Strategy for International companies

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

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STRATEGIC MANAGEMENT

Outline of the lecture

1. Evaluation and control in strategic management
2. Evaluating an implemented strategy
3. Measuring performance
4. Strategic information system
5. Guidelines for proper control

Introduction

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- International business refers to business activities that straddle two or more countries.

- International business activities are defined as all business activities, including the creation and transfer of resources, goods, services, know-how, skills and information which transcend national boundaries. Transactions of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc.

- Internationalization of entrepreneurial activities is the necessity for the majority of entrepreneurial subjects.

Internationalization of Entrepreneurial Activities

- The internationalization of entrepreneurial activities is represented by geographic expansion of entrepreneurial activities cross national borders.

- The internationalization business literature has witnessed the emergence of at least six key theories over the last four decades. These theories are grounded in four different theoretical paradigms of the company:
    - the market imperfection paradigm;
    - the behavioral paradigm;
    - the market failure;
    - the resource-based view.

International Organizations

- International business activities may be defined simply as business transactions that take place across national borders.

- This definition includes the very small organization that exports (or imports) a small quantity to only one country, as well as the very large global organization with integrated operations and strategic alliances around the world.

- Within this broad array, distinctions are often made among different types of international company, and these distinctions are helpful in understanding a organization s strategy, organizational structure, and functional decisions:
    - Multinational enterprises;
    - Global companies;
    - Transnational companies.

Multinational enterprises

- Multinational enterprise MNE is an organization (the parent company) which acquires ownership or other contractual ties in other organizations (including companies and unincorporated companies) outside its home country.

- The parent company (from home country) co-ordinates and controls the international business activities carried out by all the organizations within the MNE s broad control.

- These enterprises using a multinational strategy sacrifices efficiency in favor of emphasizing responsiveness to local requirements within each of its markets.

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Global enterprises

- Global companies have invested and are present in many countries. They market their products through the use of the same coordinated image/brand in all markets.

- The global company has a more specific meaning, referring to an enterprise that engages in value-added activities in each of the major regions of the world, and which pursues an integrated strategy towards these activities. Generally one corporate office is responsible for global strategy. Emphasis is on volume, cost management and efficiency.

- The global company using a global strategy sacrifices responsiveness to local requirement within each of its markets in favor of emphasizing efficiency. Some minor modifications to products may be made in various markets, but a global strategy stresses the need to gain economies of scale by offering essentially the same products in each market.

Transnational corporations

- Transnational corporations are all enterprises which control assets (factories, mines, sales offices and the like) in two or more countries. Transnational is a company that owns assets and operates direct business activities in at least two countries.

- Transnational corporations are companies that supply foreign markets entirely through exports and that concentrate on those which engage in international production.

- Transnational corporations have become central actors of the world economy and, in linking foreign direct investment, trade, technology and finance, they are a driving force of economic growth.

Stages of International Development

Corporations operating internationally tend to evolve through five common stages, both in their relationships with widely dispersed geographic markets and in the manner in which they structure their operations and programs.

- **Stage 1 (Domestic company):** The primarily domestic company exports some of its products through local dealers and distributors in the foreign countries. The impact on the organization's structure is minimal because an export department at corporate headquarters handles everything.
- **Stage 2 (Domestic company with export division):** Success in Stage 1 leads the company to establish its own sales company with offices in other countries to eliminate the middlemen and to better control marketing. Because exports have now become more important, the company establishes an export division to oversee foreign sales offices.

Stages of International Development

- **Stage 3 (Primarily domestic company with internationa division):** Success in earlier stages leads the company to establish manufacturing facilities in addition to sales and service offices in key countries. The company now adds an international division with responsibilities for most of the business functions conducted in other countries.
- **Stage 4 (Multinational corporation with multidomestic emphasis):** Now a full-fledged MNC, the company increases its investments in other countries. The company establishes a local operating division or company in the host country. As the subsidiary in the host country successfully develops a strong regional presence, it achieves greater autonomy and self-sufficiency.
- **Stage 5 (MNC with global emphasis):** The most successful MNCs move into a fifth stage in which they have worldwide human resources, R&D, and financing strategies. Typically operating in a global industry, the MNC denationalizes its operations and plans product design, manufacturing, and marketing around worldwide considerations.

Strategy on International Markets

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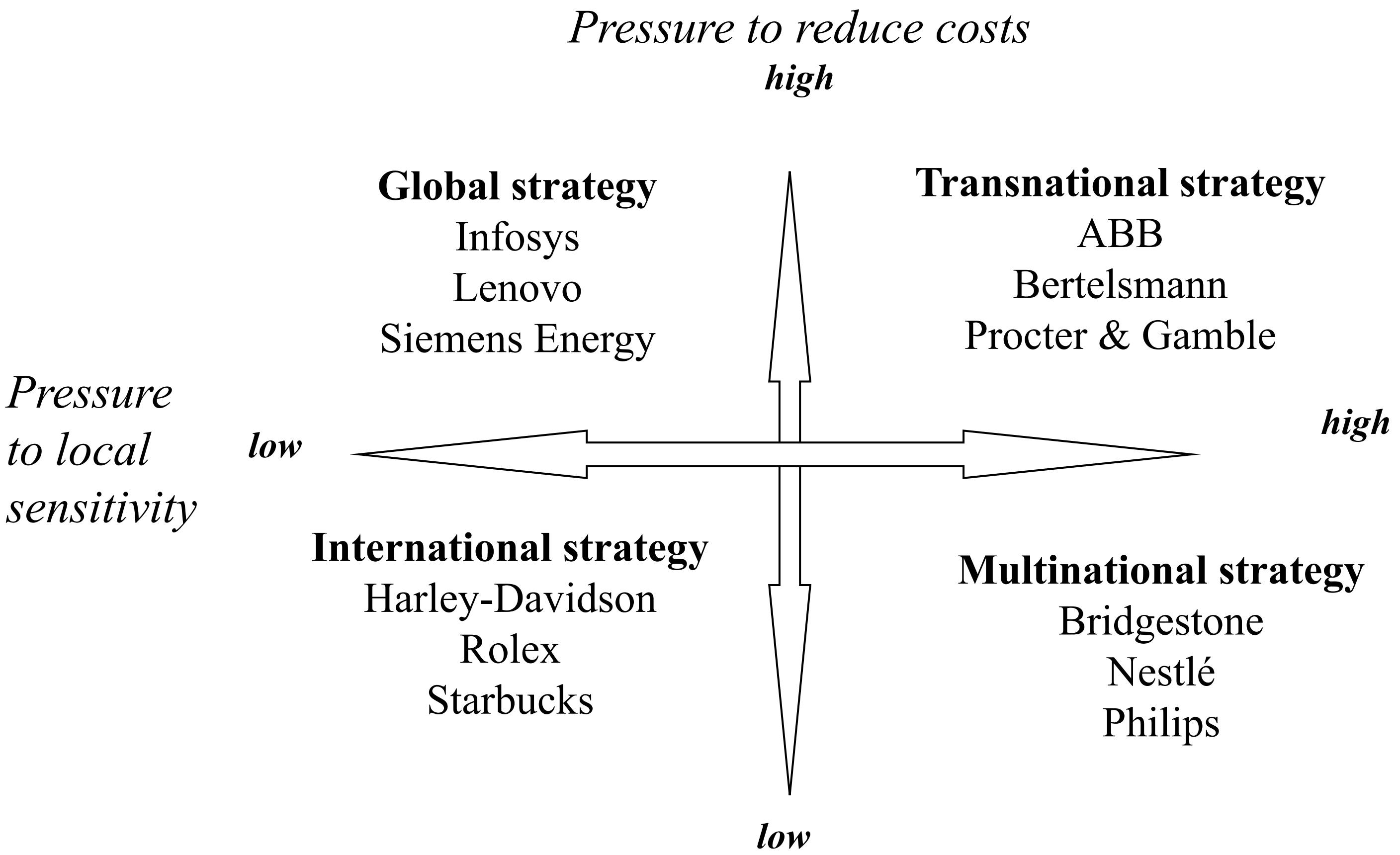

Prostor pro doplňující informace, poznámky

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International strategy

- One of the oldest types of global strategies;
- First step companies take when beginning to conduct business abroad;
- Company sells the same products in both domestic and foreign markets;
- Companies to leverage their home-based core competencies in foreign markets;
- The strategy is often used successfully by companies with relatively large domestic markets and with strong reputations and brand names;
- Foreign customers want to buy the original products, differentiation strategy is preferred business strategy;
- The strategy is tends to rely on exporting or the licensing or the franchising to reap economies scale by accessing a larger market.

Multidomestic strategy

- Maximize local responsiveness hoping that local consumers will perceive their products as local ones;
- Frequently use the strategy when entering host countries with large and/or idiosyncratic domestic markets (Japan);
- Common in the consumer products and food industries;
- Differentiation strategy on business level;
- The is costly and inefficient because it requires the duplication of key business functions across multiple countries;
- Each country unit tends to be highly autonomous, and the company is unable to reap economies of scale or learning across regions.

Global strategy

- The strategy attempt to reap significant economies of scale and location economies by pursuing a global division of labor based on wherever best-of-class capabilities reside at the lowest cost;
- Business strategy to be cost leadership, there is little or no differentiation or local responsiveness because products are standardized.

Transnational strategy

- The strategy attempt to combine the benefits of a localization strategy (high local responsiveness) with those of a global strategy (lower-cost position attainable);
- Combination of high pressure for local responsiveness and high pressure for cost reductions;
- Company that pursue a blue ocean strategy at the business level;
- Managers` mantra is to think globally, but act locally;
- Matrix organizational structure.

Benefits of international strategies

- **International strategy** – leveraging core competencies; economies of scale; low cost implementation through exporting, franchising, licensing.
- **Multidomestic strategy** – highest-possible local responsiveness; increased differentiation; reduced exchange-rate exposure.
- **Global strategy** – location economies: global division of labor based on wherever best-of-class capabilities reside at lowest cost; economies of scale and standardization.
- **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.

Risks of international strategies

- **International strategy** – no or limited local responsiveness; highly affected by exchange-rate fluctuations; embedded in product could be expropriated.

- **Multidomestic strategy** – duplication of key business functions in multiple countries leads to high cost of implementation; little or no economies of scale; little or no learning across different regions; higher risk of expropriation.

- **Global strategy** – no local responsiveness; little or no product differentiation; some exchange-rate exposure; race to the bottom as wages increase; some risk of expropriation.

- **Transnational strategy** – global matrix structure is costly and difficult to implement, leading to high failure rate; some exchange-rate exposure; higher risk of expropriation.

International Strategies

Structure and controls	International	Multi-domestic	Global	Transnational
Vertical differentiation	Core competency centralized, other decentralized	Decentralized	Some centralized	Mixed
Horizontal differentiation	Product division	Area structure	Product division	Informal matrix
Need for coordination	Moderate	Low	High	Very high
Integrating mechanisms	Few	None	Many	Very many
Performance ambiguity	Moderate	Low	High	Very high
Need for controls	Moderate	Low	High	Very high

Generally, we can distinguish four basic stages of the process of the internationalization of entrepreneurial activities:

- *The first stage of the process of the internationalization* of entrepreneurial activities cannot be literally understood as the carrying out of entrepreneurial activities on international markets.
- *In the second stage of the internationalization* the domestic market remains still the priority for the company, but the awareness of the necessity of the development of entrepreneurial activities is growing.
- *In the third stage of internationalization* one can already refer to international entrepreneurship and the company is becoming multinational.
- *The fourth stage of internationalization* is typical of using international managerial teams and indeed global management of all company's activities.

Risks of internationalization activities

- ***Country risks***
  - Government intervention, protectionism, barriers to trade and investment;
  - Bureaucracy, red tape, administrative delays, corruption;
  - Lack of legal safeguards for intellectual property rights;
  - Legislation unfavorable to foreign companies;
  - Economics failures and mismanagement;
  - Social and political unrest and instability.

- ***Commercial risks***
  - Weak partner;
  - Operational problems;
  - Timing of entry;
  - Competitive intensity;
  - Poor execution of strategy.

Risks of internationalization activities

- ***Trasportation risks***

- ***Currency risks***
    - Currency exposure;
    - Asset valuation;
    - Foreign taxation;
    - Inflationary and transfer pricing.

- ***Market risks***
    - Cultural differences;
    - Negotiation patterns;
    - Decision-making styles;
    - Ethical practices.

Strategic decisions in internationalization process

- The internationalization of entrepreneurship activities counts among strategic long-lasting decisions; these decisions bring significant changes in running a organization and are conditioned by them as well.

- The progress and speed of business activity internalization depends on the importance and role that is assumed to the international entrepreneurship within entrepreneurship strategy of the organization.

- Among some fundamental strategic decisions accompanying the internationalization of entrepreneurial subjects are included:
  - Timing of entering foreign markets;
  - Geographical scope of internationalization;
  - Foreign entry mode selection.

Going Globaly: Why?

- Companies expand beyond their domestic borders if they can increase their economic value creation (V – C) and enhance competitive advantage.
- *Advantages of going global*
    - Gain access to a larger market – economies of scale and economies of scope
    - Gain access to low-cost input factors – low-cost leadership strategy
    - Develop new competencies – differentiation strategy
- *Disadvantages of going global*
    - Liability of foreignness
    - Loss of reputation
    - Loss of intellectual property

Going Globaly: Where?

Where in the world to compete?

- Consider that several countries and locations can score similarly on such absolute metrics of attractiveness (for example Ireland and Portugal)
- Consider relative distance in the CAGE model – decision framework based on the relative distance between home and foreign target country along four dimensions:
    - *Cultural* – cultural disparity between an internationally, expanding firm`s home country and its targeted host country.
    - *Administrative and political* – factors such as the absence or presence of shared monetary or political associations, political hostilities and weak or strong legal and financial institutions.
    - *Geographic* – the costs to cross-border trade rise with geographic distance.
    - *Economic* – the wealth and per capita income of consumers.

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Going Globaly: How?

How do MNEs enter foreign markets?

- Dimensions– level of investments, level of control
- Foreign entry modes
    - Export entry modes – one of the oldest forms of internationalization
    - Contractual entry modes
    - Investment entry modes

Globalization

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- **Globalization** is a process of closer integration and exchange between different countries and people worldwide, made possible by falling trade and investment barriers, advances in telecommunications, and reductions in transportation costs.
- These factors reduce the costs of doing business around the world, opening doors to a much larger market than any one home county.
- Globalization also allows companies to source supplies at lower costs, to learn new competencies, and to further differentiate products.
- The world`s market economies are becoming more integrated and interdependent.
- Globalization has led to significant increases in living standards in many economies around the world.
- The engine behind globalization is the **multinational enterprise MNE** – a company that deploys resources and capabilities in the procurement, production, and distribution of goods in at least two countries. By making investments in value chain activities abroad, MNEs engage in **foreign direct investment FDI**.

Globalization

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Stages of globalization

- Globalization 1.0 (1900 – 1941)
  - Basically all the important business functions were located in the home country.
  - Only sales and distribution operations took place overseas (essentially exporting)
  - Firms procured raw materials from overseas.
  - Strategy formulation and implementation (knowledge flows), followed a one-way path – from domestic headquarters to international outputs.
  - The time period saw the blossoming of the idea of MNEs.
- Globalization 2.0 (1945 – 2000)
  - New focus on growing business – needs went unfulfilled and to reconstruct the damage from the war.
  - MNEs began to create smaller, self-contained copies of themselves, with all business functions intact, in a few key countries (Japan, Australia, Western Europe) – significant amounts of FDI
  - It was costly to duplicate business functions in overseas outposts, doing so allowed for greater local responsiveness to country-specific circumstances.
  - While the U.S. corporate headquarters set overarching strategic goals and allocated resources through the capital budgeting process, local mini MNE replicas had considerable leeway in day-to-day operations.

Globalization

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- Globalization 3.0 (21st century)
  - MNEs that had been the vanguard of globalization have since become global-collaboration networks.
  - Companies now freely locate business functions anywhere in the world based on an optimal mix of costs, capabilities, and PEST factors.
  - The MNE recognizes from a multinational company with self-contained operations in a few selected countries to a more seamless global enterprise with centers of expertise. Each of these centers of expertise is a hub within a global network for delivering products and services.
  - Creating a global network of local expertise is beneficial not only in service industries, but also in the industrial sector.
  - To increase the rate of low-cost innovation that can then be used to disrupt existing markets, GE organizes local growth teams in China, India, Kenya and many other countries. Many of these low-cost innovations, first developed to serve local needs, are later introduced in Western markets to become disruptive innovations.
  - GE uses the slogan “in country, for country” to describe the local growth teams` autonomy in deciding which products to develop, how to make them, and how to shape the business model.
  - Some new ventures organize as global-collaboration networks from the start (Logitech).