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BPMN 6023 STRATEGIC MANAGEMENT COMPETITION IN FOREIGN AND GLOBAL ENVIRONMENT Prepared by: MOHAMMAD IKRAM MUZAMMIL BIN IDRUS (810943) NUROLL AZRIN BINTI KAMAROLL ZAMAN (813857) Course: MSC. FINANCE Prepared for: PROF. DR. RUSWIATI SURYA SAPUTRA WHY COMPANIES DECIDE TO ENTER FOREIGN MARKETS Competing in international markets allows companies to (1) gain access to new customers, (2) achieve lower costs through greater scale economies, learning curve effects, or purchasing power, (3) leverage core competencies developed domestically in additional country markets, (4) gain access to resources and capabilities located outside a company's domestic market, and (5) spread business risk across a wider market base. WHY COMPETING ACROSS NATIONAL BORDERS MAKES STRATEGY MAKING MORE COMPLEX Companies electing to expand into international markets must consider five factors when evaluating strategy options: (1) cross-country variation in factors that affect industry competitiveness, (2) location-based drivers regarding where to conduct different value chain activities, (3) varying political and economic risks, (4) potential shifts in exchange rates, and (5) differences in cultural, demographic, and market conditions. Reason for locating value chain activities for competitive advantages is lower wage rates, higher worker productivity, lower energy costs, fewer environmental regulations, lower tax rates, lower inflation rates, proximity to suppliers and technologically related industries, proximity to customers, lower distribution cost and available or unique natural resources. The impact of government policies and economic conditions in host countries has positive impact which is tax incentives, low tax rates, low-cost loans, site location and development and worker training

while the negative impact is environmental regulations, subsidies and loans to domestic competitors, import restriction, tariff and quotas, local-content requirements, regulatory approvals, profit repatriation limits and minority ownership limits. Political risks stem from instability or weakness in national government and hostility to foreign business. Economic risks stems from the stability of a country's monetary system, economic and regulatory policies, lack of property right protection, and risks due to exchange rate fluctuation Fluctuating exchange rates pose significant economic risks to a company's competitiveness in foreign markets. Exporters are disadvantages when the currency of the country where goods are being manufactured grows stronger relative to the currency of the importing country. The strategies of firms that expand internationally are usually grounded in h omecountry advantages concerning demand conditions, factor conditions, related and supporting industries, and firm strategy, structure, and rivalry, as described by the Diamond of National Advantage framework. Two key strategic consideration for cross country differences in demographic, cultural and market conditions is to customize offerings in each country markets to match the taste and preferences of local buyers and to pursue a strategy of offering a mostly standardized product worldwide. THE CONCEPTS OF MULTIDOMESTIC COMPETITION AND GLOBAL COMPETITION The pattern of international competition varies in important ways from industry to industry. At one extreme is multidomestic competition, in which the market contest among rivals in one country is not closely connected to the market contests in other countries–there is no world market, just a collection of self-contained country (or maybe regional) markets. At the other extreme is global competition, in

which competitive conditions across national markets are linked strongly enough to form a true world market, wherein leading competitors compete head to head in many different countries. STRATEGIC OPTIONS FOR ENTERING AND COMPETING IN INTERNATIONAL MARKETS There are six strategic options for entering foreign markets. These include (1) maintaining a national (one-country) production base and exporting goods to foreign markets, (2) licensing foreign firms to produce and distribute the company's products abroad, (3) employing a franchising strategy, (4) establishing a wholly owned subsidiary by acquiring a foreign company, (5) creating a wholly owned foreign subsidiary from the ground up via a greenfield venture, and (6) using strategic alliances or other collaborative partnerships to enter a foreign market. The advantages in exporting strategies are low capital requirements, economies of scale in utilizing production capacity, no distribution risk and no direct investment risk. The disadvantages for this strategies is maintaining relative cost advantages of home based production, transportation and shipping costs, exchange rate risks, tariff/import duties and loss channel control The advantages in licensing and franchising strategies are low resource requirements, income from royalties and franchising fees and rapid expansion into many markets. The disadvantages for these strategies are maintaining control of proprietary know-how, loss of operational and quality control and adapting to local markets tastes and expectations. Acquisition strategies can give benefits in term of high level of control, quick large scale market entry, avoid entry barriers and access to acquired firm’s skills while the disadvantages are costs of acquisition is too high, complexity of acquisitions process and integration of the firms

structures, cultures, operations, and personnel A Greenfield venture is a subsidiary business that is established by setting up the entire operation from the ground up. The advantages of this strategies is high level of control over venture, “ learning by doing" in the local market, and direct transfer of the firm’s technology, skills, business practises and culture. The disadvantages of this strategies are capital costs of initial development, risks of loss due to political instability or lack of legal protection of ownership and slowest form of entry due to extended time required to construct facility Collaborative strategies involving alliances or joint ventures strategies with foreign partners are a popular way for companies’ edge their way into the markets of foreign countries. The advantages for this strategies are avoid entry barriers, allow for resources and risk sharing, partners knowledge of local market conditions, joint learning and sharing and preservation of partner independence while the disadvantages for this strategies are cultural and languages barriers, costs of establishing the working arrangement, issues of joint control and protection of proprietary technology or competitive advantages STRATEGY OPTIONS FOR ENTERING AND COMPETING IN FOREIGN MARKETS Every major organization in the world has its own strategies. It is a reflection of how the organization perceived its business environment and what is it going to do to achieve its objectives within that environment. Strategies contain thoughts, perspectives and decisions regarding issues that must be confronted by the organization and how the organization will overcome them to survive and grow. Here, the issues of whether to vary the organization’s competitive approach to fit specific market circumstance and buyer preferences in each host country or

whether to employ essentially the same strategy in countries is perhaps the primary strategic issues that an organization must deal with when they operate in several foreign markets. Thompson, Strickland and Gamble (2005) have diff erentiated between two strategies based on the type of competition; Multidomestic Strategy, and Global Strategy. They derelict the suitability of each strategy as stated below: " A multidomestic strategy is appropriate for industries where competition dominates and local responsiveness is essential. A global strategy works best in markets that are globally competitive or beginning to globalize". In a general term, a localized or multidomestic strategy is implementing the thinklocal and act-local approach to strategy making. This strategy is essential where there are: ï,· significant country-to-country differences in customer preferences and buying habits; ï,· significant cross-country differences in distributions channels and marketing methods; ï,· host government enact regulations requiring that products sold locally meet strict manufacturing specifications or performance standards; and ï,· a trade restrictions of host government are so dive rse and complicated that they preclude a uniform, coordinate worldwide market approach. An example of an organization that opt to adopt the multidomestic strategy is Castrol, a specialist in oil lubricant , has over 3, 000 different formulas of lubricants, many of which have been tailored for different climates, vehicle types and uses, and equipment applications that characterize different country markets. However, implementing this localized strategy do have their disadvantages: (1) They hinder transfer of an organization's competencies and resources across country boundaries, and (2) they do not promote building a single, unified competitive advantages

especially one based on low cost. This may be overcome if the organization finds its ways to customize their product and still be in position to capture scale economies and the learning curve effects. Example can be seen via organizations such as Dell and Toyota as they have mass customization production capabilities which enable them to cost-effectively adapt their product offering to local buyer tastes. Nevertheless, some people disagree that an organization must customize they products or services to meet the needs of various international markets, and hence must use a multidomestic strategy at least in part. For example, Kentucky Fried Chicken (KFC) planned a standardized approach to its foray into the Japanese market, but the company soon realized it had to change its strategy to meet the needs of the Japanese consumers and customize its operations in Japa n. Consequently, KFC introduced a smaller piece of foods to cater to a Japanese preference, and located restaurants in crowded areas along with other restaurants, moving away from independent sites. As a result of these changes, the fast -food restaurant experienced stronger demand in Japan. In capturing the definition of global strategy given by Thompson, Strickland and Gamble (2005), a global strategy are best suited for globally competitive industries this is which the organization's approach is predominantly the same in all countries where it sells the same products under the same brand names everywhere, uses much the same distribution channels in all countries, and competes on the basis of the same capabilities and marketing approaches worldwide. On the contrary, KFC is also adapting the think-global, and act-global strategies in order to integrate and coordinate the organization's strategic moves worldwide and to expand into most if not all nations where

there are significant buyers demand. Generally, an organization develops its global strategy by considering its overall strategy, which includes its operations at home and abroad. There are four aspects of strategy that an organization may consider: (1) scope of operations, (2) resource allocation, (3) competitive advantage, and (4) synergy. The first component encompasses the geographic location of operations as well as possible markets or niches in various regions. Since organizations have limited resources and different regions offer different advantages, thus select the market that offers the optimal opportunities. The second component of the global strategy focuses on use of organization resources to that a it can compete successfully in the chosen market. This component of strategy planning also determines the relative importance of various organization functions and bases the allocation of resources on the relative importance of each function. For instance, an organization may decide to allocate its resources based on product lines or geographical locations. Next, the management of the organization must decide where it can achieve competitive advantage over other companies in the industry. It can be identified by determining what the organization does better than its competitors. This may be realized through a host technique such as using superior technology, implementing more efficient organizational practices and distribution systems, and cultivating well known brands. This component of the strategy involves not only identifying existing or potential areas but also developing a plan for sustaining areas of competitive advantages. Finally, global strategy should involve establishing a plan for it to enables its various functions and operation to benefit one another. For example, an

organization can use one line of products to encourage sales of another line of products and thereby enabling different parts of a business to benefits from each other. Another example is when you call to get information on your credit card, we may well talking to someone in India or Mexico. Equally, they often outsource production to low labor cost countries. Unfortunately, this rapid growth was not without consequences. The Seattle meetings of the World Trade Organization (WTO) turned into humiliation, with anti globalization groups demonstrating against globalization on all animal rights to environmental concerns, poverty alleviation, and jobs for Americans. The antiglobalization forces have not coalesced into a coherent whole because they represent such diverse and often contradictory views. The vehemence of their protests, however, makes it clear that globalization is not a panacea for the world's problems. In addition, the Asian Tigers suffered major economic setbacks in the late 1990s. In 2002, Argentina's economy, which had been one of the stars of the 1990s, crashed, when the country could no longer maintain its currency at par with the U. S. dollar. In developing appropriate global strategies, managers need to take the benefits and drawbacks of globalization into account. A global strategy must be in the context of events around the globe, as well as those at home. Organizations competing on an international basis face choices in terms of resource allocation, the balance of authority between the central office and busine ss units, and the degree to which products and services are customized in order to accommodate tastes and preferences of local markets. Thus, employing a transnational strategy, the goal is to combine elements of global and multidomestic strategies. Recapturing that a global strategy involves a high

degree of concentration of resources and capabilities in the central office and centralization of authority in order to exploit potential scale and learning economies. Customization at the local level is thus necessarily low. While the multidomestic strategy, on the other hand, represents the opposite view of international strategy. Resources are dispersed throughout the various countries where the firm does business, decision -making authority is pushed down to the local level, and each business unit is allowed to customize product and market offerings to specific needs. The corporation as a whole foregoes the benefits that could be derived from centralization and coordination of diverse activities. A transnational strategy allows for the attainment of benefits inherent in both global and multidomestic strategies. The overseas components are integrated into the overall corporate structure across several dimensions, and each of the components is empowered to become a source of specialized innovation. It is a management approach in which an organization integrates its global business activities through close cooperation and interdependence among its headquarters, operations, and international subsidiaries, and its use of appropriate global information technologies (Zwass, 1998). The key philosophy of a transnational organization is adaptation to all environmental situations and achieving flexibility by capitalizing on knowledge flows (which take the form of decisions and value-added information) and two-way communication throughout the organization. The principal characteristic of a transnational strategy is the differentiated contributions by all its units to integrated worldwide operations. As one of its other characteristics, a joint innovation by headquarters and by some of the overseas units leads to the

development of relatively standardized and yet flexible products and services that can capture several local markets. Decision making and knowledge generation are distributed among the units of a transnational organization. Structure follows strategy (Chandler, 1962), implying that a transnational strategy must have an appropriate structure in order to implement the strategy. Just as the transnational strategy is a combination or hybrid strategy between global and multidomestic strategies, the organizational structure of an organization pursuing transnational strategies is a structure that draws on characteristics of the worldwide geographic structure and the worldwide product divisional structure. The combination of mechanisms needed is somewhat contradictory, because the structure need be centralized and decentralized, integrated and nonintegrated, and formalized and non-formalized. But firms that can successfully implement this strategy and structure often perform better than firms pursuing only multidomestic or global strategies. Transnational companies often enter into strategic alliances with their customers, suppliers, and other business partners to save tim e and capital. As long-term partnerships, these alliances may bring to the organization specialized competencies, relatively stable and sophisticated market outlets that help in honing its products and services, or stable and flexible supply sources. This may result in a virtual corporation, consisting of several independent organizations that collaborate to bring products or services to the market. A transnational model represents a compromise between local autonomy and centralized decision making. The organization seeks a balance between the pressures for global integration and the pressures for local responsiveness. It achieves this balance by

pursuing a distributed strategy which is a hybrid of the centralized and decentralized strategies. Under the tra nsnational model, a multinational corporation's assets and capabilities are dispersed according to the most beneficial location for a specific activity. Simultaneously, overseas operations are interdependent, and knowledge is developed jointly and shared worldwide. Transnational organizations have higher degrees of coordination with low control dispersed throughout the organization. The five implementation tactics (Vitalari and Wetherbe, 1996) used for implementing the transnational model are: ï,· mass customization-synergies through global research and development (e. g., American Express, Time Warner, Frito-Lay, MCI) ï,· global sourcing and logistics (e. g., Benetton, Citicorp) ï,· global intelligence and information resources (e. g., Andersen Consulting, McKinsey Consulting) ï,· global customer service (e. g., American Express) ï,· global alliances (e. g., British Airways and US Air; KLM and Northwest) Asea Brown Boveri (ABB) is an example of a successful transnational management model implementation. ABB, with home bases in Sweden and Switzerland, exemplifies the trend towards cross-national mergers that lead firms to consider multiple headquarters in the future. It is managed as a flexible network of units, and one of management's main functions is the facilitation of info rmation/knowledge flows between units. ABB's subsidiaries have full responsibility for product categories on a worldwide basis. Operating transnationally brings the benefits of access to new markets and the opportunity to utilize and develop resources wher ever they may be located. THE QUEST FOR COMPETITIVE ADVANTAGE IN FOREIGN MARKET There are three main ways in which an organization may gain the competitive

advantages by expanding outside its local market which is: 1. Location-based advantages which use location to lower costs or achieve greater product differentiation. In adapting it an organization has to consider two issues which is whether to concentrate on each activity it performs in a few selected countries or disperse performance of the activity to many nations, and in which countries to locate particular activities . This happened under the following circumstances: ï,· When the cost of manufacturing or other activities are significantly lower in some geographic locations than in others. For example, much of the world’s sport’s footwear is manufactured in Asia because of low labor costs; ï,· When there are significant scale economies whereby the organization may gain major cost savings from operating a few super-efficient plants as opposed to a host of small plants scattered across the world. Nevertheless, marketing and distribution may also yield scale economies necessary for low-cost leadership; ï,· When there is a steep learning curve associated with performing an activity in a single location. It can be done th rough concentrating on the production in a few location to increase the accumulated volume at a plant; and ï,· When certain locations have superior resources, allow better coordination of related activities, or offer other valuable advantages. 2. Transfer competitively valuable competencies and capabilities from its domestic markets to foreign markets which is one of the best ways for an organization with valuable competencies and resource strengths to grow sales and profits by using its considerable resource to enter additional country markets; and 3. Use cross-border coordination in ways that a domestic-only competitor is unable too. Furthermore, an organization that consistently incorporates the same

differentiating attributes in its products worldwide has enhance d potential to build a global brand name with significant power in the marketplace. STRATEGIES TO COMPETE IN THE MARKETS OF EMERGING COUNTRIES With the world now comprising more than 6 billion people, an organization that aspires to world market leadership are not able to ignore the market opportunities or the base of technical and managerial talent any of the countries offer. Thus, many organizations find that trying to employ a strategy akin to that used in the markets of developed countries is hazardous. Following are the options for tailoring a strategy that fit the challenging situations presented in the emerging-country markets: 1. Prepare to compete on the basis of low price which often highly focused on price and may give low-cost local competitors the edge unless it may find ways to attract buyer with bargain prices as well as better product; 2. Prepared to modify aspects of the organization's business model or strategy to accommodate local circumstances; 3. Try to change the local market to better match the way the organization does business elsewhere; and 4. Stay away from those emerging markets where it is impractical or uneconomic to modify the organization's business model to accommodate local situation. Therefore, in building a market for the organization's product may often turn into a long-term process that involves reeducation of consumers, sizable investments in advertising and promotion to alter tastes and buying habits, and upgrades of the local infrastructure. Nonetheless, according to Thompson, Strickland and Gamble (2010) there are five strategies that have proved adoptable in defending local companies against globally competitive multinational which is: 1. Develop business models that exploit shortcomings

in local distribution networks or infrastructure; 2. Utilize keen understanding of local customer needs and preferences to create customized products or services; 3. Take advantage of low-cost labor and other competitively important local work-force qualities in order to offset any cost disadvantage; 4. Use acquisition and rapid growth strategies to better defend against expansion-minded multinationals; and 5. Transfer organization expertise to cross-border markets and initiate actions to contend on a global level. The process of globalization represents one of the most significant trends that accelerate rapid growth of global strategies. The selection of markets to enter should be a strategic orientation that treats market entry selection as part of the firm's overall strategy. Selecting an international market can impact on the other activities of the firm since a firm needs to be aware of its internal capabilities, competencies and restrictions in order to select appropriate foreign target markets. International market entry barriers may include trade barriers such as tariffs, quotas, or local content requirements, exchange rate volatility or lack of currency convertibility, host country industrial policies that favour domestic firms, the existence of dominant competitors in the domestic market, or natural barriers such as geographical distance, transport accessibility, or language. REFERENCES Chandler, Alfred A., Jr., Strategy and Structure: Chapters in the History of American Industrial Enterprise, The MIT Press, Cambridge, MA, 1962. Thompson, A. A., Strickland, A. J., & Gamble, J. E. (2005). Crafting and Executing Strategy: The Quest for Competitive Advantage w/OLC/Premium Content Card (14th ed.). New York: McGraw-Hill/Irwin. Thompson, A., Strickland, A. J., & Gamble, J. (2010). Crafting and Executing Strategy: The Quest for Competitive

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