IBUS2101 Notes + textbook

Chapter 1 – Foundations of Global strategy → Lecture 2 & 3

NOTES

Globalization is the breakdown of cultural barriers, and more interactions occur, with less cross-cultural differences. Globalization produces more choices (e.g. products), lower prices, blurred national identity and greater options for career choices and progression. Globalisation involves engagement of 4 things: economic integration, personal contact, technology, and political engagement. Economic, technological, political, cultural factors ae drivers for globalisation. Globalisation promotes free trade, economic growth (jobs) and drives prices down but can hurt environment, makes emerging economic vulnerable to volatilities, exposes economies to uncertainties of global economy. Semi-globalisation is between total isolation and total integration. International business is the transfer of resources, goods, services, knowledge, skills or information across national boundaries of a once domestic business. Firms expand international due to market, economic (increase revenue and decrease cost) and strategic (capitalize on distinctive resources/capabilities developed at home) motives. Market motives → offensive (seize market opportunities in foreign countries through trade & investment), defensive (protect and hold a firm's market power or position in the face of threats from rivalry & political issues. Successful Tri-angle → encompasses IQ, EQ (emotional intelligence) and global leadership (leadership in globalization).

Strategy is an action and needs a theory to understand/forecast potential future. Need planning, replications and experimentation. Strategy is the plan for deploying resources to establish favourable position and needs commitment of resources (not easily reversible). Tactic is a scheme to specifically manoeuvre this. Successful strategy needs understanding of internal/external environments. 1950's was focusses on budgeting. 1960-70's focused on economic forecast. 1980's focussed on industry analysis, competitive positioning. KEY CHANGES: concept of strategy, process of strategy formulation, new tools for analysis. Need to compete for present and prepare for future. Fundamental issues – why firms differ. How firms behave. What determines scope of business. What determines international success/failure.

TEXTBOOK

Globalisation contributes to greater economic growth, standards of living, increased tech sharing, cultural integration. Critics argue globalization causes global recession, environmental stress, social injustice, undermines wages and gives MNE too much power.
Three view on globalisation:
1) new force sweeping the world
2) long-run historical evolution → globalisation has always been apart of history (nothing new & will always exist)
3) pendulum that swings from one extreme to another → not recent or one directional but has ups and downs and changes. The globalization pendulum appears to be swinging back and forth from changes in economics, politics, world events and cultural perspectives. Globalization is not complete. Semi globalization suggests that barriers to market integration at borders are high, but not high enough to completely insulate countries from each other. Those who protect against globalization are nongovernmental organizations. Would-be business leaders & business school students are in favour of globalization.

Strategy as plan: Set of concrete plans to help the organization accomplish its goals. Intended strategy → strategy deliberately planned for.
Strategy as action: Creation of a unique and valuable position involving a different set of activities.
Strategy as integration: Analyses, decision & actions an organization undertakes to create and sustain competitive advantages. Strategy is a combination of both planned deliberate actions and unplanned emergent activities. Strategy formulation → crafting of a firm's strategy. Strategy implementation → actions undertaken to carry out a firm's strategy.
Entails a firm's assessment of SWOT (a strategic analysis of firms internal strengths and weakness and opportunities and threats in the external environment. Theory described relationships between a phenomenon. It explains the past and predicts the future. Replication is needed to test a theory under variety of conditions to establish its applicable boundaries. Strategy as a theory helps understand why it is difficult to change a theory.
Fundamental questions in strategy:
- *why do firms differ?*
Different strategies are used to guide decision making and ultimately form prescribed path – different for all companies → gain firm differentiation, become distinct in the market and helps maintain competitive advantage (add to core competency).
- *How do firms behave?*
Strategy tripod, suggests that strategy as a discipline has 3 legs/perspectives: industry-based competition, firms-specific resources & capabilities, institutional conditions and transitions. All these shape strategy and produce specific performance behaviour.
- *What determines the scope of the firm?*
Refers to growth of firm. How they react to shocks, how they react to demand, nature. Their ability to undertake restructuring. Also need to look at contraction of company.
- *What determines the success/failure of firms around the globe?*
How competitive is acquired, leveraged and sustained.
INDUSTRY BASED VIEW – posits that the degree of competitiveness in an industry largely determines firm performance.
RESOURCE BASED VIEW – Firm-specific capabilities drive performance differences.
INSTITUTION BASED VIEW – institutional forces provide an answer to differences in firm performance.
Global strategy – Refers to a particular theory on how to compete and is centred on offering standardized products and services on a worldwide basis. Can also refer to strategy with a comprehensive worldwide perspective.

Chapter 2 – Managing Industry competition → Lecture 4 & 5

NOTES

SWOT → Strengths & Weaknesses (internal – management decisions), Opportunities & Threats (external – unexpected/must account for).
Industrial organisation: how industries differ.
Industry: group of firms producing products that are like each other.
Structure-conduct-performance (SCP) model shows primary contribution of IO economics model.
Porter's five forces shows degree of competitiveness of 5 forces. It's a model used to evaluate new industries to enter and how they can compete more effectively in their industry. It shows that not all industries equal in terms of potential profitability.
Forces: competition amongst existing competitors (number & strength of competitors), *threat of potential entry* (ability for others to enter the market – little protection from important technologies can increase entry but strong durable barriers preserve favourable position), *bargaining power of supplier* (how easy supplier can increase their prices – more = less supplier power), *bargaining*

power of buyers (more = less power), & *threat of new entry* (likelihood for customer to find a way of doing what you do).
Three generic strategies show whether to perform activities differently or relative to competitors. Strategies include: *cost leadership* (low costs & prices – danger of being outcompeted on costs), *differentiation* (R&D marketing/sales are important functional areas – difficulty sustaining the basis of its differentiation), *focus strategy* (serving needs of niche market).
Cost and differentiation are fundamental strategic dimensions.
Proprietary groups spend a lot on R&D (focus on value & innovation). Generic groups don't spend on R&D and follow manufacturing instructions.
Strategic group is a group of firms in an industry following the same or similar strategy. Implications of this include lack of performance difference, lack of mobility barriers, but can promote migration from one group to another.
Strategic dimensions encompass the variables that best distinguish business strategies and competitor position of firms within an industry.
Industry based view provides foundation for industry analysis & competitor analysis, set of answers to 4 fundamental questions, determines firm performance.

<u>TEXTBOOK</u>
Perfect competition is where all firms are price takes and entries and exits are relatively easy. Rarely observed.
Structure-conduct-performance (SCP) refers to the structural attributes of an industry (such as the costs of entry/exit). Conduct is firm actions (such as product differentiation). Performance is the result of firm conduct in response to industry structure, which can be classified as (1) average (normal), (2) below-average, and (3) above-average. The model suggests that industry structure determines firm conduct (or strategy), which, in turn, determines firm performance.
Porters 5 forces: all 5-influence industry competitiveness.
Rivalry among competitors → actions indicative of this include frequent price wars, proliferation of new products, intense advertising campaigns & high-cost competitive actions.
Threat of potential entry → new entrants are motivated to enter an industry because of returns some incumbents earn. Entry barriers include economies not of scale, lack of product differentiation, high barrier protection and resource availability.
Bargaining power of suppliers → ability of suppliers to raise prices and/or reduce the quality of goods and services. Can become substantial if they provide unique, differentiated products with few or no substitutes. Suppliers may enhance their bargaining power if they are willing and able to enter the focal industry by forward integration (acquiring and owning downstream assets).
Bargaining power of suppliers → has 4 conditions. A small number of buyers, buyers may enhance their bargaining power if products of an industry do not clearly produce cost savings or enhance the quality of life for buyers, buyers may have strong bargaining power if they purchase standard, undifferentiated commodity products from suppliers & buyers may enhance their bargaining power by entering the focal industry through backward integration (acquiring and owning upstream assets).
Threat of substitutes → 2 areas. If substitutes are superior to existing products in quality and function, they may rapidly emerge to attract a large number of customers. Substitute may pose significant threats if switching cost is low.
Lessons from Porter's: no all industries are equal, assess opportunities and threats, show how to position business.

Three generic competitive strategies:
Cost leadership → suggests that a firm's theory about how to compete successfully centres on low costs and prices. Offering the same value of a product at a lower price to attract many customers. Drawbacks includes being outcompeted on costs, and the relentless drive to continuously cut costs.
Differentiation → focuses on how to deliver products that customers perceive to be valuable and different. The key is a low-volume high-margin approach. The ability to charge higher prices enables differentiators to outperform competitors unable to do so.
Focus → serves the needs of a particular segment or niche of an industry (geographical market, type of customer, product line).
Lessons: choice of whether to perform activities differently or to perform different activities relative to competitors.

Industry based view argues that conditions within an industry determine firm strategy & performance. 7 leading arguments:
Clear vs. blurred boundaries of industry → IBV is the identification of a clearly defined industry but industries are becoming increasingly elusive.
Threats vs. opportunities → Assumption that all five forces are (at least potential) threats seems too simplistic. But some firms are adopting threats and using them as opportunities.
Five forces vs. sixth force → Complementors are firms that sell products that add value to the products of a focal industry.
Stuck in the middle vs. all rounder → A key proposition in the industry-based view is that firms must choose either cost leadership or differentiation. Pursuing both may make firms "stuck in the middle" with poor performance prospects.
Industry rivalry vs. strategic groups → five forces framework focuses on the industry level, how meaningful it is depends on how an "industry" is defined.
Integration vs. outsourcing → strategy is especially recommended when market uncertainty is high, coordination with suppliers/buyers requires tight control, and the number of suppliers/buyers is small. However, strategy is expensive and takes huge sums of capital to acquire suppliers/buyers.
Industry specific vs. firms specific & institution specific determinants of performance → IBV ignores industry history and institutions. Strategists need to understand how institutions affect competition. This view has become known as the institution-based view.

Strategic implications for actions:
- establish intimate understanding of industry by focusing on 5 forces
- be aware hat additional forces may influence the competitive dynamics of your industry
- realize that industry is not destiny.

Lecture 3 – Leveraging resources and capabilities → lecture ^ & 7

<u>NOTES</u>
Core competence is a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace and create competitiveness. It provides potential to access variety of markets, contributes to perceived customer benefits and reduces imitability by competitors. Competitive advantage generates greater value for a firms and its shareholders because of certain strengths/conditions. 2 main types: comparative advantage & differential advantage. Provides superior quality, efficiency, innovation, customer responsiveness (creates low cost & differentiation).
Resource based view consists of bundle of productive resources & capabilities to determine strategic resource with the potential to deliver comparative advantage. Resources are intangible (human & reputation) & tangible (financial, technological, and