention of key personnel involved in the initial internationalization of a firm is positively related to re-internationalization performance
  - Organizational commitment to international operations is positively related to re- internationalization performance.

MKIB 351: Global Strategic Management

Thank You!