External Environment

Cross Cultural Differences

Dimensions + elements of country attractiveness

- Benefits: market growth, market size, income level etc.
  - Differences in economic development (GNI, FDI inflow vs. outflow, Purchasing power parity)
- Costs: corruption (transparency international index) & lack of infrastructure
- Risks: commercial, currency, country & cross-cultural risk

Culture analysis (soft facts)

- Culture will impact firm's strategies as firms will need to follow rule sets, understand legal regulations, professional/commercial norms & the system of values/norms
- 5 key elements/determinants: norms/values, religion, education, social structure & language
- **Hofstede – cultural dimensions**
  - Power distance, individualist/collectivist, masculinity/femeinity, avoidance of uncertainty, long/short term orientation & indulgence vs. restraint (final 2 added later)
  - High vs. low value placed on each dimension
  - Consequent management implications i.e. marketing, authority, feedback/participation + empowerment, entrepreneurship & organisational structure
  - Strengths: large data base, stability of cultural values, values easy to operationalise, follow-up studies support findings, most-cited cultural study
  - Weaknesses: within 1 company, research may be culturally bounded, assumption of one-to-one relationship b/w culture and nation-state
  - Other studies: Globe Study & Trompennar's study

Analysing the external environment

PESTEL framework: separates the macro environment into different categories

- Political/regulatory, economic, socio-cultural, technological, environmental & legal factors
- Considers all factors that can't be influenced by the firm

Michael Porter's Five Forces Model: 5 competitive forces → Industry competitors, potential new entrants, bargaining power of buyers, bargaining power of suppliers & substituted products or services

Strategic implications if an environment is attractive or not; 'collective strength of the forces determines the ultimate profit potential in the industry' → Return on Invested Capital (ROIC)

- Positioning of company, exploiting industry change, shaping industry structure (redividing profitability & expanding the profit pool) & defining the industry

Related industry structure factors: growth rate, technology/innovation, government & complementary p/s

- Changes in industry structure; shifting threat of new entry, changing supplier/buyer power, shifting threat of substitution & new bases of rivalry

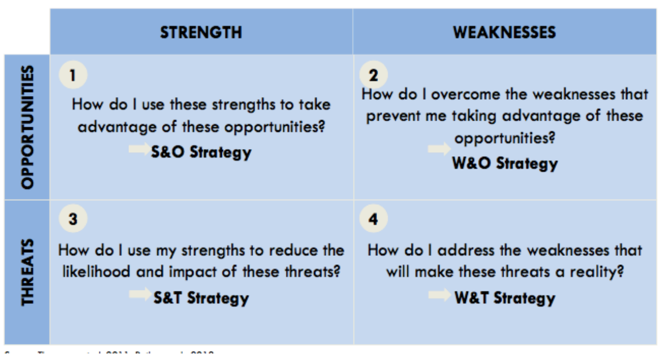
Dobbs (2014) Reading: challenges with 5 forces: lack of depth, structured analysis, strategic insight & millennial preferences. (Also provides templates + recommended order)

Strategic Groups: cluster of industry rivals that have similar competitive approaches and market positions (Maps used to identify industry members + close and distant rivals)

- Strategic group maps: variables for assessing market positions → price/quality, geographic coverage, product-line breadth, degree of service offered, distribution channels, degree of vertical integration & degree of diversification into other industries

Combining External + Internal → **SWOT analysis** (SW – internal & OT – external)

Allows managers to synthesize insights gained from internal & external analyses



Source: Thompson et al. 2011

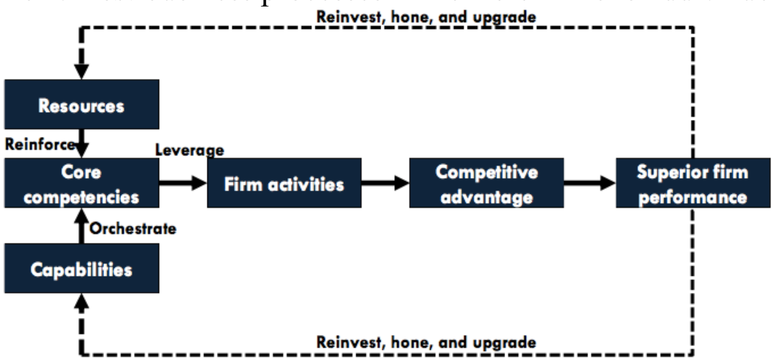
Internal Environment

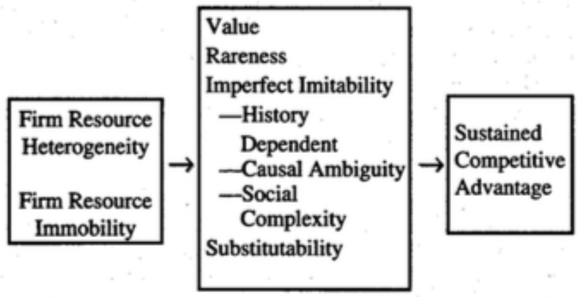
Resources: Input or asset that is owned or controlled by a firm
- Tangible: physical, financial & organisational
- Intangible: brands/company image/reputational assets, relationships & company culture/incentive system

Capabilities: organisational + managerial skills necessary to manage a diverse set of resources and to deploy them strategically
- Expressed in firm's structure, routines & processes
- 3 most important: marketing, research & development & operations
    - which has the strongest performance link: marketing = bivariate correlation with performance

Core Competencies: unique strengths, embedded within a company + allow differentiation from rivals
- Well performed internal activity that is central to a firm's strategy and competitiveness
- Visible in 3 advantage categories: resource, interaction & integration advantages

Activities: business processes that enable firms to add value by transforming inputs into outputs





Resource-based view: firms competitive advantage is a result of its resources/combination of resources
- 2 requirements: <u>resource heterogeneity & resource immobility</u> → competitive advantage
- result: firm's resources can lead to enduring competitive advantages → economic success
- Outlined in **Barney (1991)** Reading: links this view to first-mover advantages & entry/mobility barriers

VIRO Framework: scheme to identify core competencies = valuable, rare, in-imitable & capture value
- resources/capabilities that fulfil all these criteria add to the development of core competencies
- i.e. LEGO company → Lego brick sustained competitive advantage
- ***imperfectly imitable resources***: unique historical conditions, casually ambiguous or socially complex
- Model can be linked to social welfare issues, organisation theory/behaviour & firm endowments

<u>Protecting Competitive advantage</u>: better expectations of future resource value, path dependence, casual ambiguity & social complexity
- Also dynamic capabilities → firm modifies its resource base to gain + sustain a competitive advantage
    - inflows: input of resources → intangible resource stocks → some outflows i.e. leakage / forgetting
- substitutability: takes 2 forms – similar or different resources could be strategic substitutes

Value Chain: identify the primary internal activities and the related support activities
- <u>Linkages</u> within the value chain / activities & vertical linkages (b/w firm's value chain & value chain of suppliers & channels – value network)
    - Analysis of the value network through: activities, profit, partnering & outsourcing

Strategic activity system: network of linked activities in a firm (evolve over time)
- Dynamic capabilities perspective

Lecture 7 – Cooperation

1. Discuss the motives for entering collaborations? (4 marks)
2. What are the six cooperative strategies? (3 marks)
3. Describe the three different levels that cooperation occurs on (3 marks)
4. Compare the advantages and disadvantages of international strategic alliances (4 marks)
5. What are the eight steps of implementing an international strategic alliance strategy? (3 marks)
6. When selecting a potential partner for ISA, what are the four types of fit that are important to consider? (2 marks)
7. What are the three types of alliances, and discuss each of their ease of dissolution (3 marks)
8. What are two factors that could be considered when negotiating the agreement? (2 marks)
9. What are the five ways of assessing the performance of an ISA? (2.5 marks)
10. What are the three network parameters of global networks? (3 marks)

Lecture 8 – Diversification

1. Discuss the motives for diversification (4 marks)
2. When a business chooses to diversify, what are the three tests that the business must pass? (3 marks)
3. Discuss the reasons for diversification failure (2 marks)
4. What are the three types of diversification? (3 marks)
5. Discuss the advantages and disadvantages for diversifying into unrelated businesses (4 marks)
6. Discuss the four related and unrelated strategies for diversification (4 marks)
7. What are the six steps of evaluating different diversifying strategies? (3 marks)
8. If an industry attractiveness scores above 5.0, what do we interpret from this? (2 marks)
9. Discuss the limitation of calculating industry attractiveness using weighted ratings (2 marks)
10. Discuss the benefit of using a nine-cell matrix for industry attractiveness (2 marks)
11. What are the four resource requirements to determine whether the firms' resources are fit for diversification? (4 marks)
12. What are the factors to consider when judging business-unit performance? (3 marks)
13. After diversification is completed, what are the five strategic alternatives for a business? (5 marks)
14. When a business decides to restructure its company's line up, what does this involve? (2 marks)
15. What are the three options a business has once it decides to divest certain businesses after diversification? (3 marks)

Lecture 9 – Ethics and CSR

1. Define ethics and identify the factors which impact ethical behaviour. (2 marks)
2. How can an ethical algorithm be used to determine ethical behaviour? What are the 3 questions you need to ask yourself? (3 marks)