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GLOBAL STRATEGY

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GLOBAL DIMENSIONS
OF STRATEGY

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PREFACE

This book has been in preparation for several years, partly for personal and career issues and partly because the environment of international strategy has been changing so rapidly that freezing a book for publication seemed ever untimely. However, the purpose for which it was originally conceived still seemed relevant in the Autumn of 2008, so I finally pushed it through to completion, even in the midst of perhaps the greatest upheaval in the international economy in 60 years. This purpose is and was to make international strategic issues more immediate and accessible for those studying business strategy, even as the importance of the topic has become ever more apparent. When this project began, there was no international strategic management textbook. In the past few years, several have emerged, but each has been aimed at a different market niche and has used a different approach. This book, too, is intended to bring the topic to a specific audience.

I was teaching both business strategy and international strategy at the time that this book was conceived, mostly to Executive MBA students. I observed several characteristics of this market that gave this book its form. First, the circumscribed schedules of Executive MBA programs seldom leave room for two classes on a topic, and the marginal value of an international strategy course in addition to a business strategy class seemed to be less than what was needed to justify an international elective. Second, EMBA and executive courses seemed to be moving toward short formats, either intensive weeks or half-term classes, particularly for electives. Third, the conditions under which international strategy was being employed were constantly changing and strategic responses were evolving rapidly, so that a course taught from an established text seemed by necessity to be always out of date. At the same time, some underlying issues and dimensions of strategy and strategy-making seemed to be holding up well under trying conditions. In my own teaching, my solution was to use sets of journal articles and cases, backed up by materials from the current news, to teach a strategic management course set in the international environment. However, I found this to be a disjointed and expensive approach, as many articles were long and costly, but often provided only background material or a few key points set in a longer, but not necessarily relevant, article. This led to student resentments over high book fees and lack of direct application of these materials. Cases became outdated or irrelevant, and telling students to "ignore the context" or to imagine that they were in an environment without the internet was not a viable solution.

As a result, I concluded that a relatively short, relatively inexpensive text, focused on the core issues of strategic management and international strategy and presented in the more-or-less standard "strategy process" format was needed. This book is my answer to that concern. It is not long as these things go. It does not contain the many features that bring in costly external materials such as cases or that are meant to provide immediate relevance, but which add to publishing costs and which require constant updating. It also covers the basics of strategic management as well as the important aspects of strategy making and execution in the international context. By keeping both financial and time investments in the core concerns low, this text allows the instructor to supplement the course with journal articles offering the latest really cool but untested ideas, with cases of his or her own choosing and with articles from daily and weekly news outlets or from the web, all without putting counterproductive pressures on the students. Its format allows it to be used either in an elective on international strategy or in a short core course on strategic management that keeps the international aspects in focus throughout. It is short enough to be used in a concentrated executive course and complete enough to be the basis for a term-length course with added materials. At least, these are ways in which I will use it – and I hope that others will find both the approach and the text itself to offer a valuable foundation for an evolving course covering a dynamic set of issues.

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Strategy for the Global Marketplace

Strategy in Action

Founded in 1961 by Leonardo del Vecchio, Luxottica is the world's largest eyeglass company and one of the largest and fastest growing companies in Italy.[1] It began as supplier of eyeglass frames to the industry, and was based in the Italian region of Belluno – the center of eyeglass production in Italy. In 1967, Luxottica began to manufacture for its own brand as well as making contract parts and by 1971, it ceased contract production to become a full line manufacturer and retailer. The company then began a program of acquisition of competitors in eyeglass and sunglass manufacturing and marketing, to include Scarrone, an Italian eyeglass distribution company, and culminating in the purchase of struggling RayBan in 1999 from Bausch & Lomb. Luxottica produces eight house brands such as REVO and Arnette and has also procured exclusive licenses for a variety of luxury designer lines such as Bvlgari, Burberry, Chanel, Dolce & Gabbana, Donna Karan, Prada, Versace, and Polo Ralph Lauren – 17 in all. Its wholesale operations cover 130 countries and Luxottica has moved into downstream operations by purchasing Sunglass Hut, the world's largest retailer of sunglasses, and companies such as Pearle Vision and LensCrafters, major eyeglass retailers in the US market, and OPSM and Laubman & Pank in the Asia-Pacific region. It is the leading retailer in North America, China, Australia, New Zealand, and the UK.[2] At the same time, the company has expanded the size and scope of its manufacturing business, with six plants in the Belluno region of Italy, but also two in China for the production of less expensive frames. Luxottica maintains a network of designers and parts producers in Northern Italy, as well as having long-term relationships with production machinery manufacturers for its factories.

Luxottica controls its value-adding process from design to final sale, but hardly does so as a classic hierarchical bureaucracy with tight central control of all operations. Rather, the core company focuses on its established skills – designing and producing a wide variety of high-quality, fashion-conscious frames. Plastic frames are manufactured in plants located in Sedico, Pederobba, and Turin, while metal frames are manufactured in the plants located in Agordo and Rovereto – all in Italy. It makes small metal parts in yet another Italian plant. Leonardo del Vecchio says that "... in-house manufacturing resulted in many process innovations ... when you manufacture in-house, you're forced to improve ...".[3] Its marketing operations manage its own brands, but much of its production is sold under a variety of labels through collaborative relationships with many of the major French and Italian design houses. It distributes through 38 internal branches and 100 independent distributors in 130 countries. Its retail operations provide important, though hardly exclusive, outlets for its production, but continue to be managed independently, with separate brand identities and inventory from both the parent company and from competitors. Luxottica accesses the profits from retail operations and the benefits of direct contact with final customers, while Sunglass Hut and the others can use the superior credit and assets of their large parent in pursuing their rapid expansion plans in many markets around the world. The upstream network of parts design and manufacturing allies also work on nonexclusive bases, offering Luxottica new ideas and skills for certain items, while not saddling the company with capital commitments and workforce concerns in what are important, but peripheral, operations.

While Luxottica uses some very advanced materials and production methods, it offers a very traditional product, with much excess value coming from design and labeling – basic marketing tools. Luxottica is winning through its commitment to modern strategic management, not through having exclusive access to advanced product or process technology, not through monopolistic practices in mature markets or by moving all of its production to low-wage locations. The company taps all of these potential sources of advantage at times, but so do its competitors – who often use the same suppliers and outlets. Rather, it is the global vision of its founder and the combination of efficiency and innovation that arise from its networked organization that seem to free Luxottica to follow untried paths in an old, established industry that make it a success and a model for companies looking for success in the new century.

Globalization

Business strategy as the twenty-first century dawns is global strategy. Much is made of global markets, but competition, innovation, and organization are equally global. This is only a reflection, though, of the convergence of individual tastes for worldwide brands at the expense of local cultural preferences, worldwide political domination by a small number of industrialized and industrializing states and the emergence of several major new (or revived) political and economic players, the increasing strength of international nongovernmental organizations (NGOs), the integration of capital markets worldwide, the increasing ubiquity of communication and information around the world, and the spread of technology to the farthest reaches of the globe. Indeed, the impact of technology, and particularly information and communication technology (ICT), is the other characteristic aspect of twenty-first century business, one which is essential to modern globalization, dependent as it is on constant and immediate communication around the globe. Even as I work on the final draft of this book, the worldwide financial crisis and accompanying fears of a worldwide economic crash emphasize how broadly and quickly both good and bad developments spread. In later chapters, we will see that there is a debate on whether multinational companies are really globalizing, or remaining focused on their home regions. The current situation seems to me to have laid to rest such academic discussions in relation to markets and to the strategies, if not the asset bases, of the companies that compete in them. If the various economic regions of the world crash together, they must rise together – global is here, now.

The companies that are most involved with globalization, whether as practitioners or victims, are those multinational corporations, like Luxottica, that operate – not just sell – in multiple national markets and compete against other firms just like themselves. This book is about strategic management in multinational corporations (MNCs) competing in a technology-enabled and globalizing marketplace. It is about strategic management – indeed, it is organized as a strategy book. But it is also about international businesses and organizations and those aspects of strategy that are unique to companies operating in the international arena

Globalization is a term that is widely used, but with few limits on its possible meanings. I use it in relation to business strategy to describe the increasing integration of national and regional markets and economies and the domination of the world economy by massive multinational firms. As culture, politics, employment, and other aspects of nonbusiness life also become more global, the global strategies of multinational enterprises naturally are of great concern to business, but are of equal interest to governments, NGOs, and people who – individually and collectively – buy from, work for, fear, distrust, desire, court, sue, and otherwise interact with these companies. It seems that concern for global strategy is a particularly timely issue. This volume is intended to provide you with the basic knowledge needed to understand the forces driving international and global strategies, the character of such strategies, and the actions firms take to survive and prosper in the global economy.

A global strategy implies strategic involvement in many regions and nations around the world, but MNCs can also be widely spread without integrating their operations – they can be international, but not global – or they can integrate their operations over a smaller geographical area – they can be regional, not worldwide, in their scope. We shall see that the decision to operate abroad, to internationalize, really is separate from (if closely related to) the decision to integrate these widespread operations, to globalize. Further, we will see that most multinational firms do limit their international presence to certain regions of the world, having regional rather than global strategies, but they still must decide both how many countries they will enter (and how they will do this) and whether they will integrate their value-adding operations across national borders or run each national subsidiary as an essentially independent company. And, even if companies limit their own geographic spread, they are exposed to influences – competitors, technologies, products, money – from other regions and countries to the point that regional physical scope hardly means that the company is not engaged in the global economy.

We will also see that the strategies of MNCs may involve all the activities and operations of these firms. International business studies have long been concerned about the internationalization and globalization of markets; about how MNCs have been able to enter foreign markets with products, skills, and market power developed in their home markets in order to increase their profits and maintain their growth. At the same time, other MNCs have looked to foreign countries as sources of production factors, whether raw materials such as minerals or agricultural products, land, labor or capital to enable them to sell less expensive or more desirable products in their home markets – or in additional foreign countries. More recently, though, recognition has grown that MNCs can also find better products, superior processes, and greater knowledge outside their home country, and that the rapid improvements in ICT in recent years enable them to coordinate multiple dispersed operation centers to create a variety of superior products for multiple dispersed markets at costs that are below those of locating integrated operations in single markets, whether at home or abroad. This technology-enabled complexity has resulted in dramatic changes in business models, in employment, in political pressures, and in strategic management of these modern MNCs – referred to as Metanational,[4] Transnational,[5] or Integrated Global[6] firms. It is not just raw material extraction and foreign sales that drive companies into the international arena any more.

Strategic Management

However, as I said above, this is not a book about international business – it is about the strategies of multinational corporations. It is intended to provide a solid background for a course on multinational strategy but to permit the time and space to supplement these basics with up-to-date materials such as readings, current event discussions, and current case examples of global strategy. In a constantly and rapidly changing environment, this seems to be the only way to retain relevance beyond the very short term. It will be organized around the basic structure of the strategic decision-making process. As such, it will parallel most business strategy or strategic management textbooks and courses.

This is done for two main pedagogical reasons and one personal reason. The latter is that I am a strategy professor as well as an international business professor, and tend to think in strategy terms. The first pedagogical issue is that I want to differentiate this book from the many texts about the environment of international business and the many other texts that focus on international management. This book is about strategy – strategy in the multinational, but strategy nonetheless. The second issue is the potential use for this book. It is intended to be used for a strategy elective, and particularly for executive or executive MBA audiences who are familiar with strategy and the strategy process, so it should be familiar in its organization. It introduces issues of internationalization and globalization within this familiar framework so that managers and prospective managers see how the concerns of international business fit into their strategic decision-making processes, rather than being a separate body of knowledge to be interpreted by the user. I also hope that this format will allow some programs to use this book as the basis, with appropriate supporting material, for a global strategy course that can replace the typical "strategy core course" without compromising students' opportunities to learn and apply general strategy principles and models.

As such, an introduction to business strategy concepts is necessary in order to put the rest of the book in perspective. That is the objective of most of the rest of this introductory chapter. So, let's talk about strategy a bit. First, there are a variety of definitions of just what business strategy and strategic management are. In the simplest sense, business strategy is what businesses do and strategic management is about the planning and execution of activities by which "it" is done. Strategy is about market positioning, about responding to the competition, the environment, and the customer. It is about being good at what we do, being efficient, being unique and innovative, about having better products and processes and more effective managers, about creating detailed plans and responding quickly to changing times.

The Strategy Process

The process of developing a business strategy generally follows a familiar sequence, as we see in Figure 1.1. The *Mission* of the firm is its larger sense of purpose. From an economic perspective, firms

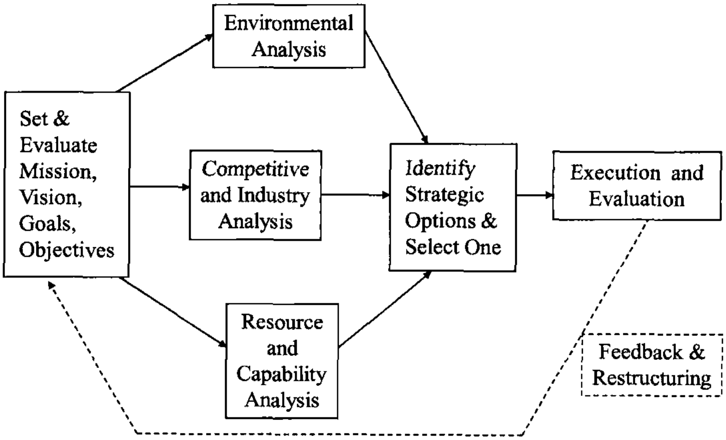

Figure 1.1 The multinational strategy process.

exist to increase the wealth of their owners or shareholders. However, many successful firms have mission statements that are pithier, more emotionally appealing, more motivating, or that offer broader perspectives on the role of the firm in society. Jack Welch has been widely cited for telling GE divisional managers that their goal was to be first or second in their industry segment or they would be gone. Komatsu built itself into a global force in the construction equipment industry with mottoes such as "maru C" or "Encircle Caterpillar", its main rival and target.[7] We hear about "No. 1 in customer satisfaction", "Quality is job 1" and the like. On the other hand, the Johnson & Johnson credo talks about customers, workers, and communities first and leaves profit as a residual – if we do our job right, we will be profitable.[8]

Conceptually, we see an ongoing, perhaps even intensifying, debate between what have been called the "shareholder" and the "stakeholder" models of the firm. The shareholder perspective, generally associated with Anglo-American economic models, and often associated with Chicago school economists such as Milton Friedman, contends that the only legitimate role of a business is to provide a maximum return to its owners or shareholders, and that any attempt by the firm to pursue non-wealth maximizing directions is inherently wrong – if the owners wish to use their money for altruistic purposes, they should do so themselves rather than having company management make the decision for them.