

# Chapter 11: International Strategic Management

Week 13 Day 1

# Learning Objectives

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1. Characterize the challenges of international strategic management.
2. Assess the basic strategic alternatives available to firms.
3. Distinguish and analyze the components of international strategy.
4. Describe the international strategic management process.
5. Identify and characterize the levels of international strategies.

# International Strategic Management

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- ▶ **The Challenges of International Strategic Management**
- ▶ **Strategic Alternatives**
- ▶ **Components of an International Strategy**
  - ▶ Distinctive Competence
  - ▶ Scope of Operations
  - ▶ Resource Deployment
  - ▶ Synergy
- ▶ **Developing International Strategies**
  - ▶ Mission Statement
  - ▶ Environmental Scanning and the SWOT Analysis
  - ▶ Strategic Goals
  - ▶ Tactics
  - ▶ Control Framework
- ▶ **Levels of International Strategy**
  - ▶ Corporate Strategy
  - ▶ Business Strategy
  - ▶ Functional Strategies

# Opening Case: Global Mickey

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- ▶ **the Walt Disney Company's international strategy**
  - ▶ The case examines the difficulties Disney has faced in establishing a theme park in France.
- ▶ **The Walt Disney Company**
  - ▶ a \$34.4 billion MNC
  - ▶ currently earns over \$150 million a year in royalties and licensing fees.
- ▶ **Disney expanded its popular theme park concept in 1984 from its original two sites in the U.S. to Japan.**
  - ▶ To limit its risk, Disney signed an agreement with the Oriental Land Company, which financed and owns Tokyo Disneyland and pays Disney royalties.
  - ▶ Tokyo Disneyland proved to be an enormous success, and prompted Disney to seek other foreign opportunities.
- ▶ **Disney chose Paris, France, as the site for its next theme park in 1988.**
  - ▶ Paris was selected because some 350 million people live within a two-hour plane ride of the city,
  - ▶ the French government offered numerous incentives,
    - ▶ Bargain-priced land and an extension of the Parisian rail system to the park.
    - ▶ Disney was permitted to retain up to 49 percent of the stock in the new theme park.
- ▶ **Euro Disneyland proved not to have the fairy tale success of its Japanese counterpart.**
  - ▶ Critics feared that it would threaten the French culture,
    - ▶ likened it to “a cultural Chernobyl,”
  - ▶ farmers condemned the decision of the government to sell their land to Disney,
  - ▶ the company found itself under fire for its dress code, training practices, and plans to ban alcohol from the park.

# Opening Case: Global Mickey

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- ▶ So far, although some 11 million people visit the park each year,
  - ▶ the project has been struggling financially
  - ▶ Construction costs were higher than expected, visitors have spent less than anticipated on food and lodging,
  - ▶ The company has had to increase its staff and number of computer reservation terminals.
- ▶ The park reached a major financial crisis after just 18 months of operation.
  - ▶ Disney and its banks agreed to new financial arrangements in 1994,
    - ▶ Included an agreement by Disney to relinquish royalty payments and management fees paid by Euro Disney
  - ▶ The project received an injection of much needed capital from a Saudi Arabian investor.
- ▶ Disney executives remain optimistic about the park's future,
  - ▶ noting an anticipated rise in discretionary spending in France.
  - ▶ By 1997 the park had become the number one tourist destination in Europe.
- ▶ Disney's international efforts continue.
  - ▶ In 2001, Disney opened Tokyo DisneySea next door to Tokyo Disney,
  - ▶ In 2005, Hong Kong Disney made its debut.
  - ▶ In 2004, it launched Disney Channel and Toon Disney programming customized for the Indian market.
- ▶ ABC TV shows *Lost* and *Desperate Housewives* are successes in Australia, France, Germany, Latin America, Russia, Singapore, South Africa, and the United Kingdom

# 1) The Challenges of International Strategic Management

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## ▶ Firms must be able to...

- ▶ Quickly exploit opportunities & present to them anywhere in the world
- ▶ Respond to changes in domestic & foreign markets
- ▶ Have a cogent definition of the firm's corporate mission and vision
  - ▶ Unambiguous understanding of how the company intends to compete with other firms
- ▶ Carefully compare their strengths and weaknesses to those of their competitors
  - ▶ Need to assess political, legal, economic, and social changes
  - ▶ Need to analyze the impact of new technologies on their ways of doing business

# 1) The Challenges of International Strategic Management

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## ▶ International Strategic Management

- ▶ A comprehensive and ongoing management planning process
- ▶ Aimed at formulating and implementing strategies
- ▶ Enables a firm to compete effectively internationally

## ▶ Strategic Planning

- ▶ The process of developing a particular international strategy

- ▶ How is formulating strategy for international business different from that of domestic business?

# International Strategic Management

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## ▶ Global Efficiencies

### ▶ Location efficiencies

- ▶ By locating their facilities anywhere in the world that yields them the lowest production or distribution cost or that best improves the quality of service they offer to the customers

E.g. NIKE

### ▶ Economies of scale

- ▶ Lower the cost of production by building factories to serve more than one country

E.g. Mercedes-Benz – Alabama assembly plant

### ▶ Economies of scope

- ▶ By broadening their product lines in each of the countries they enter

E.g. Apple – personal computers      extensive line of electronic communications equipment (iPhone, iPads etc.)

## ▶ Multinational Flexibility

## ▶ Worldwide Learning



# International Strategic Management

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## ▶ Multinational Flexibility

- ▶ Dynamic changes in global marketplaces (social, political, economical, technological etc.)
- ▶ IBs face the challenge of responding to the multiple diverse and changing environments
  - ▶ E.g. Tyson Food (Chicken processor)
    - Increased demand of chicken breasts due to more health-conscious US consumers
    - Chicken legs and thighs (less desirable in the US)      Russia and China (dark meat is preferred; considered tasty)

## ▶ Worldwide Learning

- ▶ Diverse operating environments of MNEs      organizational learning ↑
- ▶ Firms may learn from the differences and transfer the learning to its operations in other nations
  - ▶ E.g. McDonald's – traditionally located in freestanding entities in suburbs
  - ▶ Japanese franchisee – inner-city office building (Walmart superstores, food courts, airports)

# International Strategic Management

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- ▶ It is difficult to exploit the three factors simultaneously
  - ▶ E.g. Global Efficiencies     a single unit of a firm given worldwide responsibility; centralized control
    - ▶ Centralizing control may **hinder** the firm's ability to **customize**
    - ▶ BMW – R&D efforts in Germany
    - ▶ To include cup holders or not – Not necessary or even dangerous in Germany / US     necessary
  - ▶ Enhancing Flexibility     enhanced when firms delegate responsibility to the managers of local subsidiaries
    - ▶ Reduce the firm's ability to obtain global efficiencies
  - ▶ Worldwide Learning     may be stifled if the firm has unbridled pursuit of efficiencies or flexibility
    - ▶ Centralized power     may cause the firm to ignore lessons and information acquired by other units
    - ▶ Decentralized power     difficult to transfer learning

# International Strategic Management

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- ▶ Firms wishing to promote worldwide learning must
  - ▶ Utilize an organizational structure that promotes knowledge transfer among its subsidiaries & the HQ
  - ▶ Create incentive structures that motivate managers at HQs and subsidiaries to acquire, disseminate and act upon worldwide learning opportunities
    - ▶ E.g. Procter and Gamble – the late 1990s
    - ▶ Underwent a drastic organizational restructuring → a complex matrix structure
    - ▶ Shifted more power to product line managers & retain the local expertise of regional managers

## 2) Strategic Alternatives

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- ▶ **Four Strategic Alternatives of MNEs**
  - ▶ Home Replication Strategy
  - ▶ Multidomestic Strategy
  - ▶ Global Strategy
  - ▶ Transnational Strategy

## 2) Strategic Alternatives

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### ▶ Home Replication Strategy

- ▶ An MNE takes what it does best (exceptionally well) in its home market and attempts to duplicate it in foreign market
  - ▶ Utilizes the core-competency / firm-specific advantage from its home country and use it as the main weapon in the foreign market
  - ▶ E.g. Mercedes-Benz: brand-name, reputation for building well-engineered, luxurious cars

### ▶ Multidomestic Strategy

- ▶ Views itself as a collection of relatively **independent** operating subsidiaries
  - ▶ Each subsidiary focuses on a specific domestic market; has the autonomy to customize its products, marketing campaigns, and its operation techniques
- ▶ Effective when
  - ▶ There are clear differences among national market; low economies of scale; high cost of coordination
- ▶ Believes customers in every country are fundamentally different
- ▶ **Decentralized Power**
- ▶ Value **flexibility, local responsiveness**

## 2) Strategic Alternatives

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### ▶ Global Strategy

- ▶ Views the world as a single marketplace
- ▶ Primary goal: creation of standardized goods and services
- ▶ Assumes that customers are fundamentally the same regardless of their nationalities
  - ▶ Tries to capture **economies of scale**  
Concentrate its production activities in a certain location and create global advertising campaigns
  - ▶ Must **coordinate** its worldwide production and marketing strategies
  - ▶ **Centralized Power**
  - ▶ Pursue **Efficiency**

### ▶ Home Replication Strategy vs. Global Strategy

	Home Replication Strategy	Global Strategy
Similarities	• A firm conducts business the same way anywhere in the world	
Differences	<ul style="list-style-type: none"><li>• Takes its <b>domestic way</b> of doing business &amp; uses it in foreign markets</li><li>• Believes that if its business practices work in its <b>domestic market</b>, then they should also work in foreign market</li></ul>	<ul style="list-style-type: none"><li>• No home-country bias</li><li>• The concept of a home market is irrelevant</li><li>• Sees its market as a global one, not one divided into domestic and foreign segment</li></ul>

## 2) Strategic Alternatives

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### ▶ Transnational Strategy

- ▶ Attempts to combine the benefits of global scale efficiencies (global strategy) with the benefits of local responsiveness (multidomestic strategy)
- ▶ Distribution of power – combination of centralized & decentralized authority
  - ▶ Carefully assigns responsibility for various organizational tasks to that unit of the organization best able to achieve the dual goals
    - E.g. Centralize certain management functions (R&D, financial operations etc. ) & decentralize other management functions (marketing, human resource management etc.)
    - Allow local subsidiaries to customize their business activities to better respond to the local culture
- ▶ **Interdependent network** of operations
- ▶ Focus: **integration & coordination** among various subsidiaries
- ▶ Promote worldwide learning
  - ▶ Mix of centralization & decentralization of certain functions
  - ▶ Utilize matrix organizational designs to help promote transfer of knowledge among their subsidiaries

### 3) Components of an International Strategy

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- ▶ Distinctive Competence
- ▶ Scope of Operations
- ▶ Resource Deployment
- ▶ Synergy



# 3) Components of an International Strategy

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## ▶ Distinctive Competence

- ▶ “What do we do exceptionally well?”
  - ▶ E.g. cutting-edge technology, efficient distribution networks, superior organizational practices etc.
- ▶ Necessary condition for a firm to compete successfully outside its home market
- ▶ Represents an important resource to the firm
- ▶ Internationalization strategy = distinctive competence + business opportunities
  - ▶ E.g. Disney’s name, image and portfolio of characters; Microsoft’s Windows operating systems

## ▶ Scope of Operations

- ▶ “**Where** are we going to conduct business?”
  - ▶ May be defined in terms of geographical region
    - E.g. countries, regions within a country, clusters of countries etc.
  - ▶ May focus on market or product niches within one or more regions
    - E.g. premium-quality market niche, the low-cost market niche etc.
- ▶ Tied to the firm’s distinctive competence
  - ▶ Disney’s theme park: US, Japan, France, Hong Kong reaches almost 200 countries
  - ▶ Narrow geographic focus: Grupo Luksics a family-owned conglomerate providing beer, copper, banking, hotels etc. in Chile and its neighboring countries
  - ▶ Product focus: Semiconductor manufacturers in Korea (Hynix and Samsung: global memory chip market); Intel focuses on microprocessors

### 3) Components of an International Strategy

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#### ▶ Resource Deployment

- ▶ “How should the firm allocate their resources?”
- ▶ Firms does not have an equal resource commitment to each market they operate
- ▶ Resource deployment might be specified along product lines, geographical lines, or both
  - ▶ Determines relative priorities for a firm’s limited resources
  - ▶ E.g. Boeing: concentrates final assembly of most of its commercial aircraft in the Seattle and Washington
  - ▶ Daimler AG: concentrates production of Mercedes-Benz in Germany
- ▶ Some large MNEs may choose to deploy their resources worldwide
  - ▶ E.g. Osaka-based Sharp Corporation: manufactures its electronic goods in factories spread around the world

#### ▶ Synergy

- ▶ “How can different elements of our business benefit each other?”
- ▶ Goal: to create a situation in which the whole > is greater > than the sum of the parts
  - ▶ E.g. Disney Theme Parks & the TV

## 4) Developing International Strategies

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- ▶ **Developing international strategies**

- ▶ **Strategy Formulation (Deciding what to do)**

- ▶ The firm establishes its goals and the strategic plan that will lead to the achievement of those goals

- ▶ **Strategy Implementation (Actualizing the plan)**

- ▶ The firm develop the tactics for achieve the formulated international strategies

# Steps in International Strategy Formulation

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- ▶ Mission Statement
- ▶ Environmental Scanning and the SWOT Analysis
- ▶ Strategic Goals
- ▶ Tactics
- ▶ Control Framework

## 4) Developing International Strategies

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### ▶ Mission Statement

- ▶ Clarifies the organization's purpose, values and directions
- ▶ Used as a way of communicating with internal and external constituents and stakeholders about the firm's strategic direction
  - ▶ E.g. specify the firm's target customers, markets, principal products/services, geographical domain, core technologies, basic philosophy etc.
    - E.g. Samsung's vision: dedicated to developing innovative technologies and efficient processes that create new markets, enrich people's lives and continue to make Samsung a digital leader

### ▶ Environmental Scanning and the SWOT Analysis

- ▶ A firm typically initiates its SWOT analysis by performing an **environmental scan**
  - ▶ A systematic collection of data about all elements of the firm's external and internal environments
    - E.g. markets, regulatory issues, competitors' actions , production costs, and labor productivity

## 4) Developing International Strategies

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### ▶ Strategic Goals

- ▶ The major objectives the firm wants to accomplish through pursuing a particular course of action
- ▶ Must be
  - ▶ Measurable, feasible and time-limited

### ▶ Tactics

- ▶ To develop specific tactical goals and plans
- ▶ Usually involve middle managers and focus on the details of implementing the firm's strategic goals
  - ▶ E.g. merge between Guinness & Gran Metropolitan Diageo PLC
  - ▶ Middle managers in both companies were faced with challenges of integrating various components of the two original companies

### ▶ Control Framework

- ▶ A set of managerial and organizational processes that keep the firm moving toward its strategic goals
- ▶ Can prompt revisions in any of the preceding steps in the strategy formulation process
  - ▶ E.g. Disneyland Paris: a first-year attendance goal of 12 million visitors
  - ▶ Goal was unlikely to meet the firm increased its advertising to help boost attendance and temporarily closed one of its hotels to cut costs

## 5) Levels of International Strategy

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- ▶ **Corporate Strategy**

- ▶ The Single Business Strategy
- ▶ Related Diversification
- ▶ Unrelated Diversification

- ▶ **Business Strategy**

- ▶ Differentiation
- ▶ Overall Cost Leadership
- ▶ Focus

- ▶ **Functional Strategies**

# Levels of International Strategy

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## ▶ Corporate Strategy

- ▶ Deals with the **overall** organization
- ▶ Attempts to define the domain of businesses in which the firm intends to operate

## ▶ Business Strategy

- ▶ Focuses on **specific businesses**, subsidiaries, or operating units within the firm
- ▶ “How should we compete in each market we have chosen to enter?”

## ▶ Functional Strategies

- ▶ “How will we manage the **functions** (of finance, marketing, operations, HR, and R&D) in ways consistent with our international corporate and business strategies?”



# Three Forms of Corporate Strategy

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## ▶ The Single Business Strategy

- ▶ Calls for a firm to **rely on a single business**, product or service for all its revenue
- ▶ Advantage: the firm can concentrate all its resources & expertise
- ▶ Disadvantage: increases the firm's vulnerability to its competition & changes in the external environment
  - ▶ E.g. Singapore Airlines, McDonald's, Dell

## ▶ Related Diversification

- ▶ Calls for the firm to **operate in several different** but **fundamentally related businesses**, industries or markets at the same time
- ▶ Allows the firm to leverage a distinctive competence in one market in order to strengthen its competitiveness in others
  - ▶ E.g. Disney – each of its operations is linked to the others via Disney characters  
Disney Movies, TV shows, Disney-owned networks, Disney theme parks, Disney merchandise

## ▶ Unrelated Diversification

- ▶ A firm operates in several unrelated industries and markets
- ▶ Conglomerate: firms comprising unrelated businesses
  - ▶ E.g. Samsung, GE (lighting manufacturer, medical technology, an aircraft engine producer, home appliance, investment bank)

# Related Diversification

Advantages of Related Diversification	Disadvantages of Related Diversification
<ul style="list-style-type: none"><li>• Less vulnerable to competitive or economic threats<ul style="list-style-type: none"><li>• The firm depends less on a single product/service</li><li>• Increases barriers to entry<ul style="list-style-type: none"><li>• E.g. Disney</li></ul></li></ul></li><li>• Produce economies of scale</li><li>• May allow a firm to use technology or expertise developed in one market to enter a second market more cheaply and easily</li></ul>	<ul style="list-style-type: none"><li>• The cost of coordinating the operations of the related divisions</li><li>• The possibility that all the firms' business units may be affected simultaneously by changes in economic conditions<ul style="list-style-type: none"><li>• E.g. Accor – world's largest hotel operators (dining, hotel chains, package tour business, the car rentals) vulnerable to a downturn in tourism</li></ul></li></ul>

# Unrelated Diversification

## Advantages of Unrelated Diversification

- The HQ may be able to raise capital more easily than any of its independent units can separately
  - The parent can allocate the capital to the most profitable opportunities
- Overall riskiness may be reduced
  - A firm is less subject to business cycle fluctuations
- Less vulnerable to competitive threats
  - Any given threat is likely to affect only a portion of the firm's total operations
- More easily shed unprofitable operations
  - Able to by new operations without worrying about how to integrate them into existing businesses

## Disadvantages of Unrelated Diversification

- Lack of potential synergy across unrelated businesses
  - No one operation can regularly sustain or enhance the others
- Difficult for staff at corporate HQs to effectively manage diverse businesses
  - Complicated performance monitoring of individual operations

# Business Strategy

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## ▶ Differentiation

### ▶ Quality as a differentiating factor

- ▶ E.g. Rolex – sells at premium prices; limits its sales agreement to only a few dealers in any given area, stresses quality and status, seldom discounts its products

### ▶ Value as their differentiating factor

- ▶ E.g. Marks & Spencer vs. Lands' End (mail-order clothing seller)

## ▶ Overall Cost Leadership

### ▶ Lower costs than its competitors

- ▶ Calls for a firm to focus on achieving **highly efficient** operating producers
- ▶ Lower levels of unit profitability but higher total profitability

E.g. Bic (ball-point pen), Timex (watches), Vizio (high-definition TVs), Hyundai Motor, the LG group (consumer electronics), Hynix (DRAM memory chips)

## ▶ Focus

### ▶ A firm to target specific types of products for certain customer groups or regions

### ▶ The firm can match the features of specific products to the needs of specific consumer groups

- ▶ Characterized by geographical region, ethnicity, purchasing power, tastes in fashion etc.
- ▶ E.g. Hollister Co. (Abercrombi & Fitch)
- ▶ Denmark's Bang and Olufsen: focuses on producing elegantly-designed high end audio products

# Functional Strategies

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- ▶ **International Financial Strategy**
  - ▶ Deals with issues like the firm's desired capital structure, investment policies, foreign exchange holdings, risk-reduction techniques, debt policies etc.
  - ▶ Develop international financial strategy for the overall firm & for each SBUs
- ▶ **International Marketing Strategy**
  - ▶ Concerns the distribution and selling of the firm's products or services
    - ▶ Product mix, advertising, promotion, pricing and distribution
- ▶ **International Operations Strategy**
  - ▶ Guides decisions on issues as sourcing, plant location, plant layout and design, technology, and inventory management
- ▶ **International Human Resource Strategy**
  - ▶ Focuses on the people who work for an organization
    - ▶ How the firm will recruit, train, evaluate, and compensate employees
- ▶ **International R&D Strategy**
  - ▶ Concerned with the magnitude and direction of the firm's investment in creating new products and developing new technologies

## Homework #17 – due next Friday

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- ▶ Read the case “Global Success of SM Entertainment”
- ▶ Answer the **three** case discussion questions
- ▶ Do not spend more than 2 pages answering the questions
- ▶ You may use bullet points
- ▶ Keep your answers brief but think!
- ▶ Type your answers
  
- ▶ Due date: Friday, 29<sup>th</sup> of May by 11 a.m.

## Group discussion Report #8 (due next Friday)

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- ▶ With your group members discuss;
  - ▶ About Chapter 11
  - ▶ About Chapter 11 case study
  - ▶ And discuss based on case discussion questions
- ▶ Discuss following statement  
“Should the same managers be involved in both formulating and implementing international strategy, or should each part of the process be handled by different managers? Why?”
- ▶ Report due date: Friday, 29<sup>th</sup> of May by 11 a.m.
- ▶ Group report / Individual Report (sheets are downloadable from the website <http://ecampus.cbnu.ac.kr>)



# Case Study

## Global Success of SM Entertainment



Week 13 Day 2



# Discussion Question

## Discussion Question

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“Should the same managers be involved in both formulating and implementing international strategy, or should each part of the process be handled by different managers? Why?”

# Case Study Discussion

Global Success of SM Entertainment

# Global Success of SM Entertainment

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- ▶ **The Globalization strategy of SM Entertainment of Korea.**
  - ▶ A key company that has led the recent popularity of Korean Pop in Asian countries.
  - ▶ The success of SM Entertainment provides several implications for global strategy in terms of where to enter, how to enter, and how to build global competitiveness.
- ▶ **SM Entertainment was founded in 1995**
  - ▶ During the 2000s SM Entertainment singers and groups have gained huge popularity in many countries
  - ▶ From early 2000s, SM Entertainment tried to enter the Japanese music market by establishing a joint venture
  - ▶ SM entered the U.S. market in 2008 by forming a subsidiary
- ▶ **Key Success Factors**
  - ▶ Global audition, apprenticeship and diverse music and images

# Global Success of SM Entertainment

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- ▶ How is local responsiveness critical for the globalization in the music industry?  
What is a strategy that SM Entertainment has adopted in responding to local responsiveness?

# Global Success of SM Entertainment

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- ▶ What are the distinctive competences that singers in SM Entertainment have?  
How does SM Entertainment develop distinctive competencies of its singers?

# Global Success of SM Entertainment

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- ▶ Internet social media such as YouTube and Face book have become a major channel for music distribution. What might be a potential strategy for SM Entertainment to exploit opportunity from such trends?

# Homework #20 – due next Wednesday

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- ▶ Read Chapter 12 – International Marketing

- ▶ Answer the following questions

1. What are the basic factors involved in deciding whether to use standardization or customization?
2. How do legal, cultural, and economic factors influence product policy?
3. Why are brand names an important marketing tool for international business?
4. What are the three basic pricing policies?
5. What are the problems that a firm using market pricing might encounter?
6. What are some of the fundamental issues that must be addressed in international advertising?
7. What is a distribution channel? What options does an international firm have in developing its channels?
8. The ethnocentric approach and the geocentric approach both suggest standardization of the marketing mix. What is the difference between these two approaches, if both lead to standardization?

- ▶ Do not spend more than 2 pages (**Type your answers**)

- ▶ Try and keep your answers brief

- ▶ Due date: Wednesday, 3<sup>rd</sup> of June by 10 a.m.



## Group discussion Report #10 (due next Friday)

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- ▶ With your group members discuss;
  - ▶ About Chapter 16
- ▶ Discuss following questions
  - ▶ How do legal, cultural, and economic factors in your home country affect product policy for foreign firms?
  - ▶ What are the pros and cons of trying to use a single brand name in different markets, as opposed to creating unique brand names for various markets?
  - ▶ What are the advantages and disadvantages of each pricing policy? Why do most international firm use market pricing?
  - ▶ What are some basic differences you might expect to see in TV ads broadcast in France, South Korea, Uzbekistan, Malaysia, Saudi Arabia, and the US?
- ▶ Report due date: Friday, 5<sup>th</sup> of June by 11 a.m.
- ▶ Group report / Individual Report (sheets are downloadable from the website <http://ecampus.cbnu.ac.kr>)