Module 20

Business, Company

MODULE 20 GLOBAL ISSUES IN STRATEGIC MANAGEMENT — THE GLOBAL CHALLENGES, STRATEGIES FOR COMPETING IN GLOBAL MARKETS, LOCAL MARKETS AND CULTURAL VARIATIONS. 20. 1 INTRODUCTION 20. 2 IMPACT OF GLOBALIZATION 20. 3 IMPACT OF ELECTRONIC COMMERCE 20. 4 GLOBAL CHALLENGES IN STRATEGY IMPLEMENTATION 20. 5 STAGES OF INTERNATIONAL DEVELOPMENT 20. 6 CENTRALIZATION VERSUS DECENTRALIZATION 20. 1 INTRODUCTION Globalization is the process of linking a nationâ€Ÿs economy with the global economy. The policy initiated by the Government of India in the form of structural reforms through liberalization, privatization and globalization will enable the country to become an active participant in the global market. The business community particularly the large business houses concerned with exporting, how to understand the message of globalization in the right perspective. Definitions of Globalization: 1. Rhodes (1996) “ Globalization is the functional integration of national economies within the circuits of industrial and financial capital". 2. Walters (1995) “ Globalization as a social process in which the constraints of geography on social and cultural arrangements precede and in which people become increasingly aware that they are". 3. McGrew and Lewis “ Globalization as a set of processes which embrace most of the globe or which operate world wide; the concept therefore has a special cannotation……….. On the other hand it also implies an intensification in the levels of interaction, interconnectedness or interdependence between the state and societies which constitute the world community". 189 20. 2 IMPACT OF GLOBALIZATION Today, everything has changed. Globalization, the internationalization of markets and corporations, has changed the way

modern corporations do business. To reach the economies of scale necessary to achieve the low costs, and thus the low prices, needed to be competitive, companies are now thinking of a global (worldwide) market instead of a national market. Nike and Reebok, for example, manufacture their athletic shoes in various countries throughout Asia for sale on every continent. Instead of using one international division to manage everything outside the home country, large corporations are now using matrix structures in which product units are interwoven with country or regional units. International assignments are now considered key for anyone interested in reaching top management. As more industries become global, strategic management is becoming an increasingly important way to keep track of international developments and position the company for long-term competitive advantage. For example, Maytag Corporation purchased Hoover not so much for its vacuum cleaner business, but for its European laundry, cooking, and refrigeration business., Maytag's management realized that a company without a manufacturing presence in the European Union (EU) would be at a competitive disadvantage in the changing major home appliance industry. See the Global Issue feature to learn how regional trade associations are changing how international business is conducted. Similar international considerations have led to the strategic alliance between Air India and Lufthansa and to the merger between Daimler-Benz and Chrysler Corporation. 20. 3 IMPACT OF ELECTRONIC COMMERCE Electronic commerce refers to the use of the Internet to conduct business transactions. A 1999 survey conducted by Booz-Allen & Hamilton and the Economist Intelligence Unit of more than 525 top executives from a wide range of industries

revealed that the Internet is reshaping the global marketplace and that it will continue to do so for many years. More than. 90% of the executives believed that the Internet would transform or have a major impact on their corporate strategy within two years. According to Matthew Barrett, Chairman and CEO of the Bank of Montreal, " We are only standing at the threshold of a New World. It is as if we had just invented printing or the steam engine. Not only is the Internet changing the way customers, suppliers, and companies interact, it is changing the way companies work internally. In just the few years since its introduction, it has profoundly affected the basis of 190 competition in many industries. Instead of the traditional focus on product features and costs, the Internet is shifting the basis for competition to a more strategic level in which the traditional value chain of an industry is drastically altered. A 1999 report by AMR Research indicated that industry leaders are in the process of moving 60 to 100% of their business to business (B2B) transactions to the Internet. The net B213 marketplace includes (a) Trading Exchange Platforms like VerticalNet and i2 Technologies's TradeMatrix, which support trading communities in multiple markets; (b) Industry Sponsored Exchanges, such as the one being built by major automakers; and (c) Net Market Makers, like e-Steel, NECX, and BuildPoint, which focus on a specific industry's value chain or business processes to mediate multiple transactions among businesses. The Garner Group predicts that the worldwide B2B market will grow from $145 billion in 1999 to $7. 29 trillion in 2004, at which time it will represent 7% of the total global sales transactions. The above mentioned survey of top executives identified the following seven trends, due at least in part, to the rise of the

Internet: 1. The Internet is forcing companies to transform themselves. The concept of electronically networking customers, suppliers, and partners is now a reality. 2. New channels are changing market access and branding, causing the disintermediation (breaking down) of traditional distribution channels. By working directly with the customers, companies are able to avoid the usual distributors, thus forming closer relationships with the end users, improving service, and reducing costs. 3. The balance of power is shifting to the consumer. Now having unlimited access to information on the Internet, customers are much more demanding than their " nonwired" predecessors. 4. Competition is changing. New technology- driven firms plus older traditional competitors are exploiting the Internet to become more innovative and efficient. 5. The pace of business is increasing drastically. Planning horizons, information needs, and customer/supplier expectations are reflecting the immediacy of the Internet. Because of this turbulent environment, time is compressed into " dog years" in which one year feels like seven years. 6. The Internet is pushing corporations out of their traditional boundaries. The traditional separation between suppliers, manufacturers, and customers is becoming blurred with the development and expansion of extranets, in which cooperating firms have access to 191 each other's internal operating plans and processes. For example, Bharat Petroleum Corporation Limited (BPCL), the Indian PSU oil major has networked with satellite unlinking through KU band. The technology can be further used to network the retail outlets for better market response and monitoring. Various interesting alternative uses of this technology are feasible which are being studied and would be deployed suitably. 7.

Knowledge is becoming a key asset and a source of competitive advantage. For example, physical assets accounted for 62. 8% of the total market value of U. S. manufacturing firms in 1980 but only 37. 9% in 1991. The remainder of the market value is composed of intangible assets, primarily intellectual capital. 20. 4 GLOBAL CHALLENGES IN STRATEGY IMPLEMENTATION An international company is one that engages in any combination of activities, from exporting/ importing to full-scale manufacturing, in foreign countries. The multinational corporation (MNC), in contrast, is a highly developed international company with a deep involvement throughout the world, plus a worldwide perspective in its management and decision making. For a Multinational corporation to be considered global, it must manage its worldwide operations as if they were totally interconnected. This approach works best when the industry has moved from being multi domestic (each country's industry is essentially separate from the same industry in other countries; an example is retailing) to global (each country is a part of one worldwide industry; an example is consumer electronics). Strategic alliances, such as joint ventures and licensing agreements, between a multinational company (MNC) and a local partner in a host country are becoming increasingly popular as a means by which a corporation can gain entry into other countries, especially less developed countries. The key to the successful implementation of these strategies is the selection of the local partner. Each party needs to assess not only the strategic fit of each company's project strategy, but also the fit of each company's respective resources. A successful joint venture may require as much as two years of prior contacts between both parties. The design of an organization's

structure is strongly affected by the company's stage of development in international activities and the types of industries in which the company is involved. The issue of centralization versus decentralization becomes especially important for a multinational corporation operating in both multi domestic and global industries. 192 Regional Trade Associations replace National Trade Barriers Previously known as the Common Market and the European Community, the European Union (EU) is the most significant trade association in the world. The goal of the EU is the complete economic integration of its 15 member countries-Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom-so that goods made in one part of Western Europe can move freely without ever stopping for a customs inspection. One currency, the euro, is being used throughout the region as members integrate their monetary systems. The steady elimination of barriers to free trade is providing the impetus for a series of mergers, acquisitions, and joint ventures among business corporations. The requirement of at least 60% local content to avoid tariffs has forced many American and Asian companies to abandon exporting in favor of a strong local presence in Europe. The EU has agreed to expand its membership to include the Czech Republic, Hungary, Estonia, Poland, Malta, Cyprus, and Slovenia by 2004; Latvia, Lithuania, and Slovakia by 2006; and Bulgaria and Romania by 2010. Turkey is being considered for admission in 2011. Canada, the United States, and Mexico are affiliated economically under the North American Free Trade Agreement (NAPTA). The goal of NAFTA is improved trade among the three member countries rather than complete economic

integration. Launched in 1994, the agreement requires all three members to remove all tariffs among themselves over 15 years, but they are allowed to have their own tariff arrangements with nonmember countries. Cars and trucks must have 62. 5% North American content to qualify for duty-free status. Transportation restrictions and other regulations are being significantly reduced. Some Asian and European corporations are locating operations in one of the countries to obtain access to the entire North American region. Vicente Fox, President of Mexico, is proposing that NATTA become more like the European Union in that both people and goods would have unlimited access across borders from Mexico to Canada. In addition, there have been some discussions of extending NAFTA southward to include Chile, but thus far nothing formal has been proposed. South American countries are also working to harmonize their trading relationships with each other and to form trade associations. The establishment of the Mercosur (Mercosul in Portuguese) free-trade area among Argentina, Brazil, Uruguay, and Paraguay means that a manufacturing presence within these countries is becoming essential to avoid tariffs for nonmember countries. Claiming to be NAFTAs southern counterpart, Mercosur has extended 193 free-trade agreements to Bolivia and Venezuela. With Chile and Argentina cooperating to build a tunnel through the Andes to connect both countries, it is likely that Chile may soon form some economic relationship with Mercosur. Asia has yet no comparable regional trade association to match the potential economic power of either NAFTA or the EU. Japan, South Korea, China, and India generally operate as independent economic powers. Nevertheless, the Association of South East Asian Nations (ASEAN)-composed of Brunei,

Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietriam-is attempting to link its members into a borderless economic zone. Increasingly referred to as ASEAN+3, it is already including China, Japan, and South Korea in its annual summit meetings. The ASEAN nations are negotiating the linkage of the ASEAN Free Trade Area (AFTA) with the existing FTA of Australia and New Zealand. With the EU extending eastward and NAFTA extending southward to someday connect with Mercosur, pressure is already building on the independent Asian nations to soon form an expanded version of ASEAN. 20. 5 STAGES OF INTERNATIONAL DEVELOPMENT Corporations operating internationally tend to evolve through five common stages, both in their relationships with widely dispersed geographic Markets and in the manner in which they structure their operations and programs. These stages of international development are: ï‚§ Stage I (Domestic Company): The primarily domestic company exports some of its products through local dealers and distributors in the foreign countries. The impact on the organization's structure is minimal because an export department at corporate headquarters handles everything. ï‚§ Stage 2 (Domestic Company with Export Division): Success in Stage I leads the company to establish its own sales company with offices in other countries to eliminate the middlemen and to better control marketing. Because exports have now become more important, the company establishes an export division to oversee foreign sales offices. ï‚§ Stage 3 (Primarily Domestic Company with International Division): Success in earlier stages leads the company to establish manufacturing facilities in addition to sales and service offices in key countries. The company now adds an international division with

responsibilities for most of the business functions conducted in other countries. 194 ï‚§ Stage 4 (Multinational Corporation with Multidomestic Emphasis): Now a full-fledged multinational corporation, the company increases its investments in other countries. The company establishes a local operating division or company in the host country, such as HLL of Unilevers, to better serve the market. The product line is expanded, and local manufacturing capacity is established. Managerial functions (product development, finance, marketing, and so on) are organized locally. Over time, the parent company acquires other related businesses, broadening the base of the local operating division. As the subsidiary in the host country successfully develops a strong regional presence, it achieves greater autonomy and self-sufficiency. The operations in each country are, nevertheless, managed separately as if each is a domestic company. ï‚§ Stage 5 (Multinational Corporation with Global Emphasis): The most successful multinational corporations move into a fifth stage in which they have worldwide personnel, R&D, and financing strategies. Typically operating in a global industry, the MNC denationalizes its operations and plans product design, manufacturing, and marketing around worldwide considerations. Global considerations now dominate organizational design. The global MNC structures itself in a matrix form around some combination of geographic areas, product lines, and functions. All managers are now responsible for dealing with international as well as domestic issues. Research provides some support for the stages of international development concept, but it does not necessarily support the preceding sequence of stages. For example, a company may initiate production and sales in

multiple countries without having gone through the steps of exporting or having local sales subsidiaries. In addition, any one corporation can be at different stages simultaneously with different products in different markets at different levels. Firms may also leapfrog across stages to a global emphasis. Developments in information technology are changing the way business is being done internationally. See the Global Issue feature to see how FedEx is using its expertise in information technology to help customers sidestep the building of a costly logistical infrastructure to take advantage of global markets. Nevertheless the stages concept provides a useful way to illustrate some of the structural changes corporations undergo when they increase their involvement in international activities. 20. 6 CENTRALIZATION VERSUS DECENTRALIZATION195 A basic dilemma a multinational corporation faces is how to organize authority centrally so that it operates as a vast interlocking system that achieves synergy, and at the same time decentralize authority so that local managers can make the decisions necessary to meet the demands of the local market or host government. 3'To deal with this problem, MNCs tend to structure themselves either along product groups or geographic areas. They may even combine both in a matrix structure-the design chosen by 3M Corporation and Asea Brown Boveri (ABB), among others. 31 One side of 3M's matrix represents the company's product divisions; the other side includes the company's international country and regional subsidiaries. The PRODUCT-GROUP STRUCTURE of American Cyanamid enables the company to introduce and manage a similar line of products around the world. This enables the corporation to centralize decision making along product lines and to reduce

costs. The geographic-area structure of Nestl6, in contrast, allows the company to tailor products to regional differences and to achieve regional coordination. This decentralizes decision making to the local subsidiaries. As industries move from being multidomestic to more globally integrated, multinational corporations are increasingly switching from the geographic-area to the product-group structure. Texaco, Inc., for example, changed to a product-group structure by consolidating its international, U. S., and new business opportunities under each line of business at its White Plains, New York, headquarters. According to Chairman Peter Bijur, " By placing groups which will perform similar work in the same location, they will be able to share information, ideas, and resources more readily-and move critical information throughout the organization. Simultaneous pressures for decentralization to be locally responsive and centralization to be maximally efficient are causing interesting structural adjustments in most large corporations. Companies are attempting to decentralize those operations that are culturally oriented and closest to the customers -manufacturing, marketing, and human resources. At the same time, the companies are consolidating less visible internal functions, such as research and development, finance, and information systems, where there can be significant economies of scale.