



PHILIPPE LASSERRE

GLOBAL STRATEGIC MANAGEMENT

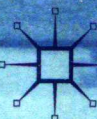
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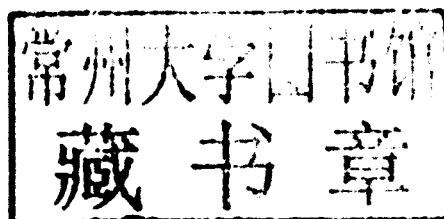
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First edition 2002

Second edition 2007

Third edition published 2012 by

PALGRAVE MACMILLAN

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ISBN-13: 978-0-230-29381-6

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A catalogue record for this book is available from the British Library.

A catalog record for this book is available from the Library of Congress.

10 9 8 7 6 5 4 3 2 1
21 20 19 18 17 16 15 14 13 12

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To Michelle

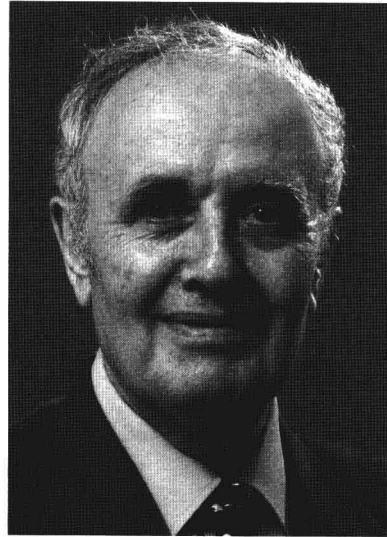
During the preparation of this third edition my wife, Michelle, left our world. I want to thank her for all the support she gave me despite her suffering and I want to dedicate this book to her.

Heureux qui comme Ulysse a fait un beau voyage (J. DU BELLAY)

ABOUT THE AUTHOR

Philippe Lasserre is Emeritus Professor of Strategy and Asian Business at INSEAD.

He obtained his masters degree from ESSEC (Paris) and his PhD from the University of Texas at Austin. Since 1975, he has been involved in teaching, research, and consulting in strategic management and international business. He is the author of various articles on strategy, business in Asia and joint ventures and he has co-authored *Strategies for Asia Pacific* (Palgrave Macmillan: 1995, 1999, 2006) and *Strategy and Management in Asia Pacific* (McGraw-Hill: 1999). He has been a visiting professor in various universities in Singapore, at the China European Business School in Beijing and Shanghai, at the University of Texas in Dallas, at Curtin University in Perth, and finally at Thunderbird University in Glendale Arizona. He currently lives in France.



MINI-CASES AND EXAMPLES GRIDS

The following grid demonstrates the geographical reach of the Mini-Cases and the examples which have been highlighted in the third edition. The companies featured in these cases and examples have been chosen because they are 'transnational' and have their origins in a diverse range of countries, from China to the Philippines, and the USA to Brazil.

| Mini-Cases | | Worldwide | Europe | Asia/ Middle East | Americas | Asia Pacific | Africa | Oceania |
|------------|---|-----------|--------|----------------------|----------|--------------|--------|---------|
| Chapter | Title of Mini-Case | | | | | | | |
| 1 | Mobile telephony services | X | | | | | | |
| 2 | HSBC: The World's Local Bank | | X | X | X | X | X | |
| 2 | Essilor: a global player | | X | X | X | X | X | |
| 3 | ACER: Global Organizational Evolution | X | X | X | X | X | | |
| 4 | Danone vs. Wahaha: Conflicts in a Joint Venture in China | | X | | | X | | |
| 5 | The Acquisition of Harbin Brewery | | | | X | X | X | X |
| 6 | Fastkomfort: Assessing Countries in Eastern Europe | | X | | | | | |
| 7 | Lubricador SA | | X | | | X | | |
| 8 | HSBC Global/Local Advertising | X | | | | | | |
| 9 | eBay and Skype: Failed Synergies in the Internet Space | | X | | X | | | |
| 10 | Global Giants' R&D Networks | | X | X | X | X | | |
| 11 | Working Across Cultures: The Engineering Consultants' Clashes | | X | | X | X | | X |
| 12 | Global Managers | | X | | X | X | | |
| 13 | Aguaciudad in the Philippines | | X | | | X | | |
| 14 | PANELSOL Ltd | | X | X | X | X | | |
| 14 | BYD (Build Your Dream) | | X | X | X | X | | |
| 15 | Shell and Cosan | | X | | X | | | |
| 16 | The Pandemic Threat | | | | | | | X |

Examples

| Chapter | Company/industries in example | Worldwide | Europe | Asia/ Middle East | Americas | Asia Pacific | Africa | Oceania |
|---------|--|-----------|--------|----------------------|----------|--------------|--------|---------|
| 1 | Elevator industry | X | X | X | | | | |
| 2 | SONY Corporation | | X | | X | X | | |
| 2 | White goods industry | | X | | X | X | | |
| 2 | Gemplus | | X | | X | X | | |
| 3 | Philips | | X | | X | | | |
| 3 | Matsushita | | X | | X | X | | X |
| 3 | Apple | X | | | X | | | |
| 3 | International Service Systems | | X | | X | X | | |
| 3 | Citigroup | X | | X | X | X | | |
| 3 | 3M | X | | | | | | |
| 3 | SABMiller | X | X | | X | X | X | |
| 3 | BASF | X | X | X | X | X | X | X |
| 4 | DaimlerChrysler–Mitsubishi, and Renault–Nissan | | X | | | X | | |
| 4 | The Renault–Nissan Alliance | | X | | | X | | |
| 5 | DaimlerChrysler | | X | | X | X | | |
| 5 | Air France KLM | | X | | X | X | | |
| 5 | Lenovo and IBM | | | | | | | |
| 5 | SONY/Columbia Studios | | | | X | X | | X |
| 5 | ArcelorMittal | | X | X | X | | | |
| 5 | South African Brewery | | X | | X | X | X | |
| 7 | Carrefour | | X | | | X | | |
| 8 | Citibank | X | X | | X | X | | |
| 9 | Li and Fung | | X | | X | X | X | |

Examples cont.

| Chapter | Company/industries in example | Worldwide | Europe | Asia/ Middle East | Americas | Asia Pacific | Africa | Oceania |
|----------------|--------------------------------------|------------------|---------------|------------------------------|-----------------|---------------------|---------------|----------------|
| 9 | Freemarkets Online and Ariba | X | | | | | | |
| 9 | Michelin | | X | | X | X | | |
| 9 | Enron | | | X | | | | |
| 9 | Yahoo! | | X | | X | | | |
| 10 | Nestlé | | X | | X | X | X | |
| 10 | ST Microelectronic | X | X | | | | | |
| 10 | Hewlett Packard (HP) | | | | X | X | | |
| 12 | Helvetica Chemical | | X | | X | | | |
| 12 | Colgate-Palmolive | X | | | X | | | |
| 12 | Asea Brown Boveri (ABB) | | | | X | X | | |
| 14 | Saurer | | X | | | X | | |
| 14 | Unilever | | | | X | | | |
| 14 | General Electric | | | X | | | | |
| 15 | Soccer balls (Sialkot and Reebok) | | | X | | | | |
| 15 | Nike | | | | X | X | | |
| 15 | Unocal and Total of France | | X | | X | X | | |
| 15 | AMD | X | | | | | | |
| 15 | HPI | | | X | | | | |
| 15 | Bayer | | | | | | X | |
| 15 | Carrefour | | | | X | | | |
| 15 | DaimlerChrysler | | | | X | | | |
| 15 | IndoMedia | | | | | X | | |
| 16 | The Millennium Project | X | | | | | | |

LIST OF ABBREVIATIONS

| | | | |
|---------|--|---------|---|
| APV | Adjusted Present Value | JIT | Just in Time |
| ASEAN | Association of South East Asian Nations | JV | Joint Venture |
| ASP | Application Service Providers | LIBOR | London Inter-Bank Offered Rate |
| B2B | Business to Business | M&A | Mergers and Acquisitions |
| BOT | Build Operate and Transfer | MNC | Multinational Corporation |
| BPI | Bribe Payers Index | NAFTA | North American Free Trade Agreement |
| CEO | Chief Executive Officer | NPV | Net Present Value |
| CIA | Central Intelligence Agency | NYSE | New York Stock Exchange |
| CIF | Cost Insurance Freight | OECD | Organisation for Economic Cooperation and Development |
| CPI | Corruption Perception Index | OEM | Original Equipment Manufacturing |
| EDI | Electronic Data Interchange | PCN | Parent Country National |
| EIU | Economist Intelligence Unit | PPP | Purchasing Power Parity |
| FDI | Foreign Direct Investment | R and D | |
| FOB | Free on Board | or R&D | Research and Development |
| GATT | General Agreement on Trade and Tariffs | RFQ | Request for Quotation |
| GBU | Global Business Unit | RHQ | Regional Headquarters |
| GCI | Global Capability Index | ROI | Return on Investment |
| GDP | Gross Domestic Product | ROW | Rest of World |
| GDP/Cap | Gross Domestic Product per capita | SBU | Strategic Business Unit |
| GNP | Gross National Product | SME | Small and Medium-sized Enterprise |
| GNP/Cap | Gross National Product per capita | SRI | Socially Responsible Investing |
| GRI | Global Revenue Index | TCN | Third Country National |
| HRM | Human Resource Management | TI | Transparency International |
| IFI | International Financial Institution | TNC | Transnational Corporation |
| II | Internalization Index | TNI | Transnational Index |
| ILO | International Labour Organization | UN | United Nations |
| IMD | International Institute for Management Development | UNCTAD | United Nations Centre for Trade and Development |
| IMF | International Monetary Fund | WACC | Weighted Average Cost of Capital |
| IPR | Intellectual Property Rights | WTO | World Trade Organisation |
| IRR | Internal Rate of Return | | |

TOUR OF THE BOOK

1 CHAPTER INTRODUCTION AND LEARNING OBJECTIVES

OBJECTIVES | These are a guide through the material in each chapter and allow progress to be checked.

2 MINI-CASES | Chapters contain case studies to help you apply key concepts in global strategy to the real world of business. The case studies are largely based on diverse 'transnational' companies originating from, for example, China, the Philippines, Latin America, Europe and the USA and which operate across the world.

1. GLOBALIZATION OF MARKETS AND COMPETITION

Mobile Telephony Services

Mobile telephony expanded rapidly during the two decades of the 1990s and 2000s. By 2011 there were around 5.2 billion mobile subscribers in the world (77% of the world's population).

According to the International Telecommunication Union (ITU), the distribution of customers is as follows: Asia Pacific: 2.649 billion, Americas: 880 million, Europe: 741 million, rest of the world: 979 million.

The industry is divided broadly into two major sub-industries: a) mobile equipment manufacturers: phones and docking stations, for example; and 2) mobile services operators.

Around the world, mobile services are operated mainly by local telephone companies with their own national brands. Some operators such as Vodaphone (UK) or Orange (France) have developed their presence internationally by acquiring or participating in the capital of local operators.

Most consumers use pre-paid services for the use of mobile phones. Various packages of pre-paid services as well as additional add-ons (Internet access, mobile banking, email, games...) are offered by the operators according to the characteristics of their markets. Customers are divided between personal accounts (roughly 65 to 90%, according to the country) and corporate accounts (from 10 to 35%). Some of the corporate accounts are multinational firms that want to benefit from a 'global' offer.

Mobile operators purchase their own network equipment and control its installation. They also procure large quantities of handsets that they include in their pre-paid contracts at discounted prices.

The key activities of mobile phone operators are:

- Procurement of network hardware and software: suppliers are multinational firms such as Nokia, Ericsson and Alcatel-Lucent. There are two major standards used in the world: Global Standard Mobile with around 80% penetration and CDMA (15%). Japan and Korea use a standard of their own.
- Procurement of handsets. The major manufacturers of handsets are Nokia (23% global market share), Samsung (16%), LG (7.5%), BlackBerry (3%) and Apple (4.6%).
- Network installation and maintenance carried out by equipment suppliers plus local infrastructure companies under the control of the service provider.
- Software developments for new applications and services. From 2008 to 2011 around 300,000 applications for mobile phones and smartphones have been developed in the world. The main applications are games, news and social networking.
- Marketing and brand management. Products are marketed under a variety of local brands. Multinational players try to use their global brand (such as Orange), although advertising is country specific.
- Sales and distribution are organized differently from country to country.
- Billing is done according to local standards.
- Regulation with local authorities. Operators have to comply with local regulations.
- Finance and control. Treasury is managed centrally while day-to-day transactions are the duties of local managers.

chapter

1

GLOBALIZATION OF MARKETS AND COMPETITION

Introduction

Chapter 1 defines what globalization means for a business enterprise. It differentiates globalization from the traditional process of setting up subsidiaries abroad and makes a distinction between a *multinational company* and a *global company*. Based on the example of the Otis Elevator Company, it looks at how a company having multiple international subsidiaries can move toward a global competitive configuration through which its international activities can be strongly coordinated and integrated across borders. This transition from a multinational to a global position was driven by various social, political, economic and technological factors that are described in the chapter. The benefits of globalization are described, as well as the constraints. Some factors are still pushing toward a local approach to management, on a country-by-country basis, and the factors inducing this localization are analyzed.

Finally, global/multi-local mapping is presented as a tool to position industries, companies and businesses according to the relative importance of global versus local approaches. The chapter ends by introducing some of the societal issues associated with globalization.

Learning objectives

At the end of the chapter you will be able to:

- define globalization, understand what a global firm is, and how it differs from a multinational company
- identify the forces pushing toward globalization
- identify the forces pushing for localization
- position an industry or a business on the global/multi-local map
- discuss the benefits and pitfalls of globalization.

The phenomenon of globalization

Over the past 30 years international trade and investment have grown much faster than the world economy as a whole. Firms have multiplied their presence outside their country of origin, employing more and more people and selling and buying technology internationally. (See Table 1.1). More and more products are sold in similar stores, with similar features and carry a common brand across the globe. Factories that were prosperous in the Western

3 FIGURES AND TABLES | The book makes full use of figures and tables, some classic and others new, to illustrate the theory.

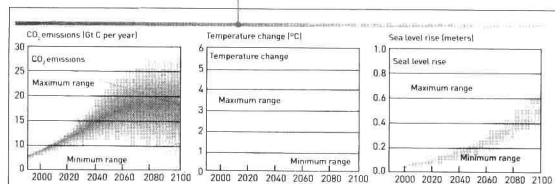


Figure 15.5 CO₂, temperature and sea level projections.

Source: Intergovernmental Panel on Climate Change (2001) reproduced in United Nations Framework Convention on Climate Change: The First Ten Years, Bonn, Germany: Climate Change Secretariat, 2003; UNFCCC, 2004, p. 22

4 IN-CHAPTER EXAMPLES | Examples are scattered throughout the text to consistently reinforce how the theory is put into practice. Longer examples are highlighted and exemplify global strategy at work in companies such as SONY, Gemplus, Apple and Carrefour.

5 SUMMARY AND KEY POINTS | These provide an abbreviated version of the main concepts and theories, useful for revision and checking understanding of the key points.

6 LEARNING ASSIGNMENTS | You can test your understanding of the chapter by undertaking these assignments, which also encourage further thought.

7 KEY WORDS | These appear at the end of each chapter and can be used as checklists for revision.

8 WEB RESOURCES | Useful web resources are included for students who want to go a little further.

9 REFERENCES AND FURTHER READING | These sections identify key texts for further research and include books and journal articles.

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Globalization at the level of the firm

To illustrate the phenomenon of globalization let us take the example of the elevator industry in Europe in the late 1960s as represented in Figure 1.3.

In each country of Europe, different firms fought for a share of the elevator market. Competitors were either local companies or subsidiaries of large multinational companies like Otis or Schindler. Each competitor designed, marketed, manufactured, installed and serviced elevators for their respective markets. The subsidiaries of the multinationals had all the activities of the value chain (marketing, design, production, installation and service) under their control. The French subsidiary of Otis designed elevators for the French market, manufactured them in French factories, sold them with a French sales force and maintained them with a French

Summary and key points

1 Companies

A global company:

- can be defined as a company that operates in the main markets of the world in an integrated and coordinated way
- carries out one activity (e.g. manufacturing) or a component of the activity (e.g. manufacturing one sub-part only) of the value chain in one country, which serves the company's worldwide market.

A multinational company:

- operates in many markets of the world with little or no integration or coordination among

Learning assignments

- 1 In 2010, the distribution of sales and people of AXA, the insurance company, is shown below:

| | Europe | NAFTA | Asia | Rest of World |
|---------------------|--------|--------|--------|---------------|
| Revenue (billion €) | 49,400 | 10,300 | 9,400 | 12,800 |
| Personnel | 75,000 | 17,000 | 15,000 | 19,000 |

- Assuming that the figures are representative of the situation in 2010, what is AXA's position on a GCU/GRI mapping?
- 2 In your opinion, for which industries could the UK, Italy and Australia be 'key' countries?
- 3 What could be the benefits of positioning oneself as a standardized global niche differentiator (see Table 2.3, p. 39)? What kind of competitive advantages does it require?
- 4 What are the capabilities needed to be a broad adaptive cost leader?
- 5 What are the ways to sustain competitive advantage?
- 6 What types of competitive advantage does being a first mover provide?
- 7 Can you sketch the mapping of the value chain for:
- (a) A consulting firm
 - (b) An airline
 - (c) A trading firm
 - (d) A corporate and investment bank?
- 8 For each of the entities in Question 7 (a)–(d), can you represent a possible global distribution of their value chain, as illustrated in Figure 2.8 (p. 40)?

Key words

- Business strategy
- Corporate strategy
- Cost leadership
- Differentiation
- Global business strategy
- Global Capability Index
- Global corporate strategy
- Global positioning
- Global Revenue Index
- Value chain
- Value curve
- Value proposition

Web resources

<<http://www.businessweek.com/globalbiz/index.html>>
Business Week – Global business.

10 COMPANION WEBSITE | www.palgrave.com/business/lasserre3e

Visit the companion website for a range of teaching and learning resources including:

For lecturers

- PowerPoint presentations for each chapter
- A lecturer manual containing guideline answers to Mini-Case questions; teaching notes; and answers to learning assignments
- A testbank of multiple choice and essay questions

For students

- Learning assignments
- Chapter-by-chapter links to suggested long case studies
- A searchable glossary of key terms
- A list of acronyms
- Web links and resources
- Multiple choice questions for revision

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Table 9.1, 'Index of offshoring in 2005', based on data from Figure L.7.1. and Figure L.7.2., from OECD (2010), *Measuring Globalisation: OECD Economic Globalisation Indicators 2010*, OECD Publishing, <<http://dx.doi.org/10.1787/9789264084360-en>>.

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Appendix 2.2 'Selected government support programs', based on Annex 1.2 from OECD (2008), *Removing Barriers to SME Access to International Markets*, OECD Publishing, <<http://dx.doi.org/10.1787/9789264045866-en>>.

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INTRODUCTION TO THE THIRD EDITION

Since the second edition of this book published in 2007, the globalization of the economy has seen its momentum challenged by two financial crises. Starting in the USA, the so-called 'subprime' crisis has obliged governments around the world to engage in Neo-Keynesian policies in order to consolidate the stumbling global financial system. More recently the 'Euro-zone' crisis has called into question one of the most ambitious international cooperations and has seen populations asking for more protectionism. In the Middle East, dictatorial regimes have been ousted by the revolutionary 'Arab Spring' and the newly formed governments are trying to find a way between global exchange and Islamic tradition. During these difficult times, emerging countries from Asia, Latin America and Africa have increasingly asserted their newly found economic and financial power and demanded a bigger participation in world governance. The tsunami that struck Fukushima in Japan in March 2011 creating a nuclear accident has convinced many nations to reconsider their energy policy. Despite all of this, globalization, even though criticized, is still active. Firms are moving to the new emerging economies in order to capture the consumption appetite of the growing middle classes. It is still relevant and important to put together all aspects of global strategic management.

This third edition is still about global firms and global management. Its objective remains to help undergraduate and graduate students, as well as company executives, to understand the main issues that companies and their managers confront when they 'go global' or 'manage globally', and to cope with these issues. Data have been updated and several new cases and examples added. At the end of each chapter there are now one or two new 'Mini-Cases' that students may discuss in class.

The book has been designed to support courses on strategic management in global firms, equivalent to a series of course notes to be read in preparation for a class or to compound and expand upon class content afterwards. Students can be assigned work on a case study for each of the topics covered in the book. The textbook can also be used as a guide for managers and executives.

There are a number of excellent textbooks on international business already available¹ so how does this book compare with others?

First, the focus of the book is on **firms and their employees**. It addresses the strategic and management issues that global companies confront when they operate across borders. From strategic analysis, formulation to implementation in the various business functions, the

book reviews the main aspects of operating globally. Macroeconomic and political factors that traditional international business textbooks cover, such as international trade and investment flows, the problems of economic development in emerging countries, the analysis of international and regional institutions such as the World Trade Organisation (WTO), the United Nations (UN), the World Banks and other development banks, the European Union (EU), the North American Free Trade Agreement (NAFTA), the Association of South East Asian Nations (ASEAN) and the like, and the geopolitical analysis of diplomacy and defence are not discussed. It is assumed that students interested in those topics will read specialized books on the subjects or attend courses taught by economists or political scientists.

Second, the book takes the view that **the traditional international business paradigm based on the study of foreign investments in 'foreign' countries by 'home' country firms is no longer valid for studying global firms**. The home-host country traditional paradigm establishes a hierarchy among countries' business locations. As it will be argued and shown in the examples and cases in this book, global firms progressively abandon their original nationality to manage a network of firms in an integrated and coordinated way out of 'centers' that are no longer necessarily located in their country of origin. Scholars like Chris Bartlett, Sumantra Ghoshal, Yves Doz and C.K. Prahalad, and more recently Peter Williamson and José dos Santos,² have studied this evolution in business activity and they created the terms 'transnational' or 'metanational' to describe these new types of corporations. Later, George Yip analyzed what he called 'Total Global Strategy'³ and this book was inspired largely by their theoretical and empirical work. Obviously, classic issues such as entry strategies or expatriate management will not be forgotten, but the overall tone of the book looks at how, ultimately, international or multinational firms become global and are managed globally.

Third, the book aims to **describe and analyze the key strategic and managerial challenges for firms**, but does not pretend to be exhaustive or encyclopaedic. As Michel Montaigne said, it is better *'d'avoir une tête bien faite qu'une tête bien pleine'* (to have a well-rounded brain rather than a full one). Since the book aims at providing present or future international managers with the strategic and managerial tools needed for operating globally a lot of theoretical developments have been deliberately omitted. Transaction costs theory, locational theory and agency theory, for instance, despite their scientific pertinence, have been left out because their treatment would require more space than is available here. The quotation of a multitude of articles published in academic journals and collections of papers in the field of international business such as the *Journal of International Studies*, the *Strategic Management Journal* or the *Academy of Management Journal* has been strictly limited. Those who want to know more are invited to look at the lists of 'References and further reading' at the end of each chapter as well as the works quoted during the text.

Fourth, it appeared important to illustrate the points made in the text with **several new examples and Mini-Cases** that have been inserted in the chapters. These examples and Mini-Cases deal with 'transnational' firms from various places of origin such as China, the Philippines, Latin America, Europe and the USA, which now operate across the world.