UNIVERSITY OF LIVERPOOL

MKIB 351: Global Strategic Management

Lecture 8 - Revision /Explanation of Assessment

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Agenda

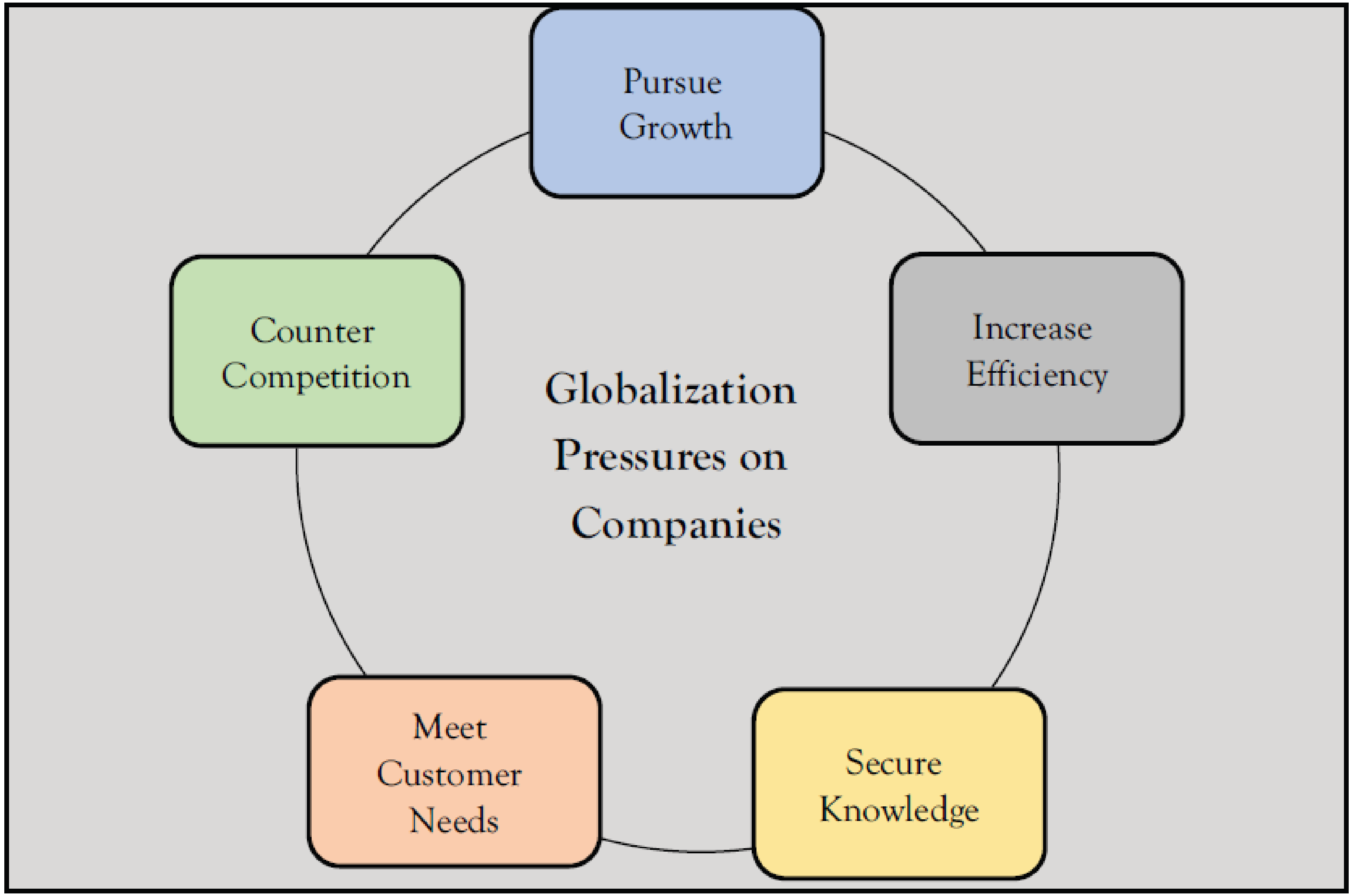
- Revision lectures 1 to 7
- Explanation of Assessment (up to Corporate-level strategies section)

Note: This is only revision for each topic you need to go through the corresponding lecture notes and reading list!

What is (Global) Strategy?

- Firm's strategy is defined as its theory about how to gain competitive advantages.
- Strategy is about positioning a company for competitive advantage.
- It involves making choices about:
  - which markets to participate in
  - what products and services to offer
  - how to allocate corporate resources
- Strategy's primary goal is to create long-term value for shareholders and other stakeholders by providing customer value.
- A global strategy is a strategy a firm pursues when it wishes compete in the global (worldwide) marketplace.
- Global strategy:
  - Includes both international and domestic strategies
  - Involves both Multinational Enterprises (MNEs) and smaller firms
  - Should recognize and exploit linkages between countries (e.g. exploits global scale, national resource differences, strategic competition)

Globalization Pressures on Companies



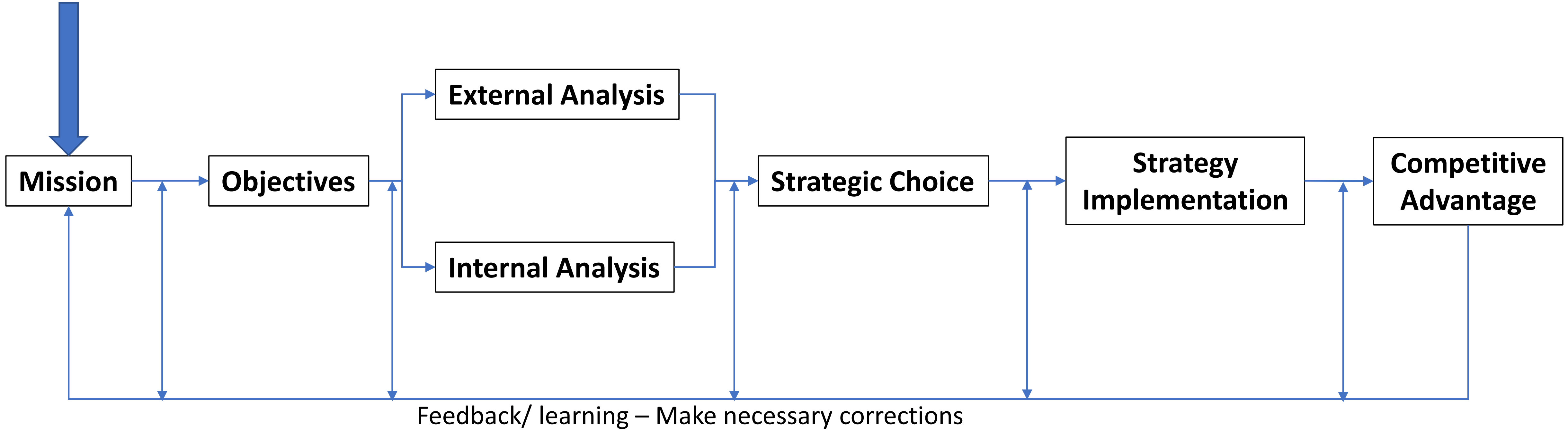
From de Kluyver & Pearce Ii (2021, page 26)

Globalization Pressures on Companies

- ***Pursue Growth***
  - International expansion offers companies a chance to conquer new markets and reach more consumers, thereby increasing sales.
- ***Increase Efficiency***
  - A global presence automatically expands a company's operations scale, giving it larger revenues and a larger asset base.
- ***Knowledge and talent***
  - Greater cross-border competition means that there is no firm capable of staying competitive by relying entirely on its internal resources and capabilities.
- **Globalization of customer needs and preferences**
  - Through technology and experience, individual customers have become more aware of the rich variety of products and services available worldwide and want to buy them.
- ***The globalization of competitors***
  - Companies may use international expansion to gain a competitive edge over their opponents

Strategic management process

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



From Barney and Hesterly (2006)

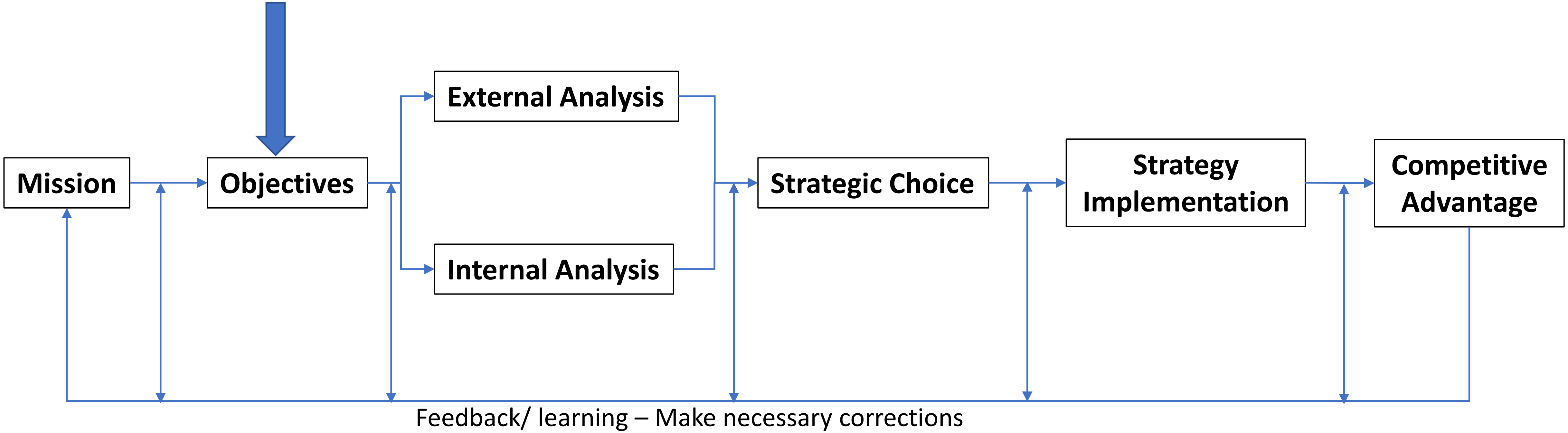
A Firm's Mission

- A firm's mission is its long-term purpose.
- Missions are often written down in the form of mission statements.
- Mission statements is a statement of attitude, outlook, and orientation, not of measurable targets
  - It describes the firm's product, market, and technological areas of emphasis
  - It reflects the values and priorities of the firm's strategic decision making
  - It is designed to include all stakeholders' expectations concerning the company's performance over the long run.
- Mission statement serves as a basis for strategic objective setting and decision making.

A business is not defined by its name, statutes or articles of incorporation. It is defined by the business mission. Only a clear definition of the mission and purpose of the organization makes possible clear and realistic business objectives.
Peter Drucker (1973)

Strategic management process

Objectives are based on firm's mission



From Barney and Hesterly (2006)

Objectives

- Objectives are specific measurable targets a firm can use to evaluate the extent to which it is realizing its mission.
  - Well-stated objectives must be **specific**, **quantifiable** or **measurable**.
- Two distinct types of objectives are required to be set by the firm:
  - **Financial objectives** communicate management's goals for financial performance.
  - **Strategic objectives** are goals concerning a company's marketing standing and competitive position.
- Both kinds of should include:
  - **Short-term** (quarterly or annual) objectives focus attention on delivering performance improvements in the current period and satisfy shareholder expectations for near-term progress.
  - **Longer-term targets** (three to five years off) force managers to consider what to do now to put the company in position to perform better later.
    - Long-term objectives are critical for achieving optimal long-term performance and stand as a barrier to a near sighted management philosophy and an undue focus on short-term results.
    - When trade-offs have to be made between achieving long-term objectives and achieving short-term objectives, long-term objectives should b priority (unless the achievement of one or more short-term performance targets has unique importance).

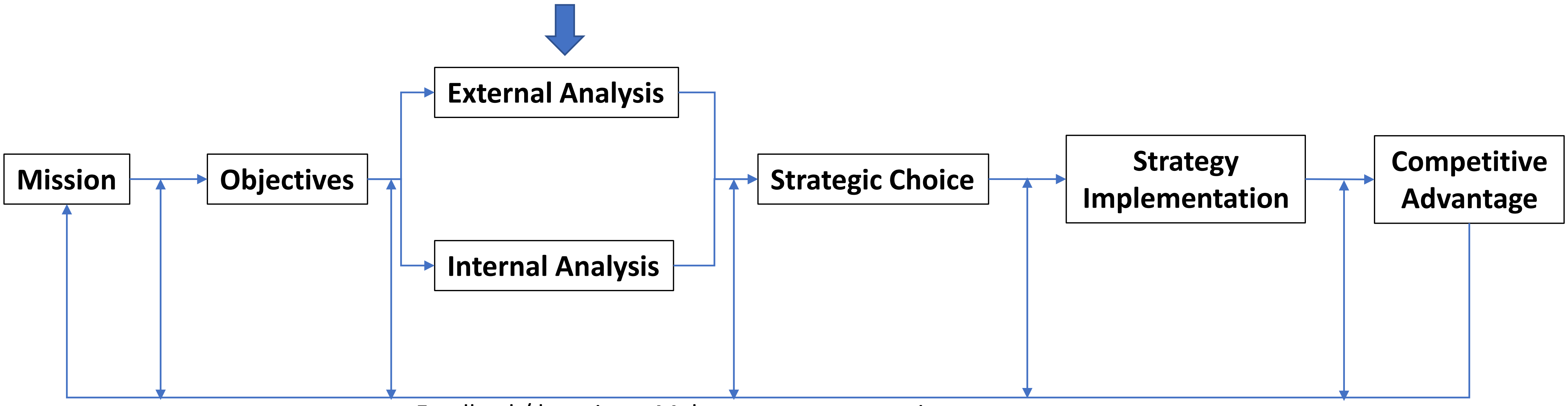
Objectives

- Examples of commonly used financial and strategic objectives:

Financial Objectives	Strategic Objectives
• An x % increase in annual revenues • Annual increases in after-tax profits of x % • Annual increases in earnings per share of x % • Annual dividend increases of x % • Profit margins of x % • An x % return on capital employed (ROCE) or return on shareholders' equity (ROE) investment • Increased shareholder value in the form of an upward-trending stock price • Bond and credit ratings of x • Internal cash flows of x dollars to fund new capital investment	• Winning an x percent market share • Achieving lower overall costs than rivals • Overtaking key competitors on product performance, quality, or customer service • Deriving x percent of revenues from the sale of new products introduced within the past five years • Having broader or deeper technological capabilities than rivals • Having a wider product line than rivals • Having a better-known or more powerful brand name than rivals • Having stronger national or global sales and distribution • capabilities than rivals • Consistently getting new or improved products to market ahead of rivals

Strategic management process

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



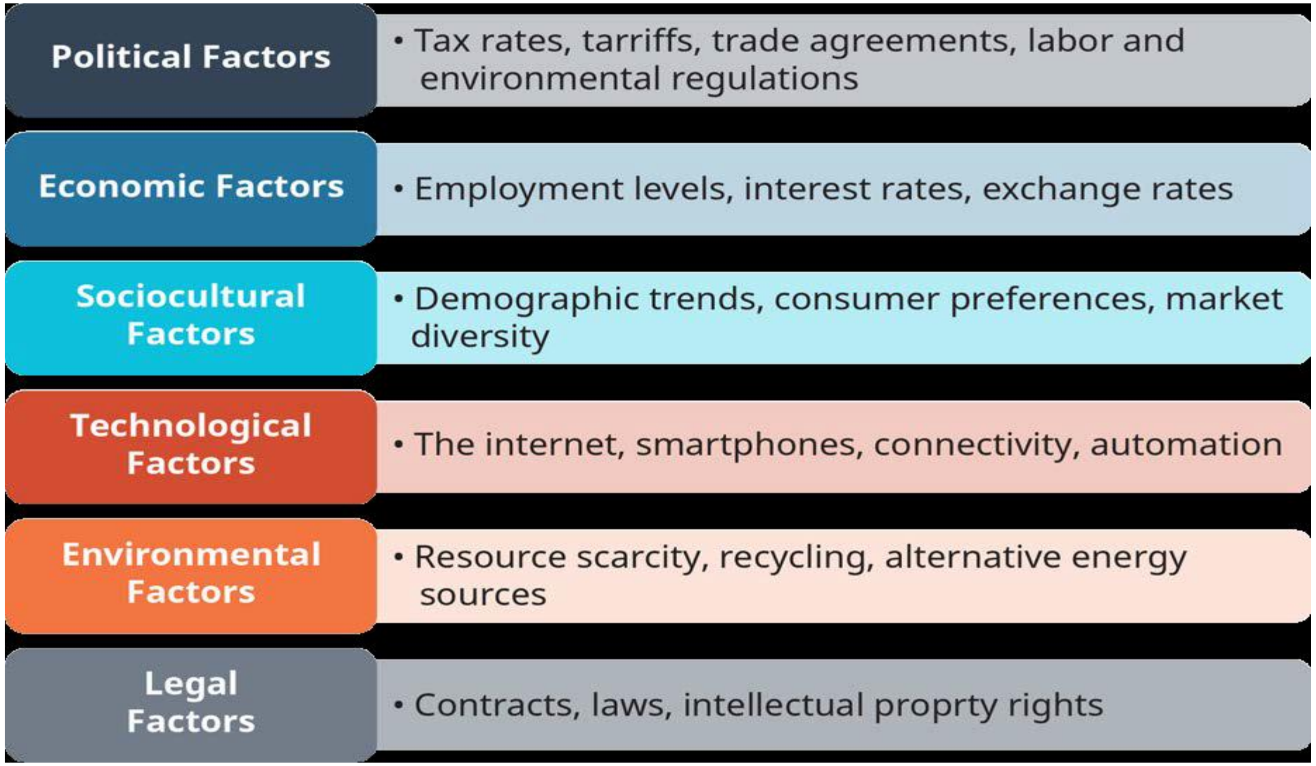
From Barney and Hesterly (2006)

Analysing firm's environment

- **Step 1**: Perform **PESTEL analysis** to survey macro-level environmental trends, developments, why, how, and how quickly these trends are changing over time.
  - Environmental conditions exist not only for focal firm but for all competitors.
  - The external factors create the arena in which the competition takes place.
- **Step 2**: Using **Porter's Five Forces** analyse the firm's industry characteristics (including primary competitors)
- **Step 3:** Assess a firm's current financial situation, based on ratio analysis, and strategic situation, based on measures like its current market share and innovation level.
- **Step 4**: Employ **VRIO framework** to evaluate the firm's resources and capabilities relative to competitors.
- **Step 5**: Use results from Step 1 and 2 to determine threats and opportunities in the competitive environment and results from Step 3 and 4 to determine a firm's strengths and weaknesses (**SWOT analysis**).

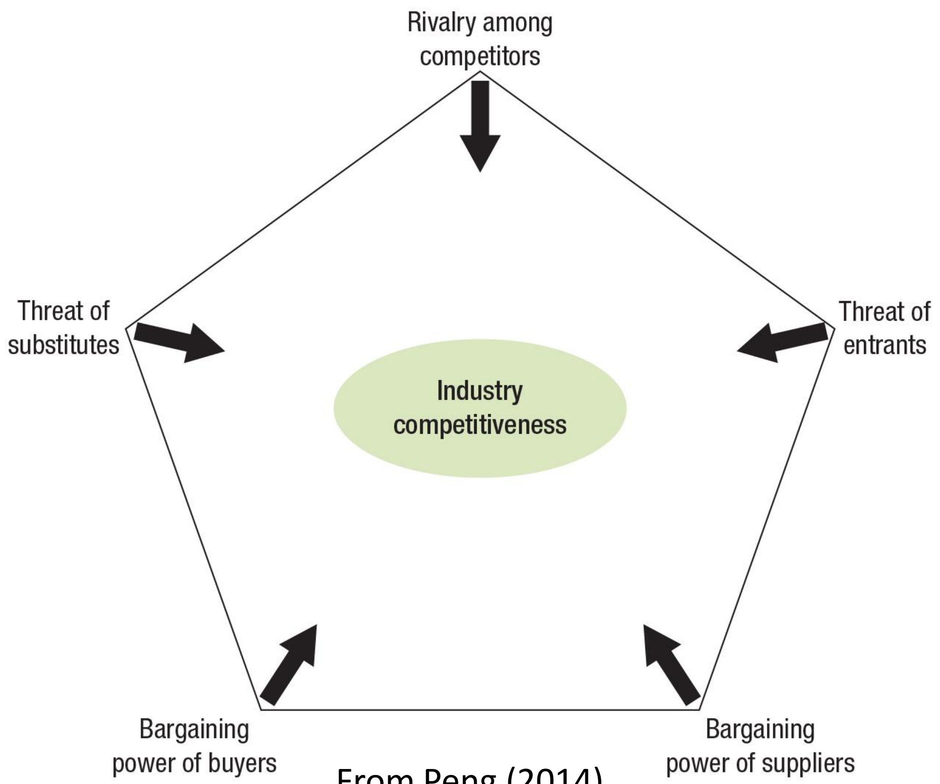
PESTEL analysis

- **PESTEL** is a tool that reminds managers to look at several distinct categories in the macro environment.
- In PESTEL factors are not characterized as *opportunities* or *threats*. They are simply things that a firm can take advantage of or treat as problems, depending on its own interpretation or abilities.
- Some external factors are difficult to categorize in PESTEL.
  - For instance tariffs can be viewed as either a political or economic factor while the influence of the internet could be viewed as either a technological or social factor.



From David et al. (2019)

The five forces framework



From Peng (2014)

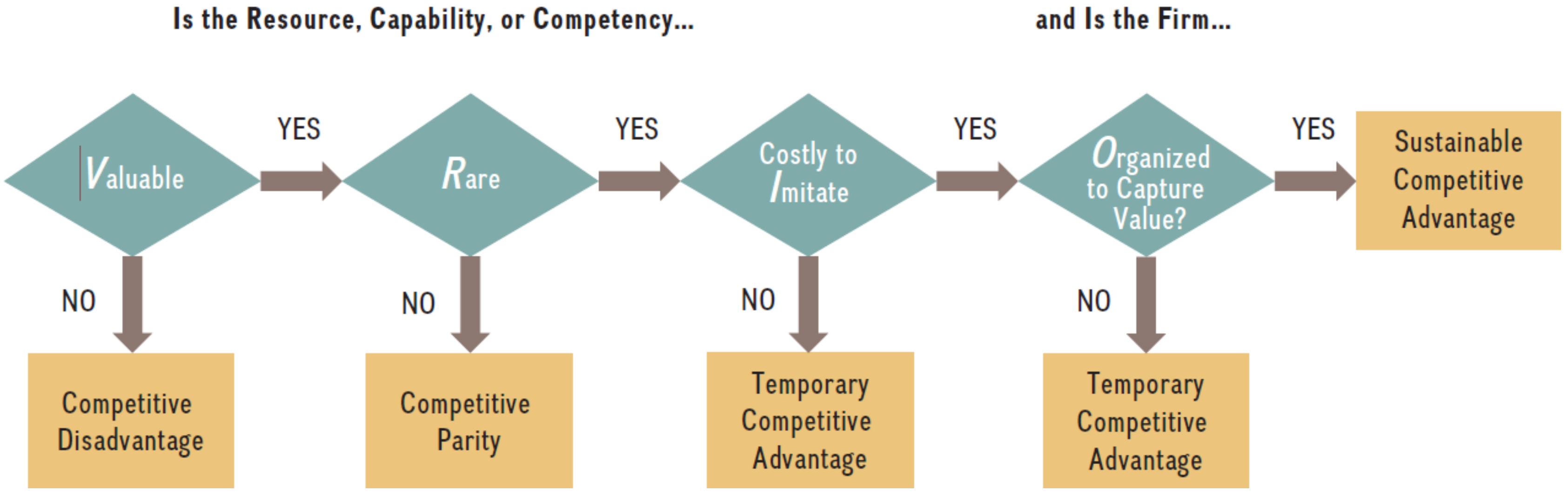
The five forces framework

Five Forces	Threats Indicative of Strong Competitive Forces that Can Depress Industry Profitability
Rivalry among competitors	• A large number of competing firms • Rivals are similar in size, influence, and product offerings • High-price, low-frequency, “big ticket” purchases • Capacity is added in large increments • Industry slow growth or decline • High exit costs
Threat of entrants	• Little scale-based advantages (economies of scale) • Little non-scale-based advantages • Inadequate product proliferation • Insufficient product differentiation • Little fear of retaliation because of focal firm’s lack of excess capacity • No government policy banning or discouraging entry
Bargaining power of suppliers	• A small number of suppliers • Suppliers provide unique, differentiated products • Suppliers are willing and able to vertically integrate forward
Bargaining power of Buyers	• A small number of buyers • Buyers purchase standard, undifferentiated products from focal firm • Buyers are willing and able to vertically integrate backward
Threat of substitutes	• Substitutes are superior to existing products in quality and function • Switching costs to use substitutes are low

From Peng (2014)

VRIO Framework

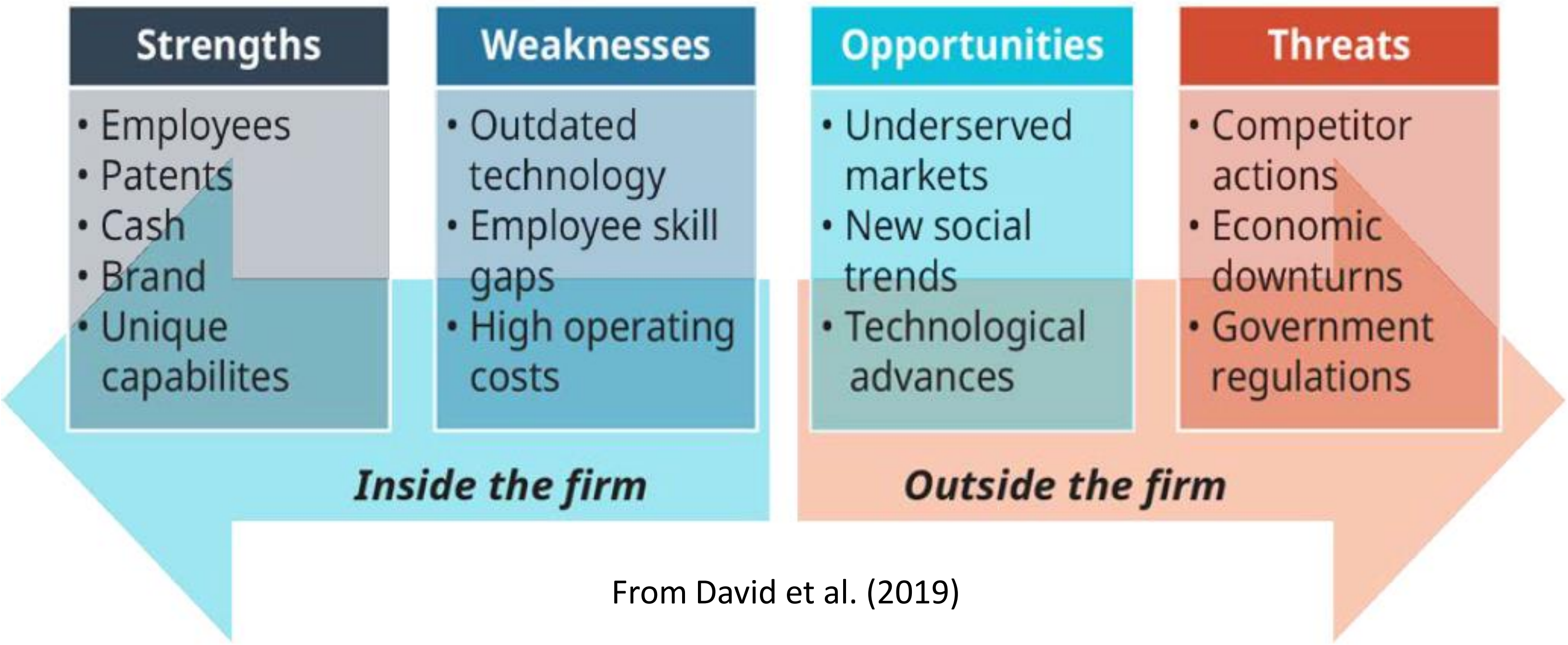
- Resources and capabilities are the distinctive assets and activities that separate firms from each other.
  - Firms that can accumulate critical resources and develop superior capabilities will succeed in competition over rivals in their industry.
- VRIO framework can be used to evaluate firm resources and capabilities to determine if they can be a source of sustainable competitive advantage.



From Rothaermel (2021)

SWOT analysis

- The analysis requires to assess a firm's internal strengths (**S**) and weaknesses (**W**) relative to its external opportunities (**O**) and threats (**T**)
- Can be seen as linking the external and internal analysis of the firm's environment
- Can be used as a guide in formulating the strategy of the firm.



From David et al. (2019)

SWOT analysis

- **Strengths**
  - Are what a firm it is good at.
  - Knowing exactly what it is good at allows a firm to make plans that exploit those strengths.
- **Weaknesses**
  - are what a firm is not good at – not necessarily faults
    - A firm’s weaknesses are simply gaps in capabilities, and those gaps do not always have to be filled within the firm.
    - Firms can not be great at all things.
  - Crucial for a firm to understands its weaknesses so that it avoid trying to do things it does not have the capabilities or resources to succeed in, or it will find ways to improve its weaknesses before undertaking something new.
- Strengths or weaknesses can be determined by applying the VRIO framework.
  - A resource/capability is a strength if it can be a source of sustainable competitive advantage.
  - A resource/capability is a weakness if it is not valuable. In this case, the resource does not allow the firm to exploit an external opportunity or offset an external threat

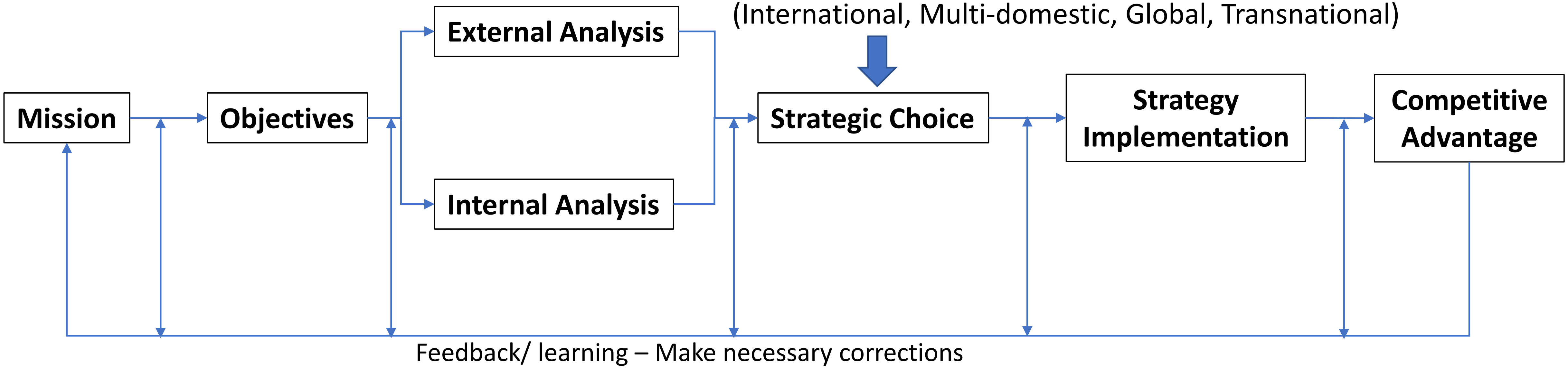
SWOT analysis

- **Opportunities**
  - Is a potential situation that a firm is equipped to take advantage of.
  - Do not misinterpret what opportunities are with recommendations of “what could be done.”
  - Opportunities offer positive potential, however not always a firm is not equipped to take advantage of an opportunity which is why considering the entire SWOT is important before deciding what to do.
- **Threats**
  - Anything that could make harder for a firm to be successful
  - A wide variety of situations and scenarios can threaten a firm’s chances of success, from a downturn in the economy to a competitor launching a better version of a product the firm also offers.
- Opportunities and threats are in the firm’s general environment and can be captured by PESTEL and Porter’s five forces analyses
  - E.g., an attractive industry as determined by Porter’s five forces, for example, presents an external opportunity for firms not yet active in this industry.
  - E.g. stricter regulation for financial institutions, for example, might represent an external threat to banks.

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)



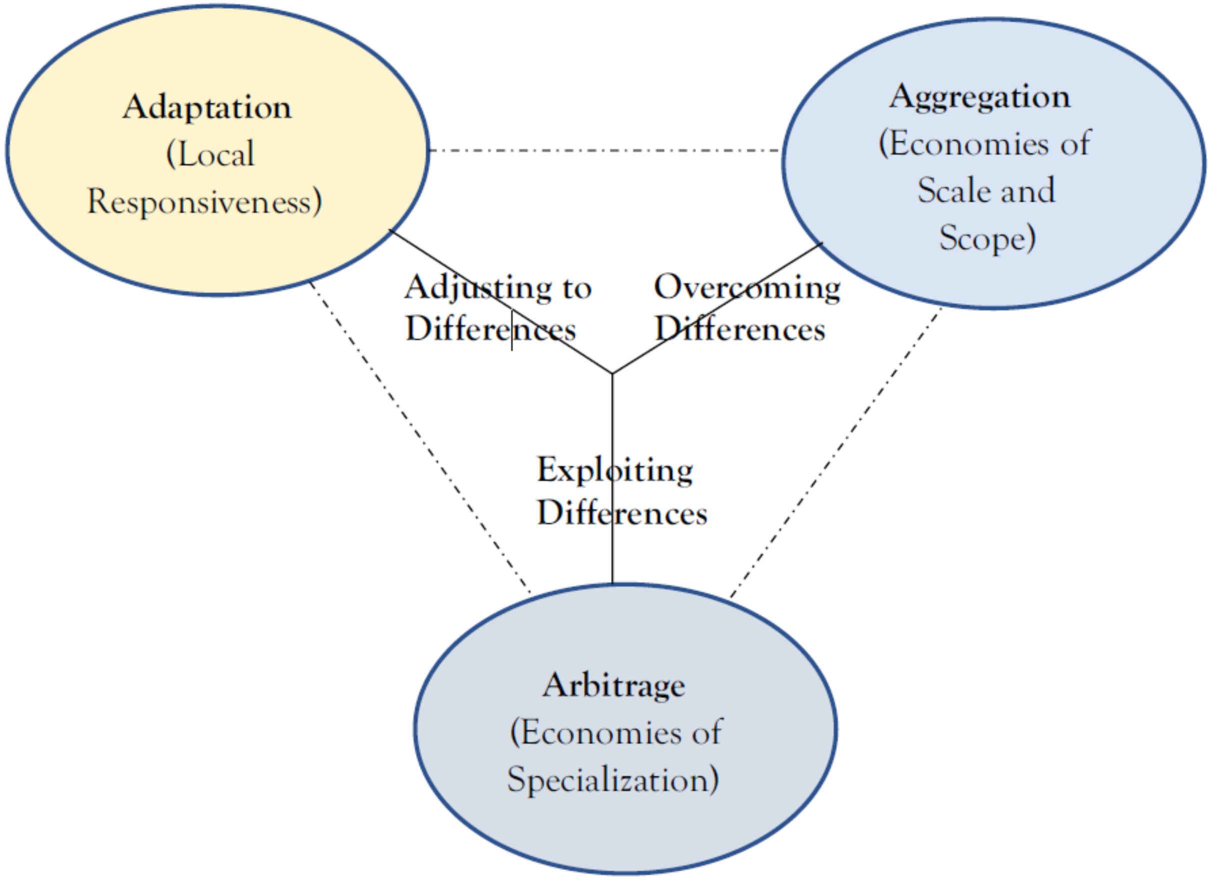
From Barney and Hesterly (2006)

International distances -

- Geographic distance
  - Physical distance between two countries
- Institutional distance
  - Formal Institutions: Institution represented by laws, regulations, and rules.
    - How formal rules, laws, and regulations influence the behaviour of individuals and firms.
  - Informal Institutions: Institution represented by norms, cultures, and ethics.
    - How the values, beliefs, and norms of other relevant players influence the behaviour of individuals and firms.
  - Cross-country contextual differences
  - Cultural Distance
    - Impacts the ability of the MNE to operate effectively.
- Economic Distance
  - Refers to differences that affect cross-border economic activity

The AAA Global Strategy Framework

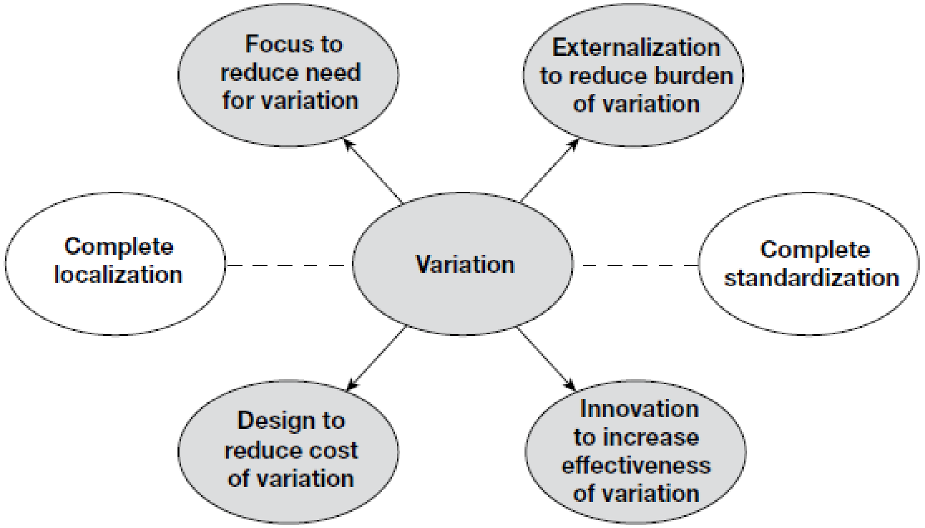
- ‘‘Essentially, international management is management of distance’’ (Zaheer et al., 2012: 19).
- The three generic approaches to developing a global competitive advantage (Ghemawat, 2018):
  - **Adaptation** strategies seek to increase revenues and market share by tailoring one or more components of a company’s business model to suit local requirements or preferences.
  - **Aggregation** strategies focus on achieving economies of scale or scope by creating regional or global efficiencies.
  - **Arbitrage** is about exploiting economic or other differences between national or regional markets, usually by locating separate parts of the supply chain in different places.



From Ghemawat (2018)

Adaptation

- Creating global value by changing one or more elements of a company's business model to meet local requirements or preferences
- The most widely used global strategy
  - Some degree of adaptation is essential or unavoidable for almost all products in all parts of the world
  - Very few businesses can operate on either a totally localized or a totally standardized basis across borders.
- Approaches to adapting to differences across countries – Levels for adaptation



From Ghemawat (2018)

Levels for adaptation

Levers and sublevers for adaptation

Variation	***Focus:*** **reduce need for variation**	***Externalization:*** **reduce burden of variation**	***Design:*** **reduce cost of variation**	***Innovation:*** **improve effectiveness of variation**
• Products • Policies • Repositioning • Metrics	• Products • Geographies • Verticals • Segments	• Strategic alliances • Franchising • User adaptation • Networking	• Flexibility • Partitioning • Platforms • Modularity	• Transfer • Localization • Recombination • Transformation

From Ghemawat (2018)

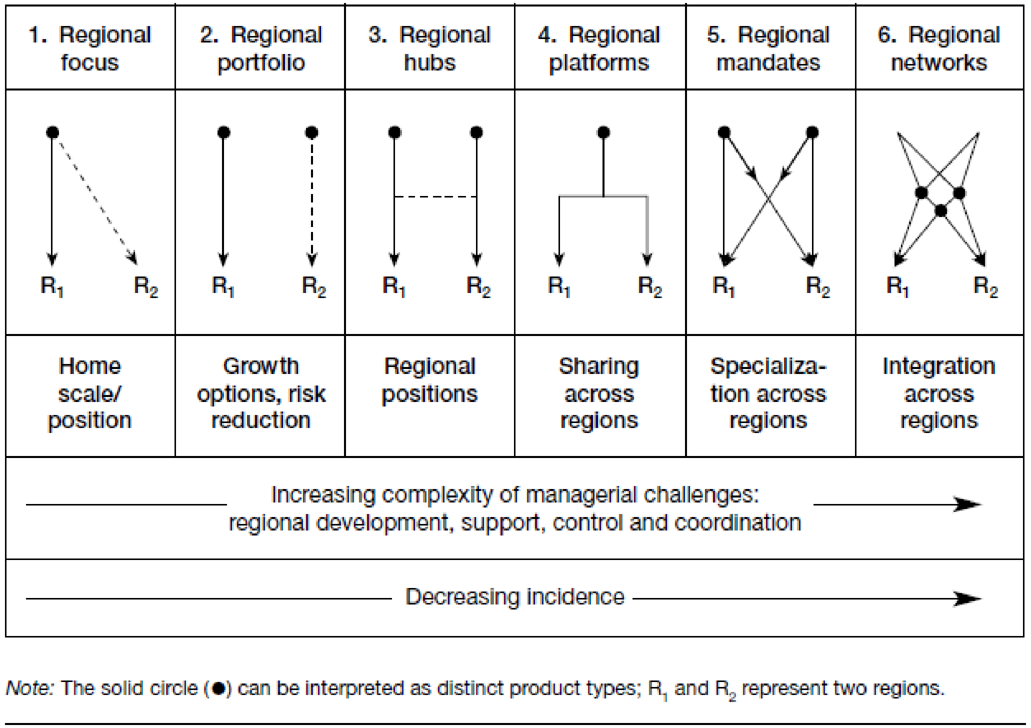
- Provides a broad enough (although not an exhaustive) set of options to make the point that there are many ways to adapt
- Levels or sublevels for adaptation are not mutually exclusive
  - However, a firm can not achieve superior leverage along **all** the different levers/sublevers

Aggregation

- The objective is to exploit similarities among geographies rather than to adapt to differences.
  - Complete standardization destroys concurrent adaptation approaches.
- The key is to identify ways to introduce economies of scale and scope into the global business model *without compromising local responsiveness*.
- Economies of scale: Reduction in per unit costs by increasing the scale of production.
- Economies of scale allow firms to:
  - Spread their fixed costs over a larger output.
    - Research and development, advertising, managerial expertise and skilled labour are expensive but necessary to increase efficiency with such inputs.
  - Employ specialized systems and equipment.
    - Larger output also allows firms to invest in more specialized systems and equipment, such as manufacturing robots.
  - Take advantage of organizational inputs:
    - With a larger scale of production, a company may also apply better organizational skills to its resources, such as a clear-cut chain of command, while improving its techniques for production and distribution.

Aggregation - Regional strategies

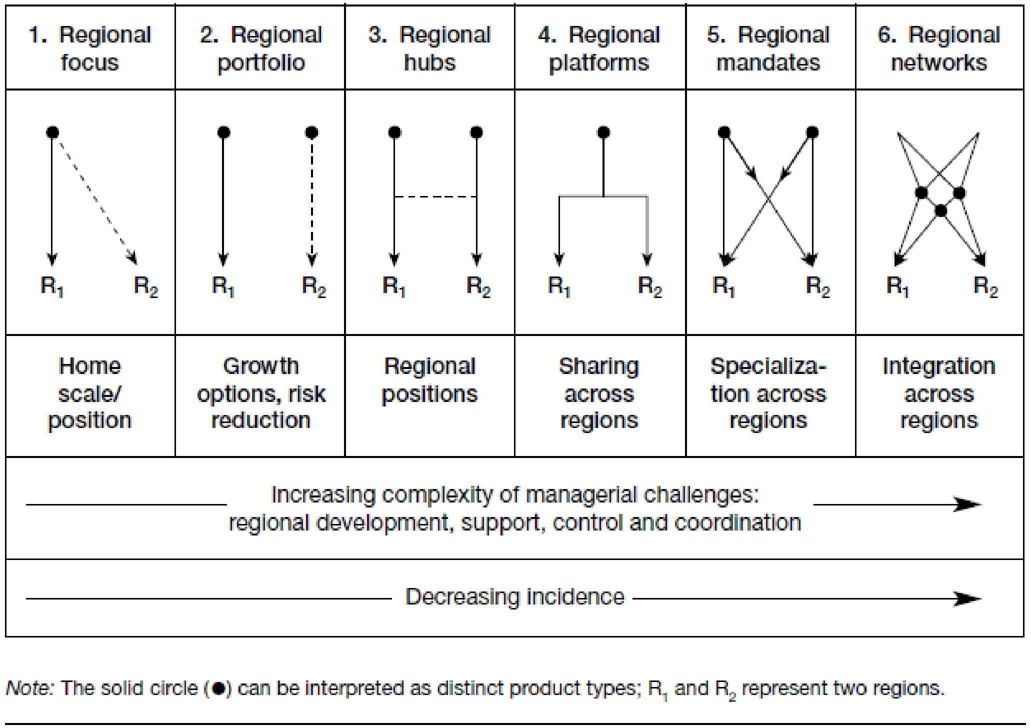
- Adopting a regional approach to globalizing the business model is probably the most widely used aggregation strategy.
- Regional or Home Focus
    - Firms start their international expansion by serving nearby foreign markets from their home base, locating all their R&D and, usually, manufacturing in their country of origin.
- Regional Portfolio
    - This strategy involves setting up or acquiring operations outside the home region that report directly to the home base.
- Regional Hubs
    - A hub strategy involves building regional bases, or hubs, that provide a variety of shared resources and services to local (country) operations.



From Ghemawat (2018)

Aggregation - Regional strategies

- Regional Platforms
  - Interregional platforms spread fixed costs across regions.
  - The goal is not to reduce the amount of product variety on offer, but instead to deliver variety more cost effectively by building local customization above common platforms explicitly engineered for adaptability along these lines.
- Regional Mandates
  - Companies that adopt this strategy award certain regions broad mandates to supply particular products or perform particular roles for the whole organization.



From Ghemawat (2018)

Non-geographic aggregation

- Geographic aggregation is not the only avenue for generating economies of scale or scope.
- *Cultural* Aggregation
    - Take advantage of cultural similarities of population in different countries.
    - E.g., major book publishers, for example, publish their best sellers in but a few languages, counting on the fact that readers are willing to accept a book in their second language.
- *Administrative* aggregation
    - Take advantage that many of countries shared similar procurement procedures and practices.
    - E.g., pharmaceutical companies seeking to market new drugs in Europe must satisfy the regulatory requirements of a few selected countries to qualify for a license to distribute throughout the EU.
- *Economic* Aggregation
    - Take advantage of similarities in the economic environment
    - E.g. companies that distinguish between developed and emerging markets and focus on just one or the other.

Arbitrage

- By definition, a firm is most familiar with its domestic institutional environment.
  - But this does not necessarily mean that the home institutional environment is most favourable for all kinds of activities.
- Arbitrage is a way of exploiting differences
  - Treats differences across borders as *opportunities*, not as *constraints*.
- Arbitrage is the original cross-border strategy.
  - Selling goods that produce in one country to others with much higher prices.
    - E.g., spices from India to Europe
  - Very few companies can afford to ignore arbitrage opportunities.
- There are multiple possible bases of arbitrage:
  - Economic
  - Geographic
  - Institutional (Informal institutions – culture; Formal institutions – Law, regulations)
- Arbitrage strategies may raise ethical issues
  - E.g., law arbitrage

Bases of arbitrage

- Economic
  - Labour Arbitrage
    - Exploitation of cheap labour
    - Finding specialised skilled human capital
- Geographic
  - Firms leverage geographic differences
  - Taking advantages of landscape characteristic
- Institutional arbitrage
  - Cultural arbitrage
    - Take advantage of differences in culture
    - "country-of-origin" advantages - Favourable effects related to country or place of origin.
    - Selling products or services to diaspora based on "back-home" appeal.
  - Firms may explore differences in various institutions
    - Such as Tax regulations (tax haven) ; Financial regulations (Reporting standards); Employment Regulations (Collective arguments, easy of firing employees, etc.); IP protection regulations; and Environmental rules

Differences across the AAA strategies

Characteristics	Adaptation	Aggregation	Arbitrage
***Competitive advantage:* why globalize at all?**	To achieve local relevance through national focus (while exploiting some scale)	To achieve scale and scope economies through international standardization	To achieve absolute economies through international specialization
***Coordination:* how to organize across borders?**	By country; emphasis on adjustments to achieve a local face within borders	By business, region, or customer; emphasis on horizontal relationships for cross-border economies of scale	By function; emphasis on vertical relationships, including across organizational boundaries
***Configuration:* where to locate overseas?**	Limit the effect of international distances (e.g. geographic, institutional, economic) by concentrating on foreign countries that are similar to the home base		To exploit some elements of distance by operating in a more diverse set of countries

From Ghemawat (2018)

Differences across the AAA strategies

Characteristics	Adaptation	Aggregation	Arbitrage
***Controls:* what to watch out for?**	Excessive variety or complexity (i.e., too much localization)	Excessive standardization or emphasis on scale (i.e., too much standardization)	Narrowing spreads
***Change blockers:* whom to watch out for internally?**	Entrenched country heads	Powerful business unit or region heads	Key functions or vertical interfaces
***Corporate diplomacy:* which external issues might arise?**	Relatively discreet and robust, given emphasis on development of a local face	Appearance of, and backlash against, homogenization or hegemony (especially for U.S. companies)	The exploitation or displacement of suppliers, channels or intermediaries; potentially most prone to political disruption

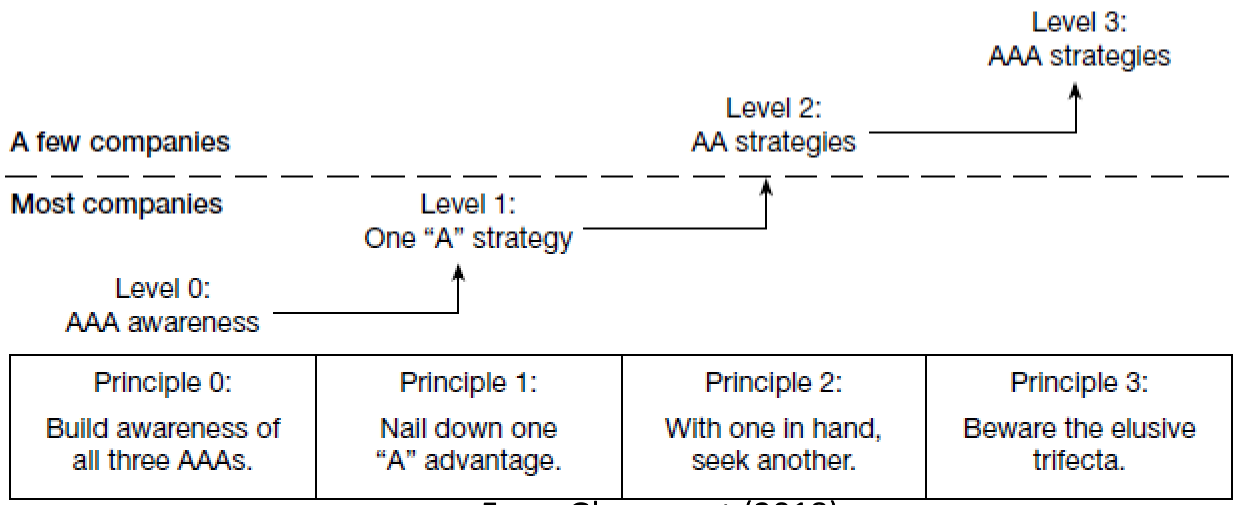
From Ghemawat (2018)

Which *A* Strategy Should a Company Use?

- The emphasis on clarity about which one of the three strategies will be the basis of cross-border advantage is *not* meant to imply obliviousness to the remaining strategies.
  - All border-crossing companies need to at least think through all three strategies.
- A company's financial statements can be a useful guide to signalling which of the *A* strategies will give emphasis.
  - The percentage of sales spent on advertising indicates how important adaptation is likely to be
    - Consumer goods manufacturers with large marketing budgets use adaptation strategies to improve their market share abroad.
    - Firms that rely heavily on branding and do a lot of advertising, such as food companies, often need to engage in considerable adaptation to local markets.
  - The percentage spent on R&D is a proxy for the importance of aggregation
    - Firms that engage heavily in R&D and have high levels of fixed costs, such as pharmaceutical companies, should consider centralizing and locating their laboratories in talent-rich, cost-effective locations worldwide.
  - The percentage spent on labour helps gauge the importance of arbitrage
    - For firms whose operations are labour-intensive such as apparel manufacturers, arbitrage will be of particular interest because labour costs can vary greatly from country to country.

Levels of global strategy

- Most companies start by focusing on just one A at any given time.
  - However, the increased competition has forced companies to pursue two or even all three of the As
- Focusing on more than one A presents special challenges because there are inherent tensions between all three strategies.



From Ghemawat (2018)

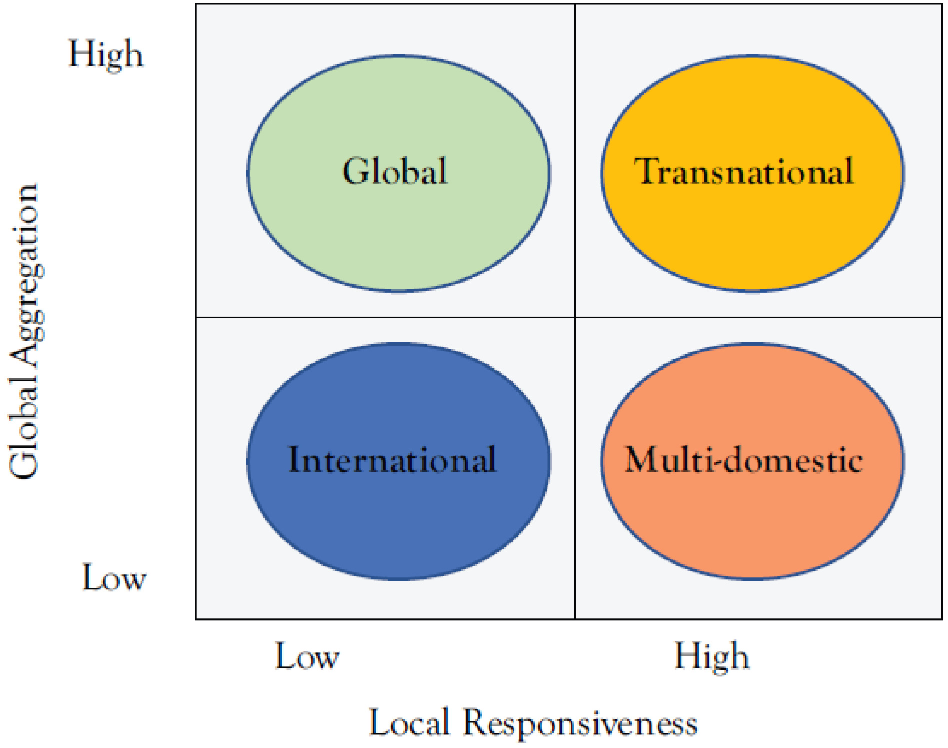
  - the pursuit of *AA* strategies or even an *AAA* approach requires considerable organizational and managerial flexibility.
- IBM's example of employing AA strategies (Adaptation and Aggregation)
  - IBM company uses adaptation to enter the various international markets it operates in.
    - IBM enters international markets by launching a mini IBM in the foreign country targeted that guides the adaptation strategy to match its customers' local needs and preferences.
  - Once established, IBM begins to look regionally for aggregation opportunities through economies of scale and scope.

Globalization of Companies

- Different theoretical frameworks that describe the process of companies going global:
  - **The Uppsala model**
    - Incremental approach to internationalisation.
    - Initially developed by scholars at Uppsala University in Sweden in 1970s
  - **The Network model**
    - Based on Uppsala model
    - Process of internationalisation through a network perspective.
  - **Born Global**
    - Models firms that from their start gain competitive advantage from the use of resources and the sale of outputs in multiple countries
    - Operate in the 'borderless marketplace'
    - Also called International New Ventures

International Strategies

- International strategy (Rolex; Harley Davidson)
  - Company sells the same products in both domestic and foreign markets
- Multidomestic strategy (Unilever; Bridgestone)
  - For a firm to adopt this strategy must:
    1. establish its presence in one or more foreign markets.
    2. it must and tailor its products or services to the local customer base.
- Global strategy (Microsoft; Apple; IKEA)
  - Companies following a global strategy seek to leverage economies of scale to boost their revenue
- Transnational strategy (McDonald's; KFC)
  - A transnational business strategy can be seen as a combination of global and multidomestic strategies
  - A transnational company aims to maximize local responsiveness but also to gain benefits from global integration.



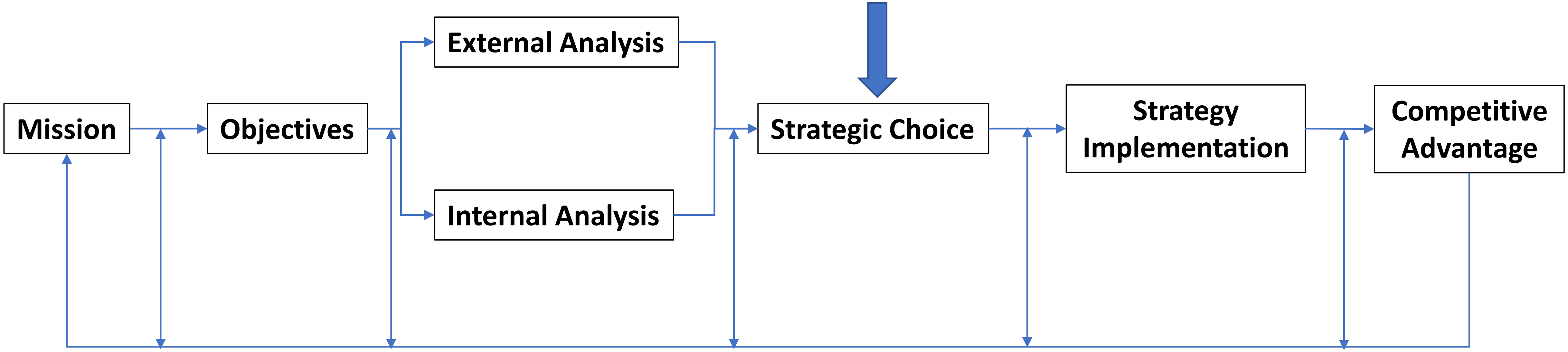
From de Kluyver and Pearce Ii (2021)

International strategies

	Benefits	Risks
International strategy	• leveraging core competencies • economies of scale • low cost implementation	• no or limited local responsiveness • highly affected by exchange-rate fluctuations
Multidomestic strategy	• highest-possible local responsiveness • increased differentiation • reduced exchange-rate exposure.	• high cost of implementation • little or no economies of scale • little or no learning across different regions
Global strategy	• economic Arbitrage • economies of scale and standardization.	• no local responsiveness • little or no product differentiation • race to the bottom as wages increase
Transnational strategy	• attempts to combine benefits of localization and standardization strategies simultaneously by creating a global matrix structure • economies of scale, location, experience, and learning	• global matrix structure is costly and difficult to implement, leading to high failure rate • some exchange-rate exposure

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

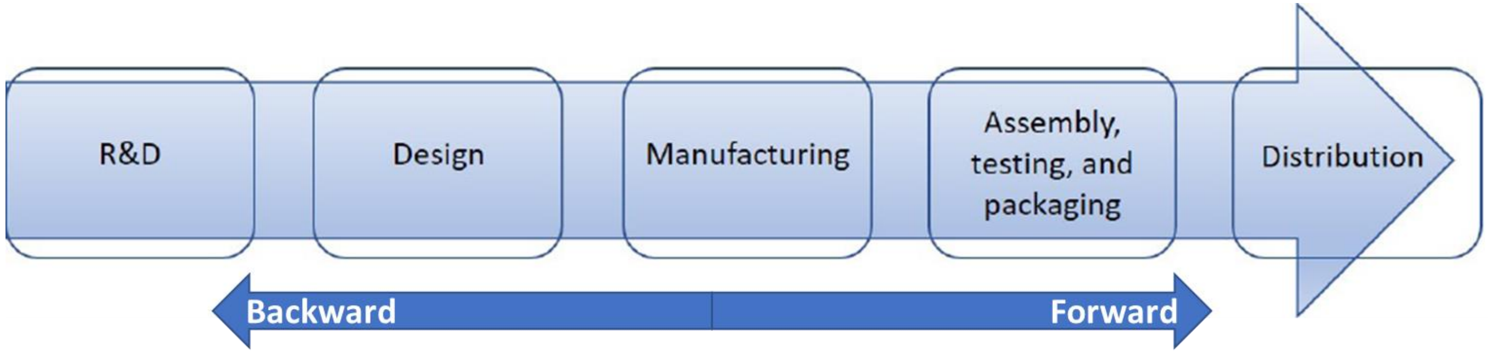


Feedback/ learning – Make necessary corrections

From Barney and Hesterly (2006)

Integration

- Integration is a growth strategy in which firm is expanding its operation within the industry value chain.
- Types of Integration:
  - Horizontal
    - The process of expanding by over another company that operates at the same level of the value chain.
  - Vertical
    - The expansion of a firm up or down the vertical industry value chain
    - Forward - Moving ownership of activities closer to the end customer
      - E.g., Fabless firm (Focus on Design) expands its focus to manufacturing
    - Backward -Moving ownership of activities upstream to the originating inputs of the value chain
      - E.g. Foundries firm (focus on manufacturing) expands its focus to Design

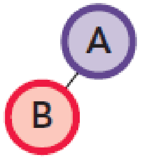
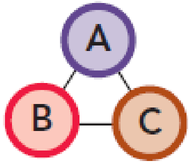
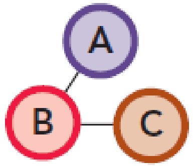
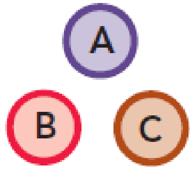


Diversification

- Adding new businesses to the firm that are distinct from its existing operations.
- The goals of diversification strategy are:
  - To promote growth
  - To create additional stakeholder and shareholder value
    - Value is created when the strategy allows a company's businesses to increase revenues or reduce costs while implementing their global-level strategies
  - To mitigate risk

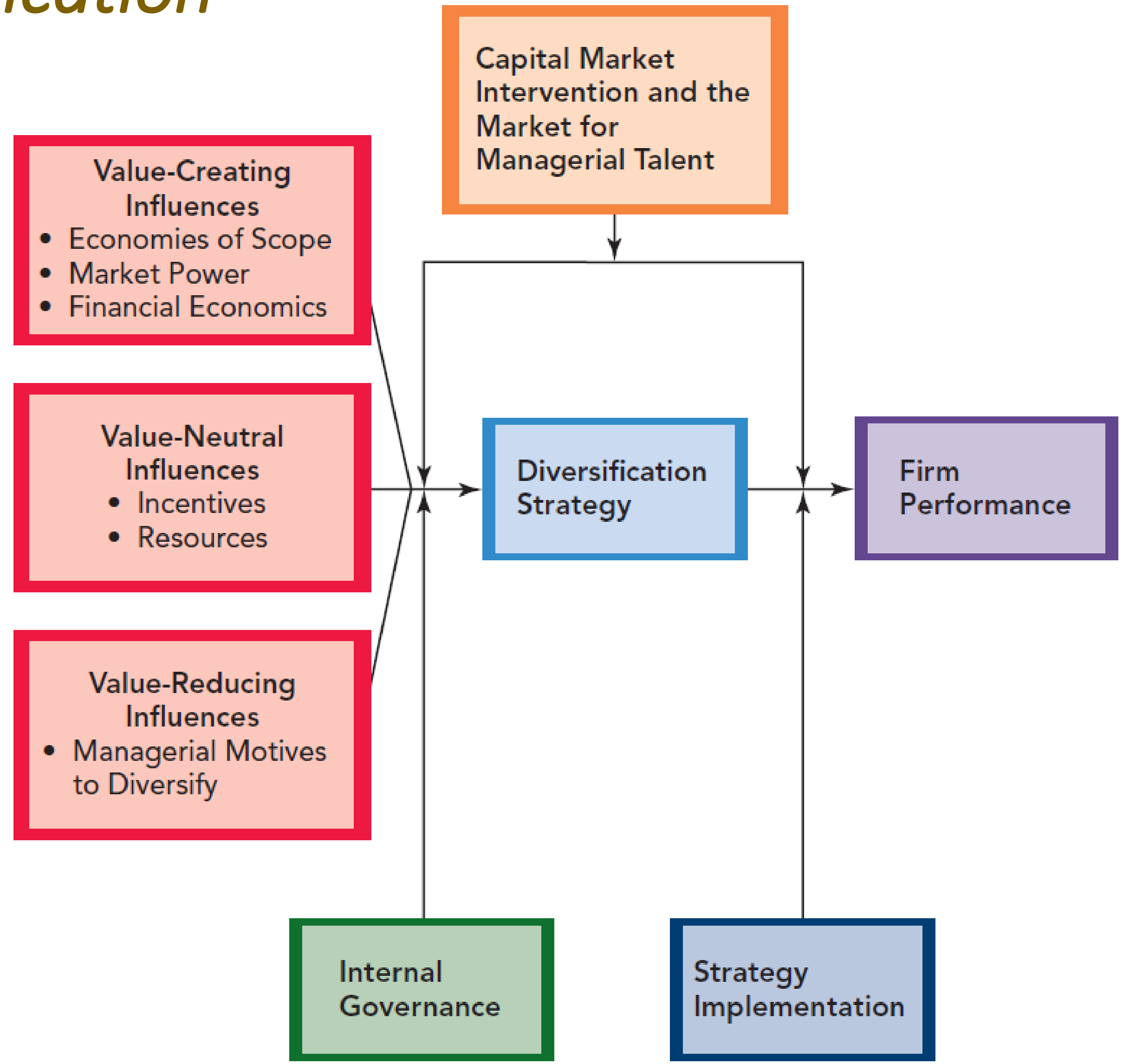
- Dimensions of Diversification:
  - Product diversification
    - Through entries into different industries
  - Geographic diversification
    - Through entries into different countries
  - Both product and geographic diversification

Levels of Product Diversification

Low Levels of Diversification		
Single business:	95% or more of revenue comes from a single business.	
Dominant business:	Between 70% and 95% of revenue comes from a single business.	
Moderate to High Levels of Diversification		
Related constrained:	Less than 70% of revenue comes from the dominant business, and all businesses share product, technological, and distribution linkages.	
Related linked (mixed related and unrelated):	Less than 70% of revenue comes from the dominant business, and there are only limited links between businesses.	
Very High Levels of Diversification		
Unrelated:	Less than 70% of revenue comes from the dominant business, and there are no common links between businesses.	

From Hitt et al. (2017)

Motives for diversification

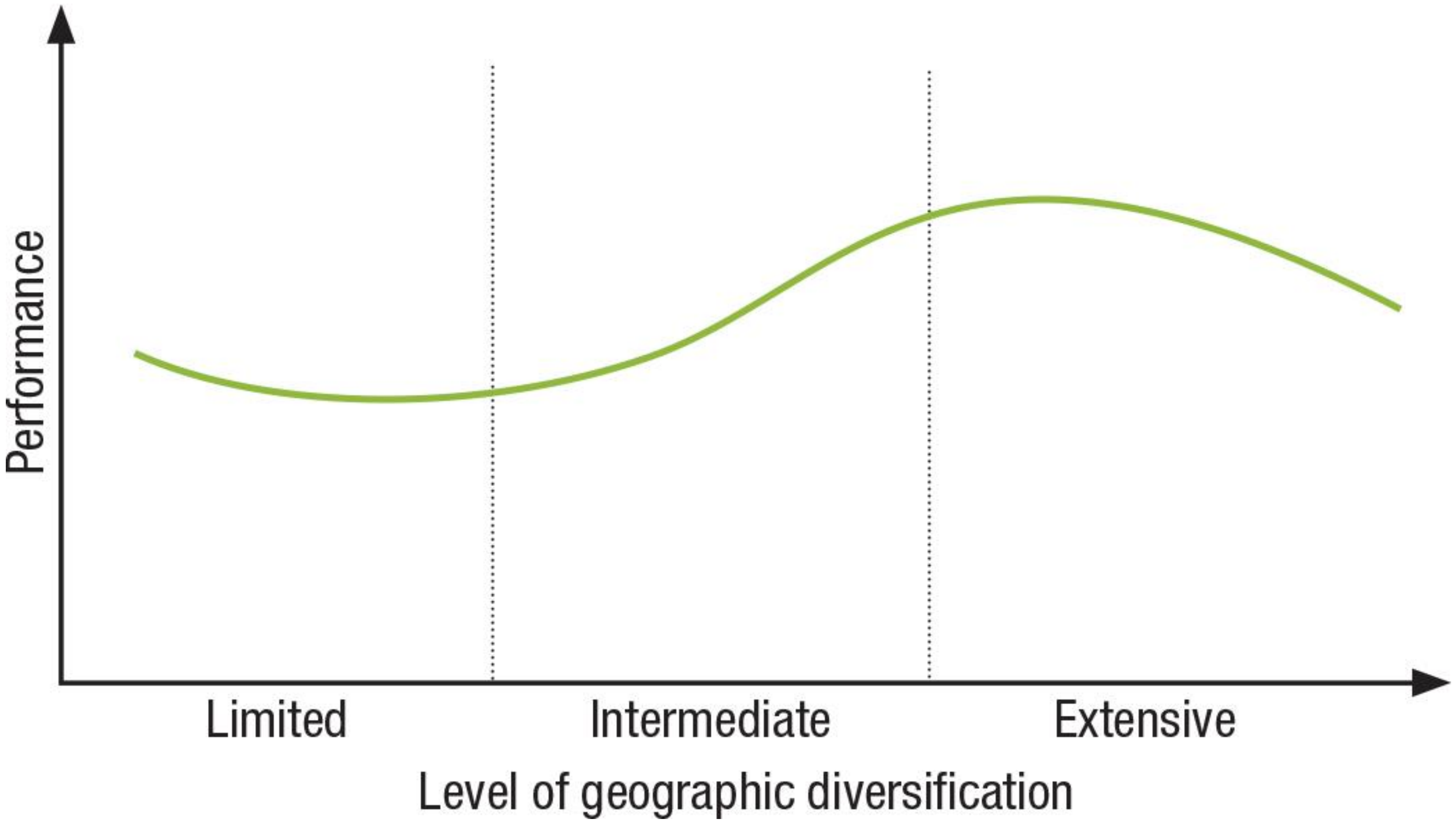


From Hitt et al. (2017)

Geographic Diversification

- Geographic diversification can be done domestically as well as internationally.
  - International diversification is defined as the number and diversity of countries in which a firm competes
- Categories of international diversification:
  - Limited
    - Geographically and culturally adjacent countries
  - Extensive
    - Scope extends beyond geographically and culturally neighboring countries
- Geographic diversification and firm performance
  - Call to "go global"
    - Effect of international expansion on low-level entry is initially negative
    - Moderate to high level of expansion shows positive relationship between geographic scope and firm performance, to an extent

Geographic Diversification



From Peng (2014)

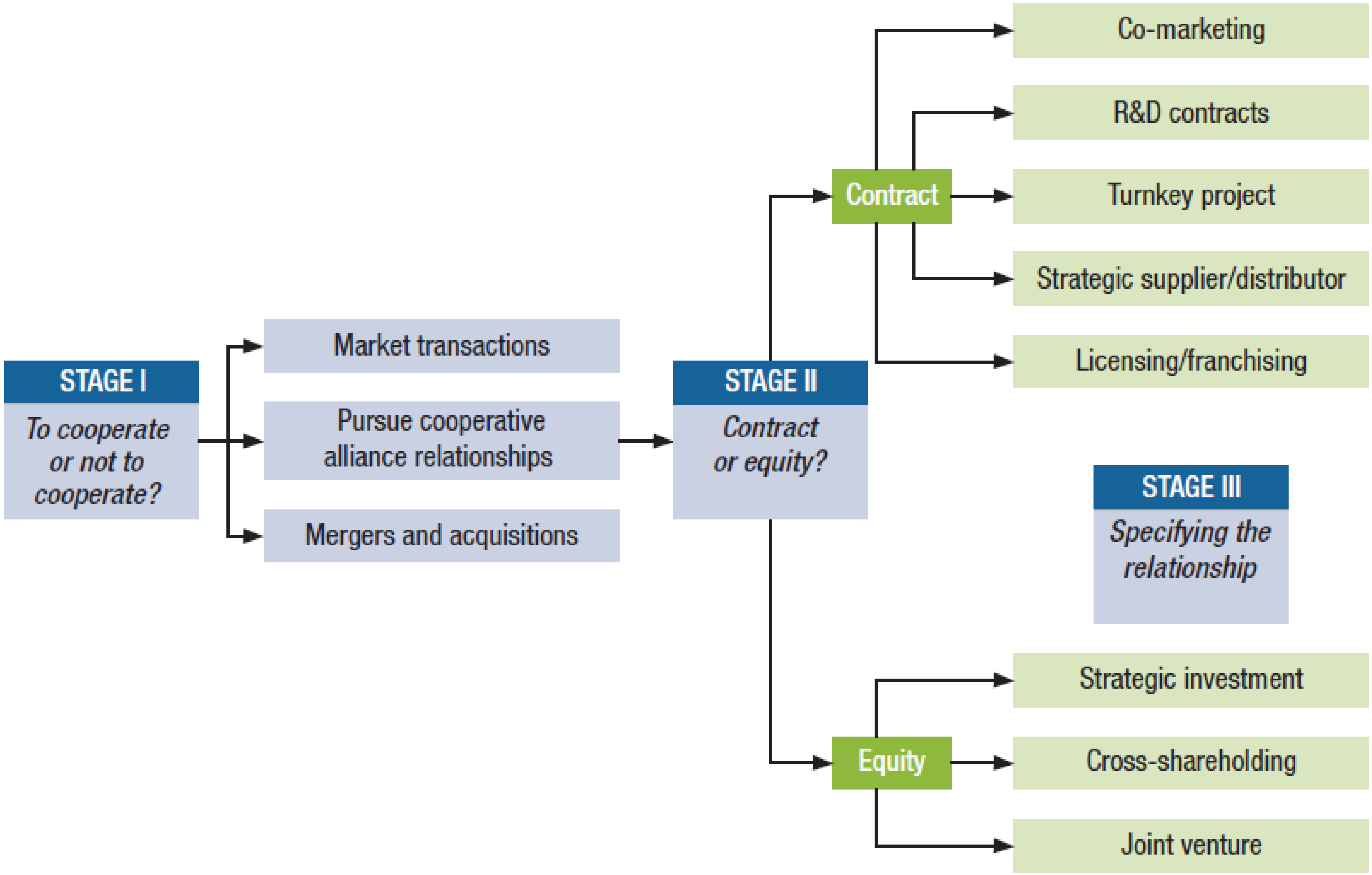
Strategic Alliances

- Are voluntary agreements of cooperation between firms.
- Types of strategic alliances:
  - Nonequity alliance
    - Cooperation between firms is managed directly through contracts, without cross-equity holdings or an independent firm being created.
      - Firms agree to work together to develop, manufacture, or sell products or services.
  - Equity alliance
    - Cooperative contracts are supplemented by equity investments by one partner in the other partner.
    - Strategic investment (one partner invests in another) ; Cross-shareholding (both partners invest in each other)
  - Joint venture
    - Cooperating firms form an independent firm in which they invest. Profits from this independent firm compensate partners for this investment.
    - Typically, partners in a joint venture own equal percentages and contribute equally to the venture's operations
    - Is preferred when firms need to combine their resources to create a competitive advantage that is substantially different from any they possess individually and when the partners intend to compete in highly uncertain environments.

Strategic Alliances

- Reasons to form an alliance
  - To create value they couldn’t generate by acting independently
    - Helping firms improve the performance of their current operations
      - Exploiting economies of scale
      - Learning from competitors
      - Creating a competitive environment favourable to superior performance
        - Facilitating the development of technology standards
    - Facilitating low-cost entry into and exit from industries and industry segments
      - Managing uncertainty (Real Options)
- Reasons not to form an alliance
  - Not cooperating in a way that maximizes the value of the alliance (i.e. cheating).
    - Adverse selection - Potential partners misrepresent the value of the skills and abilities they bring to the alliance.
    - Moral hazard - Partners provide to the alliance skills and abilities of lower quality than they promised.
    - Holdup - Partners exploit the transaction-specific investments made by others in the alliance.

Forming an alliance



From Peng (2014)

- Acquisition
  - The transfer of the control of assets, operations, and management from one firm (target) to another (acquirer)
    - The former becomes a unit of the latter
- Merger
  - The combination of assets , operations, and management of two firms to establish a new legal entity
- Cross-border (international) M&As constitute about 30 percent of the total number and 37 percent of the total volume of acquisitions around the world in recent years
- Three primary categories of M&A
    - Horizontal: Deals involving competing firms in the same industry
    - Vertical: Deals that allow the focal firms to acquire (upstream) suppliers or (downstream) buyers
    - Conglomerate: Transactions involving firms in product-unrelated industries
- Friendly M&A
  - The board and management of a target firm agree to the transaction
- Hostile M&A
  - Takeovers that are undertaken against the wishes of the target firm's board and management

Mergers and Acquisitions (M&As)

- Motives for M&As
  - Increased Market Power
  - Overcoming Entry Barriers
  - Cost of New Product Development and Increased Speed to Market
  - Lower Risk Compared to Developing New Products
  - Increased Diversification
  - Reshaping the Firm's Competitive Scope
  - Learning and Developing New Capabilities
  - Not all motives add value, hubristic and managerial motives reduce value.
  - Acquirers of publicly listed firms always have to pay an acquisition premium
- Additional motives for cross-border M&As
  - Exploit arbitrage opportunities
    - Labour cost; Labour regulations ; Tax regulations (Tax havens)
  - Legal Protections of Shareholders' Rights
  - Intellectual Property
  - Trade and Politics

Mergers and Acquisitions (M&As)

- Problems in achieving acquisition success:
  - Integration difficulties
    - Among the challenges associated with integration processes are the need to:
      - Meld two or more unique corporate cultures
      - Link different financial and information control systems
      - Build effective working relationships (particularly when management styles differ)
      - Determine the leadership structure and those who will fill it for the integrated firm
  - Inadequate evaluation of target
  - Inability to Achieve Synergy
    - A firm gains a competitive advantage through an acquisition strategy only when a transaction generates ***private*** synergy
  - Too much diversification
  - Managers Overly Focused on Acquisitions
  - Cultural Reasons
  - Politics

Corporate, business unit and global strategy

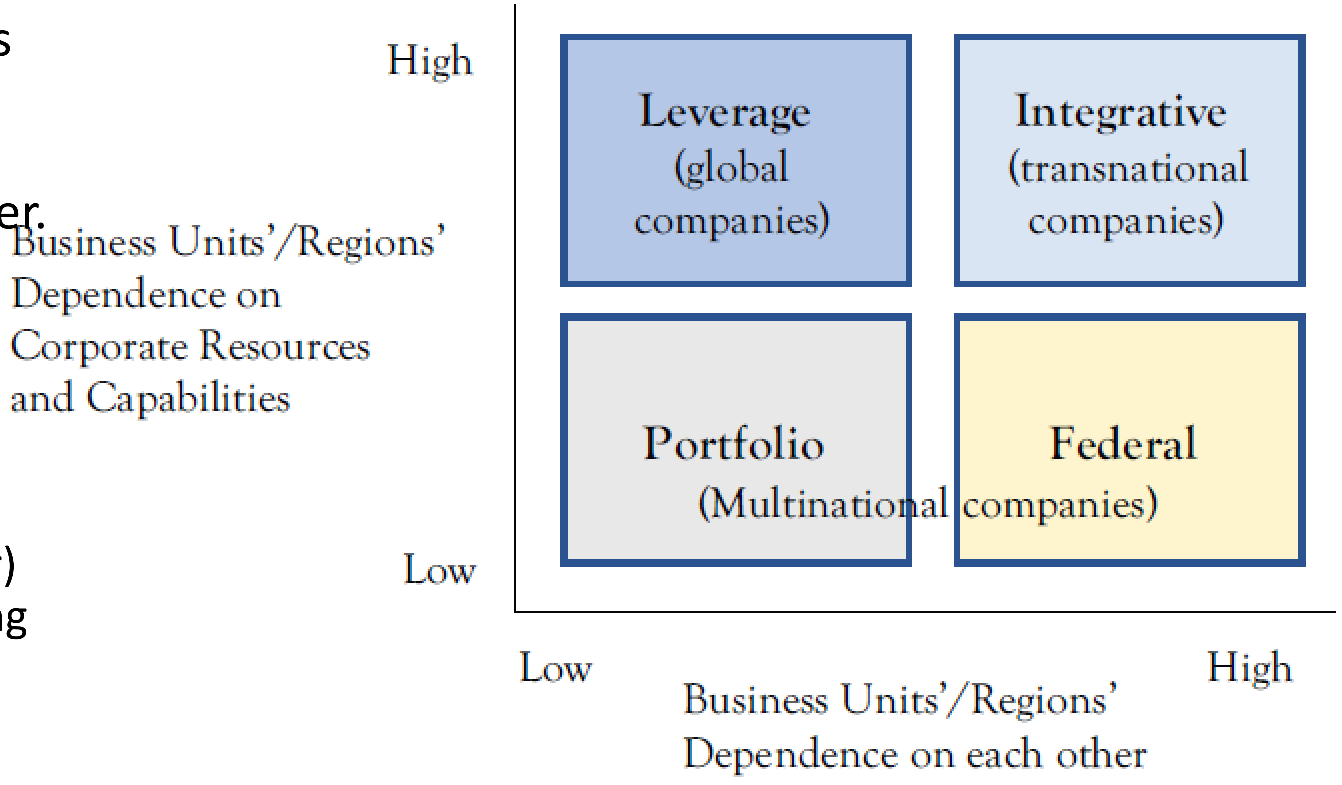
- *Corporate strategy* is about determining in what businesses a company should be engaged.
  - Defines the direction the firm is taking and the role each business unit will play in pursuing that direction.
- *Business unit strategy* (for non single-product/region firms) seeks to determine how a firm 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.

Linking corporate and global strategy

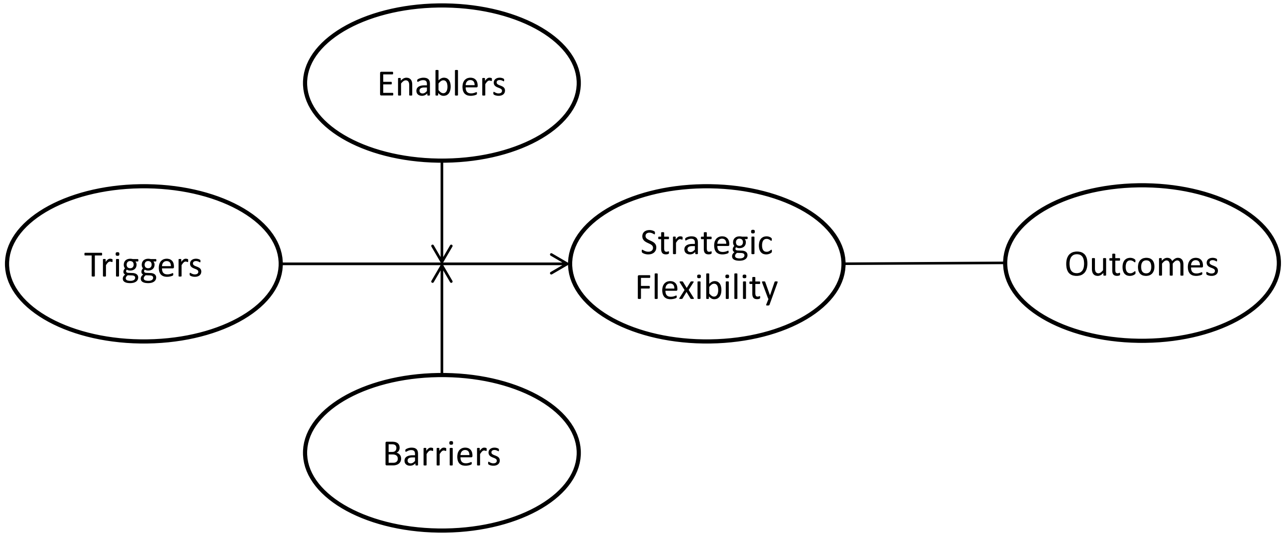
- The degree at which the global strategic decision are taken on corporate or business unit level depends on linkage between corporate and business units and the dependence of business units on each other.
- The matrix shows four distinct logics underlying corporate strategy
- Horizonal Axis: The Business 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)

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)

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 / Full-scale 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
    - 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.
  - 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.

Determinants of de-internationalization

- Firm-specific determinants
  - Firm capabilities and advantages
  - Product diversification may increase the likelihood of exit
  - Geographic diversification reduces the likelihood that a firm will divest from a foreign country (Chung et al. 2013)
  - Prior performance and the financial resources
  - The speed at which firms internationalise or enter different markets may lead to de-internationalization

Factors external to the firm

- Host country's institutional and economic environments have crucial impacts on firms' de-internationalization.
- Home country's institutional and economic environments
- The distance and difference between host and home countries

Re-internationalization

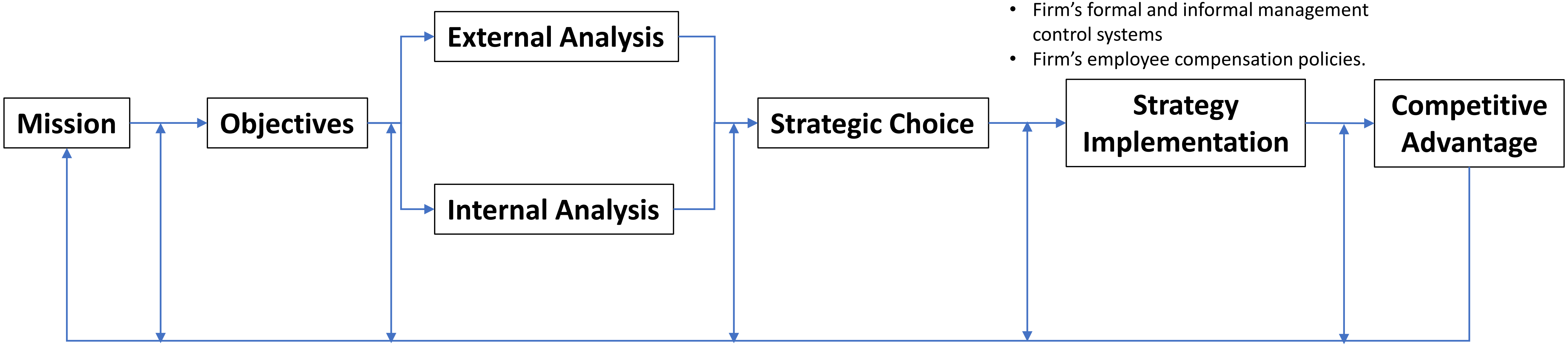
- Set of actions that subsequently escalate a firm's involvement or exposure to foreign markets following a period of reduced activity.
- Internal to the firm determinants
  - Foreign market experience helps firms assimilate information about foreign market conditions and assists them in overcoming some of the difficulties associated with re-entering foreign markets
  - 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.
- External to the firm determinants
  - Firms need more time to complete the re-internationalization process in countries with weak or unstable institutional environments.
  - 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.

Strategic management process

Strategy implementation occurs when a firm adopts organizational policies and practices that are consistent with its strategy.

Lecture 10

Important organizational policies/practices
- Firm's formal organizational structure
- Firm's formal and informal management control systems
- Firm's employee compensation policies.

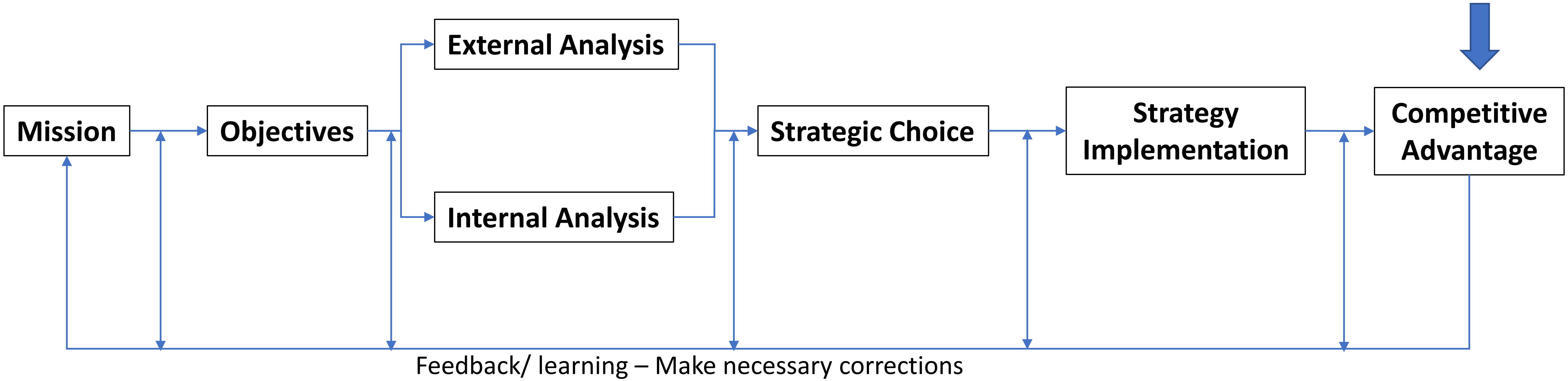


Feedback/ learning – Make necessary corrections

From Barney and Hesterly (2006)

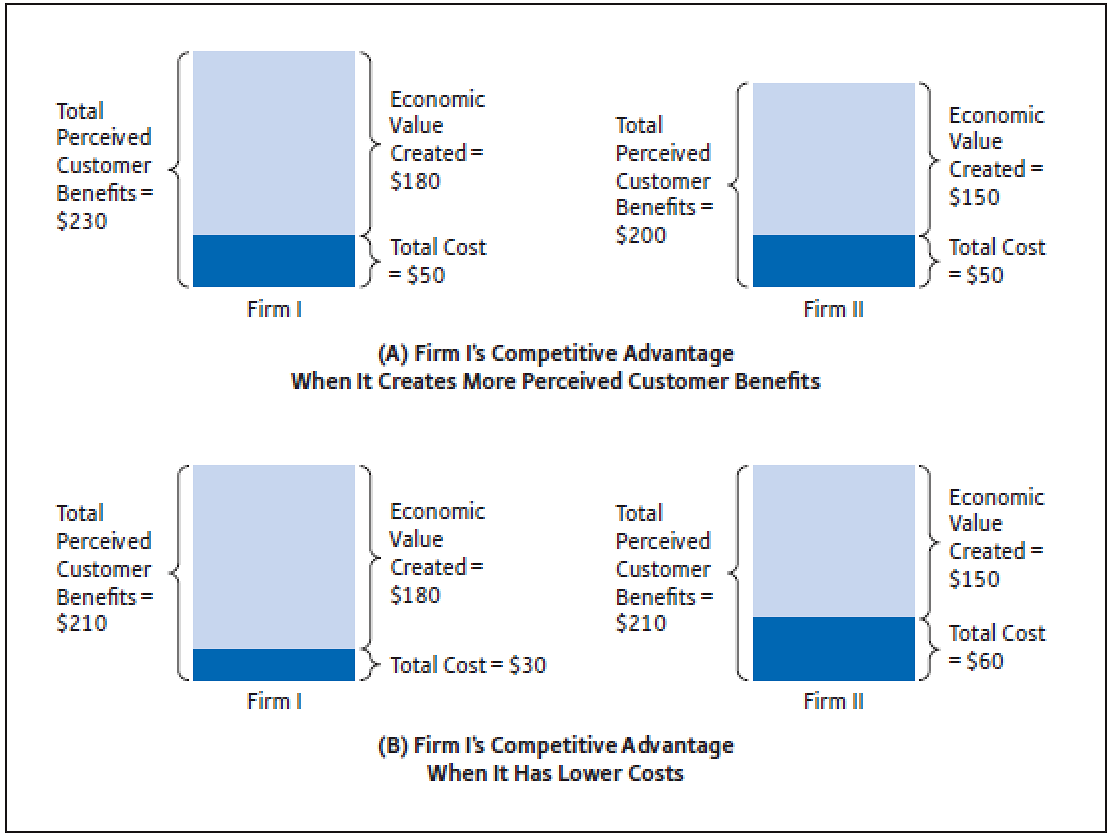
Strategic management process

The ultimate objective of the strategic management process is to enable a firm to choose and implement a strategy that generates a competitive advantage.



From Barney and Hesterly (2006)

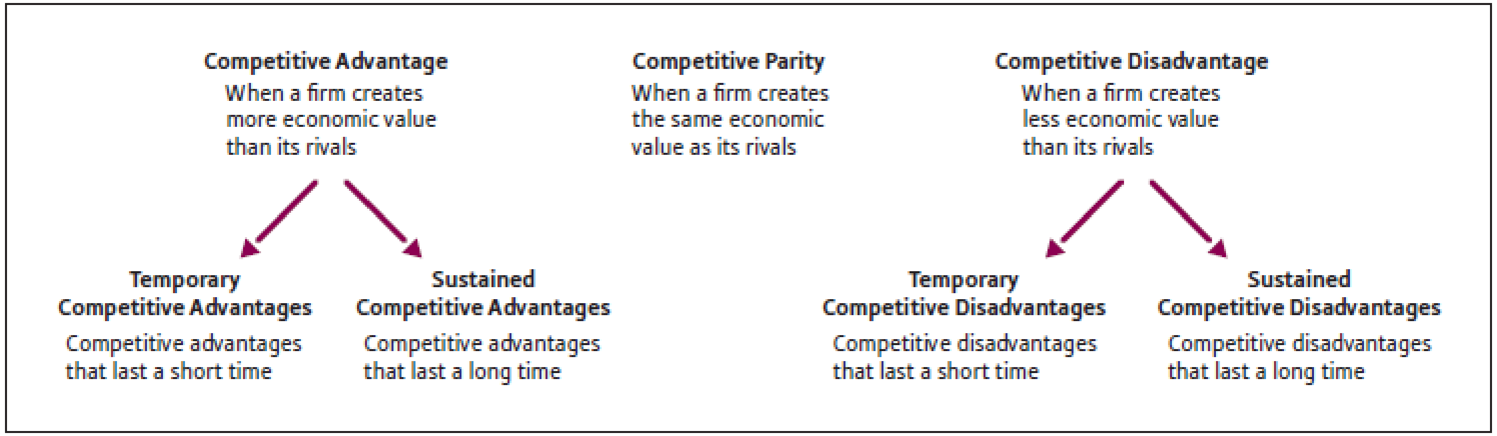
Competitive Advantage



From Barney and Hesterly (2006)

Competitive advantage is defined as performance superiority over rivals

Competitive Advantage



From Barney and Hesterly (2006)

- A sustained competitive advantage does not imply that it will last forever.
- In today's global competition, **no competitive advantage lasts forever**.
- In fact, competitive advantage has become shorter in duration (Tian & Slocum, 2015).

Assignment brief

- Case study (100% of overall mark)
- Carefully read the case study “General Motors' Global Strategy” by Andrew C. Inkpen.
  - This case examines General Motors (GM) global strategy. From a manufacturing presence in 34 countries in 2007 to only eight countries in 2020, GM has dramatically changed its global strategy. GM has withdrawn from many regions and countries, including Europe, India, Australia, and Indonesia. Many assembly plants have been closed and sales are now heavily concentrated in the United States.
- You are required to develop a *3,000-word report* to critically answer the question: “*Why has General Motors (GM) failed in the Indian Market but succeeded in the Chinese Market?*”. In the report you will need to refer both to the failure of GM in Indian market and the its success in the Chinese market.
- Deadline for submission: **9th of May, 2023 at 2:00 pm**.
- Please read the full details for the assessment from the *Assignment brief page in Canvas*

Assignment brief - Notes

- *Please read carefully the case study and the instruction given on the assignment brief in Canvas*
- You are expected to demonstrate the knowledge you gained from the lectures and seminars
- You are expected to be critical, to employ the theories/theoretical concepts covered in lectures, collected data to support your arguments
  - The case study is a good starting point – But you need to find more information (from credible sources)
- You should not explain what the theory is, but how it is applied in this particular case. When referring to theories/theoretical concepts make sure that you provide the corresponding citations from the literature (*avoid* citing the lecture materials)
- The ***3,000 words*** is the **absolute upper limit**
  - Note that the number of words in each subsection is just ***indicative***
- I will provide feedback to all your questions related to the assignments (provided you are not asking for the correct answers) however I will not read drafts of your assignments
  - You need to be proactive and ask questions to receive feedback and improve your assignment.

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:
Introduction (7 marks)	300	• Describe briefly the overall GM's global strategy, objectives, strengths, and weaknesses.

- From the case study derive:
  - The overall GM's global strategy (shifts in global strategies)
  - Key strategic objectives that are directly or indirectly mentioned
  - Strengths – strong points of GM's positioning for competitive advantage
  - Weaknesses – weak points of GM's positioning for competitive advantage

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:
Evaluating a Firm's Environments (13 marks)	400	• Evaluating a Firm's Internal Environment (use one of the relevant frameworks) • Evaluating a Firm's External Environment (use one of the relevant frameworks) All concerning entering India and China

- Decide the period that the evaluation of GM's environment is relevant to the assignment question
- You need to identify the key components of GM's environment that are relevant to the assignment question
- You can follow the five steps described in Lecture 2 for performing evaluation of GM's environment in India and China, but in the report only discuss the *threats and opportunities* in the external environment (relevant to the assignment question) and firm's *strengths and weaknesses* (relevant to the assignment question)

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:
Global strategies (20 marks)	750	• Identify & justify which global strategy has GM used in entering India and China. • Critical discussion of the choices of GM in relation to major competitors

- You should identify the elements of AAA framework in GM's global strategy in India and China.
  - Justify why a particular strategy is associated with a particular A strategy
  - This might be elements that were successful or unsuccessful in either India or China
- Compare those across the two countries but also in relation to major competitors in each country.
- Can these strategic choices be the source for GM's failure in Indian Market and/or success in the Chinese Market? Explain

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-level strategies (20 marks)	750	• Briefly discuss the Diversification strategy of GM • Advantages/Disadvantages of Strategic Alliances vs Mergers and Acquisitions • Discuss the De-internationalization strategy of GM

- GM has been involved in both strategic alliances (Indian and Chinese Markets) and M&As (Indian Market). Discuss the relevant advantages/disadvantages of Strategic Alliances vs Mergers and Acquisitions.
- Briefly discuss the geographic diversification strategy of GM, relating in this to de-internationalization strategy.
- Can these strategic choices be the source for GM's failure in Indian Market and/or success in the Chinese Market? Explain

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

- We will discuss the characteristics of Chief Executive Officer (CEO) and members of the Top Management Team (TMT) that influence the strategic choices in Lecture 9 - Also seminar 5 will be on this topic

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:
Strategy Implementation and conclusions (15 marks)	500	• Discuss global strategy implementation, by referring to the firm's formal organizational structure and firm's formal and informal management control systems. • Recommendation for changes in the strategy of GM in the future.

- We will discuss the global strategy implementation on Lecture 10
- Discuss two-three recommendations about the future strategy of GM
    - You can also discuss here, if you believe that GM should (or shouldn't) re-enter the Indian market

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:
The overall presentation (10 marks)		• Correctness/Quality of referencing • Table of contents • Use of headings, subheadings, etc.

- Please use the Harvard referencing style when referencing inside the text and when developing your reference list.
- Check the quality of your reference: Avoid citing Wikipedia, Lecture notes.
- Use credible resources such as academic articles, Bloomberg, MarketLine Advantage, companies' annual reports, and newspapers
  - For academic articles try to use the University of Liverpool Library search.

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MKIB 351: Global Strategic Management

Thank You!