CHAPTER 1 – STRATEGIZING AROUND THE GLOBE

CHAPTER OUTLINE

1. **OPENING CASE: *"The Global Strategy" of Global Strategy***

   a. *Global Strategy*—a text used by business schools in over 30 countries
      1) Has generated two related books: *Global Business* and *GLOBAL*
      2) *Global Strategy*—a comprehensive traditional textbook in international business
      3) *GLOBAL*—a compact, innovative paperback

   b. The publisher of *Global Strategy*
      1) Published by South-Western Cengage Learning, a division of Cengage Learning—a leading publisher of business and economics textbooks
      2) Number one in the world in terms of market share with annual sales of over $2 billion
      3) Operates in over 35 countries

   c. Strategy adopted by Cengage Learning to market *Global Strategy*
      1) Is available in three other languages besides English
      2) Targets courses that address the intersection between strategic management and international business—the first to address this intersection
      3) Is available in the form of an e-book
      4) Driven by the rapidly evolving market and commitment to meet ands exceed customer expectations
      5) Focuses on the idea that teaching and learning are essentially "local"—the text has been modified to address specific issues pertaining to that geographic location
      6) Includes new features on emerging markets and emerging multinationals added to every chapter
      7) Uses local knowledge to avoid misunderstandings and legal troubles

2. **A *GLOBAL* GLOBAL STRATEGY BOOK**

   a. The text itself is an example of a real global product that leverages its strengths, engages rivals, and competes around the world

   b. It departs from the traditional understanding of global strategy, which is characterized by the production and distribution of standardized products and services on a worldwide basis

   c. However, managers have been unable to successfully market a "world car" or a "world drink"

   d. Multinational enterprises (MNEs), defined as firms that engage in foreign direct investment (FDI), are adapting their strategies, products, and services for local markets

   e. It is imperative for a product to respond to local needs in order to avoid customer rejection

   f. Examples of products that have been rejected by foreign markets
      1) Ford Mondeo and Volkswagen Golf—strong in Europe, little visibility in North America or Asia
      2) Coke Classic tastes different around the world due to the varying sugar content

3) Coca-Cola's commercial featuring polar bears met with indifference from consumers living in hot climatic conditions

g. A newer understanding of global strategy involves
   1) An understanding that a "one-size-fits-all strategy is often incomplete and unbalanced as it:
      (a) Sacrifices local responsiveness
      (b) Ignores how domestic companies compete with each other and with other foreign entrants
   2) The importance of emerging economies (or emerging markets)
      (a) They command half of the worldwide FDI inflow and nearly half of the global gross domestic product (GDP) measured at purchasing power parity
      (b) The BRIC (Brazil, Russia, India, and China) countries have emerged as powerful challengers to western nations
      (c) A quarter of the worldwide FDI outflows are generated by emerging multinationals from emerging economies
      (d) They cater to the vast majority which comprise the base of the economic pyramid—a segment ignored by traditional "global strategy"
   3) MNEs from developed countries must realize that many opportunities exist at the BOP level and capitalize on them
   4) New competitors from emerging economies can go after the second and top tier market overseas and can pose a serious challenge to MNEs from developed countries

3. WHY STUDY GLOBAL STRATEGY?

a. To enhance job and career opportunities

b. To help you deal with foreign-owned suppliers and buyers, compete with foreign-invested firms in your home market, and perhaps even sell and invest overseas

c. To avoid the negative aspects of globalization, especially the loss of jobs due to outsourcing

4. WHAT IS STRATEGY?

a. Derived from the Greek word *strategos*, which referred to the art of generalship
   1) The application of the principles of military strategy to business competition is known as strategic management. This phenomenon developed in the 1960s
   2) Sun Tzu, Chinese military strategist in 500 BC definition of strategy– "Know yourself, know your opponents; encounter a hundred battles, win a hundred victories."

b. The definition of strategy has been a topic of debate. Three schools of thought have emerged to understand this concept. They are:
   1) Strategy as plan
   2) Strategy as action
   3) Strategy as theory

c. Plan Versus Action
   1) The strategy of plan school believes that strategy is embodied in the same rigorous formal planning as in a military strategy

2) The action school believes that strategy is a set of flexible goal-oriented actions. Along with the intended strategy there is also the emergent strategy that is the outcome of a series of smaller decisions from the "bottom up"
3) The essence of strategy is likely to be a combination of both- thus leading to a "strategy of integration" school

d. Strategy as Theory
   1) Defines strategy as a firm's theory about how to compete successfully
   2) Borrows the idea of strategy formation from the planning school and the idea of strategy implementation from the action school, giving rise to a "strategy as integration" theory
   3) Advantages of the "strategy as theory definition"
      (a) It capitalizes on the insights of both the planning and the action schools
      (b) It emphasizes the idea of "theory" which helps to explain the past and to predict the future
      (c) Allows the possibility of replication—repeated testing of theory under a variety of conditions to establish its applicable boundaries
      (d) If enough failures in testing a strategy are reported, managers will gradually drive out failed theories and introduce better ones
      (e) The top management team led by the chief executive officer (CEO) must exercise leadership by making strategic choices

5. FUNDAMENTAL QUESTIONS IN STRATEGY

a. Why Do Firms Differ?
   1) Most knowledge about firms comes from experiences in Western capitalist countries, but the business landscape is very different in Eastern countries like Japan
   2) In countires like China, interpersonal networks and relationships (guanxi), cultivated by managers, may serve as informal substitutes for formal institutional support

b. How Do Firms Behave?
   The determinants of firms' theories about how to compete, the "strategy tripod"
   1) Industry-based view—focuses on the external opportunities and threats faced by the organization
   2) Resource-based view—focuses on the internal strengths and weaknesses of an organization
   3) Institution-based view—argues that firms also need to take into account the influences of formal and informal rules

c. What Determines the Scope of the Firm?
   1) Growth is an important objective for all firms
   2) Growth beyond a certain limit is not possible—downsizing, downscoping, and withdrawals are often necessary
   3) The scope of a firm pertains to growth as well as contraction
   4) Product scope and geographic scope is important to an institution

d. What determines the success and failure of firms around the globe?
   1) Each component of the strategy tripod offers different answers
      (a) Industry-based view—the degree of competitiveness in the industry determines firm performance
      (b) Resource-based view—firm-specific differences in capabilities create performance differences

(c) Institution-based view—institutional forces contribute to differences in firm performance

2) The true determinants of firm performance probably involve a combination of these three forces—industry-based competition, firm-specific resources and capabilities, and institutional conditions and transitions
3) Certain firms adopt a triple bottom line, which consists of economic, social, and environmental dimensions
4) A balanced scorecard—a performance evaluation method from the customer, internal, innovation and learning, and financial perspectives—can also be used to gauge success or failure

6. WHAT IS GLOBAL STRATEGY?

a. Definitions of "global strategy"

1) Providing standardized products and/or services on a worldwide basis (i.e. traditional view), usually relevant to large Triad-based MNEs
2) Can also refer to any strategy outside one's home country
3) The definition used in this book: Global strategy is defined as strategy of firms around the globe—essentially various firms' theories about how to compete successfully

7. WHAT IS GLOBALIZATION?

a. It is the close integration of countries and peoples of the world.

b. Supporters view it as resulting in greater economic growth, better standards of living, increased technology sharing, and extensive cultural integration

c. Critics argue that it is responsible for the global recession, undermines wages in rich countries, exploits workers in poor countries, and gives MNEs too much power

d. Three views of globalization have been offered:

1) A new force that has developed in recent times
   (a) It is a new phenomenon which can be traced to the beginning of the 20th century
   (b) It is driven by Western ideology focused on exploiting and dominating the world
   (c) The arguments against globalization focus on an ideal world free of environmental stress, social injustice, and sweatshops
2) A phenomenon that has existed since the dawn of human history
   (a) The earliest example of MNEs can be traced back to Phoenician, Assyrian and Roman times
   (b) International competition from low-cost countries is not new
3) A pendulum that swings from one extreme to another from time to time
   (a) It is an integration of the countries and peoples of the world brought about by the enormous reduction of the costs of transportation and communication
   (b) It signifies the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and people across borders
   (c) It is not recent or one-directional

e. The pendulum view on globalization

1) It gives a balanced and more realistic understanding of globalization, because it can help us understand the ups and downs of globalization
2) It suggests that globalization is unable to keep going in one direction
3) The view of globalization as a pendulum is more balanced and more realistic than the other two views

f. Semiglobalization

1) It chooses a middle ground between unilaterally opposing and unconditionally accepting globalization
2) It suggests that barriers to market integration at borders are high, but not high enough to completely insulate countries from each other
3) Semiglobalization has no single right strategy, resulting in a wide variety of strategic experimentations and changes
4) It calls for more than one way of strategizing business around the globe

8. GLOBAL STRATEGY AND THE GLOBALIZATION DEBATE

a. Challenges that confront strategists
   1) Anti-globalization protests (Seattle, 1999)
   2) Terrorist attacks/ the War on Terror (9/11)
   3) The global financial crisis (2008) and the aftermath of the Great Recession
   4) The Euro crisis (since 2010)
   5) Natural calamities (earthquake in Japan,2011)
   6) Occupy Wall Street (2011)

b. Many executives, policymakers, and scholars have failed to take into sufficient account the social, political, and environmental costs associated with globalization
   1) Many of the opponents of globalization are nongovernmental organizations (NGOs) such as environmentalists, human rights activists, and consumer groups
   2) Current and would-be business leaders need to be aware of their own biases embodied in such one-sided views toward globalization

CHAPTER ONE - LECTURE NOTES AND TEACHING TIPS

SUMMARY OF THE OPENING CASE*: The Global Strategy of Global Strategy*

The opening case looks at the strategy adopted by Cengage Learning to market "Global Strategy," a popular text used by a number of business schools.

Teaching Tip: Ask students to respond to the following case discussion questions. (Possible answers are included in italics):

What are the factors that have lead to the successful marketing of "Global Strategy?"

"Global Strategy" is a text that has been used by business schools in over 30 countries and is available in Chinese, Spanish, and Portuguese, besides English. It has spawned two related books: "Global Business" and "GLOBAL." All these books are published by South-Western Cengage Learning, a division of Cengage Learning, a global company with annual sales of over $2 Billion. In business and economic textbooks, South-Western Cengage Learning is number one in terms of market share.

"Global Strategy" targets courses which combine strategic management with international business. This was the first textbook to specifically address their intersection. The text received positive reviews from enthusiastic students and professors from all over the world. Besides the print version, "Global Strategy" is also available as an e-book. Capitalizing on the digital revolution, the Kindle version has been available since the second edition. Another strategy used by Cengage was to rethink its contents for non-Western contexts. An attempt has been made to "localize" texts. The publishers learn, test the market, engage with customers, and aspire to improve the text. Under-covered regions like Latin America and Africa are featured to make "Global Strategy" truly global. New features on emerging markets and emerging multinationals have been added to every chapter. Finally, to successfully compete in a global market, awareness of social and legal rules is absolutely essential. Cengage Learning has successfully collaborated with local partners to achieve this.

How did Cengage Learning tailor its selling strategies to the needs of the Chinese market?

To successfully compete in a global market, awareness of social and legal rules is absolutely essential. In some countries like China, foreign publishers are not allowed to publish books on their own. Cengage Learning, therefore, licensed the translation of "Global Strategy" to a leading Chinese publisher: Posts and Telecom Press. Further, the law in China dictates that all books published must pass political censorship. The title was changed to "Global Business Strategy" on the advice of the Chinese publisher, to avoid potential confusion, as political censors might have perceived the textbook as being about global military strategy. Subtle local knowledge helped Cengage to negotiate with the Chinese market.

A *GLOBAL* GLOBAL STRATEGY BOOK

Teaching Tip: Ask students to provide some examples, from their own experience, of products and/or services that did not seem to be designed with their needs in mind. Students might mention the desks in which they sit, the backpacks they use to carry their books, the notebooks they use in class, or even their cars. What is it that does not quite work for them? Is it something about the car's interior that seems made for a smaller individual, for example? If they have difficulty coming up with examples, ask them to focus on products/services related to school, entertainment, etc.

Also ask students if they would like to buy products that did not fit their needs or solve their problems. Why might companies like Coca-Cola, Toyota, and Ford try to develop and sell products that are standardized all over the world? Why might people in other countries not be satisfied with products that were developed for the US market and not designed to meet local needs? When is this most often a problem (that is, for what types of products are local tastes probably most important?)

Multinational enterprises (MNEs) have sometimes learned the hard way that products or services that are popular in one country or region are frequently rejected by customers elsewhere. The narrow, "one-size fits all" version of global strategy advocated over the past twenty years in global strategy texts is incomplete and unbalanced for the following reasons: 1) Too often the search for worldwide cost reduction, consolidation, and restructuring sacrifices local responsiveness and global learning; 2) The traditional, narrow notion of global strategy ignores how domestic firms compete with each other and with foreign entrants and 3) It is dangerous to ignore less developed economies.

WHY STUDY GLOBAL STRATEGY?

Teaching Tip: Ask students to identify three reasons why it might be helpful for them to study global strategy. Their answers might range from the fact they need this course to graduate, or they have traveled extensively (or want to travel) and want to have a better understanding of business in other countries, or perhaps they might work for a global firm after graduation, etc. The key is to help students see that there is something in it for them to work hard and understand what global strategy is all about.

Most business school graduates will eventually be faced with foreign-owned suppliers, customers, and/or competitors, as well as being involved with selling and investing overseas. Likewise, many graduates will end up working for a foreign-owned corporation, and some may experience downsizing due to global consolidation. Understanding global business may help graduates to minimize or avoid such aspects of globalization.

WHAT IS STRATEGY?

Teaching Tip: Ask students to look up the meaning of the word "strategy." Most dictionaries define strategy as a plan of action or policy formulated to achieve an aim. Alternatively, it is defined as the art of planning military operations. As a hands-on exercise, ask students to develop a strategy to sell a product online. They would have to consider multiple aspects: the product and its variations, the pricing for the product, the regions in which the product will be offered, and how product and pricing will differ in these regions.

Derived from the ancient Greek word *strategos*, the word has strong military roots. Sun Tzu, a 500 BC Chinese military strategist in his book *The Art of War* provides an appropriate definition. It is to "know yourself, know your opponents; encounter a hundred battles, win a thousand victories." The application of the principles of military strategy to business competition, known as strategic management, is a recent development which can be traced to the 1960s. "Strategy as plan" and "strategy as action" are the two schools of thought that allow us to make sense of the term. The "strategy as plan" school of thought suggests that strategy is embodied in the same explicit rigorous formal planning as in the military. The "strategy as action" school believes strategy is a set of flexible goal-oriented actions. In addition to the intended strategy, there exists an emergent strategy which emerges as the outcome of smaller decisions from the "bottom up." However, this text uses the insights offered by the "strategy as integration" school is followed and it is defined as a firm's theory about how to compete successfully and global strategy is defined as a strategy of firms around the globe.

FUNDAMENTAL QUESTIONS IN STRATEGY

Teaching Tip: Ask students to discuss, in their own words, the appropriateness of the four fundamental questions that this text aims to address. You could also ask students to describe the connections between these four questions and strategy.

In an effort to focus attention on the most crucial aspects of global strategy, this text addresses four fundamental questions: Why do firms differ? How do firms behave? What determines the scope of the firm? What determines the international success and failure of firms?

Teaching Tip: Ask students to think of a few examples of companies that have recently changed their scope, either by making an acquisition, opening up a new store in the area, entering a new market, laying off workers, or closing down stores/plants, etc. Then ask students to generate ideas about why these companies decided it was necessary to change their scope. You might want to have students write their ideas on the chalkboard or an overhead slide. Students might come up with reasons such as cutting costs, gaining new customers, increasing brand awareness, paying down their debt, gaining access to new core competencies, strengthening brand image, etc.

All firms, just like individuals, differ. Cultural differences between the East and the West influence how firms react to situations. Three perspectives or the strategy tripod offer an explanation of how firms behave. The industry-based view focuses on the external opportunities and threats faced by an organization whereas the resource-based view concentrates on the internal strengths and weaknesses of the firm. The institution-based view, in addition to industry-level and firm-level conditions, focuses on the impact of government policies and economic reforms on the performance of firms.

The scope of a firm is determined not only by its growth but also to the contraction of the firm. Continuous growth is not sustainable; downsizing, downscoping, and withdrawals are sometimes inevitable in a firm's history. The "strategy tripod" attempts to understand the success and failure of firms around the globe. The industry-based view posits that the degree of competitiveness in an industry largely determines firm performance. The resource-based view suggests that firm-specific capabilities drive performance differences. The institution-based view argues that institutional forces also provide an answer to difference in firm performance.

The author concludes that all three perspectives provide insight into the forces that determine firm performance. The complexity of global competition leads managers all over the world to struggle with finding the best ways to achieve high performance.

WHAT IS GLOBAL STRATEGY?

Teaching Tip: Ask students to compare and contrast the three definitions of global strategy using a real-life example.

The traditional, narrow notion of global strategy refers to a particular theory on how to compete that centers on providing standardized products and services on a worldwide basis. This definition is relevant for large multinational companies based in North America, Europe, or Japan and competing in a variety of countries; but not applicable to smaller firms in developed economies or most firms in emerging markets. Another use of the term "global strategy" is similar to the term "international strategy" and refers to any strategy outside a firm's home country.

In this book, global strategy is defined as a strategy of firms around the globe (whether they are large MNEs or smaller firms)—in other words—each firm's theory about how to compete successfully in whatever country markets they choose to enter. As a result of this more inclusive view of global strategy, this text will provide a balanced coverage of domestic and foreign entrants in a variety of developed and emerging economies.

WHAT IS GLOBALIZATION?

Teaching Tip: In this section, three different views of globalization are suggested, one that sees globalization as a recent phenomenon driven by technological innovations in transportation and communication, another recognizes the early historical roots of globalization, and a third is likened to a pendulum that swings from one extreme to the other. Semiglobalization chooses a middle ground between unconditional acceptance of globalization and opposition. Ask students which of these views of globalization they prefer and why.

The critical view, like anti-globalization protesters, argues that the current rate of globalization should be slowed down, so that Western MNEs do not exploit and dominate the world. This view also argues that globalization undermines wages in rich countries, exploits workers in poor countries; compromises human rights; devastates the environment, diminishes national sovereignty, and gives large MNEs too much power.
The second view contends that globalization has always been a part of human history, as exhibited by MNEs in the Assyrian, Phoenician and Roman empires. The third view argues that enormous reductions in transportation and communication costs have allowed countries and peoples around the world to be more closely integrated. It has led to the dismantlement of many artificial barriers to the flow of goods, services, capital, knowledge, and labor across country borders. The pendulum view suggests, however, that globalization is unable to keep going in one direction. Rapid globalization in the 1990s saw some significant backlash.

Teaching Tip: Ask students to describe some examples of the backlash against globalization that have occurred in the late 1990s and early 2000s.

- People in developed countries started to fear the loss of low-end manufacturing jobs—as well as high-end, high-tech jobs.
- Some people in emerging economies have also complained that large MNEs destroy local cultures, values, the environment and the ability of local firms to compete.
- The current backlash against globalization has been fueled by resentment of people in countries like Indonesia, South Korea and Thailand.
- People in Indonesia, South Korea and Thailand also resent the International Monetary Fund's (IMF) rescue policies.
- Small-scale acts of vandalism against corporate symbols like McDonalds have been reported in many countries.
- Anti-globalization protests in Seattle in December 1999 and September 2001 terrorist attacks in New York and Washington have been the most extreme signs of the backlash against globalization.

The current state of globalization can be summarized as semi-globalization—barriers to market integration at borders are high, but not high enough to completely insulate countries from each other. Likewise, globalization has both dark and rosy sides, yet companies must still find ways to productively engage in globalization efforts.

GLOBAL STRATEGY AND THE GLOBALIZATION DEBATE

In this section the author describes the enormous challenge that strategists face as they look for viable ways to compete in the world of semi-globalization. In order to develop successful strategies, managers must understand the world economy and recent events that have changed the competitive landscape. A number of challenges confront strategists. These include anti-globalization protests, terrorist attacks, natural calamities, the Global financial crisis and the Great Recession.

Knowing yourself and your opponents requires understanding strengths AND limitations, and recognizing the social, political, and environmental costs associated with globalization. Note that current business school students exhibit values and beliefs that favor globalization which may be different from the general public, be aware of bias and strategic blind spots, and do not ignore non-government organizations (NGOs), view them as partners.

Teaching Tip: Ask students to find the current rankings of the world's largest economies and companies by visiting the World Development Indicators database at (*www.worldbank.org*) and the Fortune website (*www.fortune.com*) for the Fortune Global 500. Are there any surprises on that list? Notice the firms from emerging economies such as China and India.

Teaching Tip: Ask students to prepare their own summary of the key points that they learned in this chapter. Are there any ideas expressed in the chapter that students are confused about? What do they think about the global perspective of strategy that the author advocates in this book?

POSSIBLE ANSWERS TO CRITICAL DISCUSSION QUESTIONS

1. A skeptical classmate says: "Global strategy is relevant for top executives such as CEOs in large companies. I am just a lowly student who will struggle to gain an entry-level job, probably in a small company. Why should I care about it?" How do you convince her that she should care about global strategy?

   Ask her to list the products that she uses in her daily life that are made outside her home country. This exercise might create some awareness that as a consumer, she is already participating in the global economy. She will be able to make better decisions about the products she purchases if she has a better understanding of the choices that firms must make when they sell their products in other countries.

   You could also ask her to identify the brands she uses—jeans, shoes, music player, mobile phone, computer, etc. Many of these brands will probably be made by firms in foreign markets. If they do not understand how to implement effective strategies, she might have to find new brands to buy in the future. You could also encourage her to think about the kind of job she might want to have five or ten years from now—what industry will that job be in? Will there be domestic as well as foreign firms competing in that industry? Will other job candidates have more exposure to global strategy than she has, thus causing her to miss out on exciting employment or career opportunities?

2. Some argue that globalization benefits citizens of rich countries. Others argue that globalization benefits citizens of poor countries. What are the ethical dilemmas here? What do you think?

   Students could take any perspective on this question, or argue that globalization doesn't have to be an either-or proposition—it can help people in poor as well as rich countries. Some might argue that globalization gives customers in rich countries more choices, as well as forcing all firms, foreign and domestic, to be more competitive in terms of the pricing and quality of their products and services. Likewise, globalization can stimulate economies in rich countries as domestic firms export their goods and services and increase the standard of living at home and abroad. Globalization can also create jobs in rich countries. It is also true, however, that jobs are often outsourced to workers in other, poorer countries, although evidence suggests that displaced workers do find work, and sometimes at a comparable wage. Firms certainly become more efficient and should be able to increase employment in other departments.

   Ethical dilemmas can arise in the sense that even if citizens of both rich and poor countries benefit, there will likely be people in both types of countries that are losers. Not all who lose jobs will find others that are comparable, for example. Although the number of those who benefit may outnumber those who do not, those who lose may not be comforted by the gains of the majority.

   Globalization can also help rich countries gain access to innovations developed in poorer countries, innovations that show how to use resources more wisely or how to have a less adverse impact on the environment, or just how to serve the low end of the market effectively (such as Proctor and Gamble's successful use of the single-use sachet of Rejoice shampoo in China). As companies develop alliances with foreign firms, globalization efforts can also help people in rich countries develop a better understanding of their neighbors who live in poorer countries. By building supportive relationships and alliances with those whose life experience is different from theirs, it may be possible to create a world that is more peaceful and less plagued by conflicts over land, property, religious beliefs, tribalism, etc.

   Some students might also add that people in poorer countries are the primary beneficiaries of globalization because of job creation, the development of infrastructure such as telecommunications and transportation, and the increase in the standard of living that often occurs as foreign firms invest in poorer countries. Globalization also gives people in poorer countries more choices—choices about how and where to earn a living, as well as choices about how to spend the income they earn. Globalization also encourages governments to follow international standards when it comes to human rights, financial transparency, etc. Globalization has the potential to help individual people, as well as whole nations overcome poverty. In China alone, since the reforms initiated by Deng Xiao Ping in 1978, about 400 million people have been lifted out of poverty—the biggest and broadest increase in wealth in human history. And this was done not be central planning, trade barriers or welfare, but by the introduction of capitalism (the responsibility system for farmers and small businesspeople) and extensive foreign direct investment (i.e. globalization).

3. Critics argue that MNEs, through FDI, allegedly both exploit the poor in poor countries and take jobs away from rich countries. If you were the CEO of an MNE from a developed economy or from an emerging economy, how would you defend your firm?

   Once again students' answers will vary depending on their perspective. Those who support globalization might argue that providing jobs to people in poor countries who have no other options to earn a living and support their families, does not qualify as exploitation. MNEs can also take steps to ensure that workers are treated fairly and humanely, no matter what country they are in or how poor they are. Many MNEs from rich countries would not be able to compete effectively if they were not allowed to produce products in poorer countries and sell them back *home. Customers at home in rich countries would also have fewer choices and pay higher prices if foreign competitors were not allowed to sell their products/services. It might also be important to note that customers in rich countries share some responsibility for the exploitation of workers in poorer countries—we want prices for the products we buy to be as low as possible while maintaining satisfactory levels of quality. Sometimes large MNEs elect to move their manufacturing facilities to poorer countries because they are not efficient enough at home to offer the competitive prices that we demand.*

TOPICS FOR EXPANDED PROJECTS

1. The 2008 global financial crisis and the Great Recession since then have been devastating. However, not all industries and not all firms suffer. Some may profit from these events. Write a short paper describing how some industries and firms may profit from the crisis and the recession.

   Answers might vary. According to Michael Walden, an economist from N.C. State University, the recession has an impact on everyone. Firms will sell less, there will be a lower profit margin, workers will have to agree to a cut in their pay and companies will be downsizing. But not everyone is affected by recession. Some companies may actually benefit from recession. Walden gives the example of the automobile industry. People may not want to buy new cars. That would mean they would be interested in maintaining their existing cars; this would mean that car mechanics and repair shops will make a lot of money. Similarly, people would not buy new property, but they might consider remodeling their existing homes. So companies in the business of remodeling and home improvement will definitely benefit from this situation.

   Students could be asked to look at companies like Tupperware which did very well during the recession. Customers were saving more of everything including leftovers and Tupperware introduced new containers manufactured keeping in mind the oxygen levels required by leftovers. Other examples would be unbranded goods or stores dealing in second hand goods. Of course, companies dealing with bankruptcies and debt problems would certainly benefit from recession.

2. As the CEO of an MNE from an emerging economy, use the "strategy tripod" to analyze what the leading challenges for your firm's internationalization will be. Present your analysis in the form of a short paper or visual presentation.

   Answers will depend on the students' choice of the product that they are aspiring to market. The "strategy tripod" comprises three leading perspectives that provide us with insights into the behavior of firms. The industry-based view focuses on the external opportunities and threats faced by an organization whereas the resource-based view concentrates on the internal strengths and weaknesses. The institution-based view, in addition to industry-level and firm-level conditions, focuses on the impact of government policies and economic reforms on the performance of firms.

3. What are some of the darker sides (in other words, costs) associated with globalization? How can strategists make sure that the benefits of their various actions outweigh their drawbacks (such as job losses in developed economies and environmental damage in emerging economies)?

   Costs associated with globalization include:
   - *The loss of domestic jobs as companies move their manufacturing and distribution facilities to other countries in order to reduce costs and improve profit margins;*
   - *The loss of some ability to control quality as companies outsource manufacturing, which may lead to product liability problems if defects are not caught and fixed before products are sold to end users;*

- *Unanticipated costs, such as those associated with gaining access to foreign distribution channels or finding local suppliers of necessary raw materials, natural resources, or other supplies;*
- *Increased exposure to political risks, such as war, government takeover of foreign assets, bribery of government officials, etc.*
- *Lack of familiarity with the needs of foreign customers, that may require increased expenditures in market research;*
- *Employment laws, product liability, tax policies and environmental regulations that differ from one country to another. Companies may incur increased costs as they try to figure our how various laws impact their business;*
- *Additional costs incurred to coordinate and monitor performance across units when companies have business units scattered around the world;*
- *Exposure to more competition—companies may become distracted by trying to win the battle in foreign markets—as a result, their position at home may deteriorate;*
- *Differing laws to protect consumers in different countries. If a company sells products that harm customers in another country, there may be a negative reaction in the home market and demand may decline;*
- *Difficulty in monitoring actions and decisions across many countries to ensure that they are in line with corporate goals and objectives;*

Some things that companies can do to ensure the benefits of their actions outweigh the drawbacks are as follows:

- *Identify ways to develop new products/services and/or production processes that have a minimal adverse impact on the environment;*
- *Hire local residents to be managers, as well as serve in other positions, which helps to gain local knowledge and avoid blunders;*
- *Develop and follow a code of ethics—incorporate that code of ethics into performance evaluation processes;*
- *Develop strategic alliances with firms from different countries, learn how to cooperate effectively to satisfy customer needs;*
- *Develop products and services that people can afford, regardless of whether they live in a poor, emerging economy or a rich, developed one;*
- *Increase the standard of living and improve working conditions in foreign factories;*
- *Ensure that people have adequate health care, regardless of where they live;*
- *Find ways to be profitable and behave ethically at the same time;*
- *Increase efficiency and reduce waste that is conceptually close to the cost and efficiency savings from automation (e.g. fewer inputs, same, or even greater, output).*

CLOSING CASE: *Emerging Markets: Microsoft's Evolving China Strategy*

OVERVIEW

Microsoft's first decade in China was disastrous. In 1995, Microsoft had its own subsidiary. The firm realized that it didn't have a market share problem—everybody was using Windows. Except that most of them were using pirated versions. Microsoft's attempt to sue the violators proved counterproductive. It was expensive as they frequently lost lawsuits and the Chinese government openly promoted the free open-source Linux operating systems. The Chinese government was afraid that Microsoft's software might contain spyware for the U.S. government. Efforts to find a solution proved futile and frustrating.

In the mid 2000s, the Chinese government had made it mandatory for all government agencies to use legal software and all PC manufactures to load legal software before selling to consumers. Prior to this, Lenovo, the leading domestic maker, had only shipped about 10% of its PCs that way. The rest of the PCs were sold "naked", inviting their customers to use cheap illegal software.

This breakthrough was achieved through Microsoft's persistent efforts to capture the Chinese market. In its second decade in China, its strategy radically altered. In China, it became the "un-Microsoft": pricing at rock bottom instead of insisting on one very high "global price," abandoning the confrontational, litigious approach in defense of its intellectual property rights (IPR), and closely partnering with the government as opposed to fighting it.

Microsoft's China strategy has invited a lot of criticism. "Does Microsoft need China?" question was raised. Opinion was divided. Some members of Microsoft's think tank were of the opinion that the company did not need China and losing China would not impact it any way. However, China's support of Linux could pose dangers to Microsoft. Gates, in the early 2000s, rationalized that he would rather have the Chinese using pirated Microsoft software than having them use Linux.

Since 1998, a number of attempts have been made by Microsoft to woo the Chinese customer. In 2003, Tim Chen, a superstar China manager at Motorola, was hired as Corporate Vice President and CEO of Greater China Region for Microsoft. Led by Chen, Microsoft quit suing people and tolerated piracy. Instead, it worked with the National Development Reform Commission to build a software industry, with the Ministry of Information Industry to jointly fund labs, and with the Ministry of Education to finance computer classrooms in rural areas. In response to Chinese government concerns about the alleged US government spyware embedded in Microsoft's software, in 2003 the firm offered China (and 59 other countries) the fundamental source code for Windows and the right to substitute certain portions with local adaptation—something Microsoft had never done before. Only after such sustained and multidimensional efforts did the Chinese government bless Microsoft's business by requiring that only legal software be used by government offices and be loaded by PC makers. A legal package of Windows and Office apparently costs only $3.

Microsoft now has its own five-year plan to match the Chinese government's plans. But it continues to share an uneasy relationship with the Chinese government. Problems have erupted on two fronts. First, Microsoft continues to be frustrated by the lack of sufficient progress on IPR. Second, Microsoft has been criticized by free speech and human rights activists for its "cozy" relationship with the Chinese government.

Possible Answers to Case Discussion Questions

1. From an industry-based view, why does Microsoft feel threatened by Linux in China and globally?

The industry-based view focuses on the external opportunities and threats faced by an organization. The opportunity for Microsoft was capturing the Chinese market with a population of over 1.3 billion. The threat was from Linux, an operating system that is available free of cost. In order to sustain its business, Microsoft needed to find innovative ways to compete with a similar service which was available absolutely free.

2. From a resource-based view, what valuable and unique resources and capabilities does Microsoft have in the eyes of the Chinese users and the government?

The resource-based view concentrates on internal strengths and weaknesses. Microsoft used its considerable resources to formulate a strategy on China. It has worked with the National Development Reform Commission to build the software industry. It has collaborated with the Ministry

Information Industry and the Ministry of Education to fund labs and to finance computer classrooms in rural areas. It has invested close to $100 million in local firms. It has reworked its pricing strategy and its software is apparently available at $3.

3. From an institution-based view, what are the major lessons from Microsoft's strategic changes?

The institution-based view, in addition to industry-level and firm-level conditions, focuses on the impact of government policies and economic reforms on the performance of firms. Microsoft realized that the only way to succeed in China was to collaborate with the government. A strategy which was confrontational proved futile and costly. The Chinese government paranoid about security openly promoted Linux.

In the mid-2000s, Microsoft changed its strategy completely. It abandoned its confrontational, litigious approach in defense of its intellectual property rights. In response to the Chinese government concerns about the alleged U.S. government spyware in Microsoft's software in 2003, the firm offered China the fundamental source code for Windows and the rights to substitute certain portions with local adaptation - an unprecedented offer in Microsoft's history.

4. From a "strategy as theory" perspective, why is it hard to change strategy? How are strategic changes made?

The "strategy as theory" perspective integrates both the planning and the action schools. It emphasizes the concept of theory which is used to explain an outcome and predict the future. This perspective also realizes that a particular theory that is successful in a particular context may not be successful elsewhere. It helps us understand why it is often difficulty to change strategy. Dogma and resistance to change can prevent companies from changing their strategies. In the context of China, Microsoft's confrontational, litigious approach did not work. It was forced to change its strategy in order to make its presence visible in China. Collaborating with government agencies and offering to share its source code were some of the ways used by Microsoft to win over the Chinese government.

5. As a Microsoft spokesperson, how do you respond to free speech and human rights critics?

Answers might vary. This controversy was first debated when it was discovered that technology sold by Microsoft to the Chinese government had been used to censor the Internet. Amnesty International has accused Microsoft of helping China to imprison its political opponents. Microsoft's response has been weak. It almost borders on shirking of responsibility. A spokesperson claimed that they were only in the business of delivering the "best technology" to people and could not control how this technology was used. In theory, however, Microsoft officially has claimed that it opposed censorship of the Internet. It is yet to come with a concrete plan of action to fight this.