International Management
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Competitive advantage and strategy in an international business environment

COMPETITIVE ADVANTAGE

Competitive advantage is an advantage over competitors gained by offering consumers greater **value**, either by means of low prices, or by providing greater benefits and services that justifies higher prices.

Source: Porter, 1985

Core Competency

The **resources and capabilities** that have been determined to be a source of competitive advantage for a firm over its rivals.

Strategy

An integrated and coordinated set of actions taken to exploit **core competencies** and gain a competitive advantage.

Business Level Strategy

Actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product markets.

Source: Porter, 1985

A global strategy – one of views

- The startegy is a combination of a planed and emergency ones.
- The competitive advantage comes from development of internal competencies and changing conditions in the business'environmet.
- It is important to distinguish sectors and markets.
- The competitive advantage is a result of lerning process of an organization as well as its competitive and cooperation behaviours.
- The dynamics of changes, both internal and external require companies to constantly learn.

Source: Stonehouse at all. Globalization, 2000

Theoretically, it is all about COMPETITIVE ADVANTAGE

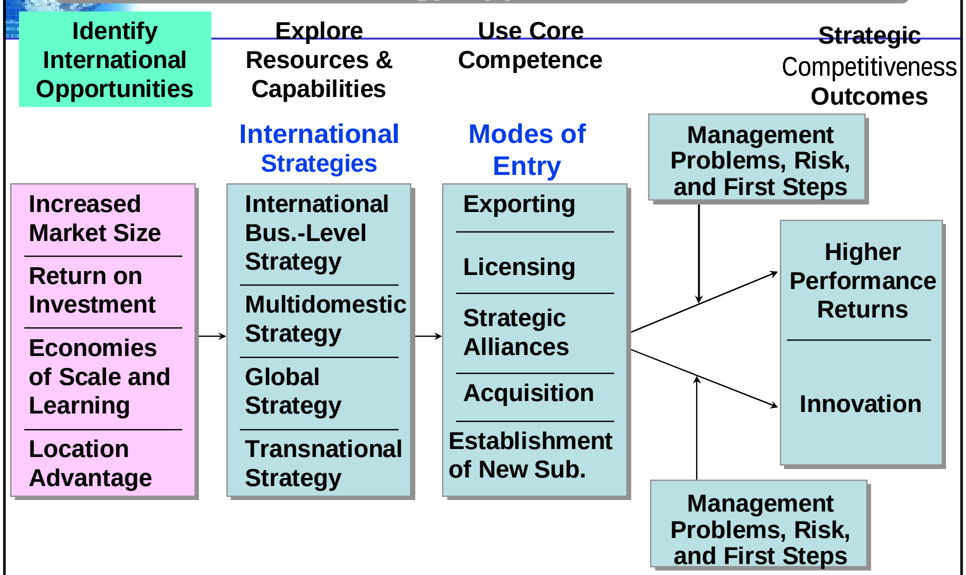
COMPETITIVE POSITIONING /1980, 1985-Porter/ - configure your core competencies within the sector to max. value added in order to obtain competitive advantage.

CORE COPETENCES OR RESOURCES /1959-Penrose, 1990-Prahald and Hamel, 1992-Stalk at all, 1993- Kay, 1997-Heene and Sanchez, etc…/ - 1. be like an open system and cooperate with the environment, 2. use your core competencies

GLOBAL STRATEGY / 1986, 1990 – Porter, 1987-Bartlett, 1992-Yip, etc/ - use the scale of being global, configure and coordinate international activities

Source: Stonehouse at all, GLOBALIZATION, chapter III, 2001

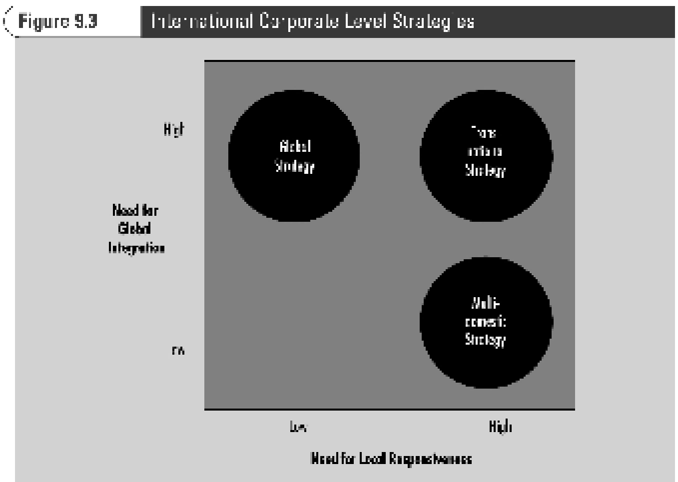
International Strategy Opportunities & Outcomes



International Strategies

- International Business Level Strategies
- International Corporate Level Strategies
  - Multi-domestic Strategy
  - Global Strategy
  - Transnational Strategy

International Corporate-Level Strategy



International Corporate-Level Strategy

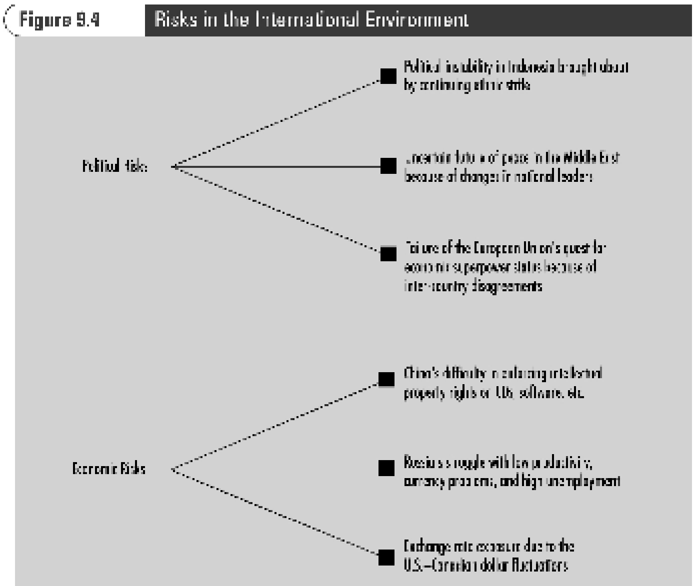
- Multi-domestic Strategy
  - Strategic & operating decisions are decentralized to the strategic business unit in each country to tailor products to the local market.

International Corporate-Level Strategy

- **Multi-domestic Strategy**
  - Strategic & operating decisions are decentralized to the strategic business unit in each country to tailor products to the local market.
- **Global Strategy**
  - Assumes more standardization of products across country markets
- **Transnational Strategy**
  - The firm seeks to achieve both global efficiency and local responsiveness

Risks in the International Environment

Figure 9.4



Major Risks of International Diversification

Political Risk

- National government instability may create potential problems for internationally diversified firms.
- Potential changes in attitudes or regulations regarding foreign ownership.
- Legal authority obtained from previous administration may become invalid.
- Potential for nationalization of firms' assets.

Major Risks of International Diversification

Economic Risk

- Econ. risks are interdependent with political risks.
- Differences and fluctuations in international currencies may affect value of assets & liabilities. *This affects prices & thus ability to compete.*
- Differences in inflation rates may affect inter-nationally diversified firms' ability to compete.
- Enforcing intellectual property rights on CDs, software, etc.

AAA Triangle

The three A's stand for the three distinct types of global strategy.

Adaptation seeks to boost revenues and market share by maximizing a firm's local relevance. One extreme example is simply creating local units in each national market that do a pretty good job of carrying out all the steps in the supply chain; many companies use this strategy as they start expanding beyond their home markets.

Aggregation attempts to deliver economies of scale by creating regional or sometimes global operations; it involves standardizing the product or service offering and grouping together the development and production processes.

Arbitrage is the exploitation of differences between national or regional markets, often by locating separate parts of the supply chain in different places—for instance, call centers in India, factories in China, and retail shops in Western Europe.

Ghemawat, Pankaj. "Managing Differences: The Central Challenge of Global Strategy." Harvard Business Review 85, no. 3 (March 2007).

What Are Your Globalization Options?

When managers first learn about the broad strategies (adaptation, aggregation, and arbitrage) that make up the AAA Triangle framework for globalization, their most common response by far is "Let's do all three." But it's not that simple. A close look at the three strategies reveals the differences—and tensions—among them. Business leaders must figure out which elements will affect their competitiveness and prioritize accordingly.

	ADAPTATION	AGGREGATION	ARBITRAGE
Competitive Advantage Why should we globalize at all?	To achieve local relevance through national focus while exploiting some economies of scale	To achieve scale and scope economies through international standardization	To achieve absolute economies through international specialization
Configuration Where should we locate operations overseas?	Mainly in foreign countries that are similar to the home base, to limit the effects of cultural, administrative, geographic, and economic distance		In a more diverse set of countries, to exploit some elements of distance
Coordination How should we connect international operations?	By country, with emphasis on achieving local presence within borders	By business, region, or customer, with emphasis on horizontal relationships for cross-border economies of scale	By function, with emphasis on vertical relationships, even across organizational boundaries
Controls What types of extremes should we watch for?	Excessive variety or complexity	Excessive standardization, with emphasis on scale	Narrowing spreads
Change Blockers Whom should we watch out for internally?	Entrenched country chiefs	All-powerful unit, regional, or account heads	Heads of key functions
Corporate Diplomacy How should we approach corporate diplomacy?	Address issues of concern, but proceed with discretion, given the emphasis on cultivating local presence	Avoid the appearance of homogenization or hegemonism (especially for U.S. companies); be sensitive to any backlash	Address the exploitation or displacement of suppliers, channels, or intermediaries, which are potentially most prone to political disruption
Corporate Strategy What strategic levers do we have?	Scope selection Variation Decentralization Partitioning Modularization Flexibility Partnership Recombination Innovation	Regions and other country groupings Product or business Function Platform Competence Client industry	Cultural (country-of-origin effects) Administrative (taxes, regulations, security) Geographic (distance, climate differences) Economic (differences in prices, resources, knowledge)

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The three A's are associated with different organizational types

If a company is emphasizing adaptation, it probably has a country-centered organization. If aggregation is the primary objective, cross-border groupings of various sorts—global business units or product divisions, regional structures, global accounts, and so on—make sense. An emphasis on arbitrage is often best pursued by a vertical, or functional, organization that pays explicit attention to the balancing of supply and demand within and across organizational boundaries. Clearly, not all three modes of organizing can take precedence in one organization at the same time. And although some approaches to corporate organization (such as the matrix) can combine elements of more than one pure mode, they carry costs in terms of managerial complexity.

Ghemawat, Pankaj. "Managing Differences: The Central Challenge of Global Strategy." Harvard Business Review 85, no. 3 (March 2007).

Assignment 2

- In the groups by 2 persons /mixt up, svp/