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International Business Management

Global strategy and implementation

Week 3

Body scan mediation with gratitude

Before you begin, do the following mental activity that will help you to improve your concentration.

https://youtu.be/lrsaUmq2l1w

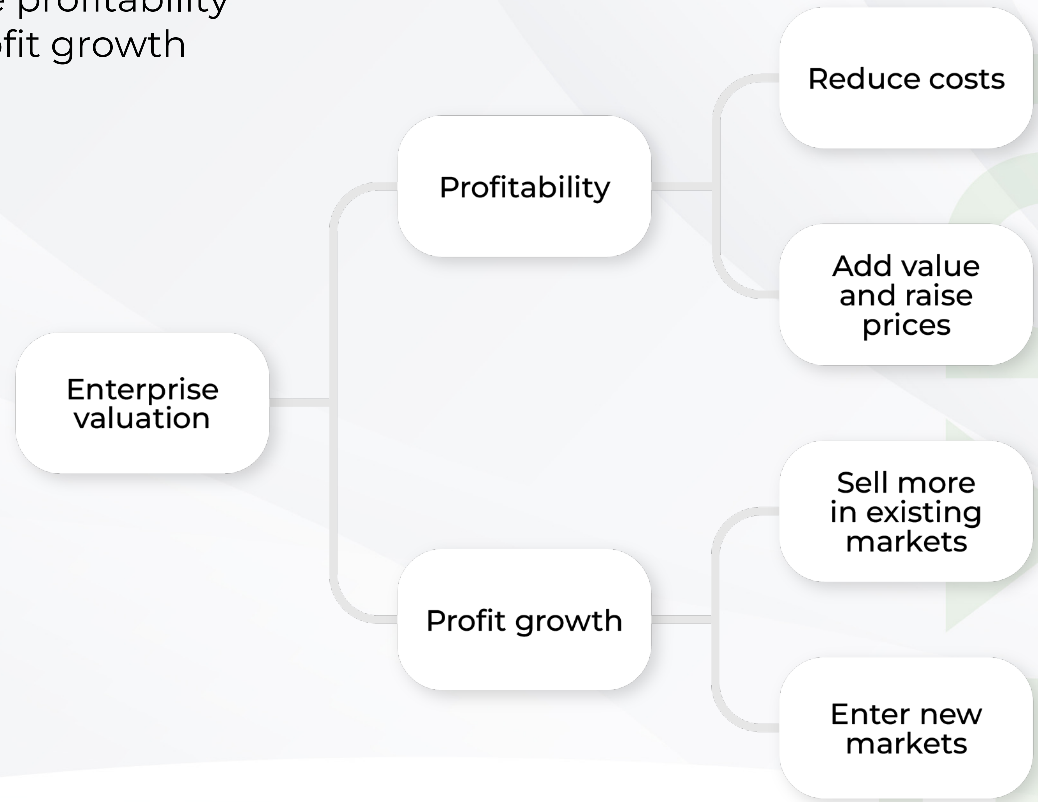
Introduction

In this third week, we will learn how to apply a strategy to an upper level, a global level, as well as the implementation. Another important topic you will learn in this week is the export and import practices in international trade, the international expansion and foreign markets and finally the design and control of a multinational corporation.

Explanation

A **firm's strategy** can be defined as the actions that mangers take to attain the goals of the firm. To maximize the value of a firm, managers must pursue strategies that increase the profitability of the enterprise and its rate of profit growth over time.

Profitability can be measured as the rate of return that the firm makes on its invested capital (ROIC), which is calculated by dividing the net profits of the firm by total invested capital. Profit growth, on the other hand, is measured by the percentage increase in net profits over time



Explanation

Value creation

The amount of value a firm creates is measured by the difference between its costs of production and the value that consumers perceive in its products. In general, the more value customers place on a firm's products, the higher the price the firm can charge for those products.

Strategic positioning

Porter also notes that it is important for a firm to be explicit about its choice of strategic emphasis regarding value creation. In other words, firms need to choose either differentiation or low cost, and then configure internal operations to support the choice.

Operations

The operations of a firm are a value chain composed of a series of distinct value creation activities, including production, marketing and sales, materials management, research and development, human resources, i nformation systems, and the firm infrastructure.

Global expansion, profitability, and profit growth

Expanding globally allows firms to increase their profitability and rate of profit growth in ways not available to purely domestic enterprises.

Explanation

Cost pressures and pressures for local responsiveness
Firms that compete in the global marketplace typically face two types of competitive pressure.

Pressures for cost reductions

Responding to these pressures requires that a firm try to minimize its unit costs. These pressures are more intense in industries producing commodity type products that fill universal needs, where price is the main competitive weapon, when major competitors are based in low-cost locations, where there is persistent excess capacity, and where consumers are powerful and face low switching costs.

Pressures to be locally responsive

Responding to these other pressures requires that a firm differentiate its product offerings and marketing strategy from country to country, to accommodate the diverse demands arising from national differences in consumer tastes and preferences, business practices, distribution channels, competitive conditions, and government policies.

Explanation

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Because of differentiation across countries can involve significant duplication and a lack of product standardization, it may ultimately raise costs.

Pressures for local responsiveness typically arise from the following:

Differences in consumer tastes and preferences

Strong pressures for local responsiveness emerge when consumer tastes and preferences differ significantly between countries.

Differences in traditional practices and infrastructure

Pressures for local responsiveness emerge when there are differences in infrastructure and/or traditional practices between countries.

Differences in distribution channels

A firm's marketing strategies needs to be responsive to differences in distribution channels between countries.

Host government demands

Economic and political demands imposed by host country governments may need a certain degree of local responsiveness.

Explanation

The appropriateness of each strategy varies given the extent of pressures for cost reductions and local responsiveness.

Global standardization strategy

Firms focus on increasing profitability and profit growth by reaping the cost reductions that come from economies of scale, learning effects, and location economies (their strategic goal is to pursue a low-cost strategy on a global scale.

Localization strategy

This strategy focuses on increasing profitability by customizing the firm's goods or services so that they provide a good match to tastes and preferences in different national markets. Localization is most appropriate when there are substantial differences across nations regarding consumer tastes and preferences, and where cost pressures are not too intense.

Transnational strategy

Firms that pursue a transnational strategy are trying to simultaneously achieve low costs, differentiate their product offering across geographic markets to account for local differences, and foster a multidirectional flow of skills between different subsidiaries in the firm's global network of operations.

International strategy

Sometimes it is possible to identify multinational firms that find themselves in the fortunate position of being confronted with low-cost pressures and low pressures for local responsiveness. Many of these enterprises have pursued an international strategy, taking products first produced for their domestic market and selling them internationally with only minimal local customization.

Activity

Reflect on what you have learned and answer the following activity.

As a Mexican businessperson or entrepreneur, please make sure you visit “ProMexico´s internationalization” page, where you can find specific information from a Mexican perspective about international business expansion.

International Business Management

Organization of a multinational corporation: design and control

Week 3

Explanation

The different elements of a firm's organizational architecture must be **internally consistent**. For example, the control and incentive systems used in the firms must be consistent with the structure of the enterprise.

The organizational architecture must match or fit the strategy of the firm (both must be consistent). For example, if a firm is pursuing a global standardization strategy but has the wrong kind of organizational architecture in place, it will not be able to execute that strategy effectively and poor performance may result.

The strategy and architecture of the firm must not only be consistent with each other, but make sense given the competitive conditions prevailing in the firm's market. For example, a firm pursuing a localization strategy might have the right kind of organizational architecture in place for that strategy.

Explanation

As noted, organizational architecture refers to the totality of a firm's organization.

Explanation

Vertical differentiation: centralization and decentralization

It determines **where the decision-making power is concentrated**. Are production and marketing decisions centralized in the offices of upper-level managers, or are they decentralized to lower-level managers? There are arguments for both centralization and decentralization.

Centralized decision-making

Facilitates coordination.

Ensure decisions are consistent with organization's objectives.

Gives top-level managers the means to bring about organizational change.

Avoids duplication of activities.

Decentralized decision-making

Relieves the burden of centralized decision-making.

It has been shown to motivate individuals.

Permits greater flexibility.

Can result in better decisions.

Can increase control.

Explanation

Horizontal differentiation

It is concerned with **how the firm decides to divide itself into subunits**. The decision is normally made based on function, type of business, or geographic area.

Those firms that choose to continue expanding across the globe will eventually abandon their international division structure and move to either a worldwide product divisional structure or a worldwide area structure.

Worldwide product divisional structure

- Favored by firms with low degree of diversification and a domestic structure based on function.
- Divides the world into autonomous geographic areas.
- Decentralizes operational authority.
- Facilitates local responsiveness.
- Can result in a fragmentation of the organization.
- It is consistent with a localization strategy.

Worldwide area structure

- Adopted by firms that are reasonably diversified.
- Allows for worldwide coordination of value creation activities of each product division.
- Helps realize location and experience curve economies.
- Facilitates the transfer of core competencies.

Explanation

A major task of a firm's leadership is to **control the various subunits of the firm**, to ensure their actions are consistent with the firm's overall strategic and financial objectives. This is achieved through various control and incentive systems.

Personal	Control by personal contact with subordinates (most widely used in small firms.)
Bureaucratic	Control through a system of rules and procedures that directs the actions of subunits, like budgets and capital spending rules.
Output controls	Setting goals for subunits to achieve and expressing those goals in terms of relatively objective performance metrics; control is achieved by comparing actual performance against targets and intervening selectively to take corrective action.
Cultural controls	When employees "buy into" the norms and value systems of the firm, the stronger the culture, the lesser the need for other forms of control.
Incentives	On the other hand, incentives refer to the devices used to reward appropriate employee behavior.

Explanation

Culture is a social construct ascribed to societies, including organizations. Thus, we can speak of **organizational culture** and **organizational subculture**; a system of values and norms that are shared among people within the organization. Values (positive ideas) and norms (rules and guidelines) express themselves as the behavior patterns of an organization that new employees are automatically encouraged to follow. Although an organization's culture is rarely static, it tends to **change relatively slowly**.

Organizational culture comes from:

- Founders and important leaders
- National social culture
- The history of the enterprise
- Decisions that resulted in high performance

Organizational culture can be maintained through:

- Hiring and promotional practices
- Reward strategies
- Socialization processes
- Communication strategies

Activity

Reflect on what you have learned and answer the following activity.

Choose at least two international companies and explain.

1. How their organizational architectures work.
2. The main characteristics of their organizational culture.
3. How they maintain certain cohesion internationally.

International Business Management

International expansion and foreign markets

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Explanation

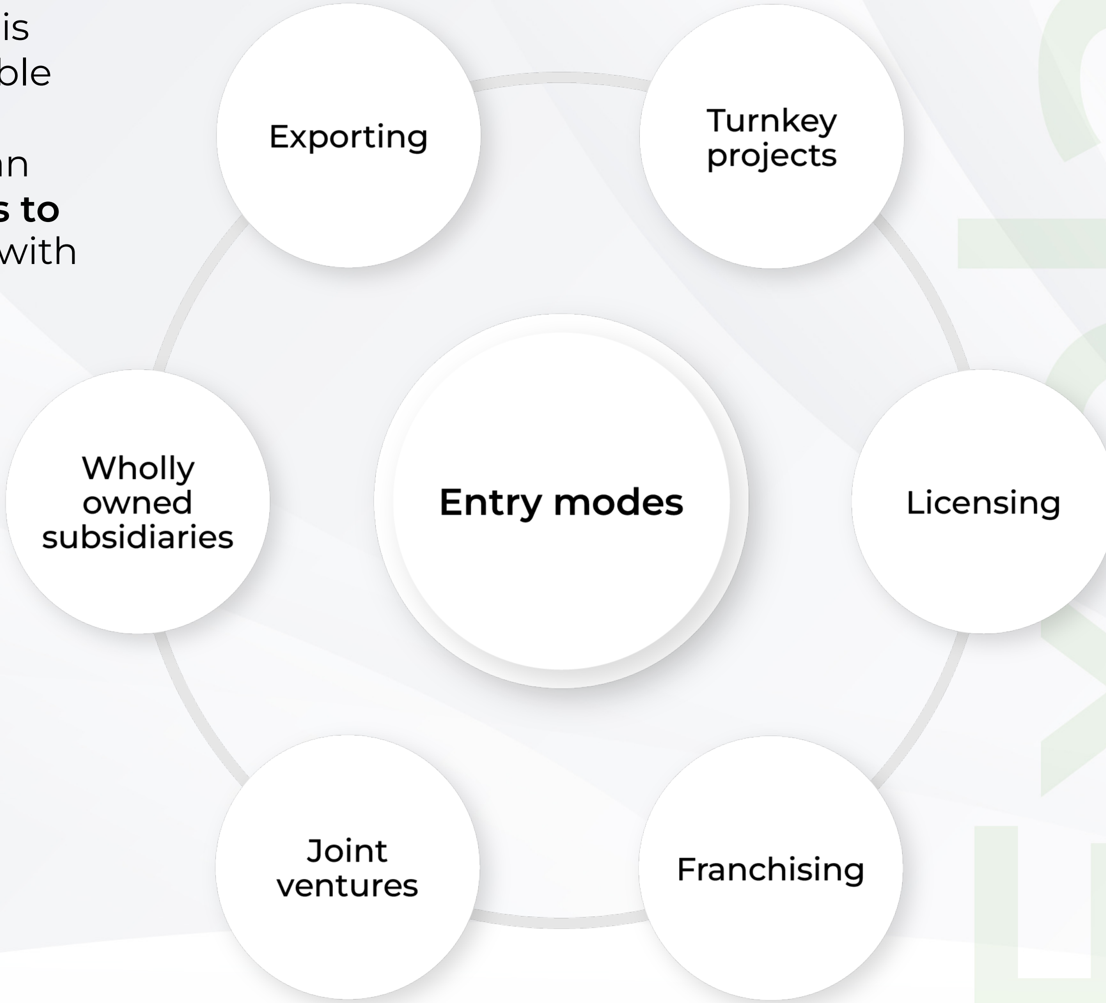
Which foreign markets to enter?

The **attractiveness of a country** as a potential market for an international business depends on balancing the benefits, costs and risks associated with doing business in that country. As you may remember, the long-run economic benefits of doing business in a country are a function of factors such as the size of the market (demographics), the present wealth (purchasing power) of consumers in that market, and the likely future wealth of consumers.

Timing of entry: the firm must consider the timing of entry. Entry is considered early when an international business enters a foreign market before other foreign firms, and late when it enters after other international businesses have already established themselves.

Scale of entry: after choosing which market to enter and the timing of entry, firms need to decide on the scale of market entry. Entering a market on a large scale implies rapid entry and involves the commitment of significant resources, and it eventually changes the competitive playing field.

How can we determine what is the best mode of entry available under a precise set of circumstances? Well, firms can use these **six different modes to enter foreign markets** (each with their own advantages and disadvantages).



Explanation

The optimal entry mode depends to some degree on the nature of their core competencies. A distinction can be drawn between firms whose core competency is in technological know-how and those core competency is in management know-how.

When a firm's competitive advantage is based on proprietary **technological know-how**, the firm should avoid licensing and joint venture arrangements unless it believes its technological advantage is only transitory, or that it can establish its technology as the dominant design in the industry.

When a firm's competitive advantage is based on **management know-how**, the risk of losing control over the management skills is not high, and the benefits from getting greater use of brand names is significant.

Explanation

A firm can establish a wholly owned subsidiary in a country by building a subsidiary from the ground up (the so-called **greenfield strategy**), or by acquiring an enterprise in the target market (an **acquisition strategy**.)

Pros and cons of acquisitions

Acquisitions are attractive because they are quick to execute, enable firms to preempt their competitors, and may be less risky than greenfield ventures.

However, acquisitions can fail when the acquiring firm overpays for the acquired firm, when there is a clash between the cultures of the acquiring and acquired firm, and when there is inadequate pre-acquisition screening.

Pros and cons of greenfield ventures

The main advantage of a greenfield venture is that it gives the firm a greater ability to build the kind of subsidiary company that it wants.

However, greenfield ventures are slower to establish and tend to be riskier because there is no known revenue or profit stream.

Explanation

In spite that the failure rate for international strategic alliances seems to be high, the success of an alliance seems to be a function of three main factors.

Partner selection

A good partner helps the firm achieve its strategic goals and has the capabilities the firm lacks and that it values, shares the firm's vision for the purpose of the alliance, and is unlikely to try to opportunistically exploit the alliance for its own ends (that is, to expropriate the firm's technological know-how while giving away little in return.)

Alliance structure

The alliance should be structured to make it difficult to transfer technology not meant to be transferred and should have contractual safeguards written into the alliance agreement to guard against the risk of opportunism by a partner.

Alliance management

Successfully managing an alliance requires managers from both companies to build interpersonal relationships, and we can say that a major determinant of how much a company gains from an alliance is its ability to learn from its alliance partners.

Activity

Reflect on what you have learned and answer the following activity.

Compare and contrast the six different **modes** that firms use to enter foreign markets, as means to identify the factors that influence **a firm's choice of entry mode**. Then, analyze the case of a recent food/coffee chain entrance into Mexican market, how foreign companies commercialize beauty products and the case of one luxury brand that distributes its products in several countries.

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International Business Management

Export and import practices

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Explanation

The great promise of exporting is that large revenue and profit opportunities can be found in foreign markets. The international market is normally so much larger than the firm's domestic market that exporting is nearly always a way to increase the revenue and profit base of a company. However, firms that do not export often lose opportunities for growth and cost reduction. To make matters worse, many new exporters run into significant problems when first trying to do business abroad.

Common pitfalls include the following:

- Poor markets analysis.
- Poor understanding of competitive conditions in the foreign market.
- Failure to customize the product offering to the needs of foreign customers.
- Lack of an effective distribution program.
- Poorly executed promotional campaigns.
- Problems securing financing.
- A general underestimation of the differences and expertise required for foreign market penetration.
- An underestimation of the amount of paperwork and formalities involved.

Explanation

There are various ways to **gain information about foreign market opportunities** and avoid the pitfalls associated with exporting. As a result, some national governments provide direct assistance to exporters, and export management companies can also help with the export process.

Information sources

As we said above, a big impediment to exporting is the simple lack of knowledge of the opportunities available. In order to overcome ignorance, firms and government need to collect information. Nevertheless, several private organizations are also beginning to provide more assistance to would-be exporters. Commercial banks and major accounting firms are more willing to assist small firms in starting export operations than they were a decade ago.

Utilizing export management companies

EMCs are export specialists that act as the export marketing department or international department for their client firms, normally accepting two types of export assignments, they start exporting operations for a firm with the understanding that the firm will take over operations after they are well established, or they start services with the understanding that the EMC will have continuing responsibility for selling the firm's products.

Export strategy

Hiring an EMC or export consultant, to help identify opportunities and navigate through the tangled web of paperwork and regulations so often involved in exporting.
Focus on one, or a few markets at first.
Enter a foreign market on a fairly small scale in order to reduce the costs of any subsequent failures.
Recognize the time and managerial commitment involved.
Develop a good relationship with local distributors and customers.
Fire locals to help establish a presence in the market.
Be proactive.
Consider local production.

Explanation

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Over time, mechanisms for financial exports and imports have evolved in response to a problem that can be particularly acute in international trade; **the lack of trust that exists when one must put faith in a stranger**. Yet, many international transactions are facilitated by a third party (normally a reputable bank), thus, adding an element of trust to the relationship.

A **bill of lading** is issued to the exporter by the common carrier transporting the merchandise. It serves three purposes: as a receipt, as a contract, and as a document of title.

A **draft**, or **bill of exchange**, is the instrument normally used in international commerce for payment.

It is simply an order written by an exporter instructing an importer to pay a specified amount of money at a specified time. A **sight draft** is payable on presentation to the drawer, while a time draft allows for a delay in payment, normally 30, 60, 90, or 120 days.

Explanation

Counter trade is an **alternative means of structuring an international sale when conventional means of payment are difficult, costly, or nonexistent**. With its roots in the simple trading of goods and services for other goods and services, counter trade has evolved into a diverse set of activities that can be categorized as five distinct types of trading arrangements.

Barter

It is a direct exchange of goods and/or services between two parties without cash, a transaction? It is the most restrictive counter trade arrangement and is used primarily for one-time-only deals in transactions with trading partners who are not creditworthy or trustworthy.

Counterpurchase

It is a reciprocal buying agreement that occurs when a firm agrees to purchase a certain number of materials back from a country to which a sale is made.

Offset

It is similar to counterpurchase insofar as one party agrees to purchase goods and services with a specified percentage of the proceeds from the original sale, but the difference is that this party can fulfill the obligation with any firm in the country to which the sale is being made.

Switch trading

It refers to the use of a specialized third-party trading house in a countertrade arrangement. When a firm enters a counter purchase or offset agreement with a country, it often ends up with what are called counter purchase credits, which can be used to purchase goods from that country. Switch trading occurs when a third-party trading house buys the firm's counter purchase credits and sells them to another firm that can better use them.

Compensation or buyback

It occurs when a firm builds a plant in a country (or supplies technology, equipment, training, or other services to the country), and agrees to take a certain percentage of the plant's output as a partial payment for the contract.

Activity

Reflect on what you have learned and answer the following activity.

Let's suppose you are the assistant to the CEO of a small textile firm that manufactures premium-priced stylish clothing. The CEO has decided to see what the opportunities are for exporting and has asked you for advice as to the steps the company should take. What advice would you give?

Exercise

As we have learned in this third week, one big impediment to exporting is **ignorance of foreign market opportunities**. That is particularly relevant in Latin America, where many small business (PYMES) are still unsure and even afraid to go global. In fact, they often become discouraged or frustrated with the exporting process because **they encounter many problems, delays and pitfalls**. Therefore, we have studied different strategies that you can apply into your business in order to avoid these problems.