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# 13 International Competitive Strategy

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"Companies don't produce strategies, just plans. No company will tell you its planning processes produce new wealth-creating strategies. The dirty little secret is that we don't have a theory of strategy creation. We just don't know how it's done."

*—Gary Hamel, chairman, Strategos, international consulting firm, and visiting professor of strategy and international management, London Business School*

## CONCEPT PREVIEWS

After reading this chapter, you should be able to:

**understand** international strategy, competencies, and international competitive advantage

**describe** the steps in the global strategic planning process

**understand** the purpose of mission statements, objectives, quantified goals, and strategies

**describe** the new directions in strategic planning

**understand** global, multidomestic, and transnational strategies and when to use them

**describe** the sources of competitive information

**understand** the importance of industrial espionage

## Is Strategic Planning Dead?

"Strategic planning is dead," say the management gurus. However, a well-known business publication, *BusinessWeek,* says, "After a decade of downsizing, Big Thinkers are back in vogue." The publication reports that "strategy is again a major focus in the quest for higher revenues and profits. Some companies are even re-creating full-fledged strategic-planning groups."[a]

Who is right? How can strategic planning be dead when, according to a study of executives, consultants, and management professors, "business strategy is now the single most important management issue and will remain so for the next five years"? Vijay Govindarajan, a professor of strategy at Dartmouth College, says, "We are seeing strategy make a rebound. Strategy has become a part of the main agenda at lots of organizations today."[b]

Upon examining these statements in more detail, we find that the "strategic planning is dead" people have narrowly defined strategic planning to be the old bureaucratic variety, which Professor Gary Hamel describes as a calendar-driven ritual, not an exploration of the company's potential. He states that the old strategy-making process "works from today forward, not from the future back, implicitly assuming, whatever the evidence to the contrary, that the future will be more or less like the present."[c] Too frequently, it has been argued, companies' annual strategic planning processes have become ritualistic and devoid of discovery. They instead focus on minutiae and projections from historical conditions and performance, thus falling victim to collective—and frequently outdated—mind-sets about the competitive environment. Not surprisingly, the resulting strategic planning documents often fail to be implemented. Henry Mintzberg, in his critique of strategic planning, claims that 90 percent of the results projected in formal strategic planning processes never are realized, becoming "unrealized strategies."

These people claim that the old process has been replaced by *strategic management,* which combines strategic thinking, strategic planning, and strategic implementation. The implication, of course, is that none of the participants in the old system ever had any independent thoughts. In fact, the process has been described as "groupthink."

The new strategic planning process differs from the old one in other ways. It is no longer something that only the company's most senior executives do. Top management, at the urging of strategy consultants, is assigning strategic planning to teams of line and staff managers from different businesses and functional areas, much as it has done with process-improvement task forces and quality circles. Frequently these teams include a range of ages—from junior staff members who have shown the ability to think creatively to experienced veterans near retirement age who will "tell it like it is." Another difference between the new and the old processes: formerly, planning was a company activity done in seclusion, but now, consultants say it should include interaction with important customers and suppliers in order to gain firsthand experience with the firm's markets. Other important stakeholders such as governments or other stakeholder activists are also relevant influences, if not necessarily direct participants, in this strategic planning process. Incorporating these diverse perspectives can help a company

to identify creative and effective ways to address the challenge of increasingly uncertain and changing international competitive environments.

The basic concept behind strategic planning—in both the traditional and newer perspectives—is to help ensure that the managers have a sound understanding of the business, the strategy, the assumptions behind the strategy, the external business environment pressures, and their own direction. This is intended to help the organization to respond more effectively to challenges than can its competitors. Strategic planning is also intended to help increase the likelihood of strategic innovations, promoting the development, capture, and application of these new ideas in order to promote success in a challenging competitive environment.

In the contemporary global competitive environment, where firms often must place bigger bets on new technologies and other competitive capabilities, companies cannot afford to devote large amounts of money in one direction only to discover years later that this was the wrong direction for investing. "Bets on aircraft engine technology must be made up to 10 years before they result in a sale. Investments in regional jet engine technology that GE began making in the 1980s paid off last year (2002) in the winning bid to supply the engine for China's new regional jet, the ARJ-21."[d] Clearly, as indicated in this comment from Jeffrey Immelt, chairman and CEO of General Electric, competition in today's global competitive environment requires a long-term perspective to strategic decision making and resource allocation decisions.

Sources: [a]"Strategic Planning," *BusinessWeek,* August 26, 1996, p. 46; [b]Ibid.; [c]Gary Hamel, "Strategy as Revolution," *Harvard Business Review,* July–August 1996, p. 70; [d]Jeffrey R. Immelt, *General Electric 2003 Annual Report,* http://www.ge.com/ar2003/strategy/index_fla.jsp (August 3, 2004). Also, Willie Pietersen, *Reinventing Strategy* (New York: John Wiley & Sons, 2002); Paul S. Forbes, "Update: Strategic Planning Is Dead," *Management Articles,* http://www.forbesgroup.com/articles/articles/plandead-695.htm (March 15, 1998); Henry Mintzberg, *The Rise and Fall of Strategic Planning* (New York: Free Press, 1994); and Arie de Geus, "Planning as Learning," *Harvard Business Review,* March–April 1988, pp. 70–74.

In the preceding three sections of this book, the primary focus has been on the broad environmental context in which international businesses compete. This discussion has included the theoretical framework for international trade and investment, the international monetary and other organizations that influence international business, and the financial, economic, physical, social, political, legal, and other institutions found in various nations. Our attention now shifts away from the external environment, and we focus instead on the business itself, including the actions managers can take to help their companies compete more effectively as international businesses. In this chapter, we will discuss the concept of international strategy and how companies use strategic planning to improve their global competitiveness.

## The Competitive Challenge Facing Managers of International Businesses

In Chapter 2, we discussed some of the important reasons that motivate companies to pursue international business opportunities, including the potential to increase profits and sales through access to new markets; to protect existing markets, profits, and sales; and to help satisfy management's overall desire for growth. However, in order to succeed in today's global marketplace, a company must be able to quickly identify and exploit opportunities wherever they occur, domestically or internationally. To do this effectively, managers must fully understand why, how, and where they intend to do business, now and over time. This requires managers to have a clear understanding of the company's mission, a vision for how they intend to achieve that mission, and an understanding of how they plan to compete with other compa-

nies. To meet these challenges, managers must understand the company's strengths and weaknesses and be able to compare them accurately to those of their worldwide competitors. Strategic planning provides valuable tools that help managers address these global challenges.

## What Is International Strategy, and Why Is It Important?

**international strategy** The way firms make choices about acquiring and using scarce resources in order to achieve their international objectives

**International strategy** is concerned with the way firms make fundamental choices about developing and deploying scarce resources internationally.[1] International strategy involves decisions that deal with all the various functions and activities of a company, not merely a single area such as marketing or production. To be effective, a company's international strategy needs to be consistent among the various functions, products, and regional units of the company (internal consistency) as well as with the demands of the international competitive environment (external consistency).

**competitive advantage** The ability of a company to have higher rates of profits than its competitors

The goal of international strategy is to achieve and maintain a unique and valuable competitive position both within a nation and globally, a position that has been termed **competitive advantage.** This suggests that the international company either must perform activities different from those of its competitors or perform the same activities in different ways. To create a competitive advantage that is sustainable over time, the international company should try to develop skills, or competencies, that (1) create value for customers and for which customers are willing to pay, (2) are rare, since competencies shared among many competitors cannot be a basis for competitive advantage, (3) are difficult to imitate or substitute for, and (4) are organized in a way that allows the company to exploit fully the competitive potential of these valuable, rare, and difficult to imitate competencies.[2]

*Wal-Mart has become a strong competitor in the international retailing industry because it has been able to develop more effective processes for performing critical activities, such as the logistics of tying point-of-purchase data to the company's inventory management and purchasing activities. Competitors have had continued difficulties matching Wal-Mart's competencies, enabling Wal-Mart to consistently earn a return on sales that is twice the average of its industry. As a result, Wal-Mart has been able to exploit these competencies internationally by entering markets such as Canada, Mexico and other Latin American countries, Europe, and Asia, as we see in the minicase at the end of this chapter.*

relevance *for* managers

Managers of international companies that are attempting to develop a competitive advantage face a formidable challenge: resources—time, talent, and money—are always scarce. There are many alternative ways to use these scarce resources (for example, which nations to enter, which technologies to invest in, and which products to develop), and these alternatives are not equally attractive. A company's managers are forced to make choices regarding what to do, and what *not* to do, now and over time. Different companies make different choices, and those choices have implications for each company's ability to meet the needs of customers and create a defensible competitive position internationally. Without adequate planning, managers are more likely to make decisions that do not make good sense competitively, and the company's international competitiveness may be harmed.

## Global Strategic Planning

### Why Plan Globally?

Because of the challenges mentioned, many international firms have found it necessary to institute formal global strategic planning to provide a means for top management to identify opportunities and threats from all over the world, formulate strategies to handle them, and stipulate how to finance the strategies' implementation. Global strategic plans not only provide for consistency of action among the firm's managers worldwide but also require the participants to consider the ramifications of their actions in the other geographical and functional areas of the firm. These plans provide a thorough, systematic foundation for making decisions regarding what resources and competencies to develop, when and how to develop them, and how to use those competencies to achieve competitive advantage.

## Standardization and Planning

Historically, more aspects of research and development and manufacturing have been standardized and coordinated worldwide by companies than has been the case for marketing. Many top executives believe marketing strategies are best determined locally because of differences among the various foreign environments. Yet there is a growing tendency to standardize not only marketing strategies but also the total product, which leads to their inclusion in the global strategic planning process. Of course, their standardization can also be the *result* of strategic planning as the company's managers search for ways to lower costs and present a uniform company image as a global producer of quality products. Let us look at the planning process.

## Global Strategic Planning Process

Global strategic planning is the primary function of managers, and the ultimate manager of strategic planning and strategy making is the firm's chief executive officer. The process of strategic planning provides a formal structure in which managers (1) analyze the company's external environments, (2) analyze the company's internal environment, (3) define the company's business and mission, (4) set corporate objectives, (5) quantify goals, (6) formulate strategies, and (7) make tactical plans. For ease of understanding, we present this as a linear process, but in actuality there is considerable flexibility in the order in which firms take up these items. In company planning meetings that one of the writers attended, the procedure was iterative; that is, during the analysis of the environments, committee members could skip to a later step in the planning process to discuss the impact of a new development on a present corporate objective. They then often moved backward in the process to discuss the availability of the firm's assets to take advantage of the environmental change. If they concluded that the company had such a capability, the committee would try to formulate a new strategy. If a viable strategy was developed, the members would then establish the corporate objective that the strategy was designed to attain.

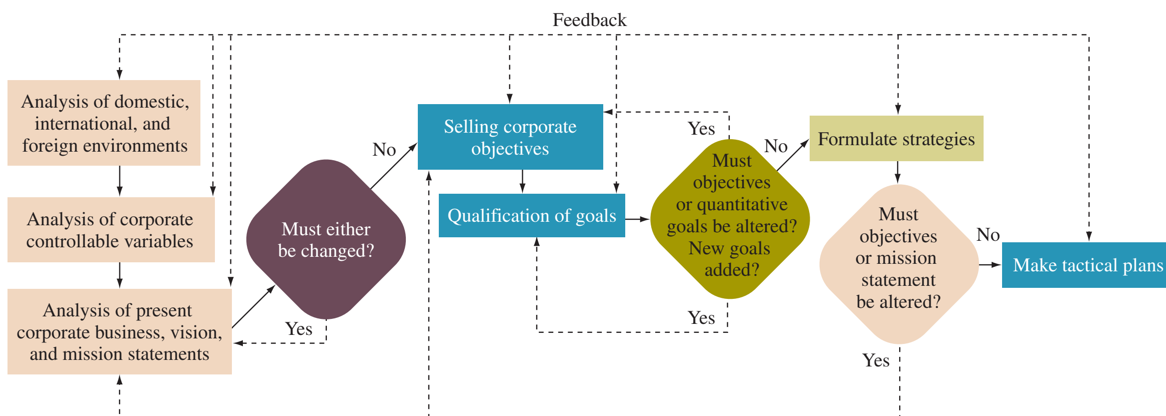
### Global and Domestic Planning Processes Similar

You will note that the global planning process, illustrated in Figure 13.1, has the same format as the planning process for a purely domestic firm. As you know by now, most activities of the two kinds of operations are that way. It is the variations in values of uncontrollable forces that make the activities in a worldwide corporation more complex than they are in a purely domestic firm.

### Analyze Domestic, International, and Foreign Environments

Because a firm has little opportunity to control these forces, its managers must know not only what the present values of the forces are but also where the forces appear to be headed. An environmental

**FIGURE 13.1** The Global Strategic Planning Process



scanning process similar to the market screening process described in Chapter 14 can be used for continuous gathering of information. Yet, recognition of the nature and implications of the current and future domestic, international, and foreign environments is an essential input into the global strategic planning process, as indicated by the following assessment by General Electric:

"Future economic growth will be uneven. To succeed, companies must navigate major global trends that will have significant impact on valuation. These include:

- An increasingly interdependent global economy wracked by excess manufacturing capacity and the resulting price pressure. This is why unemployment remains stubborn and margin growth is tough to achieve. Winning companies will invest in innovation and build new revenue streams from their current capabilities.
- A new economic order of global competitiveness and growth. Competition from places like China and India has evolved beyond low-cost manufacturing labor to include highly competitive engineering graduates who earn less than production workers in the developed world. Winning companies must think globally, but understand local consequences. Only competitive companies can serve investors, employees and stakeholders during this dramatic phase of globalization.
- A move to consolidate distribution channels, which creates value for consumers but makes it difficult for manufacturers to maintain margins. Winning companies will have strong direct sales forces, low costs and value propositions that tie their own profitability to their customers'.
- An opportunity to build growth platforms based on unstoppable demographics. Winning companies will sustain long-term growth by betting on high-growth markets to which they can bring unique technical and management capabilities.
- A more volatile and uncertain world. The underlying insecurity created by 9/11 and the stock market bubbles will not end soon. Winning companies will keep the confidence of customers, investors and employees by maintaining financial and cultural strength."[3]

Today's sale prices on clothing are appealing to customers but may pose challenges for businesses. To succeed in today's competitive global environment, companies will need to navigate several major global trends, including an increasingly interdependent global economy wracked by excess manufacturing capacity and the resulting price pressure.
Tim Boyle/Getty Images

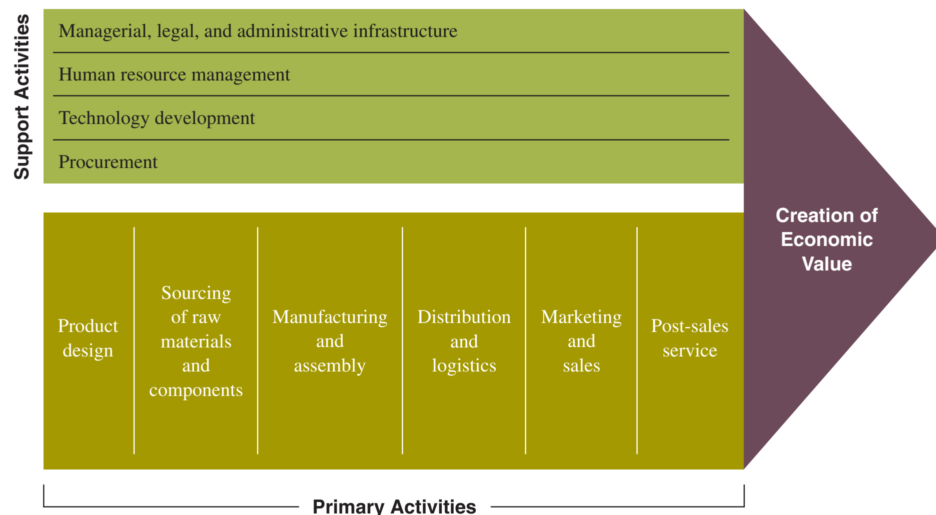
**Analyze Corporate Controllable Variables** An analysis of the forces controlled by the firm will also include a situational analysis and a forecast. The managers of the various functional areas will either personally submit reports on their units or provide input to the planning staff (if there is one), who will in turn prepare a report for the strategy planning committee.

Often management will analyze the firm's activities from the time raw materials enter the plant until the end product reaches the final user, what is often called a value chain analysis.* As part of this process, management must address three key questions: (1) who are the company's target customers, (2) what value does the company want to deliver to these customers, and (3) how will this customer value be created. The value chain analysis itself focuses primarily on the third question, and it refers to the set of value-creating activities that the company is involved with, from sources for basic raw materials or components to the ultimate delivery of the final product or service to the final customer. A simplified value chain

*Although this analytical approach has been credited to Professor Michael Porter, the value chain concept has been around for decades. Marketers will remember that Wroe Alderson made the same analysis in the 1960s using a unit of analysis he called *transvection.* Transvection is a series of sorts and transformations beginning with raw materials entering the factory and terminating when the finished product is in the hands of the final consumer.[4]

FIGURE 13.2

The Value Chain




Source: Adapted from M. E. Porter, *Competitive Advantage* (New York: Free Press, 1985).

is shown in Figure 13.2. The goal of this analysis is to enable management to determine the set of activities that will comprise the company's value chain, including which activities the company will do itself and which will be outsourced. Management must also consider where to locate various value chain activities (for example, should assembly be done in the company's home nation, located in a lower-cost location abroad, or located close to a customer abroad?). It is also necessary for management to examine the linkages among the activities in the value chain (for example, between sales and product development, in order to ensure that customer needs are effectively communicated and incorporated in new products). Linkages must be examined not merely across activities within the company, but also in terms of managing relationships with external entities such as suppliers, distributors, or customers within and across nations. The desired outcome of this analysis is the identification and establishment of a superior set of well-integrated value chain activities and linkages, a system that will permit the organization to more effectively and efficiently develop, produce, market, and sell the company's products and services to the target customers, thereby creating the basis for global competitive advantage.

**Knowledge as a Controllable Corporate Resource** In today's highly competitive, rapidly changing, and knowledge-intensive economy, companies have the potential to achieve competitive advantages through leveraging their organizational knowledge across national boundaries. This organizational knowledge base includes the capabilities of employees (individually and in teams) as well as the knowledge that gets built into the overall organization through its various structures, systems, and organizational routines. As a valuable, scarce, and often unique organizational resource, knowledge is increasingly recognized by management as the basis for competitive advantage. As a result, managers are developing sets of techniques and practices to facilitate the flow of knowledge into and within their companies, to build knowledge databases, to transfer best practices, and otherwise to create the foundation for a knowledge-based competitive advantage.

relevance *for* managers

To effectively manage knowledge, companies must encourage individuals to work together on projects or somehow share their ideas. Since much valuable knowledge is tacit, which means that it is known well by the individual but is difficult to express verbally or document, systems are needed in order to convert this tacit knowledge into explicit, codified knowledge and then make this knowledge accessible quickly and effectively to other employees that need it. In addition, to effectively design and deliver products that meet customers' needs, it is often necessary to also gain access to valuable knowledge of suppliers

and customers. In some cases, it is even necessary to establish company facilities in other locations in order to gain access to this knowledge. For example, both Nokia and Ericsson established offices in the Silicon Valley in order to tap into the latest thinking of suppliers and customers located in that region, and then transfer this knowledge back to headquarters in Europe. Companies face an ongoing challenge of creating mechanisms that will systematically and routinely identify opportunities for developing and transferring knowledge and for ensuring that subsidiaries are willing and able both to share what they know and to absorb knowledge from other units of the company. They also must ensure that this proprietary knowledge is managed in a way that will protect it from diffusion to competitors, in order to help the company maintain its competitiveness over time.

*In May 2003, Sharp Electronics of Japan announced that it would begin production of system liquid crystal displays (LCDs) and build a plant for end-to-end manufacturing of large LCD televisions. Both production initiatives would be based in Japan, due to the need for close linkages between R&D and manufacturing personnel in order for Sharp to maintain competitiveness in production technology. Moving these operations to lower-cost locations abroad could have constrained the flow of ideas between Sharp's operating units, thereby hindering production improvements and the potential for fresh R&D initiatives. To limit leakage of proprietary production technology to competitors, Sharp patents many of its innovative product and production technologies. While patent applications can ensure rights to the patent holder, they also reveal technological details to the public and proving patent violations can be expensive and time consuming. Therefore, Sharp also identifies critical technologies that it strategically decides NOT to patent, choosing to instead keep these technologies completely in-house, concealed from other companies. In this way, Sharp attempts to create a barrier against competitors who try to lever off of Sharp's innovations.*[5]

The importance of knowledge and its management is recognized by international companies such as DuPont, which states, "Knowledge intensity is a DuPont term meaning getting paid for what the company knows rather than simply for what it makes. Knowledge intensity is the opposite of capital intensity. It's creating value from two centuries of experience, know-how and brand equity."[6]

*In order to receive a $900 million contract to provide high-tech electricity generating turbines to China, General Electric was forced to agree to share its sophisticated technology—which GE had spent over $500 million developing—with two Chinese companies that wanted to manufacture the equipment themselves eventually. Wanting to compete in advanced manufacturing sectors in the future, China pushes foreign companies to give access to their crown jewels in technology in exchange for access to the huge Chinese market. In the case of GE's turbine contract, Chinese officials wanted to get not only the drawings for the turbine, but also the modeling and mathematics underlying the shape of the blades, how blades were cooled during rotation, and the chemistry associated with the blades and with the thermal protective coating on them. Said Delbert Williamson, who was then GE's president of global sales, "It was a difficult negotiation. They're interested in having total access to technology and we're interested in protecting the technology that we made significant financial investment in."*[7]

After the analysis of corporate controllable variables, the planning committee must answer questions such as the following: What are our strengths and weaknesses? What are our human and financial resources? Where are we with respect to our present objectives? Have we uncovered any facts that require us to delete goals, alter them, or add new ones? After completing this internal audit, the committee is ready to examine its business, vision, and **mission statements.**

**mission statement**
A broad statement that defines the organization's scope

### Define the Corporate Business, Vision, and Mission Statements

These broad statements communicate to the corporation's stakeholders (employees, stockholders, governments, suppliers, and customers) what the company is and where it is going. Some firms combine two or all three, whereas others have separate statements. The director of planning at 3M believes that "the mission statement typically defines the scope of what you do, while the vision should be a vibrant and compelling image of the organization's purpose."[8] In any case, the planning committee must evaluate these statements against the changing realities uncovered in the external and internal analyses and then alter them when necessary.

**Some Examples** Ford has a statement that says:

> *Ford Motor Company enters the new millennium with a clear vision to become the world's leading consumer company for automotive products and services. This strategy puts customers first in everything the company does. By leveraging our sources of competitive advantage, we continuously drive to improve, transform and grow the business. The ultimate measure of success is delivering superior shareholder returns.*[9]

DuPont states the following in defining the vision of the company and its mission:

> *We, the people of DuPont, dedicate ourselves daily to the work of improving life on our planet. We have the curiosity to go farther . . . the imagination to think bigger . . . the determination to try harder . . . and the conscience to care more. Our solutions will be bold. We will answer the fundamental needs of the people we live with to ensure harmony, health and prosperity in the world. Our methods will be our obsession. Our singular focus will be to serve humanity with the power of all the sciences available to us. Our tools are our minds. We will encourage unconventional ideas, be daring in our thinking, and courageous in our actions. By sharing our knowledge and learning from each other and the markets we serve, we will solve problems in surprising and magnificent ways. Our success will be ensured. We will be demanding of ourselves and work relentlessly to complete our tasks. Our achievements will create superior profit for our shareholders and ourselves. Our principles are sacred. We will respect nature and living things, work safely, be gracious to one another and our partners, and each day we will leave for home with consciences clear and spirits soaring.*[10]

Amazon.com states the following:

> *We seek to offer Earth's Biggest Selection and to be Earth's most customer-centric company, where customers can find and discover anything they may want to buy.*[11]

After defining any or all of the three statements, management must then set corporate objectives.

**Set Corporate Objectives** Objectives direct the firm's course of action, maintain it within the boundaries of the stated mission, and ensure its continuing existence. McDonald's states that its vision is "to be the world's best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile." To achieve this vision, the company focuses on three worldwide objectives: (1) to be the best employer for its people in each community around the world, (2) to deliver operational excellence to its customers in each of its restaurants, and (3) to achieve enduring profitable growth by expanding the brand and leveraging the strengths of the McDonald's system through innovation and technology.[12]

Intel's mission is to "do a great job for our customers, employees and stockholders by being the preeminent building block supplier to the worldwide Internet economy." Its objectives are (1) to make Intel the number one computing platform everywhere on the Internet, (2) to grow new businesses for Intel focusing on the Internet, and (3) to excel at Intel Basics.[13]

Goodyear Tire and Rubber Co., the world's largest tire company with manufacturing in 28 nations and sales and marketing operations in virtually every nation, previously announced the following objectives in order "to strengthen its focus as a growth company capable of consistent earnings improvement":

1. Greater commitment to geographical diversity through global expansion.
2. Reduce company debt.
3. Increase operating margins.
4. Capital spending to increase productivity and production capacity.
5. Introduction of new products.[14]

How does Goodyear know whether it achieves these objectives? How much does the company expect to reduce company debt, for example?

### Quantify the Objectives

When objectives can be quantified, they should be. For example, the objectives of 3M, an $18 billion diversified technology company with worldwide operations, include (1) growth in earnings per share of more than 10 percent a year on average, (2) growth in economic profit exceeding growth in earnings per share and return on invested capital among the highest among industrial companies, (3) at least 30 percent of sales from products introduced during the past four years, and (4) 8 percent productivity improvement per year, measured in terms of sales per employee in local currencies.[15]

Similarly, in the earlier example, the Goodyear CEO tells us that management's goal is to reduce the ratio of debt to debt plus equity to below 30 percent. He also wants to increase operating margins to 12 percent and maintain capital spending between $500 million and $700 million annually. However, he does not attempt to quantify the number of products introduced, nor does he set a goal for the amount of geographical diversity. Interestingly, the variables used to measure this last objective are the percentages of total unit sales and sales revenue made outside the United States. In 2003, 52 percent of Goodyear's net sales, and 51 percent of the company's long-term assets, were outside the United States.[16]

*At BP, the U.K.-based energy multinational, strategic objectives are established through a process directed by headquarters. Implementation of these objectives is decentralized to the business units. Performance contracts are set in place for the executive management from each of the company's business units and strategic performance units, holding these managers accountable for that area of the business. The performance contracts include financial and operating performance objectives, as well as nonfinancial elements such as safety and environmental performance. The company states that it attempts to establish objectives which: (1) are challenging but achievable, (2) enable us to be responsive to change, (3) are clear and unambiguous to all, both within and outside the company, (4) provide indicative ranges of performance against which we can measure progress in a balanced way, (5) can be agreed [to] and accepted by all whose performance is measured against them, (6) encompass both clear financial or operational benefits, as well as clear social and environmental objectives, and (7) are intended to deliver value to the company's shareholders but with due care to all our stakeholders' interests.*[17]

These examples illustrate that despite the strong preference of most top managers for verifiable objectives, they frequently do have nonquantifiable or directional goals. One of PepsiCo's objectives, for example, is to accelerate profitable growth. Although this goal is not quantified, it does set the direction for managers and requires them to formulate more specific strategies to attain it. Incidentally, objectives do tend to be more quantified as they progress down the organization to the operational level, because, for the most part, strategies at one level become the objectives for the succeeding level. Up to this point, only *what, how much,* and *when* have been stipulated. *How* these objectives are to be achieved will be determined in the formulation of strategies.

### Formulate the Competitive Strategies

Generally, participants in the strategic planning process will formulate alternative **competitive strategies,** and corresponding plans of action, that seem plausible considering the directions the external environmental forces are taking and the company's strengths, weaknesses, opportunities, and threats (something that endangers the business, such as a merger of two competitors, the bankruptcy of a major customer, or a new product that appears to make the company's product obsolete).

**competitive strategies**
Action plans to enable organizations to reach their objectives

Suppose (1) their analysis of the external environment convinces them that the Japanese government is making it easier for foreign firms to enter the market and (2) the competitor analysis reveals that a Japanese competitor is preparing to enter the United States (or wherever the home market is). Should the firm adopt a defensive strategy of defending the home market by lowering its price there, or should it attack the competitor in its home market by

establishing a subsidiary in Japan? Management may decide to pursue either strategy or both, depending on its interpretation of the situation.

When developing and assessing strategic alternatives, it is important to remember that companies competing in international markets confront two opposing forces: reduction of costs and adaptation to local markets. In order to be competitive, firms must do what they can to lower costs per unit so that customers will not perceive their products or services as being too expensive. This often results in pressure for some of the company's facilities to be located in places where costs are low, as well as developing products that are highly standardized across multiple nations.

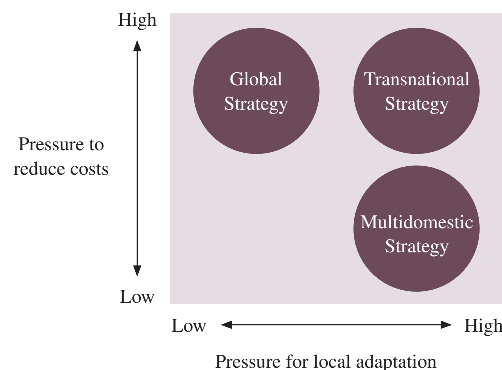
However, in addition to pressures to reduce costs, managers also must attempt to respond to local pressures to modify their products to meet the demands of the local markets in which they do business. This modification requires the company to differentiate its strategy and product offerings from nation to nation, reflecting differences in distribution channels, governmental regulations, cultural preferences, and similar factors. However, modifying products and services for the specific requirements of local markets can involve additional expenses, which can cause the company's costs to rise.

As a consequence of these two opposing pressures, companies basically have three different strategies that they can use for competing internationally: multidomestic, global, and transnational. As suggested in Figure 13.3, the strategy that would be most appropriate for the company, overall and for various activities in the value chain, depends on the amount of pressure the company faces in terms of adapting to local markets and achieving cost reductions. Each of these strategies has its own set of advantages and disadvantages, as summarized below.

**Global Strategy** A global strategy tends to be used when a company faces strong pressures for reducing costs and limited pressure to adapt products for local markets. Strategy and decision making is typically centralized at headquarters, and the company tends to offer standardized products and services. Value chain activities are often located in only one or a few areas, to assist the company in achieving cost reductions due to economies of scale. There tends to be strong emphasis on close coordination and integration of activities across products and markets, as well as the development of efficient logistics and distribution capabilities. These strategies are common in industries such as semiconductors or large commercial aircraft. However, global strategies may also confront challenges such as limited ability to adjust quickly and effectively to changes in customer needs across national or regional markets, increased transportation and tariff costs from exporting products from centralized production sites, and the risks of locating activities in a centralized location (which can, for example, cause the firm to confront risks from political changes or trade conflicts, exchange rate fluctuations, and similar factors).

*Vodafone Group PLC of Britain, the world's largest cell phone operator, discovered that too much emphasis on implementing a global strategy could be a problem. In 2002, the company acquired control of the third largest Japanese cell phone operator, J-Phone Co., a fast-growing*

**FIGURE 13.3** Cost and Adaptation Pressures and Their Implications for International Strategies



*company with an image for being on the cutting edge of cellular technology. The company was subsequently rebranded under the Vodafone name and Vodafone heavily promoted its image as a global brand and company. Said Arun Sarin, Vodafone's CEO, "We acquired a lot of companies to become what we are today. Now we have to make this series of companies work as one operating company." Being a service provider in 28 nations allows Vodafone to specify technical requirements to handset manufacturers and to achieve powerful economies of scale in sourcing. The company is trying to achieve a standard Vodafone "look and feel" for all of its cellular phones, in order to enhance the company's branding and pricing power.*

*Yet, two years after its acquisition, the Japanese operations were suffering and losing market share to market leaders NTT DoCoMo Inc. and KDDI Corporation. In a nation where consumers love the latest technological gadgets, Vodafone's phones were viewed as dull and unoriginal. New subscriptions were declining by more than 85 percent, year on year, and annual revenues fell by 8 percent, with limited expectation that sales would grow significantly in the near future. The problem? How to implement a global strategy while simultaneously meeting the demands of the local market. Vodafone failed to provide Japanese consumers with technologically sophisticated, feature-packed phones, instead offering a narrow, run-of-the-mill product line. Vodafone was also late in introducing the newest cellular services being offered by competitors. For example, Vodafone's emphasis on global services resulted in a delay in the Japanese launch of 3G phones, preferring to offer phones that functioned both within and outside of Japan, which resulted in longer development times and delayed product introduction by more than a year after DoCoMo introduced its own 3G service. Kazuyo Katsuma, a telecom analyst with J.P. Morgan, said, "The biggest reason they are struggling is a mismatch of their strategy and the Japanese environment." Mr. Sarin admitted, "We are a little bit behind in Japan. We would like to do better. Our two competitors are playing a very strong technology card right now. We are responding . . . but this is something that's going to take six, nine, twelve months for us to regain the position that we had 12 months ago." He continued, "Branding is a very big issue for us. When you think about fast food, you think of McDonald's. When you think about a soft drink, you think of Coke. What we would like is when people think mobile products and services, they go to Vodafone."*[18]

**Multidomestic Strategy** A multidomestic strategy tends to be used when there is strong pressure for the company to adapt its products or services for local markets. Under these circumstances, decision making tends to be more decentralized in order to allow the company to modify its products and to respond quickly to changes in local competition and demand. By tailoring its products for specific markets, the company may be able to charge higher prices. However, local adaptation of products usually will increase the company's cost structure. In order to effectively adapt products, the company will have to invest in additional capabilities and knowledge in terms of local culture, language, customer demographics, human resource practices, government regulations, distribution systems, and so forth. Adapting products too much to local tastes may also take away the distinctiveness of a company's products. For example, KFC's chicken outlets in China are highly popular because they are perceived to reflect American values and standards, something that might be lost if the company tried to adapt the stores and products to be more like other Chinese food outlets. (For another example, see the nearby Worldview on General Motors.) The extent of local adaptation may also change over time, as when customer demands start to converge due to the emergence of global telecommunications, media, and travel, as well as reduced differences in income between nations. The cost and complexity of coordinating a range of different strategies and product offerings across national and regional markets can also be substantial.

*Schneider Electric, a large French electrical products company, is trying to dominate several sectors of the marketplace in China by adopting a localization strategy. In mid-2004, Chief Operating Officer Jean-Pascal Tricoire said, "China is a core country for us and is as important as the United States and Europe," likely to become the third largest market for Schneider after the U.S. and France. Business in China is expected to maintain an average annual growth rate of at least 20 percent through 2009, and localization is a primary strategy to achieve this growth rate. Schneider Electric China has about half of the corporation's employees, and is expected to expand the Chinese workforce from 4,000 to 7,000 by 2007. The company's Chinese research and development center will triple to 300 employees by 2006. Already accounting for 70 percent of production in the Asia Pacific region, Schneider will also add more production capability in China and diversify its operations into components and parts.*[19]

WORLDVIEW

## General Motors: Being Too Locally Responsive?

The Japanese auto market has been notoriously difficult for American automakers to penetrate, despite repeated efforts. In 1995, in response to a trade dispute with the United States, Japan agreed to improve access for foreign cars. GM responded by establishing a goal of increasing its sales in Japan to over 100,000 cars per year by 2000, and by 1996 the company's Japanese sales had risen 18 percent, to 71,495 vehicles. However, since then the company has had a series of highly visible failures. In 1995, GM began exporting a U.S. built sedan, the Chevrolet Cavalier, to be sold by Toyota. The effort was terminated in 2000 due to poor sales. In 1997, GM began selling the Saturn, which seemed appropriate for the Japanese market due to its size and styling, but this effort ended after selling only 1,002 cars in 2001. By 2001, GM had sold only 27,147 cars in Japan.

Finally, in 2001, General Motors decided to move away from its traditional strategy of selling large, U.S.-designed and manufactured cars in Japan and instead decided to mimic its Japanese rivals' strategies by introducing a subcompact auto—called the Chevrolet Cruze—that was designed specifically for Japanese drivers. The Cruze was engineered and manufactured by Suzuki Motor Corporation, which is 20 percent owned by GM, making it the first locally produced vehicle sold by GM in Japan since World War II. Local production and access to Suzuki's dealer network were intended to help allay Japanese consumers' concerns about access to parts or dealer service. Designed with a steering wheel on the right-hand side (to match the Japanese system of driving on the left side of the road), the Cruze was also designed as a compact vehicle to better fit the narrow streets of Tokyo. To achieve a rugged look that would appeal to young, outdoor-oriented consumers, the Cruze had flared body panels and lots of chrome in the grille. To address Japanese concerns about the inadequacy of interiors in American cars, designers included sporty, adjustable seats and substantial amounts of expensive-looking trim on the dashboard. A large Chevrolet logo was placed on the front, to emphasize the car's American origins. Television ads linked the Cruze with skateboarding, a sport identified with the United States. To better penetrate the market, the Cruze was sold through both GM's 47 AutoWorld dealerships and over 1,000 Suzuki showrooms.

GM's Cruze has had a tough time competing with the Suzuki Swift (pictured here) in the Japanese market.
© 2004 American Suzuki Motor Corporation

Despite these efforts at developing a locally responsive product, sales of the Cruze have not met expectations. Launched in October 2001, GM projected annual sales of 20,000 Cruzes, but sold only 6,600 during the first seven months of 2002. "Early results are certainly below our expectations," said Fritz Henderson, who heads Asian-Pacific operations for GM. Costs have also been high, due to giving a portion of the margins to Suzuki as well as the increased costs associated with using additional, high-cost materials.

Why has GM encountered problems with the Cruze? Dealers suggest that it is overpriced and underpromoted. A more serious criticism is that this "made-for-Japan" car may be "too Japanese," limiting its ability to stand out against the many rival products from Honda, Nissan, and Toyota in what is a fiercely competitive Japanese auto market. "Chevrolet's brand image has been completely built on the Camaro and Astro vans in Japan, so it's a real stretch to add a subcompact model," and that is confusing Japanese consumers, according to Takaki Nakanishi, an auto analyst at Merrill Lynch.

Despite efforts to create an "American" look with the Cruze, the car is nearly identical to the Suzuki Swift. The car has also been criticized as lacking some basic features that the notoriously picky Japanese customers want. "While it's expensive, there's not much that comes with the car, not even an audio system," said Yoko Nishi, a Suzuki saleswoman. Further, selling the Cruze side-by-side with the Suzuki Swift exacerbates the problem: The Cruze's base price of 1.2 million yen ($10,520) is 58 percent higher than the Swift's 790,000 yen ($6,658), even though the Swift has the same engine size and also includes a stereo.

GM's problems with the Cruze illustrate the challenges of adapting American products to foreign markets. Companies often must modify their products in order to have them accepted by customers in other nations, but if they change too much about the product, they risk losing the appeal of being an "American product." Graeme Maxton, a director of the British auto consultancy Autopolis, said that in order to successfully market a foreign auto in Japan, "it has to look as if it's not a Japanese car, because that's what makes it cool. As soon as you start adapting it too much to the local market, you don't meet that requirement."

Source: Todd Zaun, "Too Japanese for Japan?" *The Wall Street Journal*, September 16, 2002, pp. B1, B8. Copyright 2002 by Dow Jones & Co., Inc. Reproduced with permission of Dow Jones & Co., Inc. in format textbook via Copyright Clearance Center.

**Transnational Strategy** A transnational strategy tends to be used when a company simultaneously confronts pressures for cost effectiveness and local adaptation, and when there is a potential for competitive advantage from simultaneously responding to these two divergent forces. The location of a company's assets and capabilities will be based on where it would be most beneficial for each specific activity, neither highly centralized as with a global strategy, nor widely dispersed as with a multidomestic strategy. Typically, more "upstream" value chain activities, such as product development, raw materials sourcing, and manufacturing, will be more centralized, while the more "downstream" activities such as marketing, sales, and service will be more decentralized, located closer to the customer. Of course, achieving an optimal balance in locating activities is a challenge for management, as is maintaining this balance over time as the company faces changes in competition, customer needs, regulations, and other factors. Management must ensure that the comparative advantages of the locations of their various value chain activities are captured and internalized, rather than wasted due to limitations of the organization's people, structures, and coordination and control systems. The complexity associated with the strategic decisions, as well as the supporting structures and systems of the organization, will be much greater with a transnational strategy.

It is also important to remember that management must consider the corporate culture when choosing among strategies.[20] If the company decides to put into effect a quality control system that includes quality circles and heretofore there has been little employee participation in decision making, the strategy will have to include the cost of and time for training the employees to accept this cultural change.

**Strategies May Also Be General** At the corporate level, strategies, like objectives, may be rather general. Intel, for example, has stated that its strategy for growth is to "(1) drive networked PC improvements, (2) expand our branding programs, and (3) develop customer bases around the world."[21] You can be sure that the marketing and design functions, which receive these strategies as their objectives, will be required to quantify as many as possible.

**Scenarios** Because of the rapidity of changes in the uncontrollable variables, many managers have become dissatisfied with planning for a single set of events and have turned to **scenarios,** which are multiple, plausible stories for probable futures.[22]

**scenarios**
Multiple, plausible stories about the future

Often, the "what if" questions raised reveal weaknesses in present strategies. Some of the common kinds of subjects for scenarios are large and sudden changes in sales (up or down), sudden increases in the prices of raw materials, sudden tax increases, and a change in the political party in power. Frequently, scenarios are used as a learning tool for preparing standby or contingency plans. (See the nearby Worldview box, "Rehearsing the Future.")

**Contingency Plans** Many companies prepare **contingency plans** for worst- and best-case scenarios and for critical events as well. Every operator of a nuclear plant has contingency plans, as do most producers of petroleum and hazardous chemicals since such ecological disasters as the Valdez oil spill and the tragic Bhopal gas leak occurred.[23] Because of the important impact on profits of changes in the prices of jet fuel, contingency planning is a common strategic activity for domestic and international airlines. The deadly terrorist attack on the World Trade Center in New York on September 11, 2001, an event that also severely impacted operations of numerous companies, reminded many organizations of the importance of developing contingency plans to ensure the effective continuation of their operations in the event that their headquarters or other key locations were subjected to attack or otherwise incapacitated for a period of time.

**contingency plans**
Plans for the best- or worst-case scenarios or for critical events that could have a severe impact on the firm

### Prepare Tactical Plans

Because strategic plans are fairly broad, tactical (also called operational) plans are a requisite for spelling out in detail how the objectives will be reached. In other words, very specific, short-term means for achieving the goals are the objective of tactical planning. For instance, if the British subsidiary of an American producer of prepared foods has as a quantitative goal a 20 percent increase in sales, its strategy might be to sell 30 percent more to institutional users. The tactical plan could include such points as hiring three new specialized

WORLDVIEW

## Rehearsing the Future

What would happen if the price of oil were to skyrocket (as it did during much of 2000 through 2004) or suddenly crash? What are the chances of a host government nationalizing the oil industry? These are examples of scenarios—stories about possible futures—that Royal Dutch Shell employs in the planning process to force executives to question their assumptions about the environments in which the company operates.

Back in the 1970s, Shell used scenario planning as a fundamental tool for thinking strategically about the future, working on how to handle uncertainty in the company's long-range planning. The strategic planning group adapted techniques developed by the Rand Corporation for the U.S. Department of Defense. They developed scenarios in order to improve the quality of decisions that had huge financial implications for Shell, expensive undertakings such as whether to build a new offshore oil rig or begin exploring for oil in new areas.

When corporate strategic planning went out of fashion, however, so did scenarios. Now that strategic planning is back, so are scenarios, but with a difference. Formerly, the planners made the scenarios and presented them to the line managers—a kind of "show and tell." There was no involvement of the managers. Now there is an emphasis in the company on getting managers to bring scenarios into their decision processes because Shell's top management is convinced that scenario building is an important management tool.

The objective of scenario planning is to envision possible futures in a more realistic light, plan for uncertainties and discontinuous events, and develop strategies to help a company cope with these potential future states. Scenario planning helps to emphasize that the business environment is uncertain and might evolve in totally different ways, thus helping to challenge traditional perspectives regarding the organization and its environment. This provides a useful context for developing long-term strategic plans, as well as shorter-term contingency plans, which are appropriate for risky and uncertain operating situations. Scenario planning gives close attention to external and internal factors which may normally not be considered to be relevant, but which have influence on the future.

Scenarios are plausible and challenging stories, but they are not forecasts; that is, they do not extrapolate from past data to make predictions. In fact, they are a means to force managers to realize that their assumptions based on past experience no longer apply. Also, if managers have thought out the possible outcomes, they should be quicker to react when one of those outcomes occurs. As Shell's former planning head expresses it, "They can remember the future."[a]

Managers typically work in teams of six to eight people to build scenarios. They first agree about the decision that must be made and then gather information by reading, observing, and talking with knowledgeable people. Next, the team works to identify the driving (environmental) forces and the "critical uncertainties" (the unpredictable) and prioritizes them. Three or four scenarios are commonly prepared, based on issues critical to the success of the decision. Each should depict a credible future and not be written to show the best-case, worst-case, and most likely situations. The team then identifies the implications of the scenarios and the leading indicators management must follow.

A member of a consulting firm that trains managers to use scenarios writes, "Using scenarios is rehearsing the future, and by recognizing the warning signs and the drama unfolding, one can avoid surprises, adapt, and act effectively. Decisions which have been pretested against a range of what fate may offer are more likely to stand the test of time, produce robust and resilient strategies, and create distinct competitive advantage. Ultimately, the end result of scenario planning is not a more accurate picture of tomorrow, but better decisions today."[b]

The uncertainty of the world seems to have increased rather dramatically in recent years, especially in the aftermath of the "9/11" tragedy in the United States and the resulting changes in the international business environment. As a result, it is likely that international companies and their managers will demonstrate an increased interest in scenario planning as an essential part of their strategic planning activities.

Sources: [a]"A Glimpse of Possible Futures," *Financial Times*, August 25, 1997, p. 8; [b]"Using Scenarios," *GBN Scenario Planning*, http://www.gbn.org/usingScen.html (March 20, 1998). Also, A. J. Vogl, "Big Thinking," *Across the Board* 41, no. 1 (January/February 2004), pp. 27–33; Julie Verity, "Scenario Planning as a Strategy Technique," *European Business Journal* 15, no. 4, pp. 185–95; "20:20 Vision," *Global Scenarios*, www.shell.com/b/b2_03.html (March 15, 1998); and Hugh Courtney, "Decision-Driven Scenarios for Assessing Four Levels of Uncertainty," *Strategy and Leadership* 31, no. 1, pp. 14–22.

sales representatives, attending four trade shows, and advertising in two industry periodicals every other month next year. This is the kind of specificity found in the tactical plan.

### Strategic Plan Features and Implementation Facilitators

**Sales Forecasts and Budgets** Two prominent features of the strategic plan are *sales forecasts* and *budgets*. The sales forecast not only provides management with an estimate of the revenue to be received and the units to be sold but also serves as the basis for planning in the other functional areas. Without this information, management cannot formulate the produc-

tion, financial, and procurement plans. Budgets, like sales forecasts, are both a planning and a control technique. During planning, they coordinate all the functions within the firm and provide management with a detailed statement of future operating results.

**Plan Implementation Facilitators** Once the plan has been prepared, it must be implemented. Two of the most important plan implementation facilitators that management employs are policies and procedures.

**Policies** Policies are broad guidelines issued by upper management for the purpose of assisting lower-level managers in handling recurring problems. Because policies are broad, they permit discretionary action and interpretation. The object of a policy is to economize managerial time and promote consistency among the various operating units. If the distribution policy states that the firm's policy is to sell through wholesalers, marketing managers throughout the world know that they should normally use wholesalers and avoid selling directly to retailers. The disclosure of the widespread occurrence of bribery prompted company presidents to issue policy statements condemning this practice. Managers were put on notice by these statements that they were not to offer bribes.

**Procedures** Procedures prescribe how certain activities will be carried out, thereby ensuring uniform action on the part of all corporate members. For instance, most international corporate headquarters issue procedures for their subsidiaries to follow in preparing annual reports and budgets. This assures corporate management that whether the budgets originate in Thailand, Brazil, or the United States, they will be prepared using the same format, which facilitates comparison.

## Kinds of Strategic Plans

**Time Horizon** Although strategic plans may be classified as short-, medium-, or long-term, there is little agreement about the length of these periods. For some, long-range planning may be for a five-year period. For others, this would be the length of a medium-term plan; their long range might cover 15 years or more. Short-range plans are usually for one to three years; however, even long-term plans are subject to review annually or more frequently if a situation requires it. Furthermore, the time horizon will vary according to the age of the firm and the stability of its market. A new venture is extremely difficult to plan for more than three years in advance, but a five- or six-year horizon is probably sufficient for a mature company in a steady market.

**Level in the Organization** Each organizational level of the company will have its level of plan. For example, if there are four organizational levels, as shown in Figure 13.4, there will be four levels of plans, each of which will generally be more specific than the plan that is at the level above. In addition, the functional areas at each level will have their own plans and sometimes will be subject to the same hierarchy, depending mainly on how the company is organized.

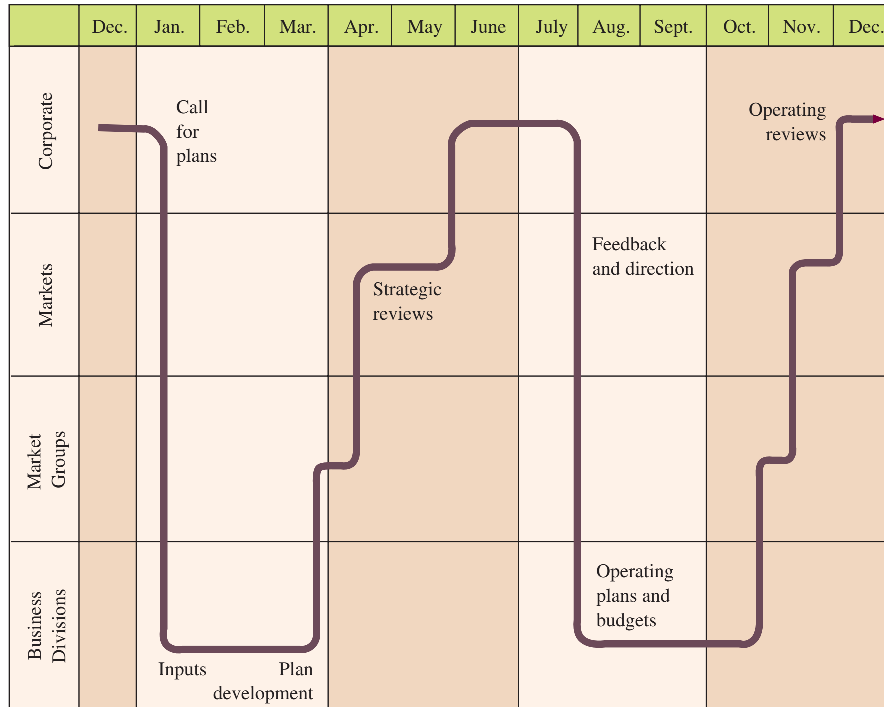
## Methods of Planning

**Top-Down Planning** In **top-down planning,** corporate headquarters develops and provides guidelines that include the definition of the business, the mission statement, company objectives, financial assumptions, the content of the plan, and special issues. If there is an international division, its management may be told that this division is expected to contribute $5 million in profits, for example. The division, in turn, would break this total down among the affiliates under its control. The managing director in Germany would be informed that the German operation is expected to contribute $1 million; Brazil, $300,000; and so on.

**top-down planning** Planning process that begins at the highest level in the organization and continues downward

Disadvantages of top-down planning are that it restricts initiative at the lower levels and shows some insensitivity to local conditions, particularly within ethnocentric management teams. Furthermore, especially in an international company, there are so many interrelationships that consultation is necessary. Can top management, for example, decide on rationalization of manufacturing without obtaining the opinions of the local units as to its feasibility?

**FIGURE 13.4** 3M Strategic Planning Cycle




The advantage of top-down planning is that the home office with its global perspective should be able to formulate plans that ensure the optimal corporatewide use of the firm's scarce resources.

**bottom-up planning** Planning process that begins at the lowest level in the organization and continues upward

### Bottom-Up Planning

**Bottom-up planning** operates in the opposite manner. The lowest operating levels inform top management about what they expect to do, and the total becomes the firm's goals. The advantage of bottom-up planning is that the people responsible for attaining the goals are formulating them. Who knows better than the subsidiaries' directors what and how much the subsidiaries can sell? Because the subsidiaries' directors set the goals with no coercion from top management, they feel obligated to make their word good. However, there is also a disadvantage. Each affiliate is free to some extent to pursue the goals it wishes to pursue, and so there is no guarantee that the sum total of all the affiliates' goals will coincide with those of headquarters. When discrepancies occur, extra time must be taken at headquarters to eliminate them. Japanese companies, particularly larger firms, almost invariably use bottom-up planning because they strive for a consensus at every level.

**iterative planning** Repetition of the bottom-up or top-down planning process until all differences are reconciled

### Iterative Planning

It appears that **iterative planning** (see Figure 13.4) is becoming more popular, especially in global companies that seek to have a single global plan while operating in many diverse foreign environments. Iterative planning combines aspects of both top-down and bottom-up planning.

**3M's Strategic Planning Cycle** In 2003, 3M generated 58 percent of its $18.2 billion in sales and 68 percent of its profit from outside the United States, where it has operations in over 60 nations and sales in over 200. Strategic planning plays a key role in the company's resource allocation decisions and global expansion. Figure 13.4 illustrates how 3M's iterative planning process functions. Planning starts with the operating managers of the com-

pany's business divisions, who analyze strengths and weaknesses and external forces, such as new technology and government regulatory changes; perform a competitor analysis; and determine the company resources they will need to achieve their objectives. Their plans then go to the Market Group, in which from three to five business divisions are located. They are reviewed by the Market Group management and consolidated for presentation to the strategic planning committee consisting of the 12 vice presidents at headquarters who represent the Markets into which the Market Groups are divided. The plans are reviewed, and the results of this review are discussed with the Market Group management. Any differences between Market and Market Group managements are reconciled.

Two months later (July), the corporate headquarters' 34-person management committee, to which the 12 strategic planning committee vice presidents belong, reviews the plans and votes on spending priorities. Feedback and direction are given to the business divisions, which then prepare operating plans and budgets by December and submit them to headquarters. They are finalized with corporate worldwide plans.

A few days before the December operating reviews, the management committee holds brainstorming sessions to discuss trends and developments over the coming 15 years. The general manager of each business division presents the best picture possible for that industry for the period. The outcome of this meeting is a broad guide for strategic planning. Although operating managers do the planning, the director and staff of a planning services and development unit provide an analysis of 3M's 20 principal competitors worldwide and any other information the divisions require. They also try to identify opportunities and new products.

As an indication of the vitality of the organization, 3M's chairman and CEO, W. James McNerney, stated, "Our objective is to double the number of qualified new 3M product ideas and triple the value of products that win in the marketplace. We're already seeing good results. . . . Our new product pipeline holds the potential to generate more than $5 billion of annual sales."[24]

## New Directions in Planning

Planning during the 1960s and early 1970s commonly consisted of a company's CEO and the head of planning getting together to devise a corporate plan, which would then be handed to the operating people for execution. Changes in the business environment, however, caused changes to be made in three areas: (1) who does the planning, (2) how it is done, and (3) the contents of the plan.

### Who Does It

By the mid-1970s, strategic planners had become influential executives, especially in many large U.S. corporations. They were accustomed to writing a blueprint for each subsidiary, which they would then present to the management of each operating unit. The planners' power grew and the operating managers' influence waned, and of course there was hostility between the two groups. Roger Smith, former chairman of GM, says, "We got those great plans together, put them on a shelf, and marched off to do what we would be doing anyway."[25]

By the 1980s, world uncertainty had made long-range planning in detail impossible and stronger competition made a practical knowledge of the company and the industry an essential input to strategic planning. This brought senior operating managers into the planning process, enabling companies to change the role and reduce the size of their planning staffs.

*General Electric's (GE) widely renowned central planning department was dismantled under former chairman Jack Welch. The company's 11 business unit heads have now been made responsible for planning. As a result, they meet with GE's chairman and CEO, Jeffrey Immelt, and his top management team to tell them what their plans are, the new products they are investigating, and what their competition is doing. These meetings are conducted not merely during the annual strategic planning process, but on an ongoing basis at other times of the year, as appropriate. The Corporate Executive Council, a group of top GE executives, also meets four times a year to study each business and where it is headed. No one in the company has the formal title of strategic planner.*

Another change involves bringing into the company's strategic planning process teams of line and staff managers with a wide range of ages. In the 1990s, Electronic Data Systems (EDS), international business consultants, began bringing in a group of staff

"We have lots of information technology. We just don't have any information."

people from around the world for a year-long assignment to work on strategy planning. The members ranged from a 26-year-old systems engineer with two years in the company to a 60-year-old corporate vice president who had worked 25 years with EDS. The group identified discontinuities that were either threats or opportunities for the firm, defined the firm's core competencies (what it does best), and wrote a "strategic intent"—a clearly defined goal that requires extra effort for the company to attain it.

Many firms have introduced another innovation to the planning process—bringing in customers and suppliers in order to have firsthand experience with the firm's markets. Hewlett-Packard (H-P), a highly decentralized firm, brings in its customers, its suppliers, and the general managers of H-P's business units to work together in strategy sessions for the purpose of creating new marketing opportunities.[26]

**How It Is Done** By the 1980s, firms were using computer models and sophisticated forecasting methods to help produce the voluminous plans we just mentioned. Those plans were not only huge but also very detailed. As a Texas Instruments executive put it, "The company let its management system, which can track the eye of every sparrow, creep into the planning process, so we were making more and more detailed plans. It became a morale problem because managers knew they couldn't project numbers out five years to two decimal points."[27]

The heavy emphasis on these methods tended to result in a concentration on factors that could be quantified easily. However, the less quantifiable factors relating to sociopolitical developments were becoming increasingly important. Also, the rapid rise in the levels of uncertainty made it clear to top managers that there was no point in using advanced techniques to make detailed five-year forecasts when various crises were exposing the nonsense of many previous forecasts. Before 1973, for example, there had been a great discussion about whether the price of crude oil would ever go above $2 per barrel.

Because of these problems, many firms have moved toward less structured formats and much shorter documents. General Electric's former chairman, Jack Welch, said, "A strategy can be summarized in a page or two."[28]

The top management of companies generally accepts the fact that "a good strategic planning process must allow ideas to surface from anywhere and at any times."[29] As indicated in Figure 13.1, objectives and strategies are intertwined, as are tactics and strategy. If the planning team is unable to come up with suitable tactics to implement a strategy, the strategy must be altered. In a similar fashion, if strategies cannot be formulated to enable the firm to reach the objective, the objective must be changed.[30]

**Contents of the Plan** The contents of the plan are also different. Many top managers say they are much more concerned now with issues, strategies, and implementation. The planning director of Shell Oil, the British–Dutch transnational, says,

> *The Shell approach has swung increasingly away from a mechanistic methodology and centrally set forecasts toward a more conceptual or qualitative analysis of the forces and pressures impinging on the industry. What Shell planners try to do is identify the key elements pertaining to a particular area of decision making—the different competitive, political, economic, social, and technical forces that are likely to have the greatest influence on the overall situation. In a global organization, the higher level of management is likely to be the most interested in global scenarios—looking at worldwide developments—while the focus becomes narrower as one proceeds into the more specialized functions, divisions, and business sectors of individual companies.*[31]

### Summary of the International Planning Process

Perhaps a good way to summarize the new direction in planning is to quote Frederick W. Gluck, a principal architect of the strategic management practice in the multinational management consulting firm McKinsey & Co. Gluck says that if major corporations are to develop the flexibility to compete, they must make the following major changes in the way they plan:

1. Top management must assume a more explicit strategic decision-making role, dedicating a large amount of time to deciding how things ought to be instead of listening to analyses of how they are.
2. The nature of planning must undergo a fundamental change from an exercise in forecasting to an exercise in creativity.
3. Planning processes and tools that assume a future much like the past must be replaced by a mind-set that is obsessed with being first to recognize change and turn it into a competitive advantage.
4. The role of the planner must change from being a purveyor of incrementalism to being a crusader for action and an alter ego to line management.
5. Strategic planning must be restored to the core of line management responsibilities.[32]

## Analysis of the Competitive Forces

The success of strategic management and the strategic planning process depends in large part upon the quality of information that goes into the process, as well as the interpretation of this information. Yet, "the biggest single problem in international planning is the lack of efficient and good competitive information." This is the conclusion of *Business International*'s study of 90 worldwide companies. The study also found that many companies have no organized approach to global competitive assessment; whatever is done is diffused among the various parts of the company.

The Futures Group, a consulting firm specializing in business intelligence systems (also known as competitor intelligence systems), conducted a survey of over 100 major American firms representing a wide variety of industries. Two-thirds of the respondents had annual revenues of more than $1 billion, and 28 percent had revenues greater than $10 billion. The company found that although only 60 percent of all respondents had organized business intelligence systems, the great majority (82 percent) of the companies with revenues of $10 billion or more had them.[33]

### Is Competitor Assessment New?

Sales and marketing managers have always needed information about their competitors' products, prices, channels of distribution, and promotional strategies to plan their own marketing strategies. Sales representatives are expected to submit information on competitors' activities in their territories as part of their regular reports to headquarters. It also has been common practice to talk to competitors' customers and distributors, test competitors' products, and stop at competitors' exhibits at trade shows. Larger firms maintain company libraries whose librarians regularly scan publications and report their findings to the functional area they believe would have an interest in the information. At times, companies have even resorted to **industrial espionage** in order to obtain information about their competitors.

**industrial espionage**
Spying on a competitor to learn secrets about its strategy and operations

*Two representatives from a Taiwanese firm that wanted to steal information about an anticancer drug from Bristol-Myers Squibb were trapped in an FBI sting operation. The Taiwanese representatives thought they were dealing with a Bristol-Myers scientist who was going to provide the technical data they were seeking, in return for $200,000 cash, a $1,000 monthly retainer, and a share of future profits. When the agreement was reached, the FBI, which had been filming the operation, moved in for the arrest.*[34]

**competitor analysis**
Principal competitors are identified, and their objectives, strengths, weaknesses, and product lines are assessed

Inasmuch as gathering information about the competition has been going on for so long, what is different about present-day **competitor analysis?** Essentially, the difference

**WORLD**VIEW

## Scenarios: Improving Strategic Planning by Telling Stories

After years of working as 3M's executive director of planning, Gordon Shaw came to the conclusion that the company's strategic plans were usually "to do" lists that would improve 3M's performance but did not reflect the rationale for selecting the items on the lists. For this reason, the mere listing of statements in a bullet-list format gave no indication of the thought and reasoning that went into the list's preparation.

Members of 3M's planning committee were accustomed to using the bullet point format in their writing and presentations. This allows complex business situations to be explained by a short list of points that can be modified and clarified as they are presented. But as Shaw observes, "Bullets allow us to skip the thinking step, genially tricking ourselves into supposing we have planned them, when, in fact, we've only listed some good things to do."

Shaw also claimed that bullet lists encourage people to be intellectually lazy:

1. These documents frequently are a list of things to do that can apply to any business and fail to show how they will specifically help the company in question. For example, a 3M business unit proposed three strategies: (a) Reduce high delivered costs by continuing to reduce factory costs and product costs, (b) accelerate development costs, and (c) increase responsiveness. Undoubtedly, the managers who made this list knew what had to be done in each case. However, the people who had to support the plan and make it work did not.
2. Lists can specify only three relationships: sequence with respect to time, priority (most important to least important), and members of a set (without specifying the basis of the relationship). Moreover, the list specifies only one of those relationships at a time. Either the presenter or the audience must come up with any other relationships.
3. Lists do not include assumptions about how the items affect the business. Shaw gives an example: "Consider these major objectives from a standard five-year strategic plan:
   a. Increase market share by 25 percent.
   b. Increase profits by 30 percent.
   c. Increase new product introductions to 10 a year.

   The planners making these objectives had to have a set of assumptions about how these factors relate to each other. For example, changing the order in which these actions are taken requires a different set of assumptions. If the assumptions are not clear to all the planners, they cannot agree on the same sequence and thus on the results."

A key role of strategic planning is to describe a future that is attractive enough to help create, and to capture, the competitive advantages that arise from preparing for this future and helping to make it happen. In essence, a key element in strategic planning is telling stories, creating scenarios regarding the future. Scenarios are carefully developed stories that integrate a variety of ideas about the future, including key certainties and uncertainties, and present these ideas in a useful and comprehensible manner. These stories are then tied into strategic and operational decisions that a company must make today.

Although the origins of scenario planning are unclear, the multinational company Royal Dutch/Shell is widely recognized as a pioneer in popularizing the technique. Shell made scenario planning a staple of its strategic planning efforts 30 years ago when it was confronted with a severe and unex-

lies in top management's recognition that (1) increased competition has created a need for a broader and more in-depth knowledge of competitors' activities and (2) the firm should have a **competitor intelligence system (CIS)** for gathering, analyzing, and disseminating information to everyone in the firm who needs it. A competent competitor intelligence department should be able to obtain at least 80 percent of the information the company wants, using publicly available sources.[35] This is because most corporations fail to identify their most essential information and commonly disclose it willingly to anybody who asks for it. Moreover, many firms hire consultants or firms specializing in competitor analysis to provide information, and others send employees to seminars to learn how to do it themselves. Some even employ former CIA agents or investigators to handle data gathering and analysis.

**competitor intelligence system (CIS)**
Procedure for gathering, analyzing, and disseminating information about a firm's competitors

> *"Overzealous" subcontractors working for Procter & Gamble phoned the hair care division of P&G's archrival Unilever. Falsely claiming that they were students, these subcontractors asked for sensitive information, which Unilever provided. In addition, Unilever employees frequently threw out sensitive documents, without first shredding them. The P&G subcontractors trespassed onto Unilever's property and retrieved some of these sensitive documents from the dumpster. (If they had waited until the dumpster was moved to the street, their actions would not have been trespassing and removal of the papers would have been legal.) These actions by the subcontractors, which effectively generated competitively valuable in-*

pected global oil shortage. In dealing with such uncertainty and change, traditional strategic planning approaches based on extrapolation of historical conditions are of limited value. Managers find it difficult to break away from their existing view of the world, one that results from a lifetime of training and experience. Through presenting other ways of seeing the world, scenarios allow managers to envision alternatives that might lie outside their traditional frame of reference. Such an approach is particularly useful for international companies that face high levels of change and uncertainty regarding political, technological, competitive, and other forces. Examples of scenarios created by Shell to assist in anticipating and responding to such uncertainty can be viewed at http://www.shell.com/home/Framework?siteId=royal-en&FC3=/royal-en/html/iwgen/our_strategy/scenarios/scenarios_home.html&FC2=/royal-en/html/iwgen/leftnavs/zzz_lhn5_3_0.html.

Because of the problems inherent in the list of objectives that had characterized 3M's strategic planning efforts, the company adopted a scenario-based approach which it termed "planning by narrative." First the strategic planner sets the stage as any storyteller does. This includes an analysis of the current situation, including uncontrollable environmental forces and corporate controllable variables. Then the narrator discusses the dramatic conflict. What are the obstacles to success? Once the obstacles are presented, the plan must show how the firm can conquer them and triumph. The audience is made aware of the writers' thought processes in arriving at their conclusions, and the assumptions are brought out in the open, enabling executives to evaluate the plan and then ask perceptive, incisive questions and offer valuable advice. One 3M manager stated, "If you just read bullet points, you may not get it, but if you read a narrative plan, you will. If there's a flaw in the logic, it glares out at you. With bullets, you don't know if the insight is really there or if the planner has merely given you a shopping list." 3M management believes that narrative plans can motivate and mobilize an entire organization.

In his classic book, *The Art of the Long View,* Peter Schwartz identifies the following seven steps to successful scenario planning:

1. Determine the area, scope and timing of the decisions with greatest relevance to or impact on your organization.
2. Research existing conditions and trends in a wide variety of areas (including those areas you might not typically consider).
3. Examine the drivers or key factors that will likely determine the outcome of the stories you are beginning to build.
4. Construct multiple stories of what could happen next.
5. Play out what the impact of each of these possible futures might be for your business or organization.
6. Examine your answers and look for those actions or decisions you'd make that were common to all two or three of the stories you built.
7. Monitor what does develop so as to trigger your early response system.

The primary value of scenario planning efforts is not so much the strategic plans that are created, but instead the transformation in strategic thinking that results from this activity.

Sources: "Planning for What's Next," *Growth Strategies*, August 2002, pp. 3–4; Anthony Lavia, "Strategic Planning in Times of Turmoil," *Business Communications Review,* March 2004, pp. 56–59; Ian Wylie, "There Is No Alternative to . . .," *Fast Company,* July 2002, p. 106, http://pf.fastcompany.com/magazine/60/tina.html (October 16, 2004); Peter Schwartz, 1996, *The Art of the Long View—Planning for the Future in an Uncertain World,* New York: Doubleday; and Gordon Shaw, Robert Brown, and Philip Bromiley, "Strategic Stories: How 3M Is Rewriting Business Planning," *Harvard Business Review,* May–June 1998, pp. 41–50.

*formation albeit by crossing legal and ethical boundaries, were discovered by P&G's CEO and voluntarily reported to Unilever.*[36]

Effective use of competitor intelligence systems can result in the legal and ethical acquisition of competitively valuable information that can provide a company with a range of benefits, such as the ability to (1) improve bidding success by better understanding competitors' costs, mark-ups, and contractual priorities, (2) identify key customers for competitors, in order to better target marketing and sales efforts, (3) identify plant or other facility expansion plans of competitors, or changes in strategic priorities or investments among businesses or product lines, and (4) improve understanding of competitors' product formulations, production volumes, and supply chains.

## Sources of Information

There are five primary sources of information about the strengths, weaknesses, and threats of a firm's competitors: (1) within the firm, (2) published material, including computer databases, (3) suppliers/customers, (4) competitors' employees, and (5) direct observation or analyzing physical evidence of competitors' activities. These sources are all used in the United States and other industrialized countries, but they can be especially helpful in developing nations, which usually have a paucity of published information.

**Within the Firm** As was mentioned previously, a firm's sales representatives are the best source of this kind of information. Librarians, when firms have them, can also provide input to the CIS. Another source is the technical and R&D people, who, while attending professional meetings or reading their professional journals, frequently learn of developments before they become general knowledge. Incidentally, government intelligence agencies from all countries subscribe to and analyze other nations' technical journals.

**Published Material** In addition to technical journals, there are other types of published material that provide valuable information. Databases such as *ABI Inform, Dialog, Dow Jones News/Retrieval, Lexis-Nexis,* and *NewsNet* enable analysts to obtain basic intelligence about sales, revenues, profits, markets, and other data needed to prepare detailed profiles of competitors. These services also enable users to create clipping folders based on search words such as the names of competitors, major customers, and suppliers, or words describing a product's technology.

The amount of useful information on the Internet continues to grow.* England's Economist Intelligence Unit and the United States' Predicast publish useful industry reports, and under the Freedom of Information Act, American firms and their foreign competitors can get information about companies from public documents. Aerial photographs of competitors' facilities are often available from the U.S. Environmental Protection Agency (EPA) or the U.S. Geological Survey if the company is near a waterway or has done an environmental impact study. The photos may reveal an expansion or the layout of the competitor's production facilities. Be careful not to take unauthorized aerial photographs—this is trespassing and is illegal.

**Suppliers/Customers** Companies frequently tell their customers in advance about new products to keep them from buying elsewhere, but often the customer passes this information on to competitors. For example, Gillette told a Canadian distributor when it planned to sell its new disposable razor in the United States. The distributor called Gillette's French competitor, BIC, which hurried its development and was able to begin selling its own razor shortly after Gillette did.

A company's purchasing agent can ask its suppliers how much they are producing or what they are planning to produce in the way of new products. Because buyers know how much their company buys, any added capacity or new products may be for the firm's competitors. They can also allege that they are considering giving a supplier new business if the sales representative can prove the firm has the capacity to handle it. Salespeople often are so eager for the new business that they divulge the firm's total capacity and the competitor's purchases to prove they can handle the order.

**Competitors' Employees** Competitors' employees, actual or past, can provide information. Experienced human relations people pay special attention to job applicants, especially recent graduates, who reveal they have worked as interns or in summer jobs with competitors. They sometimes reveal proprietary information unknowingly. Companies also hire people away from competitors, and unscrupulous ones even advertise and hold interviews for jobs they don't have to get information from competitors' employees.

**Direct Observation or Analyzing Physical Evidence** Companies sometimes have their technical people join a competitor's plant tour to get details of the production processes. A crayon company sent employees to tour a competitor's plants under assumed names. Posing as potential customers, they easily gained access and obtained valuable information about the competitor's processes; admittedly, this was unethical, although standing outside a plant to count employees and learn the number of shifts a competitor is working is not considered unethical.

We have already mentioned the common practice of reverse engineering, which is an example of analyzing physical evidence, but intelligence analysts even buy competitors' garbage. It is illegal to enter a competitor's premises to collect it, but it is permissible to ob-

*Presumably, you have seen the many endnotes in this text citing Internet sources and the Internet site directory we have provided on the McGraw-Hill/Irwin website (www.mhhe.com/ball10e) that is solely for sources of business information.

tain refuse from a trash hauler once the material has left the competitor's premises. Another interesting analysis was done by a Japanese company, which sent employees to measure the thickness of rust on train tracks leaving an American competitor's plant. They used the results to calculate the plant's output.[37]

We have pointed out when an act is legal or illegal, and we have also commented on whether, in our opinion, it was ethical. Certainly, businesspeople have a responsibility to use all ethical means to gather information about their competitors. The Japanese owe much of their rapid progress in high technology to their ability to gather information. Mitsubishi occupies two floors of a New York office building in which dozens of people screen technical journals and contact companies for brochures and other materials. Mitsubishi and other large Japanese firms do their own microfilming and electronic scanning, which they send to their Tokyo headquarters for analysis.

**Benchmarking** This is an increasingly popular way for firms to measure themselves against world leaders. Whereas competitor analysis will help a firm spot differences between its performance in the market and that of its competitors, it does not provide a deep understanding of the processes that cause these differences.

**Benchmarking** involves several stages:

**benchmarking**
A technique for measuring a firm's performance against the performance of others that may be in the same or a completely different industry

1. Management examines its firm for the aspects of the business that need improving.
2. It then looks for companies that are world leaders in performing similar processes.
3. The firm's representatives visit those companies, talk with managers and workers, and determine how they perform so well. Because the people who are going to use the newly acquired knowledge are line personnel, they, not staff people, should make these visits.

The problem, of course, is identifying which company to use as a benchmark. Some firms have been successful in choosing companies in their own industries, but often the ideal benchmark is in a related or perhaps even a completely different industry. Managers have a choice of using one or more of the four basic types of benchmarking:

1. *Internal*—comparing one operation in the firm with another. Because it is in-house, it is relatively easy to implement. It produces about a 10 percent improvement in productivity.
2. *Competitive*—comparing the firm's operation with that of a direct competitor. Obviously, this is the most difficult kind of benchmarking to do. Productivity improves about 20 percent.
3. *Functional*—comparing with similar functions of firms in one's broadly defined industry: American Airlines' comparing its freight handling procedure with that of Federal Express, for example. Functional benchmarking is easier to research and implement than competitive benchmarking. It frequently can improve productivity, with improvements of 35 percent or more having been reported by numerous companies and studies.
4. *Generic*—comparing operations in totally unrelated industries. When Xerox decided to improve its order-filling process, it went to L. L. Bean, a mail-order house famous for filling orders quickly and correctly. Although the industries and the kinds of products were very different, Xerox saw that both firms handled a wide variety of shapes and sizes that made it necessary to pack them by hand. By learning from Bean, Xerox reduced its warehousing costs 10 percent.

When Nissan's Infiniti division wanted to change the negative view many people have of service in the car industry, it went to famous service companies for its role models. McDonald's taught the Infiniti team the value of a clean, attractive facility and teamwork. Nordstrom, the department store chain, taught Infiniti the importance of rewarding employees for providing outstanding service.[38]

Although sometimes a visit to another firm will provide an idea that can be used without change, generally some adaptation will be needed. The basic purpose of benchmarking is to make managers and workers less parochial by exposing them to different ways of doing things so as to encourage creativity.

WORLDVIEW

## Using Industrial Espionage to Assess Competitors

Shekhar Verma, an Indian software engineer who had been fired from the Bombay-based Geometric Software Solutions Ltd (GSSL), claimed that he had the source code for Solidworks Plus' 3-D computer-aided design package. GSSL provides offshore outsourcing services in the area of information technology for clients in the United States and elsewhere, and the company had been debugging this software package for Solidworks. Verma had offered to sell the source code to a number of Solidworks' competitors, and Nenette Day had responded with interest to Verma's offer. She arranged to meet him in the Ashoka hotel in New Delhi. After confirming that he actually possessed Solidworks' source code, Day agreed to pay Verma $200,000 for the information. After she left the room, agents from India's Central Bureau of Intelligence (CBI) rushed in and arrested him. They did not arrest Day, because she was actually an agent from the FBI's Boston Cybercrime Unit, working undercover with the CBI on this case. Verma's arrest resulted in the first prosecutorial filing in India regarding outsourcing-related theft of intellectual property.

The theft of trade secrets, particularly involving competitors, is a chronic concern for businesses of all types. For years, companies have been acquiring information about each other by hiring competitors' employees, talking to competitors' customers, and so forth. Recently, however, intensified competition has motivated firms to become more sophisticated in this endeavor, even to the point of committing illegal acts. Mitsubishi was indicted on charges of stealing industrial secrets from Celanese, and Hitachi pleaded guilty to conspiring to transport stolen IBM technical documents to Japan. In another instance, a Russian spy was able to get samples of vital metal alloys by posing as a visitor and picking up metal shavings on crepe rubber soles on his walk through the plant. Businesspeople traveling abroad routinely report incidents of briefcases and laptop computers being tampered with, or hotel rooms being searched while they are away. Richard Isaacs, senior vice president of a company specializing in protecting intellectual assets, reported, "We had a client trying to do business in France, a country that believes it has an obligation to support local industry. Our client assumed that the way his French competitors always fractionally underbid him was a case of bad luck. Being less trusting, we had him hand-carry his next bid in a locked briefcase that was rigged to detect being opened. His proposal, a bogus one, was purloined and returned while he was at dinner, the detection system revealed. The next morning he went to his office, removed a diskette that was taped to his body, and printed out the real bid, which he then hand-delivered. A competitor later told him, 'I see you're learning.' "

These are not isolated incidents. A survey of Fortune 1000 companies by the American Society for Industrial Security claims that intellectual property losses from foreign and domestic espionage may total more than $300 billion. Major companies reported more than 1,100 documented and 500 suspected incidents of economic espionage. The Computer Security Institute's (CSI) annual survey revealed that 64 percent of the 538 participating companies and large institutions acknowledged that they had suffered financial losses during the prior year due to breaches of their computer systems, most occurring over the Internet. Key targets for espionage included research and development, customer lists, and financial data. Perhaps not surprisingly, high-tech firms, especially in Silicon Valley, were the most common targets.

Economic espionage is expected to intensify as the race to control scarce resources and global markets increases. The rise of the knowledge-based economy has caused information to become a more important and valuable portion of many corporations' assets, and information is portable and increasingly compressible. "Basically, someone can put an entire file cabinet onto something they can slip into their pocket and walk out with" or transmit via e-mail, said Mark Radcliffe, an attorney with the technology-focused law firm Gray Gary. Today's offices have a range of technological options for storing vast amounts of data, including thumb-sized USB memory sticks, portable hard drives, external CD burners, personal digital assistants, portable MP3 players, digital memory pens, and digital cameras.

Given this situation, protecting valuable intellectual assets against economic espionage has proven to be an increasing challenge. Companies are becoming more physically distributed, and their management and administration more dispersed. They increasingly rely on distributed, computer-based information systems, which can result in more potential sites from which competitors can collect valuable information. Although few companies have anybody assigned specifically to deal with espionage directed against them, almost all large companies and many smaller ones have competitive intelligence departments, often with substantial levels of funding. A Chinese spy manual noted that 80 percent of the desired military intelligence was available through public sources. A similar figure might be applicable to corporate spying, especially with the growing number of company Web sites holding increasingly detailed information about organizational structures, products, employees, facilities, contact information, and other potentially valuable data.

"Intellectual property has become one of the major targets of the illicit gaining of information," says Michael Marks, a director of Spymaster Communications and Surveillance Systems of the U.K. "The terrible thing today is that if you gain access to a company's computer, you can get access to all of its inner secrets. In the past, you gained information piecemeal

from people and departments; now it's centralized on computers and the amount of corporate internal fraud is quite astounding." Perhaps surprisingly, leading-edge technologies are not the only ones being targeted. In less economically developed nations, there is often a preference for older, "off-the-shelf" hardware and software that costs less, is easier to purchase or produce, and can be readily applied within their economic context. It appears that mid-level companies might be targeted even more than large companies for industrial espionage activities, particularly since they have more competitors to engage in espionage and they often have inadequate controls on proprietary information.

Governments and corporations have made attempts to respond to the growing challenges of economic espionage. The U.S. government passed the Economic Espionage Act in 1996, which made it a federal crime to provide American businesses' trade secrets to a foreign entity. The law does not apply to non–U.S. citizens who commit such acts outside American borders, however. In 2001, the Group of Eight leading industrial nations agreed to collaborate more closely to fight international computer-based crime (dubbed "cyber crime") and to possibly develop common law enforcement standards. The European Union proposed a cyber crime framework that would call for mandatory jail sentences for cyber crimes that cause significant damage to a business, but this framework would have limited enforceability if the crime was committed by someone in a country outside the EU. In 2004, Japan enacted legislation that made it a crime to leak corporate trade secrets. Yoshinori Komiya, director of the intellectual property office in the Ministry of Economy, Trade and Industry, said, "The flow of technology out of Japan is leading to a decline in competitiveness and employment. We believe that there is some technology that should be transferred, but what is happening now is that technology that top management does not want transferred is getting passed on." Elsewhere in Asia, notoriously high levels of counterfeiting and piracy indicate the widespread extent of industrial espionage, and the vast proportion of countries lack strong legislative frameworks to deal effectively with the issue. An executive from Sony stated, "We would certainly welcome a comprehensive regulatory system to protect intellectual property in countries such as China and South Korea." Clearly, much opportunity remains for governments to effectively attack the problem.

Corporations have attempted to introduce improved security systems to counter the threat of industrial espionage, and International Data Corporation estimates that the worldwide corporate market for monitoring and filtering products will increase by over 800 percent between 1999 and 2004, reaching $561 million. One thing that companies can do is to focus their efforts on identifying the aspects of their business that are most critical to protect from espionage. Each industry is unique and the bases for competitive advantage vary across companies. That means each company has to analyze its own strategy, operations, and capabilities and identify what provides them with a competitive advantage, things that they do not want competitors or other organizations to know. In many cases, key activities or knowledge can be isolated, and the company can focus on effectively managing the type and number of employees that might have access to them. In the West, it is common to restrict knowledge of sensitive projects to a small group of people, but in places such as Japan a large group of people usually has access to all of the information, even on very important projects. Some companies refrain from filing patents on manufacturing processes, fearing that difficulties in determining whether such processes are being copied makes it difficult to protect these valuable trade secrets. Sometimes operational security requirements will require the development and management of highly elaborate systems to control information. Yet, managing the risk may also include a range of simpler actions. For example, Samsung banned the use of camera phones in some of its facilities in order to keep spies from taking pictures of new product models and transmitting them to competitors or others.

Despite these efforts, the FBI says that foreign spies have increased their attacks on American industry. After the cold war ended, most nations shifted the bulk of their spying to economic espionage. The 2002 Annual Report to Congress on Foreign Economic Collection and Industrial Espionage estimated that industrial espionage and the loss of proprietary information costs U.S. companies over $300 billion a year, or more than a General Electric or Wal-Mart corporation annually. Former FBI Director Louis Freeh told Congress that at least 23 countries were actively involved in industrial espionage against the United States, and that his agents were involved in 800 separate investigations into economic spying by foreign countries. The major offending nations include China, Japan, Israel, France, Germany, Russia, South Korea, Taiwan, and India. The FBI confirmed that economic spying by countries considered friends as well as by adversaries is increasing. Yet, it does not take James Bond–type technologies and procedures for these spies to be effective. The U.S. Office of Counterintelligence reports that the methods most widely used for acquiring sensitive information or technologies include e-mail, phone, and fax.

Sources: Jeffrey Benner, "Nailing the Company Spies," *Wired News*, March 1, 2001, www.wired.com/news/print/0,1294,41968,00.html (September 1, 2002); William A. Wallace, "Industrial Espionage Experts," www.newhaven.edu/california/CJ625/p6.html (September 1, 2002); National Counterintelligence Center, *Annual Report to Congress on Foreign Economic Collection and Industrial Espionage 2000* (Washington, DC: National Counterintelligence Center, 2000) www.ncix.gov/nacic/reports/fy00.htm (September 1, 2002); "FBI Warns Companies to Beware of Espionage," *International Herald Tribune*, January 13, 1998, p. 3; Michael Barrier, "Protecting Trade Secrets," *HR Magazine*, May 2004, pp. 52–57; Mei Fong, "The Enemy Within," *Far Eastern Economic Review*, April 22, 2004, pp. 34–36; Richard Isaacs, "A Field Day for Spies: While a Deal Advances," *Mergers and Acquisitions*, January 2004, pp. 30–35; Michiyo Nakamoto, "Japan Goes After Industrial Spies," *Financial Times*, February 9, 2004, p. 8; and Michael Fitzgerald, "At Risk Offshore: U.S. Companies Outsourcing Their Software Development Offshore Can Get Stung by Industrial Espionage and Poor Intellectual Property Safeguards," *CIO*, November 15, 2003, p. 1.

## Summary

**Understand international strategy, competencies, and international competitive advantage.**

International strategy is concerned with the way in which firms make fundamental choices about developing and deploying scarce resources internationally. The goal of international strategy is to create a competitive advantage that is sustainable over time. To do this, the international company should try to develop skills, or competencies, that are valuable, rare, and difficult to imitate and that the organization is able to exploit fully.

**Describe the steps in the global strategic planning process.**

Global strategic planning provides a formal structure in which managers (1) analyze the company's external environment, (2) analyze the company's internal environment, (3) define the company's business and mission, (4) set corporate objectives, (5) quantify goals, (6) formulate strategies, and (7) make tactical plans.

**Understand the purpose of mission statements, objectives, quantified goals, and strategies.**

Statements of the corporate business, vision, and mission communicate to the firm's stakeholders what the company is and where it is going. A firm's objectives direct its course of action, and its strategies enable management to reach its objectives.

**Describe the new directions in strategic planning.**

Operating managers, not planners, now do the planning. Firms use less structured formats and much shorter documents. Managers are more concerned with issues, strategies, and implementation.

**Understand global, multidomestic, and transnational strategies and when to use them.**

When developing and assessing strategic alternatives, companies competing in international markets confront two opposing forces: reduction of costs and adaptation to local markets. As a result, companies basically have three different strategies that they can use for competing internationally: multidomestic, global, and transnational. The most appropriate strategy, overall and for various activities in the value chain, depends on the amount of pressure the company faces in terms of adapting to local markets and achieving cost reductions. Each of these three strategies has its own set of advantages and disadvantages.

**Describe the sources of competitive information.**

Sources of competitive information are from within the firm, published material, customers, competitors' employees, and direct observation.

**Understand the importance of industrial espionage.**

Industrial espionage is costing domestic and international companies billions of dollars annually in lost sales and may even put a company's long-term competitiveness and survival at risk. The threat of espionage is increasing, particularly as information and knowledge increasingly represent the foundation for companies' competitiveness.

## Key Words

**international strategy** (p. 383)
**competitive advantage** (p. 383)
**mission statement** (p. 387)
**competitive strategies** (p. 389)
**scenarios** (p. 393)
**contingency plans** (p. 393)
**top-down planning** (p. 395)
**bottom-up planning** (p. 396)
**iterative planning** (p. 396)
**industrial espionage** (p. 399)
**competitor analysis** (p. 399)
**competitor intelligence system (CIS)** (p. 400)
**benchmarking** (p. 403)

## Questions

1. What is international strategy and why is it important?
2. What is different between strategic planning conducted in domestic companies and that conducted in international companies?
3. Suppose the competitor analysis reveals that the American subsidiary of your firm's German competitor is about to broaden its product mix in the American market by introducing a new line against which your company has not previously had to compete in the

home market. The environmental analysis shows that recent weakness in the dollar–Euro exchange rate is expected to continue, making American exports relatively less expensive in Germany. Do you recommend a defensive strategy, or do you attack your competitor in its home market? How will you implement your strategy?

4. You are the CEO of the Jones Petrochemical Company and have just finished studying next year's plans of your foreign subsidiaries. You are pleased that the Israeli plan is so optimistic because that subsidiary contributes heavily to your company's income. But OPEC is meeting next month. Should you ask your planning committee, which meets tomorrow, to construct some scenarios? If so, about what?
5. Your firm has used bottom-up planning for years, but the subsidiaries' plans differ with respect to approaches to goals and assumptions—even the time frames are different. How can you, the CEO, get them to agree on these points and still get their individual input?
6. What are the main strengths and weaknesses of each of the global, multidomestic, and transnational strategies? Under what circumstances might each strategy be more or less appropriate?
7. What strategic issues arise as a firm considers an international transfer of skills and products resulting from its distinctive competencies in its home country?
8. What is scenario analysis? Why would scenario analysis be of value to an international company? What might limit the usefulness of such an approach?
9. What are some information sources used in competitor analysis? What ethical issues might be involved in using these various sources?

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## Research Task

Use the globalEDGE™ site to complete the following exercises:

1. Your company has developed a new product that is expected to achieve high penetration rates in all the countries where it is introduced, regardless of the average income status of the local populace. Considering the costs of the product launch, the management team has decided to initially introduce the product only in countries that have a sizable population base. You are required to prepare a preliminary report with the top ten countries of the world in terms of population size. Since growth opportunities are another major concern, the average population growth rates should be also listed for management's consideration.
2. You are working for a company that is considering investing in a foreign country. Management has requested a report regarding the attractiveness of alternative countries based on the potential return of FDI. Accordingly, the ranking of the top 25 countries in terms of FDI attractiveness is a crucial ingredient for your report. A colleague mentioned a potentially useful tool called the "FDI Confidence Index" which is updated periodically. Find this index, and provide additional information regarding how the index is constructed.

## Minicase 13.1

### Wal-Mart Takes On the World

Founded by Sam Walton in 1962, Wal-Mart has developed into the largest retailer in the world and the largest company on the Fortune 500 list, with sales of $244.5 billion in fiscal 2003. Embodying high levels of service, strong inventory management, and purchasing economies, Wal-Mart overpowered competitors and became the dominant firm in the U.S. retail industry. After rapid expansion during the 1980s and 1990s, however, Wal-Mart faces limits to growth in its home market in the 21st century and has been forced to look internationally for opportunities.

Many skeptics claimed that Wal-Mart's business practices and culture could not be transferred internationally. Yet, in its first decade of operations outside the United States, the company's globalization efforts progressed at a rapid pace. As of 2004, Wal-Mart had over 1,480 retail units outside the United States, employing over 340,000 associates in nine countries as well as having a 37.8 percent ownership in Seiyu, Ltd., a leading Japanese retailer with 400 supermarkets and 30,000 associates. In 2004, Wal-Mart planned to open an additional 120 to 130 new units within its current nine international countries of operation. Over 16 percent of Wal-Mart's 2003 sales came from international operations, a level that is expected to increase substantially over the next decade.

## Globalizing Wal-Mart: Where and How to Begin?

When Wal-Mart began to expand internationally, it had to decide which countries to target. Although the European retail market was large, to succeed there Wal-Mart would have had to take market share from established competitors. Instead, Wal-Mart deliberately selected emerging markets as their starting point for international expansion. In Latin America, they targeted nations with large populations—Mexico, Argentina, and Brazil—and in Asia they aimed at China.

Wal-Mart pursued a very deliberate entry strategy for the emerging markets. For its first international store, opened in 1991 in Mexico City, the company used a 50–50 joint venture. When it entered Brazil four years later, Wal-Mart had the majority position in a 60–40 venture. Both ventures included a partner that was a leading local retailer, to help Wal-Mart learn about retailing in Latin America. (When the company subsequently entered Argentina, it was on a wholly owned basis.) After gaining experience with partners, in 1997 Wal-Mart expanded further in Mexico by acquiring a controlling interest in the leading Mexican retail conglomerate, Cifra, which it renamed Wal-Mart de México S. A. de C. V. By 2004, Wal-Mart operated 630 units in 29 states, achieving annual sales of $10.6 billion and employing over 100,000. It accounts for over half of all supermarket sales in Mexico.

Still, learning the dos and don’ts was a difficult process. “It wasn’t such a good idea to stick so closely to the domestic Wal-Mart blueprint in Argentina, or in some of the other international markets we’ve entered, for that matter,” said the president of Wal-Mart International. “In Mexico City we sold tennis balls that wouldn’t bounce right in the high altitude. We built large parking lots at some of our Mexican stores, only to realize that many of our customers there rode the bus to the store, then trudged across those large parking lots with bags full of merchandise. We responded by creating bus shuttles to drop customers off at the door. These were all mistakes that were easy to address, but we’re now working smarter internationally to avoid cultural and regional problems on the front end.”[a]

## The Challenge of China

The lure of China, the world’s most populous nation, proved too great to ignore. Wal-Mart was one of the first international retailers in China when it set up operations in 1996. Before Wal-Mart’s arrival, state-owned retailers typically offered a limited range of products, often of low quality, and most stores were poorly lit, dirty, and disorganized.

Concerned about their potential impact on local firms, Beijing restricted the operations of foreign retailers. These restrictions included requirements for government-backed partners and limitations on the number and location of stores. Initially, Wal-Mart’s partner was Charoen Pokphand, a Thai conglomerate with massive investments in China and a strong track record with joint ventures. This venture was terminated after 18 months, due to differences regarding control. A new venture was subsequently formed with two politically connected partners, Shenzhen Economic Development Zone and Shenzhen International Trust and Investment Corporation, and Wal-Mart was able to negotiate a controlling stake in the venture. The first Chinese Wal-Mart store was in Shenzhen, a rapidly growing city bordering Hong Kong. The company chose to concentrate its initial activities in Shenzhen while it learned about Chinese retailing.

Wal-Mart had many well-publicized miscues while learning how to do business in China. For example, some household items found at American Wal-Marts are not found in the Chinese stores. “Their shopping list isn’t as extensive as ours. If you ask the majority of people here what a paper towel is, they either don’t know or they think it’s some kind of luxury item,” said the president of Wal-Mart China.[b] The company eliminated matching kitchen towels and window curtains, since the wide variety of Chinese window sizes caused people to make their own curtains. Consumers purchased four times the number of small appliances than projected, but Wal-Mart no longer tries to sell extension ladders or a year’s supply of soy sauce or shampoo to Chinese customers, who typically live in cramped apartments with limited storage space. Yet, although “people say the Chinese don’t like sweets, we sure sell a lot of M&Ms,” said Joe Hatfield, president of Wal-Mart’s Asian retailing operations.[c]

Operationally, the scarcity of highly modernized suppliers in China frustrated Wal-Mart’s initial attempts to achieve high levels of efficiency. Bar coding was not standardized in China, and retailers had to either recode goods themselves or distribute labels to suppliers, procedures that increased costs and hindered efficiency. Pressured to appease the government’s desire for local sourcing of products, while maintaining the aura of being an American shopping experience, Wal-Mart’s solution was to source about 85 percent of the Chinese stores’ purchases from local manufacturers but heavily weighting purchasing toward locally produced American brands (such as products from Procter & Gamble’s factories in China). Wal-Mart also mass-markets Chinese products that were previously available only in isolated parts of the country, such as coconut juice from Guangdong province, hams and mushrooms from rural Yunnan, and oats from Fujian province. “What this place is going to look like 10 to 20 years from now—and what the consumer will be ready to buy—is hard to even think about. There are 800 million farmers out there who’ve probably never even tasted a Coke,” said Hatfield.

Wal-Mart also learned the importance of building relationships with agencies from the central and local governments and with local communities. Bureaucratic red tape, graft, and lengthy delays in the approval process proved to be aggravating. The company learned to curry favor through actions such as inviting Chinese officials to visit Wal-Mart’s headquarters in the United States, assisting local charities, and even building a school for the local community. Wal-Mart expected its small-town folksiness to be a strong asset in China. “Price has been an issue, but there’s always somebody who can undersell you. A young person who’s smiling and saying, ‘Can I help you?’ is a big part of the equation. Most places in this country you don’t get that,” said the president of Wal-Mart International.[d] “Over the last two years, Wal-Mart has learned a tremendous amount about serving our Chinese customers, and our excitement about expanding in the market and in Asia has never been stronger.”[e]

Wal-Mart had 39 stores in China by 2004, employing about 20,000 associates, a small fraction of its worldwide retailing operations. However, the lessons Wal-Mart has learned have positioned the company to exploit future market-opening initiatives in China. Although China has historically restricted foreign participation in its retail market, as part of the agreement to permit China's entry into the World Trade Organization (WTO), these restrictions were phased out effective June 1, 2004. Wal-Mart's objective is to use its existing stores as a basis for the creation of a nationwide chain. Yet, Wal-Mart's intention is to expand slowly, trying to make friends and gain respect as they go. As Wal-Mart's head of Asian operations stated, "We are not just going to march out all over China."

## A Different Approach for Entering Canada and Europe

After focusing initial international expansion efforts on large developing nations, Wal-Mart began to pursue the Canadian and European markets. Strong, entrenched competitors in these developed country markets hindered Wal-Mart's prospects for obtaining critical mass solely through internal growth. Rather than first developing its retail operations from scratch, as in Latin America and Asia, Wal-Mart entered via acquisitions.

The company acquired 122 Canadian Woolco stores in 1994, and its 236 stores now account for more than a 35 percent share of the Canadian discount- and department-store retail market. Wal-Mart's "Buy Canadian" program, launched in 1994, has resulted in more than 80 percent of the company's merchandise being purchased from suppliers that operate in Canada.

In Europe, Wal-Mart entered Germany by acquiring 21 Wertkauf units and 74 Interspar stores in 1998. The company entered the U.K. in 1999 through the acquisition of the 229-store ASDA Group. These acquisitions allowed Wal-Mart to build market share quickly within the highly advanced and competitive European retail market. From this base, additional growth is anticipated through the opening of new stores, supplemented with further acquisitions. By 2004, the company had 92 Supercenters in Germany and its U.K. operations included 251 ASDA stores, 21 depots, and 14 ASDA-Wal-Mart Supercentres.

Although successful in rapidly building European market share, Wal-Mart still encountered difficulties. Acquiring two German companies within a year proved too much for the company to handle with its limited European infrastructure. Efforts to centralize purchasing and leverage Wal-Mart's famous competencies in information systems and inventory management were stymied by problems with suppliers that were not familiar with such practices.

The introduction of Wal-Mart's "always low prices" approach met resistance from competitors and regulators. Indeed, the company was ordered by Germany's Cartel Office to raise prices, charging that Wal-Mart had helped to spark a price war by illegally selling some items below cost. Wal-Mart also challenged existing retail practices regarding hours of operation. Current laws require shops to close by 8 P.M. on weekdays and 4 P.M. on Saturdays, and to remain closed on Sundays. However, Wal-Mart stores have begun to open by 7 A.M., two hours earlier than most competitors, and the company has lobbied for additional reforms to allow later closing times. These changes have sparked vehement opposition from smaller competitors and employees' unions.

As it struggled to build a strong competitive base, Wal-Mart Germany lost between $120 million and $200 million in 1999, and the losses continued into 2002. Summing up the experience in Germany, the managing director for Wal-Mart's European business stated, "Our progress has not been as fast or as good as we'd like it to be. But the reason we're comfortable is that we've built a platform from which we can grow the business. We want to have a serious business in Europe. Our objective is long-term market growth."[f] CEO Lee Scott said he could not think "of any country in Europe that we wouldn't want to be in over the long course of time. If you get an attractive deal in Europe at some point, that would be an opportunity. But our growth internationally will be a combination of strategic acquisitions and Greenfield opportunities."[g]

## A Successful Base for Continued Globalization Efforts

Wal-Mart's path to internationalization has been littered with challenges. The company has persevered and learned from its mistakes, however, and it seems well positioned for continued growth. As an indication of its success, in 2002 Wal-Mart became the largest company in the Fortune 500 list. In 2003, the company was named as *Fortune* magazine's "Most Admired Company in America." There are still many potential markets for a Wal-Mart store and the company is committed to exploiting these opportunities, whether they are at home or internationally. International is Wal-Mart's fastest growing division, and the company reorganized this division in January 2004, creating a new Miami-based office to manage market growth in Canada, Puerto Rico, Mexico, Brazil, Argentina, and other international markets in the Americas. In March 2004, the company purchased Bompreco, Brazil's third largest supermarket chain. In addition, CEO Lee Scott also announced in 2004 that Wal-Mart was exploring growth opportunities in Russia and India, indicating that these countries might soon be part of the company's international market coverage.

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