

Learning Objectives.

- ★ Part 1:
What is superior performance/competitive advantage and how can international strategic management help attain it?
- ★ Part 2:
How to evaluate strategies:
Evidence-based management

Textbook Objectives.

- ★ Offer a basic critique of the traditional, narrowly defined “global strategy”
- ★ Articulate the rationale behind studying global strategy
- ★ Define what is strategy and what is global strategy
- ★ Outline the four fundamental questions in strategy
- ★ Participate in the debate on globalization with a reasonably balanced view and a keen awareness of your likely bias

CHAPTER SUMMARY

1. Offer a basic critique of the traditional, narrowly defined “global strategy”

- The traditional and narrowly defined notion of “global strategy” is characterized by the production and distribution of standardized products and services on a worldwide basis - in short, a “one size fits all” approach. This strategy has often backfired in practice.

2. Articulate the rationale behind studying global strategy

- To better compete in the corporate world that will appreciate expertise in global strategy

3. Define what is strategy and what is global strategy

- There is a debate between two schools of thought: “strategy as plan” and “strategy as action” This book follows the “Strategy as integration” school
- Strategy → defined as a firm’s theory about how to compete successfully
- Global strategy → defined as strategy of firms around the globe

4. Outline the four fundamental questions in strategy

- The four fundamental questions are: (1) Why do firms differ? (2) How do firms behave? (3) What determines the scope of the firm? (4) What determines the success and failure of firms around the globe?
- The 3 leading perspectives guiding our exploration are industry-based, resource-based, and institution-based views, which collectively form a strategy tripod

5. Participate in the debate on globalization with a reasonably balanced view and a keen awareness of your likely bias

- Some view globalization as a recent phenomenon, while others believe that it has been evolving since the dawn of human history
- We suggest that globalization is best viewed as a process similar to the swing of a pendulum
- Strategists need to know themselves (including their own biases) and know their opponents

SUMMARY OF KEY TERMS

Globalization	The close integration of countries and peoples of the world
Semiglobalization	A perspective that suggests that barriers to market integration at borders are high but not high enough to completely insulate countries from each other
Global Strategy	(1) Strategy of firms around the globe. (2) A particular form of international strategy, characterized by the production and distribution of standardized products and services on a worldwide basis.
Strategy	A firm's theory about how to compete successfully
Strategy as plan	A perspective that suggests that strategy is most fundamentally embodied in explicit, rigorous formal planning as in the military
Strategy as action	A perspective that suggests that strategy is most fundamentally reflected by firms' pattern of actions
Strategy as integration	A perspective that suggests that strategy is neither solely about plan nor action and that strategy integrates elements of both schools of thought

FUNDAMENTAL QUESTIONS IN STRATEGY

1. Why do firms differ?	<ul style="list-style-type: none"> → → Cultural differences between Western firms and Japanese companies → Networks of relationships have powerful effect - keiretsu, guanxi, chaebol, blat → Behind each of these deceptively simple words lie some fundamental differences on how to compete around the world
2. How do firms behave?	<ul style="list-style-type: none"> → Question focuses on what determines firms' theories about how to compete → <u>Strategy tripod</u>: A framework that suggests that strategy as a discipline has 3 "legs" or key perspectives: industry-based, resource-based, and institution-based views → <u>Industry-based</u> . focus on competitive forces within an industry that impact all firms (Porter's 5 forces?) → <u>Resource-based (capabilities) view</u> focus on internal strengths and weaknesses, firm specific resources and capabilities → <u>Institution-based view</u> focus on government and societal forces
3. What determines the scope of the firm?	<ul style="list-style-type: none"> → Question focuses on the growth of the firm & contraction of the firm → In addition to product relatedness, a focus on institutional relatedness, defined as an organization's informal linkages with dominant institutions in the environment which confer resources and legitimacy, may help answer this question over time

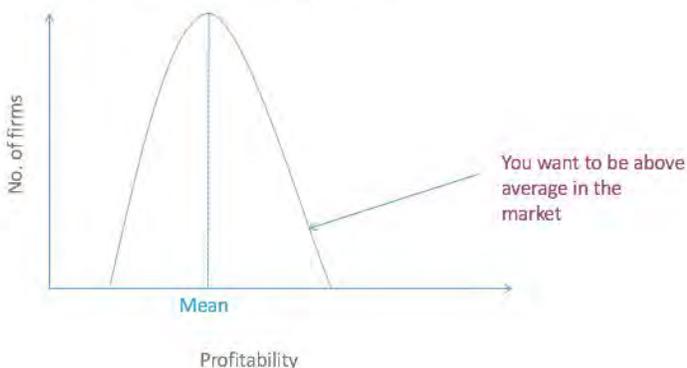
4. What determines the success and failure of firms around the globe?

- This focus on performance, more than anything else, defines the field of strategic management and international business
- All 3 major perspectives that form the strategy tripod ultimately seek to answer this question

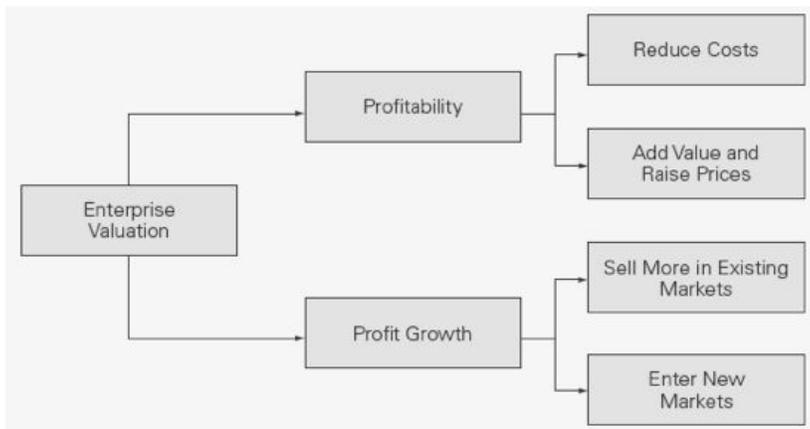
WHAT DO WE MEAN BY SUCCESS?

- Superior performance or competitive advantage:
 - ◆ Occurs when a company’s profitability is greater than the average profitability of firms in its industry or market
- Sustained competitive advantage:
 - ◆ A company’s strategies enable it to maintain above-average profitability for a number of years

Performance variation graph
Differences in profitability in a market



WHAT IS STRATEGY?



- Broadly, a firm’s strategy refers to the set of actions that managers take to attain the goals of the firm
- Principal goals of the firm: above average performance
 - ◆ Through: increases in profitability and profit growth
 - Profitability: is the rate of return the firm makes on its invested capital
 - Profit growth: is the percentage increase in net profits over time
- What defines strategy has been a subject of intense debate 3 schools of thought have emerged:
 - ◆ Strategy as plan (oldest)
 - ◆ Strategy as action
 - ◆ Strategy as integration
 - ◆ Strategy as theory (latest)
 - Peter Drucker defines strategy as “a firm’s theory about how to compete successfully”

Strategy as plan

- “Concerned with drafting the plan of war and shaping the individual campaigns and, within these, deciding on the individual engagements”
- “A set of concrete plans to help the organization accomplish its goal” (Oster, 1994)

Strategy as action

- “The art of distributing and applying military means to fulfill the ends of policy” (Liddel Hart, 1967)
- “A pattern in a stream of actions or decisions” (Mintzberg, 1978)
- “The creation of a unique and valuable position, involving a different set of activities... making trade-offs in competing... creating fit among a company’s activities” (Porter, 1996)

Strategy as integration

- “The determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals” (Chandler, 1962)
- “The major intended and emergent initiatives undertaken by general managers on behalf of owners, involving utilization of resources to enhance the performance of firms in their external environments”
- “The analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages”

4 Advantages of the “Strategy as Theory” Definition

1. Integrating both planning and action schools

- Capitalizes on the insights of both planning and action schools
- This is because a firm’s theory of how to compete will simply remain an idea until it has been translated into action
- Formulating a theory is merely a first step; implementing it through a series of actions is a necessary second part
- E.g. SWOT intended strategy, however, given so many uncertainties, not all intended strategies may prove successful (some may become unrealized strategies)

2. Leveraging the concept of “theory”, which serves two purposes (explanation and prediction)

- Definition rests on the concept of “theory”
- Theory a statement describing relationships between a set of phenomena
- Theory serves 2 purposes: to explain the past and to predict the future

3. Requiring replications and experimentations

- Replication repeated testing of theory under a variety of conditions to establish its applicable boundaries
- A theory proven successful in one context during one time period does not necessarily mean it will be successful elsewhere
- Therefore, a hallmark of theory building and development replication

4. Understanding the difficulty of strategic change

- Helps us understand why it is often difficult to change strategy
- Strategy is not a rulebook, a blueprint, or a set of programmed instructions
- It is a firm's theory about how to compete successfully, a unifying theme that gives coherence to its various actions
- Just as military strategies and generals have to be studied simultaneously, an understanding of business strategies around the globe would be incomplete without an appreciation of the role top managers play as strategists

Strategic Management

- A way of managing the firm from a strategic, "big picture" perspective

WHAT IS GLOBAL STRATEGY?

- (1) Strategy of firms around the globe. (2) A particular form of international strategy, characterized by the production and distribution of standardized products and services on a worldwide basis

WHAT IS GLOBALIZATION?

- The close integration of countries and people of the world
- 3 views on globalization:
 - ◆ A new force sweeping through the world in recent times
 - ◆ A long-run historical evolution since the dawn of human history
 - ◆ A pendulum that swings from one extreme to another from time to time
- Risk management
 - ◆ The identification and assessment of risks and the preparation to minimize the impact of high-risk, unfortunate events
- Scenario planning used
 - ◆ A technique to prepare and plan for multiple scenarios (either high or low risk)

SEMIGLOBALIZATION

- Refers to the perspective that suggests that barriers to market integration at borders are high but not high enough to completely insulate countries from each other
- Calls for more than one way of strategizing business around the globe
- Total isolation on a nation-state basis localization a strategy of treating each country as a unique market too costly
- Total globalization standardization a strategy of treating the entire world as one market the world is obv not that simple
- Total isolation vs Total globalization semiglobalization has no single right strategy, resulting in a wide variety of strategic experimentations and changes

Learning Objectives.

- ★ Boundaries of markets
 - Industry, sector, segments and country markets
 - Strategic groups
- ★ Competition within and across markets
 - The five forces framework
 - Within industries (but across borders)
 - Within countries (and within industries)
 - The Red Queen and the impact of competitive experience
 - Multimarket competition
- ★ Porter's generic strategies
 - Within and across country markets

Textbook Objectives.

- ★ Define industry competition
- ★ Analyze an industry using the five forces framework
- ★ Articulate the three generic strategies
- ★ Understand the seven leading debates concerning the industry-based view
- ★ Draw strategic implications for action

CHAPTER SUMMARY

1. Define industry competition

- An industry is a group of firms producing similar goods and/or services
- The industry-based view of strategy grows out of industrial organization (IO) economics, which helps policymakers better understand how firms compete so policymakers can properly regulate them
- Pioneered by Michael Porter, the five forces framework forms the backbone of the industry-based view of strategy, which draws on the insights of IO economics to help firms better compete

2. Analyze an industry using the Five Forces Framework

- The stronger and more competitive the five forces are, the less likely that firms in an industry are able to earn above-average returns, and vice versa
- The five forces are: (1) rivalry within an industry, (2) threat of potential entry, (3) bargaining power of suppliers, (4) bargaining power of buyers, and (5) threat of substitutes

3. Articulate the three generic strategies

- The three generic strategies are: (1) cost leadership, (2) differentiation, and (3) focus

4. Understand the seven leading debates concerning the industry-based view

- These debates are: (1) clear versus blurred boundaries of industry, (2) threats versus opportunities, (3) five forces versus a sixth force, (4) stuck in the middle versus all rounder, (5) integration versus outsourcing, (6) industry rivalry versus strategic groups, and (7) industry-specific versus firm-specific and institution-specific determinants of firm performance

5. Draw strategic implications for action

- Establish an intimate understanding of your industry by focusing on the five forces
- Be aware that additional forces may influence the competitive dynamics of your industry
- Realize that industry is not destiny. Certain firms may do well in an unattractive industry.

SUMMARY OF KEY TERMS

Industry	A group of firms producing products (goods and/or services) that are similar to each other
Perfect competition	A competitive situation in which price is set by the “market,” all firms are price takers, and entries and exits are relatively easy
Monopoly	A situation whereby only one firm provides the goods and/or services for an industry
Oligopoly	A situation whereby a few firms control an industry
Duopoly	A special case of oligopoly that has only two players
Economies of scale	Reduction in per unit costs by increasing the scale of production
Forward integration	Acquiring and owning downstream assets
Backward integration	Acquiring and owning upstream assets
Cost leadership	A competitive strategy that centers on competing on low cost and prices

DEFINING INDUSTRY COMPETITION

- *Industry*: “A group of firms producing products (goods and/or services) that are similar to each other”
- The traditional understanding is based on Adam Smith’s (1776) model of perfect competition, in which price is set by the invisible hand known as the “market”, where all firms are price takers and entries and exits are relatively easy
- Industrial organisation (IO) economics (or industrial economies)
 - ◆ Primary contribution → structure-conduct performance (SCP) model
 - An industrial organization economics model that suggests industry structure determines firm conduct (strategy), which in turn determines firm performance
 - *Structure* → the structural attributes of an industry (such as the costs of entry/exit)
 - *Conduct* → firm actions (such as product differentiation)
 - *Performance* → the result of firm conduct in response to industry structure, which can be classified as (1) average (normal), (2) below-average, and (3) above-average, which in turn, determines firm performance
 - ◆ Does not help firms compete - it is to help policymakers better understand how firms compete in order to properly regulate them
- In terms of the number of firms in one industry:
 - ◆ *Perfect competition* (a lot of firms in one industry) → A competitive situation in which price is set by the “market,” all firms are price takers, and entries and exits are relatively easy
 - ◆ *Monopoly* (only one firm in an industry) → A situation whereby only one firm provides the goods and/or services for an industry
 - ◆ *Oligopoly* (few players, in an industry) → A situation whereby a few firms control an industry
 - ◆ *Duopoly* → A special case of oligopoly that has only two players

- The numerous small firms can only hope to earn average returns at best, whereas the monopolist may earn above-average returns, which they label “excess profits”
- Monopoly is usually outlawed and oligopoly scrutinized
- Such an intense focus on above-average firm performance is shared by IO economics and strategy
- However, IO economists and policymakers are concerned with the minimization rather than the maximization of above-average profits
- The name of the game, from the perspective of strategists in charge of the profit-maximizing firm, is exactly the opposite - to try to earn above-average returns (of course, within legal and ethical boundaries)

THE FIVE FORCES FRAMEWORK

- Forms the backbone of the industry-based view of strategy, task is to identify opportunities & threats
- A key proposition is that firm performance critically depends on the degree of competitiveness of these five forces within an industry
- The stronger and more competitive these forces are, the less likely the focal firm will be able to earn above-average returns, and vice versa

FIVE FORCES	THREATS INDICATIVE OF STRONG COMPETITIVE FORCES THAT CAN DEPRESS INDUSTRY PROFITABILITY/INCREASE COMPETITIVE FORCE
Threat of substitutes	<ul style="list-style-type: none"> → Substitutes are superior to existing products in quality and function → Switching costs to use substitutes are low
Rivalry among competitors	<ul style="list-style-type: none"> → A large number of competing firms → Rivals are similar in size, influence, and product offerings → High-price low-frequency purchases → Capacity is added in large increments → Industry slow growth or decline → High exit costs
Threat of potential entry	<ul style="list-style-type: none"> → Little scale-based advantages (economies of scale) → Little non-scale-based advantages → Inadequate product proliferation → Insufficient product differentiation → Little fear of retaliation due to the focal firm’s lack of excess capacity → No government policy banning or discouraging entry
Bargaining power of suppliers	<ul style="list-style-type: none"> → A small number of suppliers → Suppliers provide unique differentiated products → Focal firm is not an important customer of suppliers → Suppliers are willing and able to vertically integrate forward
Bargaining power of buyers	<ul style="list-style-type: none"> → A small number of buyers → Product provide little cost savings or quality-of-life enhancement → Buyers purchase standard undifferentiated products from focal firm → Buyers are willing and able to vertically integrate backward