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# chapter eight

## Strategy Formulation and Implementation

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# Strategy Formulation and Implementation

## Chapter Objectives (6):

1. **DISCUSS** meaning, needs, benefits, approaches of strategic planning process for MNCs
2. **UNDERSTAND** tension between pressures for global integration and national responsiveness; 4 basic international strategy options
3. **IDENTIFY** basic steps in strategic planning
4. **DESCRIBE** how MNCs implement strategic plan
5. **REVIEW** three major functions of marketing, production, finance used in strategic plan implementation
6. **EXPLAIN** specialized strategies for emerging markets and international new ventures

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# Strategic Management

- Strategic Management: the process of determining an organization's basic mission and long-term objectives, then implementing a plan of action for pursuing the mission and attaining objectives
- Growing need for strategic management related to increasingly diversified operations in continuously changing international environment

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# Benefits of Strategic Planning

- 70 percent of 56 U.S. MNC subsidiaries had comprehensive 5 to 10-year plans according to one study
- Evidence for effectiveness of planning is mixed. Strategic planning does not always result in higher profitability

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# Approaches to Strategic Planning

1. Economic Imperative
2. Administrative Coordination
3. Political Imperative
4. Quality Imperative

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# (1) Economic Imperative:

- **Economic imperative** focused MNCs employ worldwide strategy based on cost leadership, differentiation, and segmentation
- Strategy also used when product is regarded as generic and therefore is not sold on name brand or support service
- Often sell products for which large portion of value is added in upstream activities of industry value chain
  - ❑ Research and development
  - ❑ Manufacturing
  - ❑ Distribution

## (2) Political Imperative

- MNCs using **political imperative** are country-responsive; approach designed to protect local market niches
- These MNCs often use country-centered or multi-domestic strategy
- Success of product or service depends heavily on
  - Marketing
  - Sales
  - Service

## (3) Quality Imperative

- Quality imperative has 2 paths
  - Change in attitudes and raising of expectations for service quality
  - Implementation of management practices designed to make quality improvement an ongoing process
    - TQM Total Quality Management (see next slide)

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# Total Quality Management

- Cross-train personnel to do jobs of all members in work group
- Process re-engineering designed to help identify/eliminate redundant tasks
- Reward system designed to reinforce quality performance
- Quality operationalized by meeting or exceeding customer expectations
- Quality strategy formulated at top management level and diffused through organization
- TQM techniques: traditional inspection and statistical quality control; cutting edge Human Resource Management techniques such as self-managing teams and empowerment

## (4) Administrative Coordination Imperative

- MNC makes strategic decisions based on merits of individual situation rather than predetermined economic or political strategy
- Least common approach to formulation and implementation of strategy
- Many large MNCs work to combine all 4 of the approaches to strategic planning

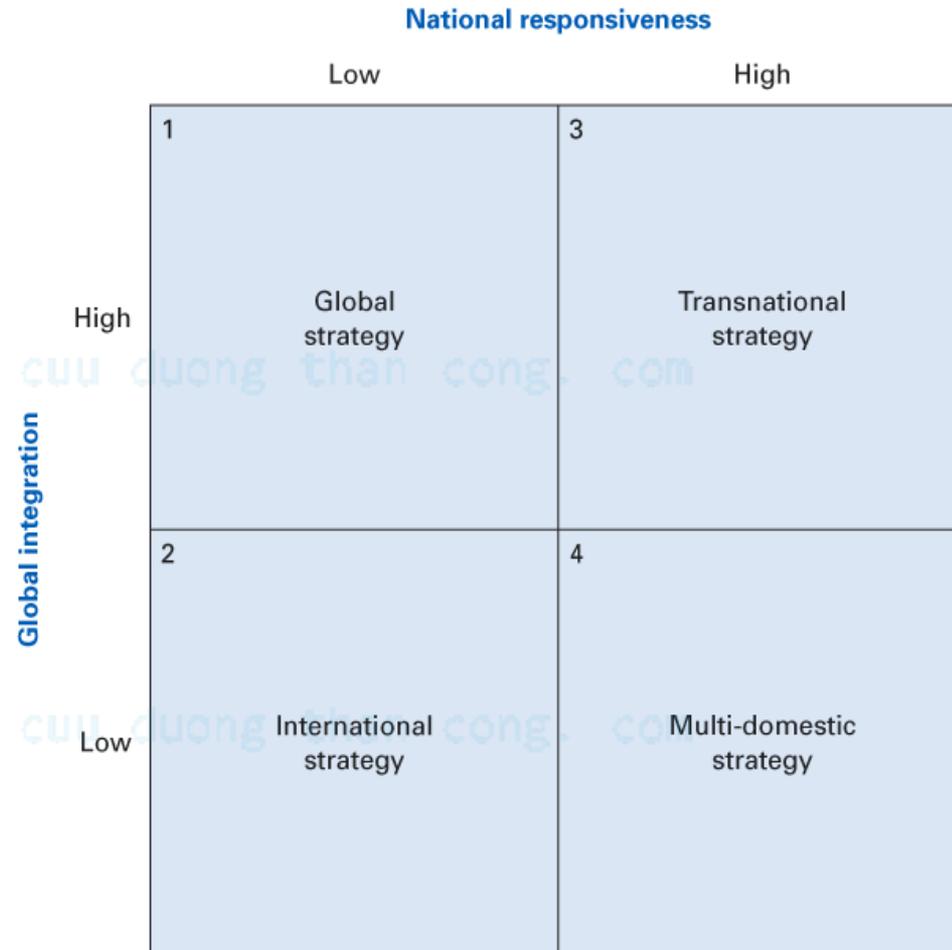
# Global vs. Regional Strategies

- **Fundamental Tension:** The globalization vs. national responsiveness conflict.
- **Global integration:** Production and distribution of products and services of a homogenous type and quality on a worldwide basis
- **National responsiveness:** need to understand different consumer tastes in segmented regional markets and respond to different national standards and regulations imposed by autonomous governments and agencies

# Global Integration vs. National Responsiveness

**Figure 8-1**

**Global Integration vs. National Responsiveness**



Source: Adapted from information in Christopher A. Bartlett and Sumantra Ghoshal, *Managing Across Borders: The Transnational Solution*, 2nd ed. (Boston: Harvard Business School Press, 1998).

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## Summary:

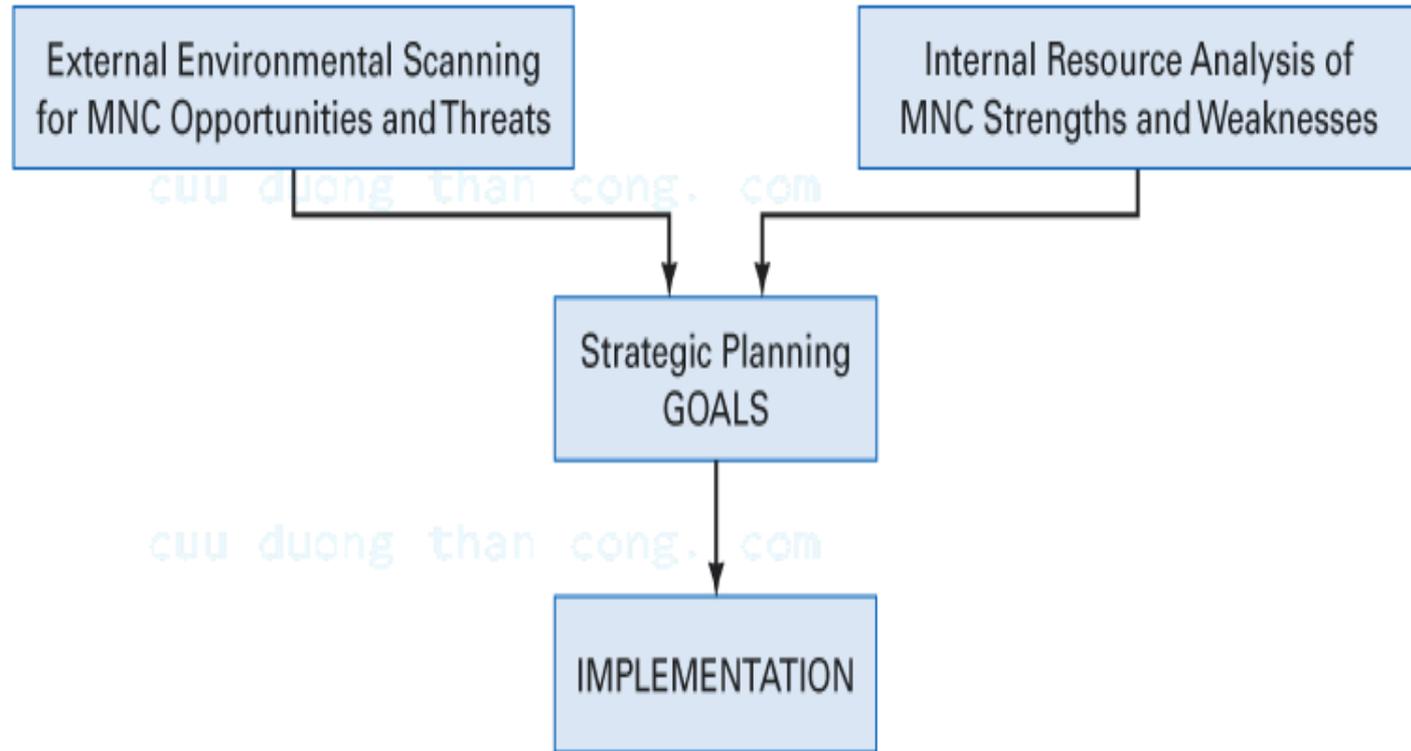
# Approaches to Strategic Planning

- 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

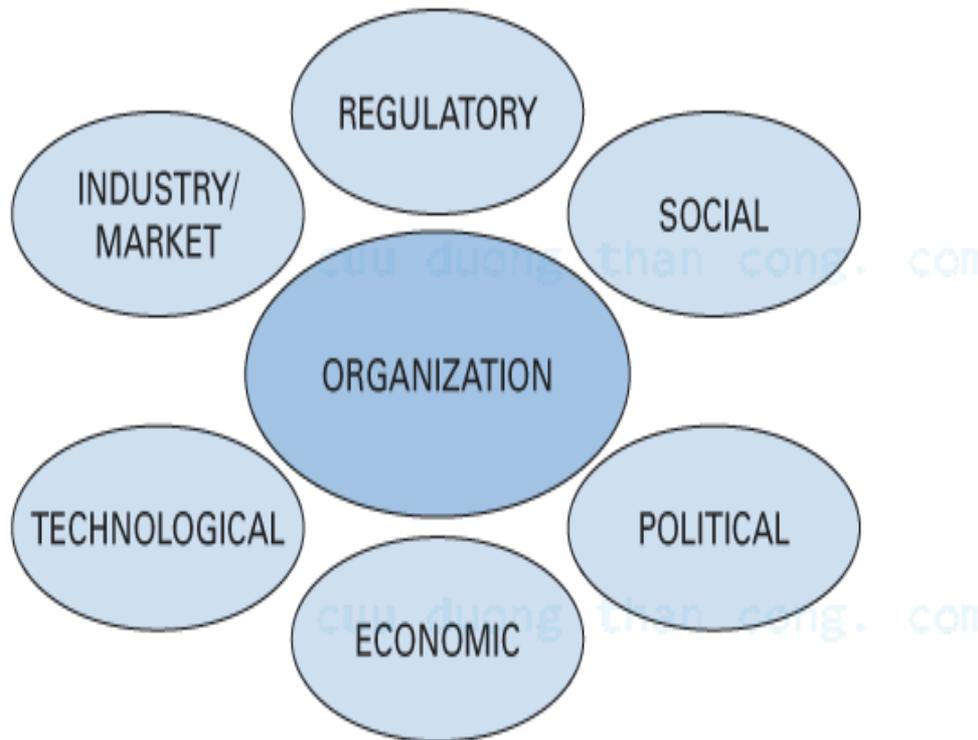
# Basic Elements in Strategic Planning for International Management

**Figure 8-2**

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



# Elements of Strategic Planning: Environmental Scanning



**Figure 8-3**

**Environmental Factors  
Affecting Organizations**

Source: Kendra S. Albright, "Environmental Scanning: Radar for Success," *Information Management Journal* 38, No. 3 (May/June 2004), p. 42. Reprinted with permission.

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# Elements of Strategic Planning: Environmental Scanning

- Provides management with accurate forecasts of trends relating to external changes in geographic areas where firm is doing business or considering doing business
- Changes relate to economy, competition, political stability, technology, demographic and consumer data

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# Elements of Strategic Planning:

## Internal Resource Analysis

- Evaluate MNC's current managerial, technical, material, and financial strengths and weaknesses
  - Assessment then used to determine ability to take advantage of international market opportunities
  - Match external opportunities (gained in environmental scan) with internal capabilities (gained through internal resource analysis)
  - Key question for MNC: Do we have the people and resources that can help us develop and sustain necessary Key Success Factors, or can we acquire them?

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# Elements of Strategic Planning:

## Strategic Planning Goals

- Goal formulation often precedes first two steps (environmental scanning, internal analysis)
- More specific goals for strategic plan come from external scan and internal analysis
  - Goals serve as umbrella beneath which subsidiaries and other international groups operate
  - Profitability and marketing goals almost always dominate strategic plans
  - Once set strategic goals, MNC develops specific operational goals and controls for subsidiary or affiliate level

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# Elements of Strategic Planning: Implementation

- Provides goods and services in accord with plan of action
- Plan often will have overall philosophy or guidelines to direct process
- Considerations in selecting country:
  - Advanced industrialized countries offer largest markets for goods/services
  - Amount of government control
  - Restrictions on foreign investment
  - Specific benefits offered by host countries

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# Elements of Strategic Planning: Implementation (continued)

## ■ Local issues

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

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# Elements of Strategic Planning: Implementation (continued)

## ■ Production

- ❑ When exporting goods to foreign market, production has usually been handled through domestic operations
- ❑ More recently MNCs have found that whether they export or produce goods locally in host country, consideration of worldwide production is important
- ❑ Recent trend away from multi-domestic approach and toward global coordination of operations

# Elements of Strategic Planning: Implementation (continued)

## ■ Finance

- Transfer funds from one place in world to another, or borrowing funds in international money markets often less expensive than relying on local sources
- Issues include
  - Reevaluation of currencies
  - Privatization

## ■ Strategic issues for base of pyramid

## ■ International new ventures and “born global” firms

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# Elements of Strategic Planning: Implementation (continued)

- Strategies for “base of pyramid” (BOP)
  - Emerging market customers
  - People at bottom of economic pyramid
  - Marketing at BOP forces consideration of smaller-scale strategies
- International new venture and “born-global” firms

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# Elements of Strategic Planning: Implementation (continued)

- International new ventures and “born-global” firms
  - Firms that engage in significant international activity a short time after being established
  - Successful born-global firms leverage a distinctive mix of orientations and strategies
    - Global technological competence
    - Unique product development
    - Quality focus
    - Leveraging of foreign distributor competencies

# Formulation of MNC Goals

**Table 8–1**  
**Areas for Formulation of MNC Goals**

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## **Profitability**

Level of profits  
Return on assets, investment, equity, sales  
Yearly profit growth  
Yearly earnings per share growth

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## **Marketing**

Total sales volume  
Market share—worldwide, region, country  
Growth in sales volume  
Growth in market share  
Integration of country markets for marketing efficiency and effectiveness

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## **Operations**

Ratio of foreign to domestic production volume  
Economies of scale via international production integration  
Quality and cost control  
Introduction of cost-efficient production methods

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## **Finance**

Financing of foreign affiliates—retained earnings or local borrowing  
Taxation—minimizing tax burden globally  
Optimum capital structure  
Foreign exchange management—minimizing losses from foreign fluctuations

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## **Human Resources**

Recruitment and selection  
Development of managers with global orientation  
Management development of host-country nationals  
Compensation and benefits

# The Role of Functional Areas in Implementation

## ■ Production

- ❑ Traditionally handled through domestic operations
- ❑ Increasingly consideration of world wide production is important
- ❑ Recent trend away from scattered approach and toward global coordination of operations
- ❑ If product labor intensive, farm out product to low-cost sites (e.g., Mexico)

## ■ Marketing

- ❑ country-by-country basis
- ❑ built around well-known 4 P's (product, price, promotion, place)

# The Role of Functional Areas (continued)

## ■ Finance

- ❑ Normally developed at home office
- ❑ Carried out by overseas affiliate or branch
- ❑ MNCs have learned that transferring funds from one place in world to other, or borrowing funds in international money markets often less expensive than reliance on local sources
- ❑ Major headache is reevaluation of currencies

# Specialized Strategies

- Some circumstances may require specialized strategies:
  - Strategies for developing and emerging markets
  - Strategies for international entrepreneurship and new ventures

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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.

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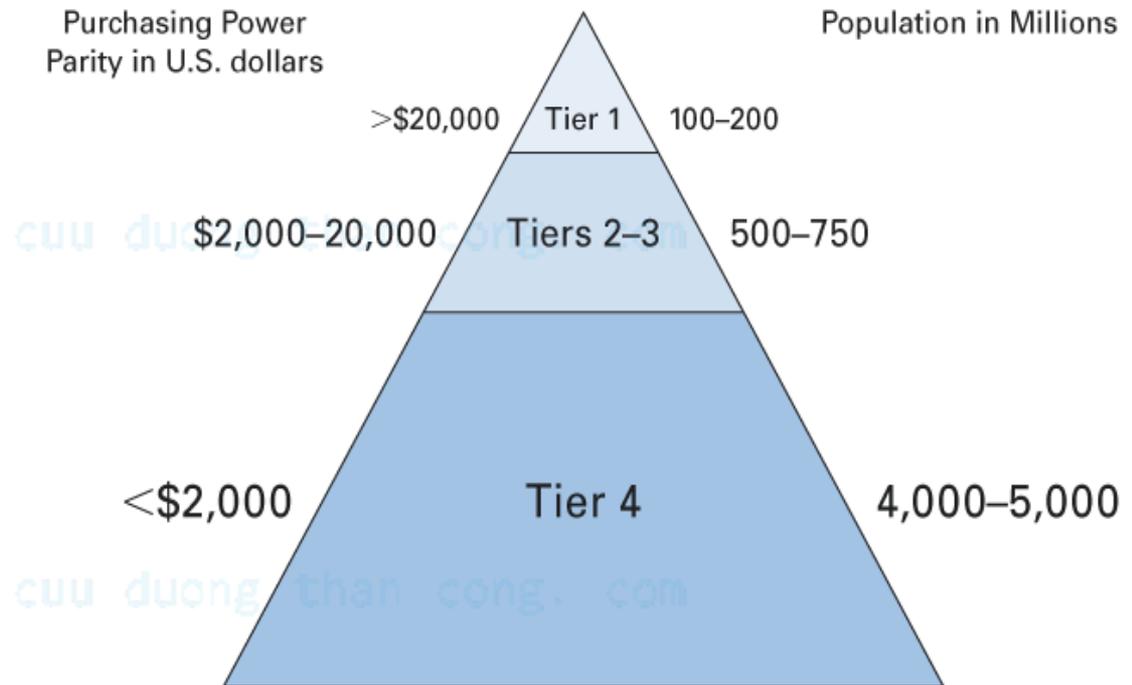
# Two Unique Strategies for Emerging Markets

- **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

# The World Population and Income Pyramid

**Figure 8-4**

**The World Population and Income Pyramid**



Source: Adapted from C. K. Prahalad and Stuart L. Hart, "The Fortune at the Bottom of the Pyramid," *Strategy + Business* 26 (2002), pp. 54-67.

## (2) Entrepreneurship Strategy and New Ventures

- Increasingly small and medium size enterprises, often in the form of new ventures, are becoming involved in international management.
- The earlier in its existence an innovative firm internationalizes, the faster it is likely to grow both overall and in foreign markets.
- Venture performance (growth and ROE) is improved by technological learning gained from international environments.

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# International Entrepreneurship

- Defined as “a combination of innovative proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations”

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# International New Ventures and “Born Global” Firms

- “Born global”: firms that engage in significant international activity a short time after being established.
- Most important business strategies employed by born global firms are global technological competence, unique products development, quality focus, and leveraging of foreign distributor competencies.
- Truly born global firms tend to survive longer than other seemingly global companies.

# Review and Discuss

1. Of the four imperatives, which is most important to IBM's effort to enter the Pacific Rim Market?
2. Define global integration as used in the context of international strategic management?
3. Are globalization and national responsiveness diametrically opposed?
4. Anheuser-Busch is attempting to enter India, where beer is hardly consumed and liquor dominates the market. What areas should be targeted for strategic goals? What are some marketing implications here?
5. What conditions have allowed some firms to be "born global"?