

Strategic Management: Concepts and Cases

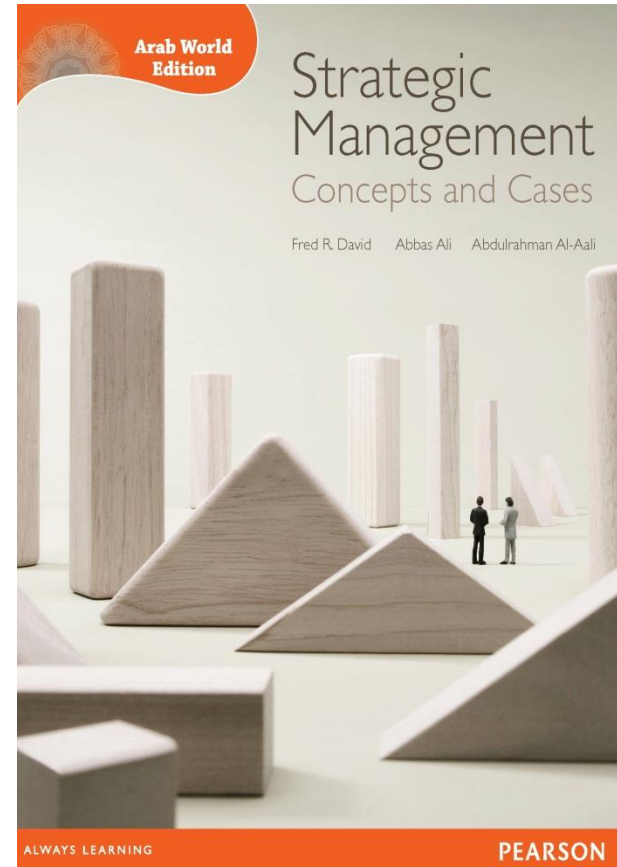
Arab World Edition

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Chapter 5: Competing in the Global Marketplace



Chapter Outline

- Internationalization and Globalization
- Global Expansion and Orientations
- Differences Among Countries
- Selecting Strategic Markets
- Market Entry Strategies

Chapter Outline (cont'd)

- Competing in the Global Marketplace
- Global Integration Strategy
- Framework for Approaching Global Integration
- Managing Expansion Effectively

Competing in the Global Marketplace

"No one eats better food than the one who eats out of the work of his hand."

– Prophet Muhammad (PBUH)

"There is no resting place for an enterprise in a competitive economy."

– Alfred P. Sloan, JR.

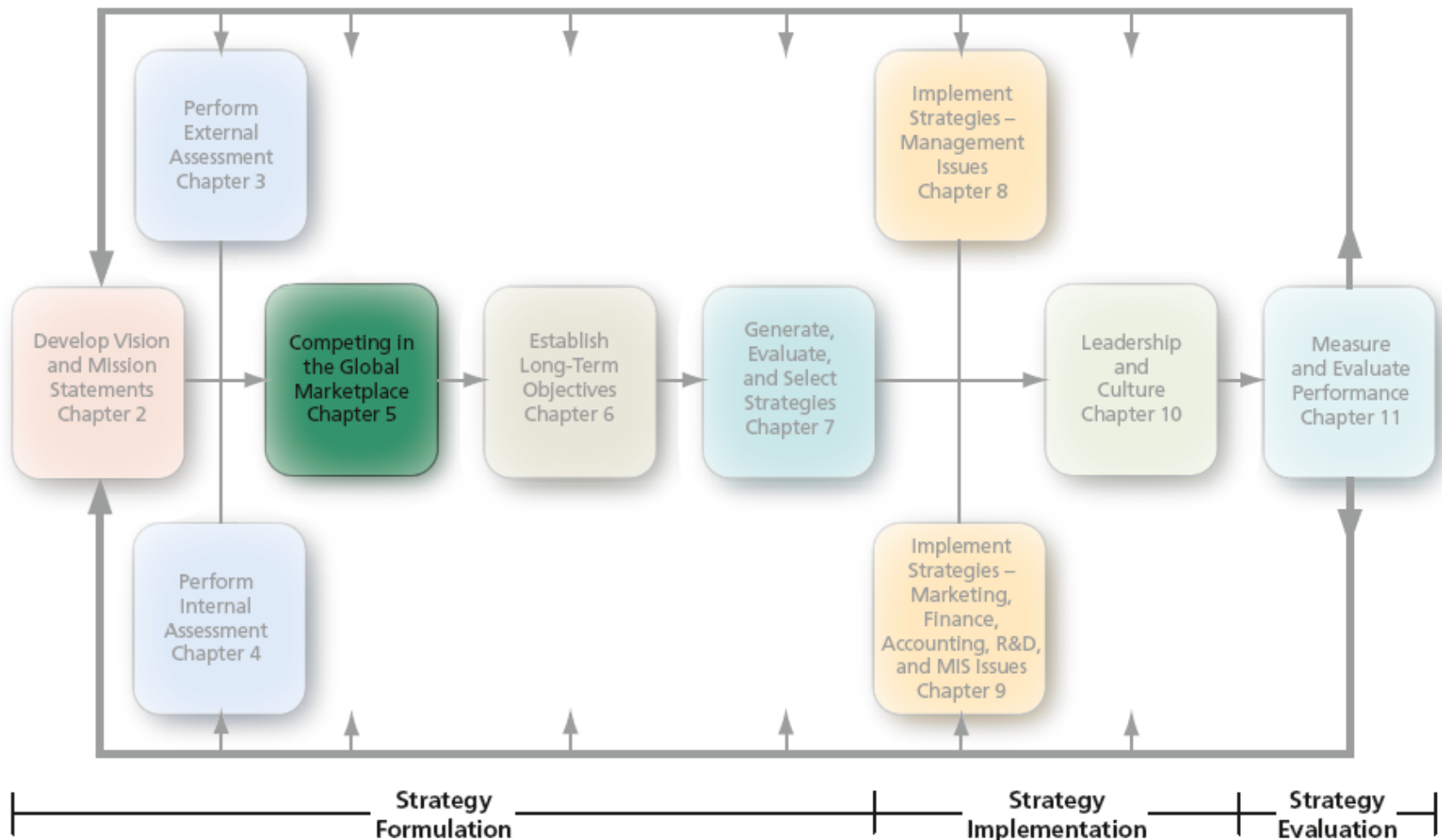
Competing in the Global Marketplace

Competing Globally

- Complex and challenging factors
- Arab companies venturing abroad
- Expanding beyond domestic and regional markets

FIGURE 5-1

A Comprehensive Strategic-Management Model



Source: Adapted from Fred R. David, "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988) 40.

Internationalization and Globalization

- Arab companies vary in their commitment to international expansion and activities
- The two strategic focal points for expansion of Arab businesses:
 1. Internationalization
 2. Globalization

Global Expansion & Orientations

Four Strategic Orientations:

1. Ethnocentric
2. Polycentric
3. Regiocentric
4. Geocentric

Global Expansion & Orientations

Ten Global Trends of McKinsey Study:

1. Growing number of consumers in emerging economies
2. Shift of economic activity between and within regions
3. Greater ease of obtaining and developing knowledge
4. Increasingly global labor and talent markets
5. Increasing constraints in supply or usage of natural resources

Global Expansion & Orientations

Ten Global Trends of McKinsey Study (cont'd):

6. Increasing communication/interaction in business and social realms
7. Shifting industry structures
8. Application of scientific techniques and approaches to business management
9. More social backlash against business
10. Growth of public sector

Differences Among Countries

Existing Differences

- Cultural
- Demographic
- Economic
- Technological

Differences Among Countries

Emerging Economies

- Shifting balance of power
- Economic importance
- Geopolitical strategies
- Younger population
- Recipient of foreign direct investment (FDI)
- Capacity to be attractive investment opportunities for global retailers

Selecting Strategic Markets

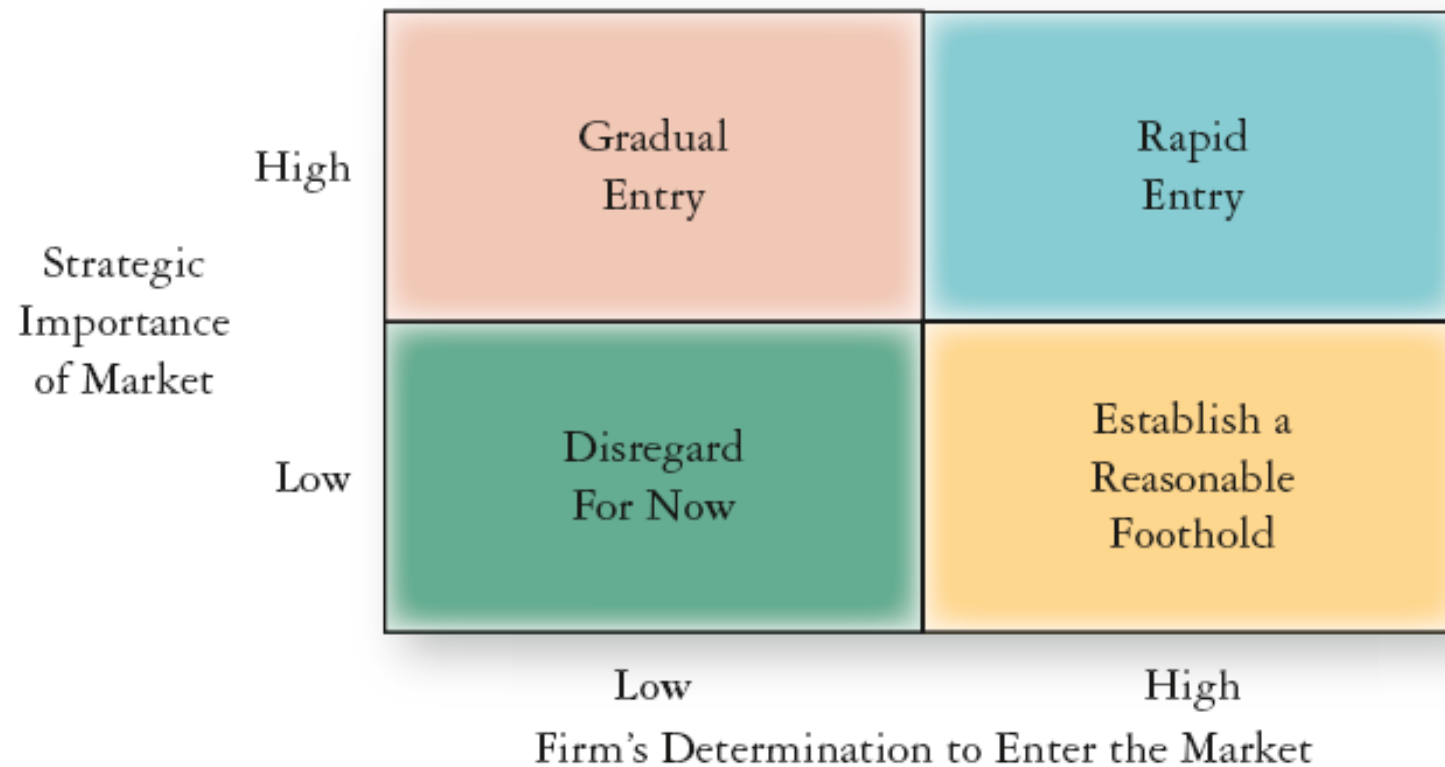
Global Presence

- Arab firms have no choice but to position themselves strategically
- “Directed opportunism”
- Two factors:
 1. The strategic importance of the market
 2. Firm’s ability to exploit the market

Selecting Strategic Markets

FIGURE 5-2

A Framework for Choice of Markets



Market Entry Strategies

Influencing conditions

- Executive's orientations and experience
- Resource availability
- Type of product or service
- Product life-cycle
- Market share
- Competitive pressures

Market Entry Strategies

Entry Modes

- Exporting
- Contractual approaches
 - licensing, franchising, management contract, contract manufacturing, and turnkey operations
- Investment
 - Equity participation, joint venture, and wholly-owned subsidiaries, among others

Competing in the Global Marketplace

Trade Openness and Liberalization

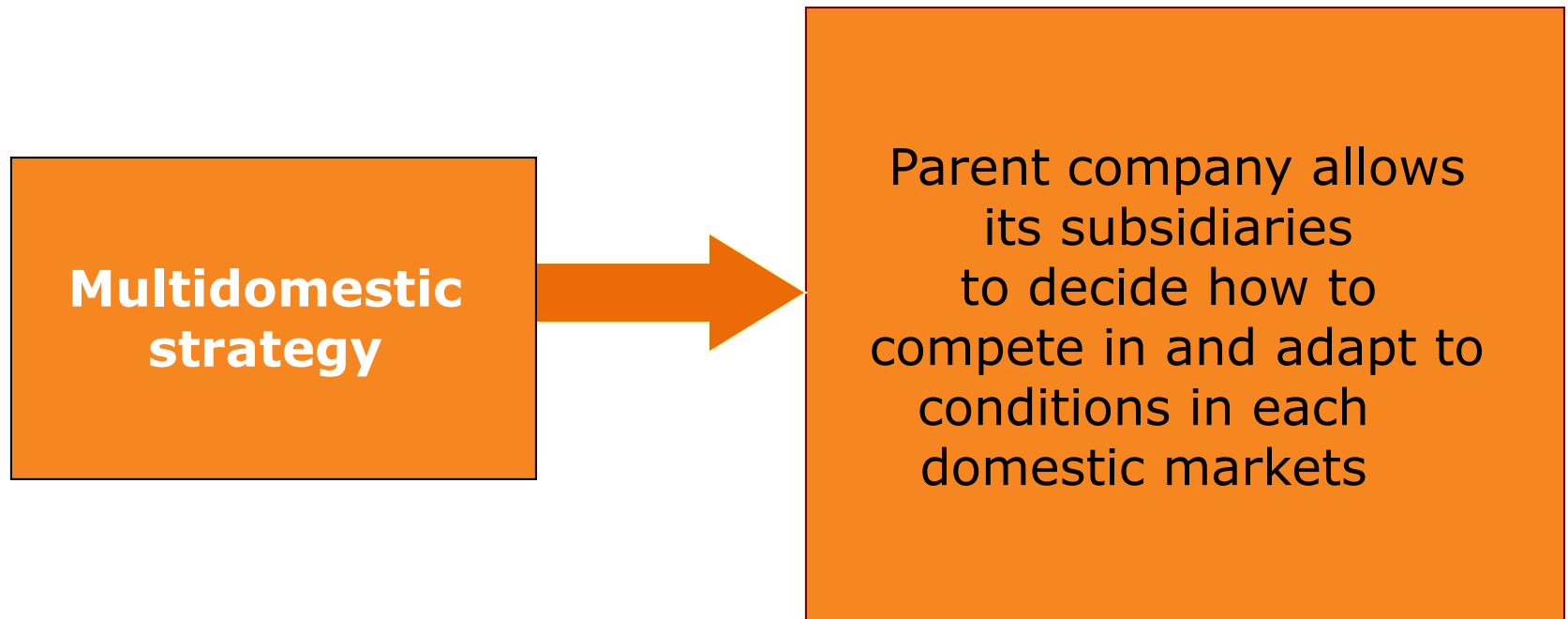
- Nature of competition in the world market
- No dominance of Western corporations
- New entrants are from emerging economies
- Win customers by using appropriate strategies
- Global market strategy

Competing in the Global Marketplace

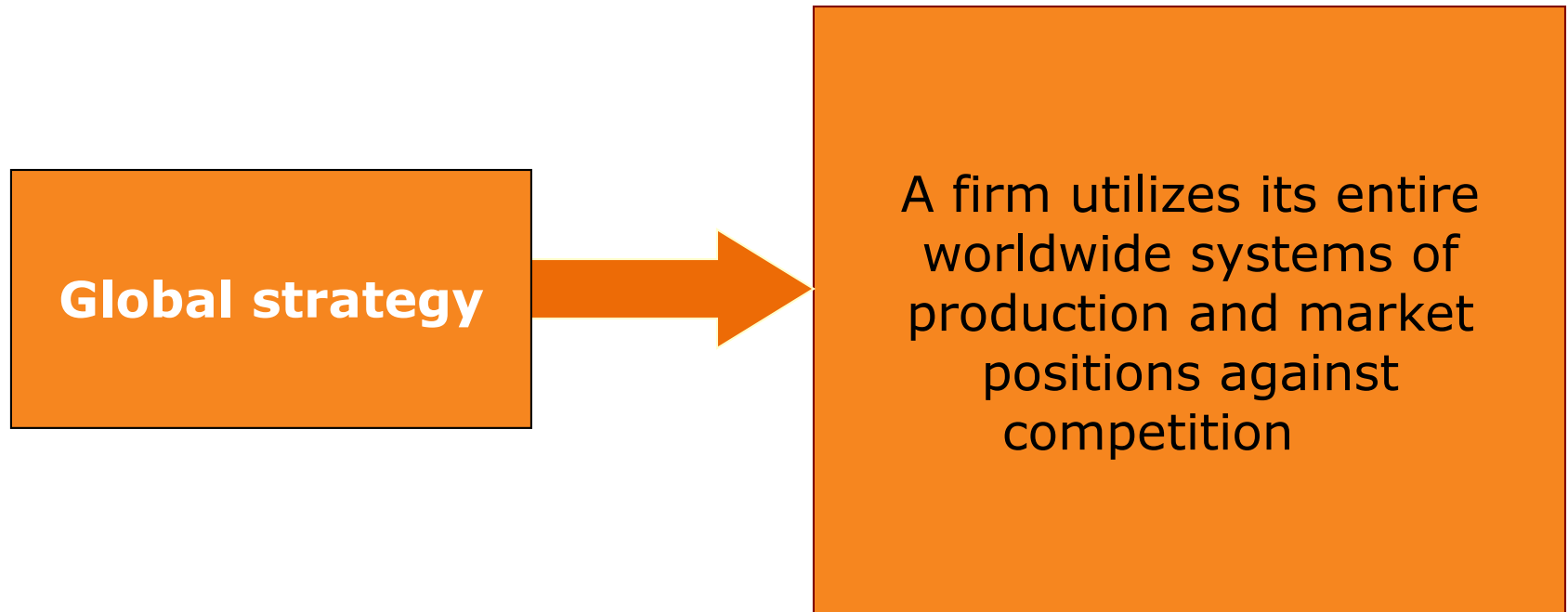
Global Strategic Approaches

- Multidomestic Strategy
- Global Strategy

Competing in the Global Marketplace



Competing in the Global Marketplace



Global Integration Strategy

Entering Global Marketplace

- Most Arab firms lack global brands
- Existence of small domestic markets (except in Egypt)
- Lack of acute domestic competition
- Lack of innovation

Global Integration Strategy

Porter's Argument

- The scale of a firm
- Vs
- The scale of the cluster

Global Integration Strategy

Structural and Competitive Factors

- Economies of scale
- Differences in comparative advantage across nations
- Standardized market demands across countries
- Competitive actions of industry players

Global Integration Strategy

Competitive Advantage Goals

- Achieving efficiency in current activities
- Managing the risks that companies assume in their conduct and searching to achieve a competitive edge
- Developing internal learning capabilities so as to be able to innovate and adapt to future changes

Global Integration Strategy

Competitive Advantage - Mechanisms

- National differences
- Scale economies
- Economies of scope

TABLE 5-4 Global Strategy: An Organizing Framework

Strategic Objectives	Sources of Competitive Advantage		
	National Differences	Scale Economics	Scope Economics
Achieving Efficiency in Current Operations	Benefiting from differences in factor costs: wages and cost of capital	Expanding and exploiting potential scale economies in each activity	Sharing of investments and costs across products, markets, and businesses
Managing Risks	Managing different kinds of risk arising from market or policy-induced changes in comparative advantages of different countries	Balancing scale with strategic and operational flexibility	Portfolio diversification of risks and creation of options and side-bets
Innovation Learning and Adaptation	Learning from societal differences in organizational processes and systems	Benefiting from experience: cost reduction and innovation	Shared learning across organizational components in different products, markets, or businesses

Framework For Approaching Global Integration

Three Types of Global Strategies:

1. Adaptation
2. Aggregation
3. Arbitrage

TABLE 5-5 Global Strategy: An Organizing Framework

	Adaptation	Aggregation	Arbitrage
<i>Competition</i> 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
<i>Configuration</i> 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
<i>Coordination</i> 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
<i>Controls</i> What types of extremes should we watch for?	Excessive variety or complexity	Excessive standardization, with emphasis on scale	Narrowing spreads
<i>Change Blockers</i> Whom should we watch out for internally?	Entrenched country chiefs	All-powerful unit, regional, or account heads	Heads of key functions

TABLE 5-5 Global Strategy: An Organizing Framework

	Adaptation	Aggregation	Arbitrage
<i>Corporate Diplomacy</i> 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 hegemony (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
<i>Corporate Strategy</i> 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)

Managing Expansion Effectively

Global Presence of Arab Corporations

- There are few very large Arab firms operating globally
 - Only SABIC appeared on the Fortune 500 list for 2009
 - 53 Arab firms made Forbe's list of Global 2000 for 2009
 - Most of these are banking and are concentrated in the GCC area (see Table 5-6)

For Review (Chapter 5)

Key Terms & Concepts

Competitive Advantage

Ethnocentric

Competitive Risks

Export

Contract Manufacturing

Franchising

Contractual Approaches

Geocentric

For Review (Chapter 5)

Key Terms & Concepts

Global Strategy

Internationalization

Globalization

Joint Venture

Governance

Licensing

International Strategy

Macroeconomic Risks

For Review (Chapter 5)

Key Terms & Concepts

Management Contract

Regiocentric

Multidomestic Strategy

Resource Risks

Political or Policy Risks

Scale Economies

Polycentric

Scope Economies

For Review (Chapter 5)

Key Terms & Concepts

Talent

Turnkey Operations

Transnational Strategy

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