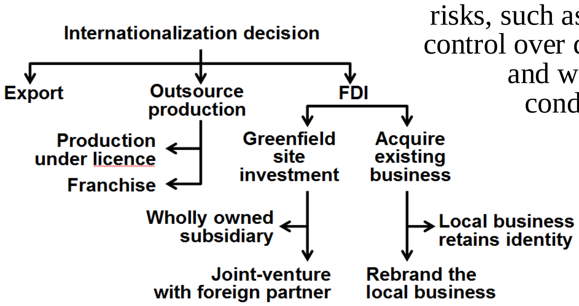
Strategy and Organizations

Learning Objectives:

– *To examine alternative international strategies for entering new markets and choosing locations for production.*
– *To identify and assess contrasting approaches to strategy formation, taking in analysis of the external competitive environment, as well as analysis of a firm's internal resources.*
– *To compare differing organizational structures among MNEs, focusing on how they have evolved to adapt to the changing environment*
– *To assess the impact of national environment on the structure and behavior of firms and networks*

Entry Strategies:

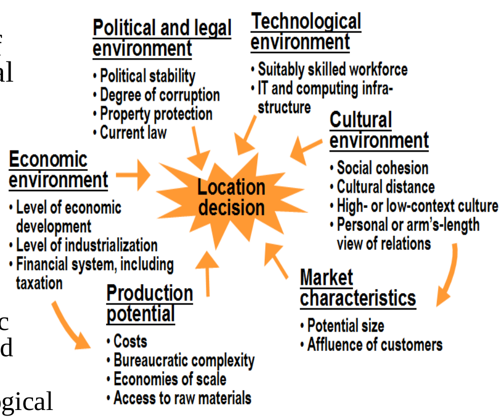
- Entry strategies vary according to the firm, the industry and the business environment in the foreign location.
- Exporting involves a minimal commitment and no organizational presence.
- Production under licence offers flexibility and lower commitment to the country than FDI, but carries risks, such as weak control over quality and working conditions.



- FDI involves greater commitment, either greenfield or acquisition. Control over operations is an advantage over outsourcing.
- Emerging MNEs are a growing force in FDI.

Location Decision:

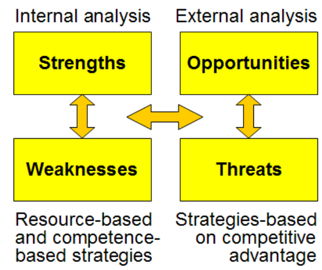
- PEST analysis of the national environment in possible foreign locations:
  – Political and legal
  – Economic
  – Social and cultural
  – Technological



- The importance of the above dimensions differs according to the intentions of the firm
- Potential entrants must also consider production potential as well as market characteristics.

Firm Strategy:

Traditional SWOT (Strength, Weakness, Opportunity, Threat) analysis considers both internal and external factors. Here, strength and weakness are internal to the firm whereas opportunities and threats come from the firm's external environment.



The former require resource-based and competence-based strategies whereas the latter require strategies based on competitive advantage.

- Theories of competitive strategy tend to focus on either *internal* analysis:
  – Resource-based theory (J. Barney)
  – Core competencies (Prahalad and Hamel)

  or *external* analysis, e.g., Porter's Five-forces model shown here. Porter's view of competitive advantages emphasizes markets and the locations more than a firm's internal advantages. But the increasingly complexity of competitive environment has made resource-based advantages, including core competencies, strategically crucial.

Resource-based view of the firm:

- Firm resources are: (a) physical (plant and machinery, location), (b) Human (experience, skills, knowledge, relationships) and (c) organizational (structure, informal relations, stakeholder relations).
- Key attributes of the resource are (a) value, (b) rarity, (c) hard to imitate and (d) no strategic equivalence

Core competencies:

- Core competencies, an organization's collective skill and learning in specialist areas, ...
  – can be applied to a variety of products
  – benefit to the consumer by improving the end product
  – are usually difficult for the competitors to imitate
- Strategic implications
  – Clear goals needed to sustain leadership
  – Outsourcing and alliance strategies downplayed

Centralization versus local responsiveness:

Although global strategy would seem to point towards strong direction from the center, highly centralized MNEs tend to be bureaucratic and inflexible, struggling to adapt to market changes. On the other hand, while responsive to differing local markets, lack of central co-ordination has often proven to be a major weakness of the highly decentralized organizations. In the Bartlett-Ghoshal taxonomy of multidivisional companies shown here, *international* model is a coordinated federation, the *multinational* or *multidomestic* is a decentralized federation, and the *global* model has a strict central control of assets, resources and management. The *transnational* model envisages separate worldwide business units that are coordinated from the center in integrated networks.