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GLOBAL BUSINESS STRATEGY

READING NOTES: CHAPTER 1,2

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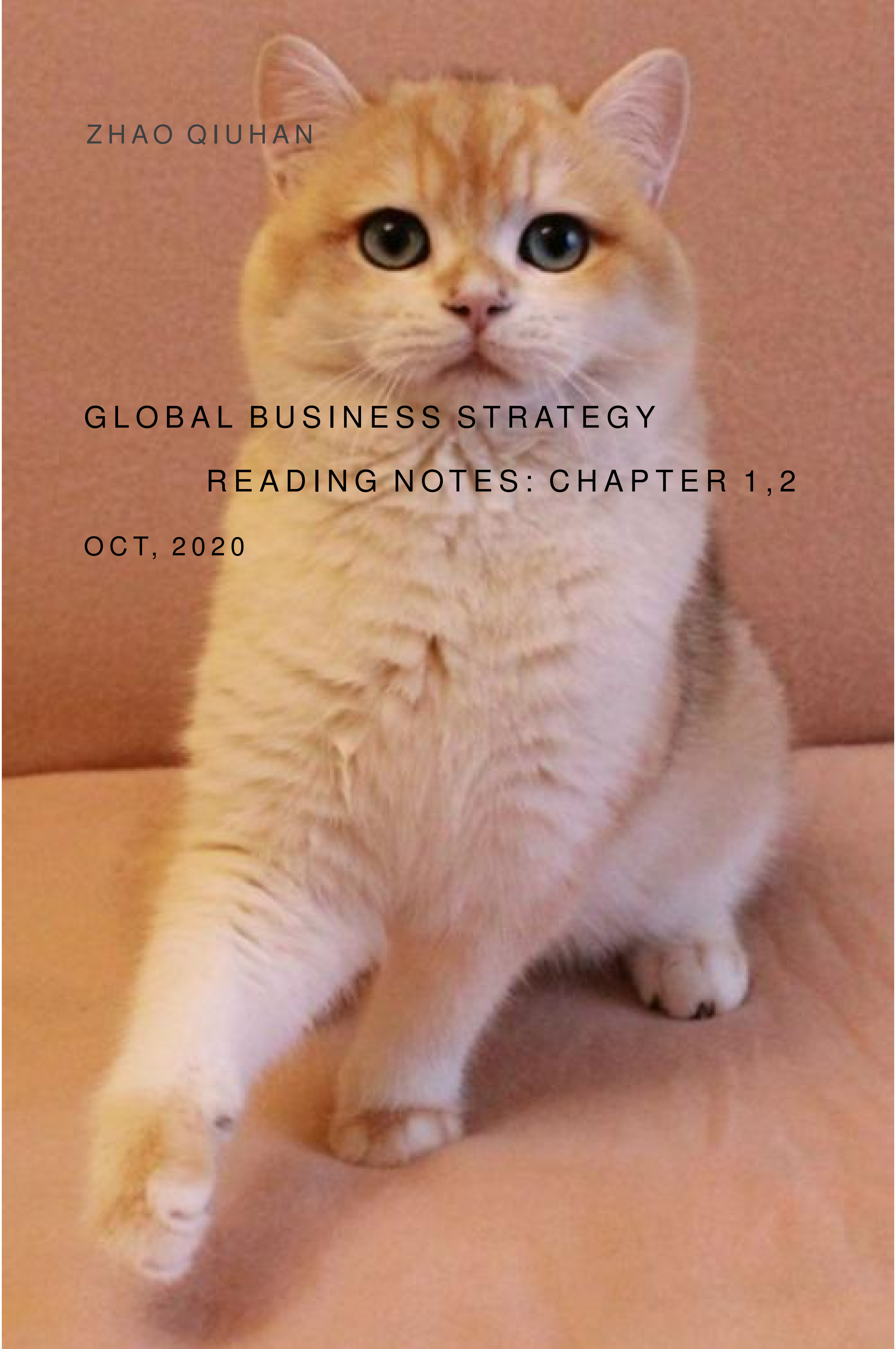

1

Chapter1: Introduction-Need for New Global Business Strategies

1.1 The World is Flat

Topics to be covered:

- ***Why "Global" Business Strategy?***, "flat" or not, innovations.
- ***Why "Emerging Markets"***, like China and India.

The conception is raised by ***Thomas Friedman***[1]. He states that economic activities have enabled the disappearance of national borders in today's world, through ongoing liberalization of international trade and investment brought about by information revolution and organizations such as the WTO (from pp. 1).

[1] Friedman, T. L. (2005). The world is flat: A brief history of the twenty-fi rst century . New York: Farrar Straus & Giroux.

Example 1.1: Globalization Era

- 1st in 1492: Columbus found the American continent.
- 2nd in around 1800: Industrial Revolution leads transportation costs in a lower price.
- 3rd in around 2000: IT revolution, like Infosys.

(Why an average wage is different between Japan and China?) China has a much higher total population and population growth rate than Japan, thus has a larger labor force and cheaper labor prices. This is also an important reason why China can become the second largest economy. However, most of the working population is engaged in lower-level jobs, and the economic results created are drawn by upper-level companies/individuals, resulting in a relatively low average wage and a large gap between the rich and the poor.

(What happened if this wall is lowered?) If the wall is lowered, this may lead to a large amount of Chinese labor or products entering Japan. This lower labor cost may exacerbate Japan's local unemployment rate and reduce the market competitiveness of Japanese products.

1.2 *Growth of Emerging Economies*

Example 1.2: Recent Trends

- Convergence story: "imitation" and "innovation".
- US "Decoupling Policy" again China.
- De-globalization.

US "Decoupling Policy" again China.[2]
De-globalization[3]**.**
World becomes less flat (to some extent maybe) –> more important for globa perspectives of business development.

[2] Chill Factor from **Economist, Aug 13th 2020**.
[3] Theories, predictions and opportunities in international business research, by, **Journal of International Business Studies, 2019 50, 1053-1077**.

1.3 *Perspective of Global Business Strategies*

Competitions: how Janpanese companies shape thier global business strategies?

Cause: Developing countries like China and India can attract new markets for Japanese corporations, but will finally need technological capabilities and become major threats to Janpanese corporations.

Why: Local companies can set competitive prices(like labor cast). Oppositely, Japanese companies should provide greater service or value of products.

How to solve -> Global strategies:

- Provide good-enough product[4,5,6].
- Strenthen cost competitiveness (such as moving to the interior regions of China or Vietnam with lower-cost. Simultaneously, the procurement of raw material and transportation costs should also be considered). To conclude, considering the optimal global placement of overall operations including Research and Development(R&D), and creating partnerships with local firms.
- More strong business models which cannot be easily immitated:
  - protection by intellectual property rights.
  - protection by know-how (trade secrets).
  - protection by product design complexity.
  - speeding product development up.

  Product model –> Customer value model (service model).
- Strategies to respond to local needs. It is important to analyze differences/distance between developed coutries and local developing coutries in CAGE format[7].
  - C: language, life style, et cl.

[4] **Volume Zone**: which the middle- and upper-income classes are called.
[5] Good-enough: **Gadiesh, O., Leung, P., & Vestring, T. (2007). The battle for China's good-enough market. Harvard Business Review, 85, 80–89.**
[6] Companies should determine the product level that target customers will accept: **Christensen, C. (2001). The innovator's dilemma: When new technologies cause great fi rms to fail (trans: Shunpeita, T.). Tokyo: Shoeisha.**
[7] Culture, Administration, Geography, and Economics (CAGE). **Ghemawat, P. (2007). Redefi ning global strategy . Boston: Harvard Business School Press.**

  - A: economic regulation, tax system, regulation on foreign investment, et cl.
  - G: physical distance, which has shrunk with the IT innovation and advancement of transportation.
  - E: per capita GDP and wages.

- Management strategies integrated at the global level.
  - "good-enough" in products (more local R&D) and service–> not traditional way (one-way decision making: headquarters to local entities) but rather consider corporate-wide strategies on a global basis.

End of Chapter 1

2
Chapter2: Management Strategies for Global Business

2.1 Concepts of Corporate Management Strategy Theory

2.1.1 Scope of Management Strategy

Adopting management strategies –> corporate value to economic profit for stakeholders. "**Mid- and long-term**" is an important part of corporate activities over an extended time period.

How to examine corporate strategy? –> MOST

Example 2.1: MOST

- Mission: fundamental principles of a company. CASE: Sony, a pioneer.
- Objective: specific objectives relating to the mission.
- Strategies: mid-term management plan to achieve the objectives.
- Tactics: the plan to excute strategies.

2.1.2 The Three Cs and SWOT Analysis in Management Strategy

- Conception:
  - **Three Cs:** company, competitors, and customers.
  - **SWOT:** (Internal[1]) strengths, weaknesses; (External[2]) opportunities, threats.
- Management Resources –> sustained competitiveness.

  Companies should consider and strenthen their analysis of external enviroments, such as domestical market where they have not payed much effort in the past. More, companies should speed up changes in business domains using **M&A (Mergers&Acquisitions)** or other entry methods (pp. 25).

[1] Resource-based management strategy theory. **Barney, J. B. (1986). Strategic factor markets. Management Science, 32 , 1231–1241. (1991). Firm, resources and sustained competitive advantage. Journal of Management, 17 , 99–120.**

[2] Porter's Positioning Theory, "Five Force" model. **Porter, M. E. (1980). Competitive strategy: Techniques for analyzing industries and competitors. New York: Free Press.**

2.1.3 Global Strategies and Differences in Internal and Exteral Business Enviroments

Why: it is necessary to analyze the differences in internal and external business enviroments. So: we must understand the differences in business enviroments that exist between the domestic market and the countries in question –> **CAGE**[3] to expain National barries in different perspectives.

[3] **Ghemawat, P. (2007). Redefi ning global strategy . Boston: Harvard Business School Press.**

Example 2.2: CAGE (CASE - pp.25-28)

- Cultural distance: differences in language, customs, religion, et cl.
- Administrative distance: differences in foreign investment policy, regional economic blocs (the existence or absence of free trade agreements), political proximity, currency, lack of colonial ties, et al.
- Geographic distance: differences in transportation costs and times, time zones, et al.
- Economic distance: differences in income levels and wages, transparency in commerce practices, characteristics of corporate systems, et al.

2.1.4 *Is China a Market or a Factory (a case study)*

Global management strategy – > increase profitability: increase revenues (the market) or reduce costs (the factory) –> (why the title).

Conclusion (from Janpan's perspective towards China) Generally, when viewing China as a market, the smaller the differences the better, as it becomes relatively easier to manufacture domestic Japanese products specifically for the Chinese market. On the other hand, when viewing China as a factory, differences will be exploited; thus, the larger the differences the better. (pp. 30)

How to manage "distance"? –> AAA

Example 2.3: AAA

- Adaptation: customization of product or services to local market.
- Aggregation: globally/regionally standardized product and services.
- Arbitrage: making profit out of distance (includes various kinds of activities called off-shoring).

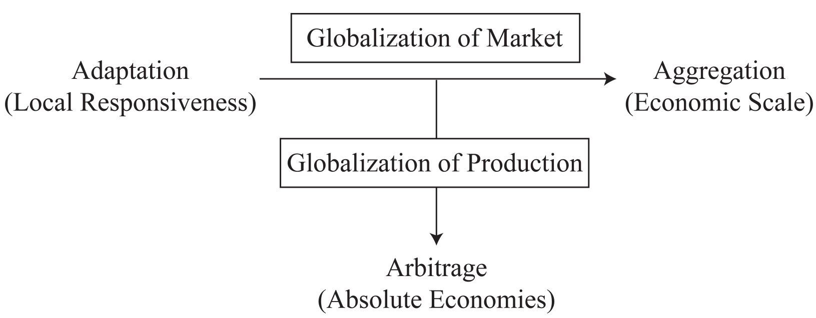

Figure 2.1: AAA framework raised by *Ghemawat*.

CASE –> exmine AAA framework by consumer electronics industry (pp. 32-33) –> Companies should choose between adaption and aggregation.

2.1.5 *Value Chains and Global Strategy*

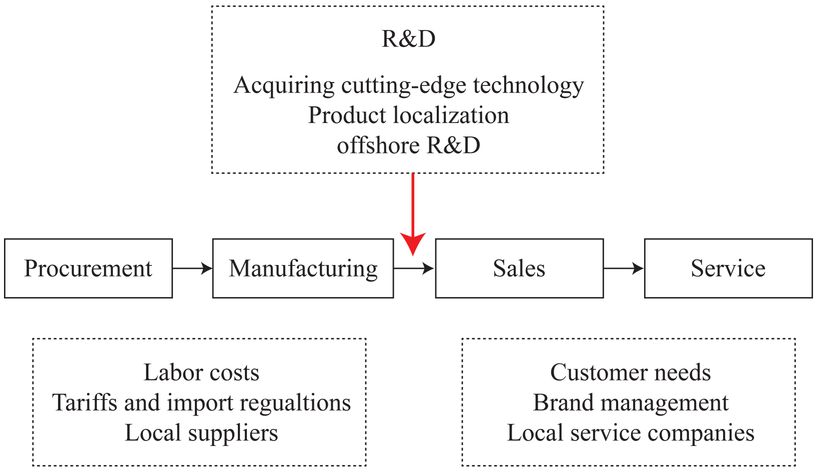

Figure 2.2: Activities of overseas entities by corporate function.

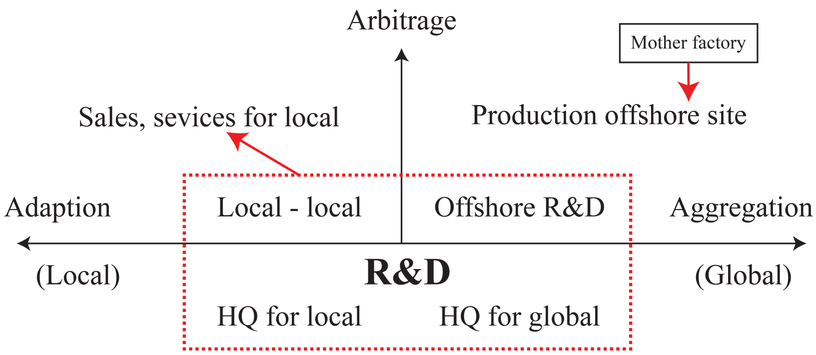

Figure 2.3: AAA framework and Value chain.

2.2 *Relationship Between Headquarters and Local Entities*

This tile examines global business strategy from the organizational aspects (different from the perspective of corporate activities).

I-R: integration responsiveness (grid). Integration implies a strong central organizational structure with high control by the headquarters (i.e., global integration), while responsiveness implies a decentralized organizational structure with highly autonomous local entities (i.e., local responsiveness)[4]. CASE in pp. 36-38.

AAA & I-R:

- Aggregation –> I (firms are controlled by the headquarters).
- Adaptation –> R (local responsiveness).

[4] **Prahalad, C. K., & Doz, Y. L. (1987). The multinational mission: Balancing local demands and global vision . New York: The Free Press.**

End of Chapter 2