

Shaping Strategy within an Organization in an International Context

Michael Derrer, at Heilbronn University
February 2nd 2009

Considering the Task

Shaping Strategy within an
Organization in an International
Context:

State of the Research in this
field.

- Shaping: Conception & Implementation
- Organisation: I welcome it, opens up field to my professional experience in a NPM-style organisation; I will nevertheless concentrate on private firms
- I asked myself: Is there an discipline „International Business Strategy“?

„A discipline defines itself through a domain of objects, a bundle of methods, a corpus of sentences considered true, a game of rules and definitions, of techniques and instruments: all this forms an anonymous system, that is at the disposal of everyone wishing to use it.

Moreover a sentence must enter a certain theoretical horizon, in order to belong to a discipline.“

(Michel Foucault, 1970)

I remembered the approach of French philosopher M.F.

It is in this spirit that I chose the literature to prepare this presentation

I tend to believe that there is no independent discipline

„international strategy“, but it is a particular application of

- the theories on Strategy
- + some specific theoretical developments concerning internationalisation
- Accordingly I organized my presentation:

Contents

1. Theories on Strategy and their Application to the International Context
2. Internationalization and FDI Theory

Part 1

Theoretical Perspectives on Strategy and their Application to an International Context

Definitions

Strategy:

"The determination of the basic long-term goals of an enterprise, the adoption of courses of action, and the allocation of resources necessary for carrying out these goals" (Chandler)

International Strategy:

"How firms gain and sustain competitive advantage in a global setting. The strategic, organizational and managerial challenges faced by companies."

These are the definitions of Strategy that I liked most.

Chandler: encompasses formation and implementation

(From a textbook): starts from the results (gain competitive advantage) and traces them back

Differentiation

- Strategy hierarchy:
 - Corporate strategy (mother or holding company)
 - Business strategy (firm or SBU)
 - Functional strategy (dpt. level)
- Strategy as
 - Plan
 - Pattern
 - Position
 - Perspective (=the organization's way of doing things)
 - Ploy

The Strategy Discipline's Fundamental Questions

- ◉ Boundaries of the firm:
 - What should the firm do?
 - How large it should be?
 - What businesses should it be in?
 - Make or buy?
- ◉ Market and competitive analysis
 - Nature of the markets, in which the firm competes?
 - Nature of competitive interactions among firms in these markets?
- ◉ Position and dynamics
 - How should the firm position itself to compete?
 - What should be the basis of its competitive advantage?
 - How should it adjust over time?
- ◉ Internal organization
 - How should the firm organize its structure and systems internally?

These questions perfectly apply to an international setting, as well.

Main Theories 1960s-1990s

- Design School 60'
 - establish fit between firm and environment
- Strategic Planning 70'
 - formalistic, machine, planners
 - assembling huge data amounts
 - capital budgeting
- Positioning 80'
 - analyze industry structure
 - select generic strategies

I draw on Mintzberg's critical history of the writings on strategy.

Capital budgeting: bottom-up

These approaches produced a set of methods that form the stock of the strategy discipline.

Fundamental concepts & methods (I)



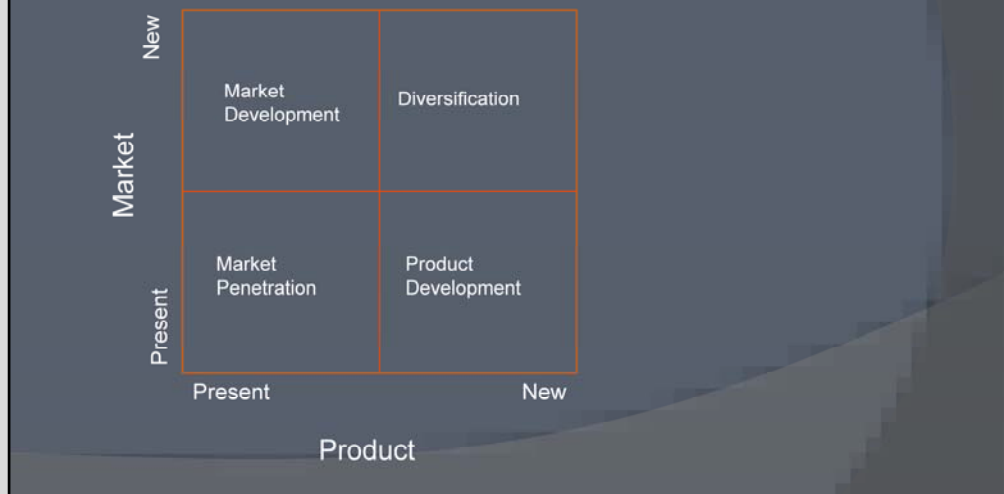
Purpose: Establish fit!

On the international level, it serves e.g. to choose the foreign market, the company wants to be active in

- But it also leads to the question, if the firm is ready for a type of expansion (does it have internal resources)

Fundamental concepts & methods (II)

Ansoff matrix for expansion

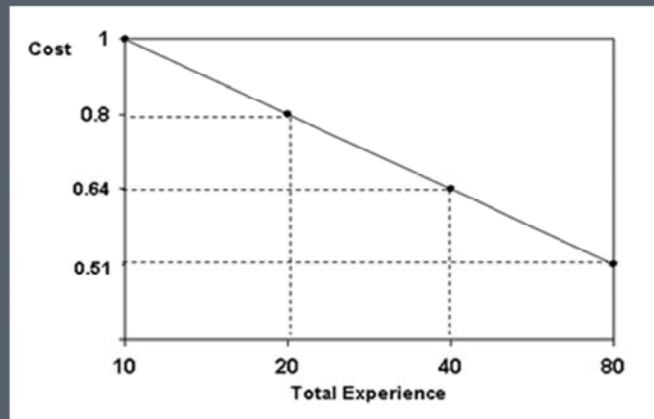


Situates internationalisation as just one option of extending the firm's activity

Either in „Market Development“, or in „Diversification“

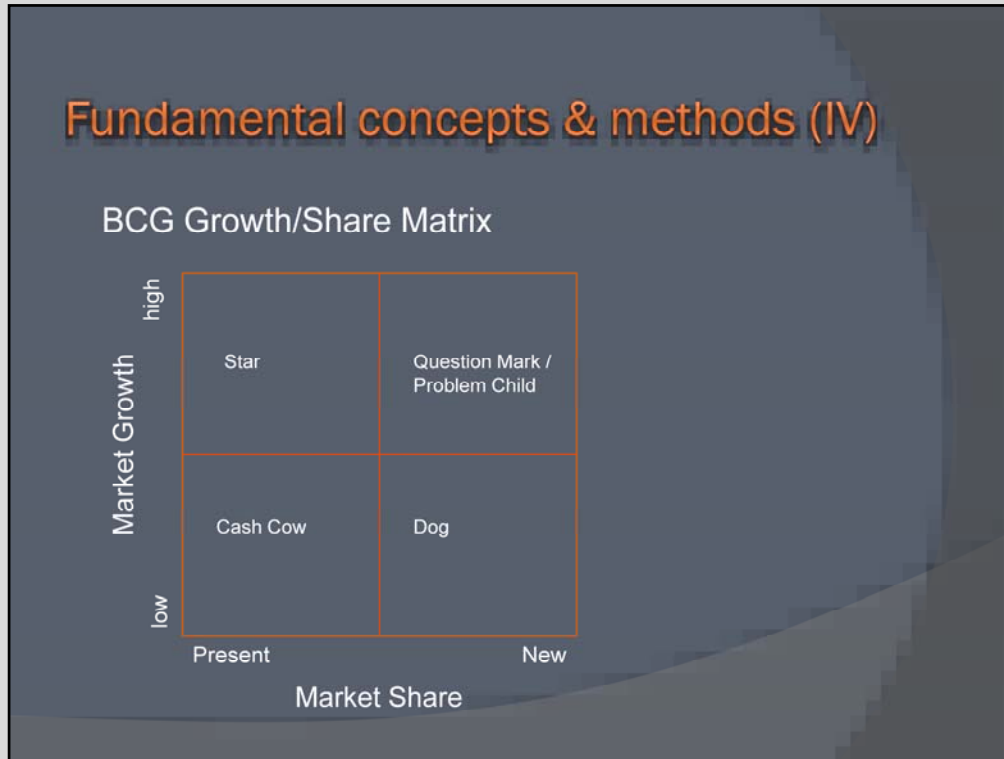
Fundamental concepts & methods (III)

BCG Learning Curve



- Indicates, the relation between quantities produced and cost per unit
- Explains economies of scale and scope

Fundamental concepts & methods (IV)



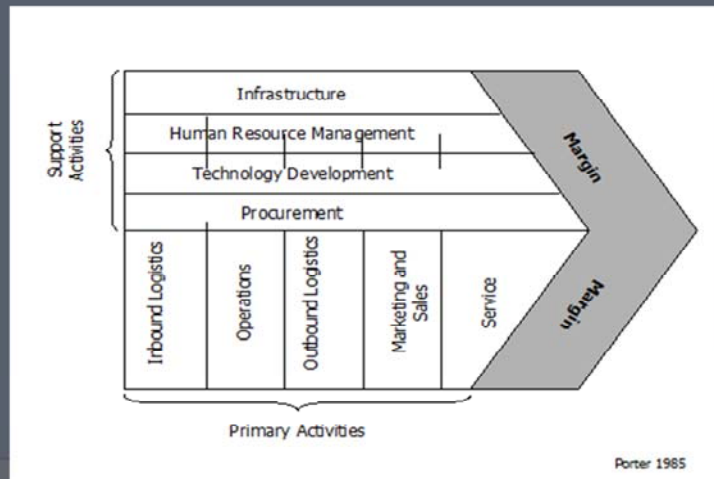
for corporate strategy

Used for diversification

Applicable especially for big MNEs with a worldwide activity

Fundamental concepts & methods (V)

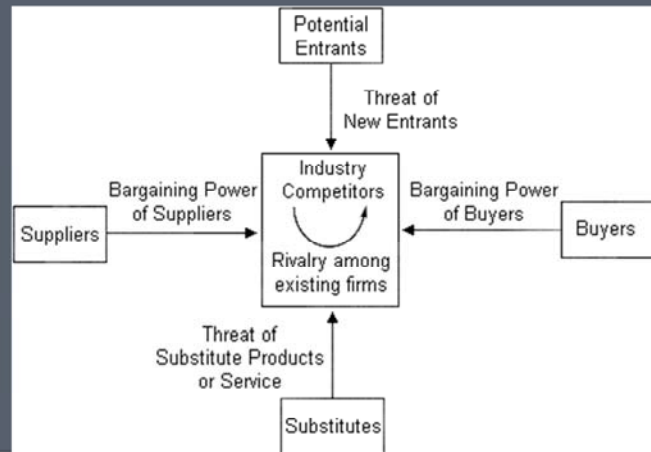
Value Chain (M.Porter)



- The better managed the value chain, the higher margin (and therefore profit)
- Need to see it as an integrated process
- Not to undervalue e.g. transport costs, transaction costs
- Value chain to be optimized internally
 - Internationalization as an important instrument to optimize it
 - Where should the value chain be broken across national or market borders?
- But also consider the value chain outside the firm and decide about strategies of vertical integration (forward, backward)

Fundamental concepts & methods (VI)

Porter's „5 Forces“



It's about power in the market...

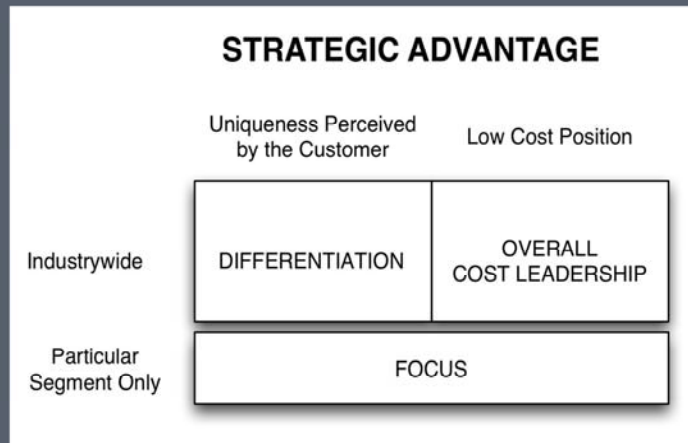
- among competitors
- up/down the value chain
- and with potential new competitors

Can serve to analyze a firm's international market

Or of the market in a host country (local power relations may fundamentally differ from home market)

Fundamental concepts & methods (VII)

Porter's 3 Generic Strategies



Fundamental choice among 3 strategies

Applies, as well, to international strategies

Critique of these "Classical" Theories

- Design School:
 - SWOT used as too easy an instrument, too detached
- Programming and Positioning Schools:
 - Some methods risk to close the perspective (Reductionism)
 - Infinity of petty circumstances impossible to calculate
 - Techniques do not create strategies, people do
 - *"A successful strategy is one that committed people infuse with energy: they make it good by making it real. Maybe because they made it themselves."* (Mintzberg)
- But it is, of course, these approaches and methods that created the strategy discipline as such

Reductionism: ex. BCG Matrix

Critique opened up the path for more descriptive approaches to strategy

Development especially since the 1990's

Not: what strategy to adopt?

But: how strategy is actually shaped?

Descriptive Approaches (I)

- Entrepreneurial vision
 - creative destruction, bold strokes in the face of uncertainty
- Cognition
 - Limitations through perception (individual and collective frames)
- Learning
 - Incrementalism
 - Strategy formation by the collective, by the doers
 - act – find out – select
 - Success by doing things wrong
 - The learning organization

Role of the entrepreneur

- Very important in internationalization especially for SME
- Entrepreneur, or rather entrepreneurial spirit
- Cognition: everyone who worked abroad knows about the limited understanding of what's actually happening

The following are particularly important for strategy on an international level

Descriptive Approaches (II)

- Micro Power
 - Political games in organizations
- Culture
 - Holistic view of the organization
 - Culture as force, precious good
 - But also: information filter, resistance to change
 - Myth as substitute for certainty
 - How to create a culture?
- Configurational
 - No best structure for a firm in all circumstances
 - Adapt to stages of development
 - Balance change and continuity

Cognition / Culture / Learning / Micro Power – particularly fertile for international settings

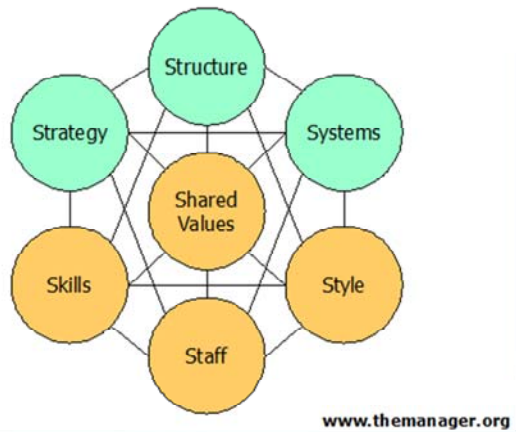
Critique:

But these approaches (ex. learning) can also lead to the disintegration of strategy, which rehabilitates the classical approaches

(coming later)

Fundamental concepts & methods (VIII)

„7 S“ - Model



Underlines the importance of Culture (=Shared Values) and interdependence and importance of soft factors (yellow) as opposed to hard factors (green)

Questions for research and practice

Mintzberg: Today's questions „crossing the theories“

- How generic / unique should a strategy be?
- How controlled should be the process to create it?
- How elaborate / comprehensible ?
- How tightly integrated? (Formally, mentally, normatively)

These questions translate at an international level to:

- How much should a firm adapt to local „ways of doing“ ?
- How much planning / how much „steering at sight“?
- How much liberty to give to the foreign subsidiary?

Questions I came across in my management and consultancy activities in Eastern Europe



Part 2

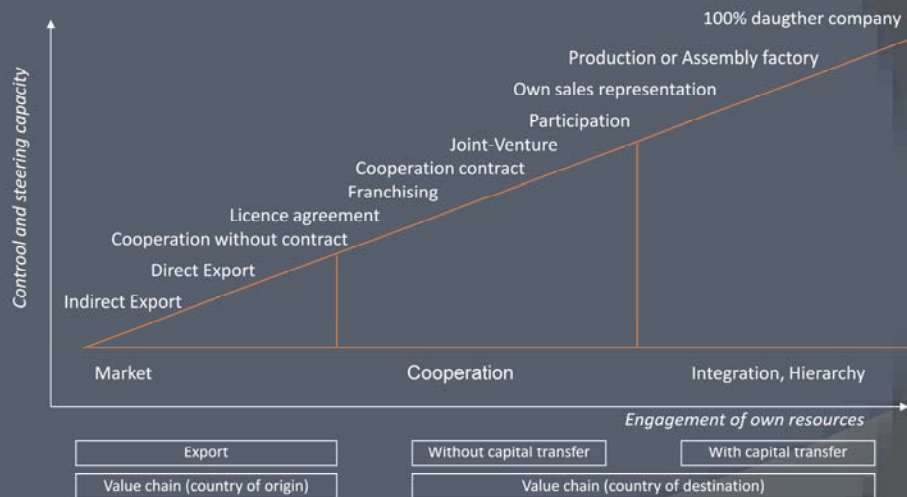
**Internationalisation,
Entry Modes and FDI Theory**

Internationalisation Potential

- Forces encouraging / hindering globalization
- Determination of internationalization potential
 - Some industries more suited for internationalization than others
 - Cost Drivers
 - Customer Drivers
 - Competitive Drivers
 - Government Drivers
- Entry barriers
 - Business Climate : State, economic, socio-cultural factors
 - No business climate is perfect for every kind of company
 - but certain attributes allow investors to find fewer risks and higher returns in comparison

- WHO goes abroad?
- **1. Cost Drivers**
- **Diff. Cost relations that decide, if an industry has globalization potential; ex. Degree of learning curve**
- **2. Customer Drivers**
- Ex. taste specificity; follow other global businesses; Transferable marketing
- **3. Competitive Drivers**
- existence of many global competitors When competitors begin leveraging their global positions through crosssubsidization,
- an industry is ripe for globalization.
- **Government Drivers**
- Trade policies
- Technical standards
- Regulations

Internationalisation Modes (Entry Modes)



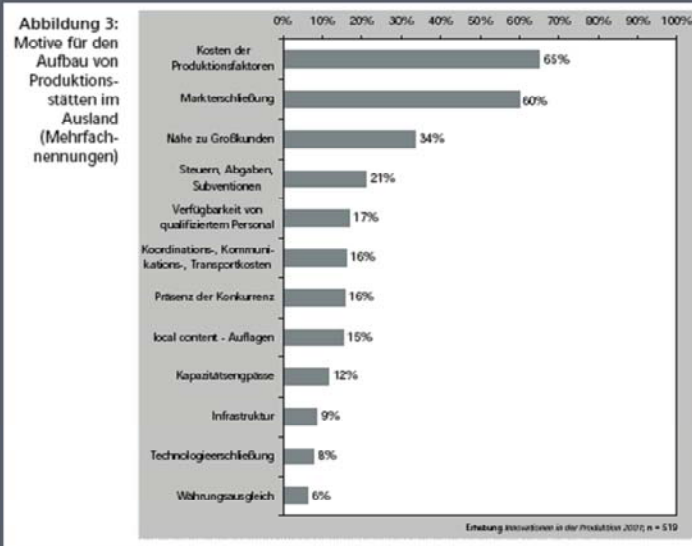
These options also vary in their degree of speed and risk, as well as the required market knowledge.

- HOW does the firm go abroad?
- But JV in Emerging countries can be riskier than an own investment!
- Engagement of own resources: in FDI not only finance and technology, but also HR and management capacities!

Why go abroad? (FDI Categories)

- ◉ Market-seeking FDI
 - Amongst which:
 - Gain a foothold in Economic Blocks
 - Follow big MNEs
 - Protect domestic markets (attack instead of defending)
- ◉ Resource-seeking FDI
 - Also:
 - Acquire technological and managerial know-how
- ◉ Efficiency-seeking FDI
 - promote a more efficient division of labour or specialization of an existing portfolio

Why go abroad? (Empirically)

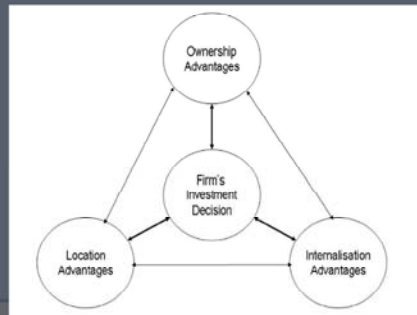


There exist empirical studies on this
(this one: Germany 2001)

Why go abroad? (FDI Theorization)

OLI "Eclectic"- Model (Dunning)

- Costs of foreignness
 - Lack of knowledge about local market condition
 - Legal, institutional, cultural and language diversities
 - Increased costs of communicating and operating at a distance
 - FDI: risky, expensive



- Various theories explaining the international activity of companies
- most comprehensive, as far as I know is OLI
- Consolidation of literature on FDI
- Starts from the observation that:

Why go abroad? (OLI-Theory)

Conditions for a firm to engage in FDI:

- Ownership advantage
 - unique competitive advantage that overcomes the disadvantages of competing in foreign market
- Location advantage
 - more profitable in a foreign location than at home
- Internalisation advantage
 - benefit from controlling the foreign business activity, rather than contracting it out to a local company
 - Firm chooses internalization where market functions poorly so that transactions expenses of the external route are high

Ownership advantage:

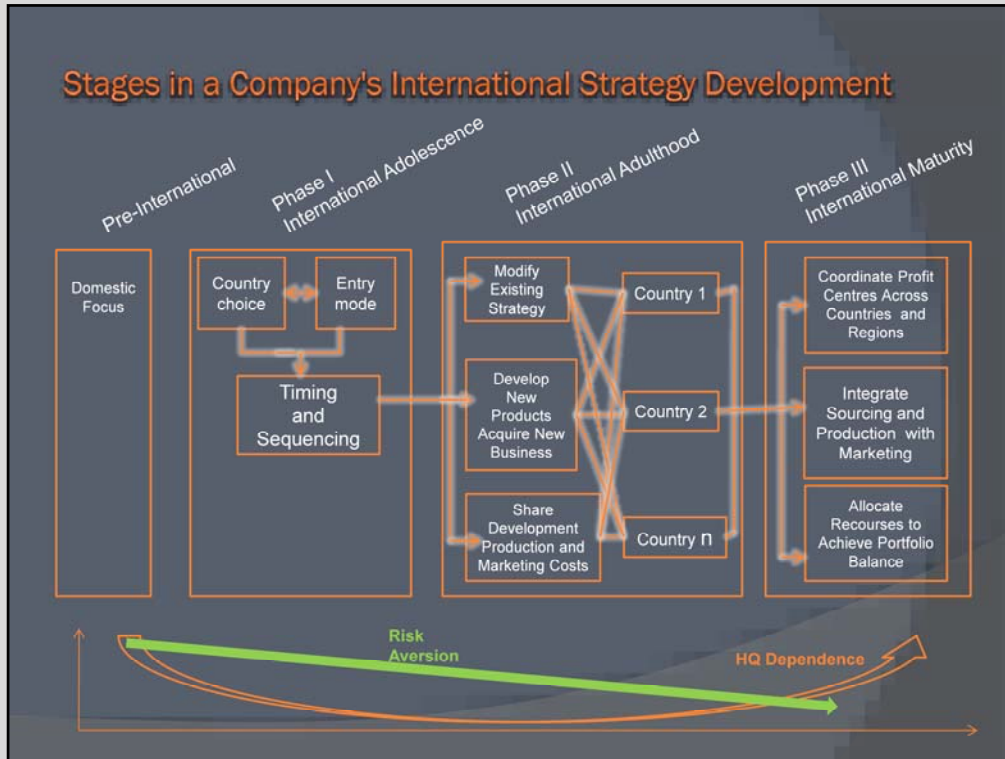
- Access to sourcing or sales markets;
- K-h, patents
- Managerial skills
- Trademarks, brands
- Large size allowing scale economies
- Access to finance
- Control of specific resources (ex. Natural resources)

Location advantage

- Many factors influencing on this: Price & quality of production factors; market size; investment conditions; active host state policies; business climate and culture

Internalisation advantage:

- Ex. cost of control (principal / agent) and cost of contract enforcement



Risk Aversion (I am not sure about this)



Local Responsiveness: i.e. adaptation to local context, consumer preferences

Organisational structure

- “Structure follows strategy”
- function, product, region, matrix

Diferenciation applies as well to the Functional Areas of a company

- Marketing, communication
- Designing products & services
- Sourcing & logistics
- Finance
- HR
- Cross-cultural management

Conclusive Remarks

- “Research on Strategy should be pulled by the concerns, rather than pushed by concepts”
- „Rise from the general to the specific“

Mintzberg; Same is true for practising strategy

Quotation of Adorno/Horkheimer

Thank you for your attention.