International Management
Chapter 8
Strategy Formulation and Implementation

3 Central Management issues

- Organizational Structure
  - Authority / Autonomy
  - Reporting relationships
- Planning, Measurement, Control schemes
- Standardization / Adaptation

Strategic Predispositions

- Ethnocentric allows the values and interests of the parent company to guide the strategic decisions
- Polycentric Tailored to suit the cultures of the countries where the MNC operates
- Regiocentric Leads a firm to try to blend its own interests with those of its subsidiaries on a regional basis
- Geocentric Tries to integrate a global systems approach to decision making

International Strategic Planning

Strategic Planning: The process of determining an organization’s basic mission and long-term objectives, and then implementing a plan of action for accomplishing this mission and attaining these objectives. Growing need for strategic management is related to increasingly diversified operations in a continuously changing international environment.

The Growing Need For Strategic Planning

Examples:

- Ford Motors
- Bertelsmann AG
- GE Capital Services
- A giant German book publisher
- Daimler-Chrysler

Additional Internet Sites

- http://www.state.ar.us/ospb/planning.html#Handbook
- http://www.rba.co.uk/sources/index.htm
- http://www.rba.co.uk/sources/stats.htm
- http://www.carleton.ca/cifp/
- http://lcweb2.loc.gov/frd/cs/
- http://www02.imd.ch/documents/wcy/content/ranking.pdf
- http://www.carleton.ca/cifp/
- http://www.eiu.com/ (No-cost registration required)
  - Very good discussion of risk factors
**Approaches to Strategic Planning**

- **Economic Imperative**
  - Strategy based on cost, differentiation, segmentation

- **Political Imperative**
  - Country responsive strategies - protect local market niches

- **Quality Imperative**
  - TQM - customer focus

- **Administrative Co-ordination**
  - Strategic decisions based on individual situations

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**Approaches to Formulating and Implementing Strategy**

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**Approaches to Strategic Planning**

- **Economic imperative focused MNCs**
  - Employ a worldwide strategy based on cost leadership, differentiation, and segmentation
  - They often sell products for which a large portion of value is added in the upstream activities of the industry's value chain
    - Research and development
    - Manufacturing
    - Distribution

- **Political imperative**
  - Country responsive; their approach is designed to protect local market niches
  - Success of the product or service depends heavily on
    - Marketing
    - Sales
    - Service

- **Quality imperative**
  - Two paths of quality imperative
    - Change in attitudes and a raising of expectation for service quality
    - Implementation of management practices designed to make quality improvement an ongoing process
      - "Total quality management," (TQM)
    - Traditional inspection and statistical quality control

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**Total Quality Management**

- **Quality is operationalized by meeting or exceeding customer expectations**

- **The quality strategy is formulated at the top management level and is diffused throughout the organization**
  - Deliver quality products or services to internal and external customers.

- **TQM techniques**
  - Traditional inspection and statistical quality control
  - Cutting-edge human resource management techniques, such as self-managing teams and empowerment
Approaches to Strategic Planning

- **Administrative coordination approach**
  - MNC makes strategic decisions based on merits of the individual situation rather than using a predetermined economic or political strategy
  - Least common approach to formulation and implementation of strategy because of the firm’s desire to coordinate its strategy both regionally and globally

- **Globalization**
  - Production and distribution of products and services of a homogeneous type and quality on a worldwide basis
  - Many customers of MNCs have homogenized tastes, which helps spread international consumerism

- **National responsiveness**
  - Understand different consumer tastes in segmented regional markets
  - Respond to different national standards and regulations imposed by autonomous governments and agencies
  - Adapt tools and techniques for managing the local workforce

**Global Integration vs. National Responsiveness**

<table>
<thead>
<tr>
<th>Global Integration</th>
<th>National Responsiveness</th>
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<tbody>
<tr>
<td>High</td>
<td>Low</td>
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<td>Low</td>
<td>High</td>
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</table>

**Global strategy** is low-cost strategy attempting to benefit from scale economies in production, distribution, marketing

**Transnational strategy** pursued when high cost pressures and high demand for local responsiveness

Summary:

- Appropriateness of each strategy depends on pressures for cost reduction and local responsiveness in each country served:
  - **Global strategy** is low-cost strategy attempting to benefit from scale economies in production, distribution, marketing
  - **Transnational strategy** pursued when high cost pressures and high demand for local responsiveness

**Basic Elements in Strategic Planning for International Management**

**Elements of Strategic Planning: Environmental Scanning**

Summary of Approaches to Strategic Planning

- The appropriateness of each strategy depends on pressures for cost reduction and local responsiveness in each country served.
- A global strategy is a low-cost strategy which attempts to benefit from scale economies in production, distribution, and marketing.
- A transnational strategy should be pursued when there are high cost pressures and high demands for local responsiveness.
  - Pressures for cost reduction and local responsiveness put contradictory demands on a company because localized product offerings increase cost.
  - Organizations that can find appropriate synergies in global corporate functions can leverage a transnational strategy effectively.

Basic Elements of Strategic Planning for International Management

<table>
<thead>
<tr>
<th>Environmental Scanning</th>
<th>Internal Resource Analysis</th>
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<tbody>
<tr>
<td>Strategic Planning GOALS</td>
<td></td>
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<tr>
<td>Implementation</td>
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Environmental Scanning

Attempts to provide management with accurate forecasts of trends that relate to external changes in geographic areas where the firm is currently doing business and/or considering setting up operations.

These changes relate to the economy, competition, political stability, technology, and demographic consumer data.

Internal Resource Analysis

- Helps the firm to evaluate its current managerial, technical, material, and financial strengths and weaknesses.
- A **Key Success Factor** (KSF) is a factor that is necessary for a firm to compete effectively in a market niche.
  - (defined by the Industry / Market – not the firm)

Elements of Strategic Planning for International Management

- **Internal Resource Analysis**
  - Evaluate the MNC’s current managerial, technical, material, and financial strengths and weaknesses.
  - Assessment then is used to determine its ability to take advantage of international market opportunities.
  - Match external opportunities (gained through the environmental scan) with internal capabilities (gained through the internal resource analysis).
  - Key factors for success.
  - The key question for the MNC is: Do we have the people and resources that can help us to develop and sustain the necessary KFSs, or can we acquire them?

Elements of Strategic Planning for International Management

- **Strategic Planning Goals**
  - Goal formulation often precedes the first two steps of environmental scanning and internal resource analysis.
  - However, more specific goals for the strategic plan come out of external scanning and internal analysis.
  - These goals typically serve as an umbrella beneath which the subsidiaries and other international groups operate.
  - Profitability and marketing goals almost always dominate the strategic plans of today’s MNCs.
  - Once the strategic goals are set, the MNC will develop specific operational goals and controls for the subsidiary or affiliate level.
Formulation of MNC Goals

Adapted from Table 8-1: Areas for Formulation of MNC Goals

<table>
<thead>
<tr>
<th>Profitability</th>
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<tbody>
<tr>
<td>Level of profits</td>
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<tr>
<td>Return on assets, investment, equity, sales</td>
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<tr>
<td>Yearly profit growth</td>
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<tr>
<td>Yearly earnings per share growth</td>
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<table>
<thead>
<tr>
<th>Marketing</th>
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</thead>
<tbody>
<tr>
<td>Total sales volume</td>
</tr>
<tr>
<td>Market share—worldwide, region, country</td>
</tr>
<tr>
<td>Growth in sales volume</td>
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<tr>
<td>Growth in market share</td>
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<tr>
<td>Integration of country markets for marketing efficiency and effectiveness</td>
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<table>
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<tr>
<th>Operations</th>
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<tbody>
<tr>
<td>Ratio of foreign to domestic production volume</td>
</tr>
<tr>
<td>Economies of scale via international production integration</td>
</tr>
<tr>
<td>Quality and cost control</td>
</tr>
<tr>
<td>Introduction of cost-efficient production methods</td>
</tr>
</tbody>
</table>

Elements of Strategic Planning for International Management

**Implementation**

- Provides goods and services in accord with a plan of action.
- Often, this plan will have an overall philosophy or series of guidelines that direct the process.
- Considerations in selecting a country.
  - Advanced industrialized countries because they offer the largest markets for goods and services.
  - Amount of government control.
  - Restrictions on foreign investment.
  - Specific benefits offered by host countries.

**Implementation**

- Local issues.
  - Once the country has been decided, the firm must choose the specific locale.
  - Important factors influencing this choice include:
    - Access to markets.
    - Proximity to competitors.
    - Availability of transportation and electric power.
    - Desirability of the location for employees coming in from the outside.

**Implementation**

- Finance.
  - Transferring funds from one place in the world to another, or borrowing funds in the international money markets, often is less expensive than relying on local sources.
  - Issues include:
    - Re-evaluation of currencies.
    - Privatization.
    - Strategies for the base of the pyramid.
    - International New Ventures and "Born-Global" Firms.
Elements of Strategic Planning for International Management

**Implementation**

- Strategies for the "base of the pyramid"
- Emerging market customers
- People at the bottom of the economic pyramid (4 billion)
- Marketing at BOP forces consideration of smaller-scale strategies
- Building relationships with local governments, small entrepreneurs, and nonprofits
- Less dependence on established partners such as central governments and large local companies
- International New Ventures and "Born-Global" Firms

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Strategy Implementation

Provides goods and services in accord with a plan of action

1. The MNC must decide where to locate operations
2. The MNC must carry out entry and ownership strategies
3. Management must implement functional strategies in areas such as marketing, production, and finance

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Location Considerations for Implementation

**The Country:**

ex.) US company invests in Europe, Canada, Japan, Mexico...

**Specific Locale:**

ex.) Somewhere easily accessible and desirable

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Strategies for Emerging Markets

- The big emerging markets: Mexico, Brazil, Argentina, South Africa, Poland, Turkey, India, Indonesia, China, South Korea
- These nations have captured the bulk of investment and business interest from MNCs and their managers in recent years.
- Emerging markets present exceptional risks due to political and economic volatility. These risks show up in corruption, failure to enforce contracts, red tape and bureaucratic costs, and general uncertainty in legal and political environment.
Two Unique Strategies for Emerging Markets

- **First Mover Strategies**: significant economies associated with early entry and first-mover positioning
  - May be a narrow window of opportunity within which these opportunities can be best exploited.
- **Strategies for Base of Pyramid (BOP)**: 4-5 billion potential customers around the globe heretofore ignored by global business
  - BOP forces global business to rethink their strategies. Must consider relationships with local governments, small entrepreneurs, and nonprofits rather than depend on established partners such as central government.
  - BOP strategies challenging to implement
  - Represents opportunity to incubate new, leapfrog technologies
  - Successful BOP strategies can travel profitably to higher income markets

### Ownership and Entry Considerations for Implementation

<table>
<thead>
<tr>
<th>Joint Venture</th>
<th>Franchising</th>
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<tbody>
<tr>
<td>Export/Import</td>
<td>Fully Owned Subsidiary</td>
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<tr>
<td>Licensing</td>
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