

# Strategy in Global Entrepreneurship

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# Introduction

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- Carraher and Welsh and others suggest that:
  - Global entrepreneurial strategy has become more important than ever as the world moves toward democratization.
  - Many executives and scholars agree that entrepreneurial opportunities outside of a firm's host country are more prevalent than ever.
- As we shall see, there have been dramatic changes in both governance and economic systems over the past two decades.
  - In some cases this has been a move toward democratization –particularly in eastern Europe, but the reality around the world is not as clear.
  - The collapse of communism as a viable economic system has been the more dramatic effect. Although the paths taken in eastern Europe and China have been dramatically different, both have led to increased opportunities for entrepreneurship.



# What size business can benefit from global entrepreneurship?

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- The process of entrepreneurship is often associated with small business activity.
- It can also occur in large firms, as corporate entrepreneurship, or intrapreneurship. Although those terms are sometimes used interchangeably, there is a subtle difference.
  - Corporate entrepreneurship most often refers to a process in which a company starts an internal venture capital fund which they use to invest in outside (sometimes spin-off) firms which they may wish to acquire later.
  - Intrapreneurship refers to an entrepreneurial activity that is often inside a larger firm. In many cases this is protected from interference with (and from) the activities in the larger firm – often this protected area is called a “sandbox.”
- Successful entrepreneurship in any size organization requires intellectual capital and an entrepreneurial mindset.
- Larger firms may find it difficult to develop an entrepreneurial mindset, however they can take advantage of their intellectual capital in many other ways.
- Entrepreneurial activity is an essential activity for the long term survival of all firms large or small.

# Corporate Entrepreneurship

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- Recent business history is replete with companies who have either gone to the corporate graveyard (e.g., **Digital Equipment Corporation**; **Wang**; Siemens-Nixdorf) or are now sadly diminished (e.g., **Polaroid**; Kodak) because of the reluctance of senior management to embrace necessary change (a classical yet apocalyptic example was the collapse of the Swiss watch industry in the 1970s and early 1980s where companies refused to accept the digital threat to their analog dominance).
  - Philip Dover, Babson College and Udo Dierk, Paderborn
- There are also great examples of companies that have re-invented themselves many times over many decades –even centuries.
  - IBM was founded in 1911 to sell tabulating and time recording machines, was named International Business Machines (IBM) in 1924 and managed to evolve over the decades into Selectric typewriters, mainframe computers, IBM PC's, Software, Services, and Cloud Computing.
  - General Electric was founded in 1892 in a merger that included the original Edison Electric. Over the next century GE made and sold various products including light bulbs, appliances, jet engines, radios, televisions, power plants, nuclear reactors, and medical devices, as well as helping to create the entertainment industry and such stalwart names as RCA and NBC. Today they are also a major financial (GE Capital), medical and service industry.
  - Both IBM and GE have prided themselves on their research and have had scientists win the Nobel Prize -as well as being prodigious producers of patented intellectual property.

## What is Entrepreneurship? (A reminder)

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- Entrepreneurship is a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach and leadership based. – Jeff Timmons
  - <http://uir.unisa.ac.za/bitstream/handle/10500/2050/01dissertation.pdf?sequence=2>
- Entrepreneurship is seen as new combinations, which include the introduction of new goods, new methods of production, opening of new markets, new sources of supply, or a new organization.
  - Schumpeter
- Entrepreneurship is an act of innovation that involves endowing existing resources with new wealth producing capacity.
  - –Peter Drucker

## Who is an Entrepreneur?

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- ▶ Spots an Opportunity (see a problem)
- ▶ Has New Idea (find a solution)
- ▶ Is an Innovator
- ▶ Takes Well Thought Out Risks, Calculated
- ▶ Creates and builds a business or other enterprise
- ▶ Makes change

# Why be an Entrepreneur?

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- ▶ Be their own boss
- ▶ Pursue their own ideas
- ▶ Realize financial (or other) rewards

<http://digital.films.com/PortalViewVideo.aspx?tid=3244&loid=2698>

<http://money.cnn.com/video/#/video/fsb/2007/12/20/acton.call.of.entrepreneur.fsb>

# Characteristics of Successful Entrepreneurs

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- Passion for the Business
  - Desire to change the World
- A Product/Customer Focus
  - Steve Jobs was perhaps the epitome –although he did say that “A lot of times, people don't know what they want until you show it to them.” -BusinessWeek (25 May 1998)
- Tenacity Despite Failure
- Execution Intelligence
- Why does the World Care?
  - Innovation –Change the World
  - Job Creation

## Characteristics of the international environment:

- Carraher and Welsh suggest that:
  - There is a move toward globalization.
  - The majority of the world's technological advances are no longer introduced in the U.S.
  - Many new developments come from Japan and countries within the European Economic Union.



- Those are certainly true but somewhat inadequate. To the third point above one must certainly add China, Canada, and Russia to the list of major sources of new technologies.
- In my segment on “Generational Change in the World's Environment” we saw additional information to this point.
  - <http://www.jackmwilson.net/Entrepreneurship/GlobalE/2-GenerationalChangeInWorldEnvironment.pdf>

## Strategic planning in global environments:

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- Doing strategic planning for global environments is far more complex than to do so domestically.
  - The external environment can vary substantially from one nation to another.
  - Competition can be intense.
  - Control of the enterprise can be difficult when operations are geographically dispersed.
  - Cultural differences can complicate both business negotiations and business management unless each side understands the other's culture.
  - The legal context can be quite varied.
  - Ethical issues are often handled very differently in different countries.
    - For US personnel this is complicated because they are held to US ethical standards and laws -even when the practice in question is perfectly legal in the country in which one is operating.

# Corporate Culture and effects on level of entrepreneurial activity

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- It is difficult to identify links between cultural attributes and entrepreneurial activity.
- Countries who have moderately high levels of individualism tend to be more entrepreneurial.
- However, high individualism can hinder teamwork, which is a key ingredient in the entrepreneurship process.

# Theoretical Perspectives on Entrepreneurial Strategy

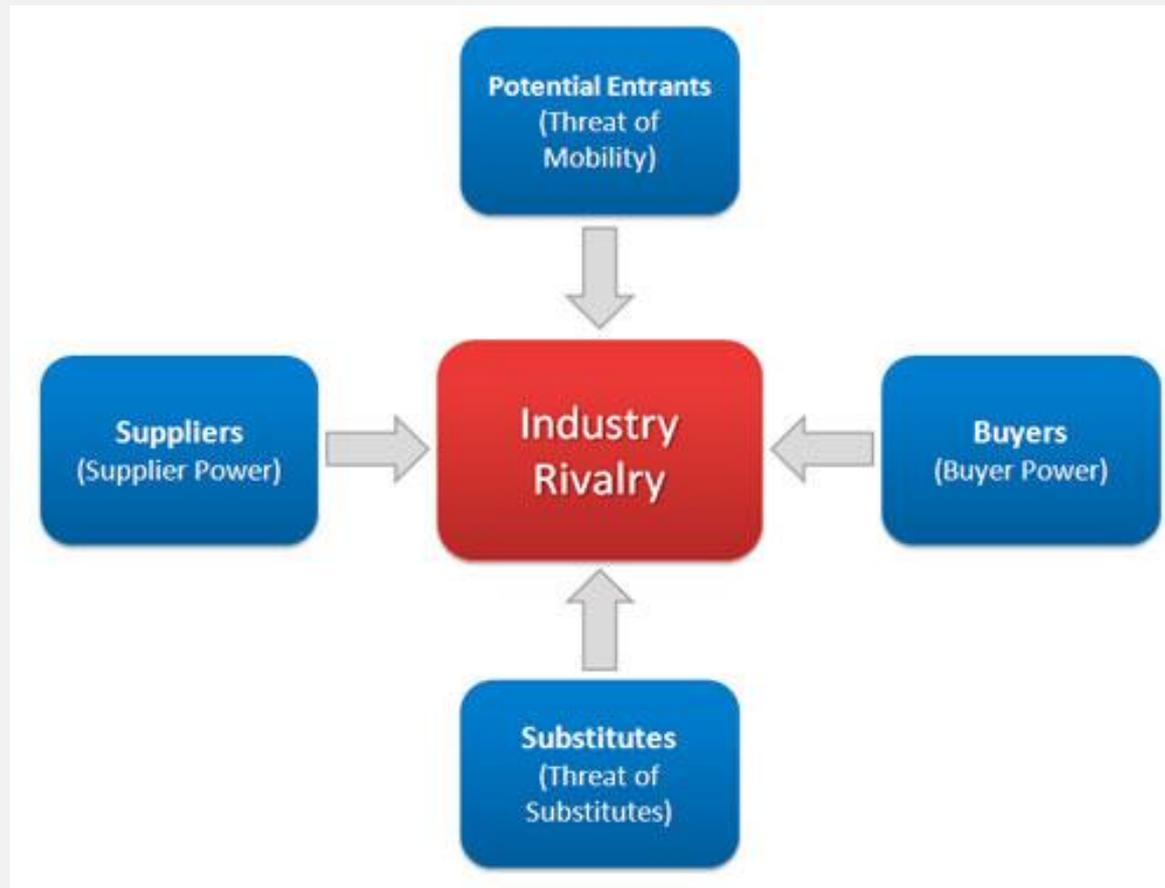
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## Industrial Organization (IO)

- IO emphasizes the influence of the industry environment upon the firm.
- A firm *must* adapt to influences in its industry to survive and prosper.
- A firm's financial success is determined by the success of the industry in which it competes.
- It is more important for a firm to choose the correct industry to compete in than to determine *how* to compete with a given industry.
- IO perspective is more prominent in the strategic management of large firms operating in mature industries.
  - However, the methods of analysis employed in IO are of the very useful to those who are contemplating creating a new venture –especially in another country.
- Michael Porter's famous Five Force Analysis is an important example.

# The Porter 5 Forces Model -predicts profitability

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- Additional detail may be found at <http://www.jackmwilson.net/Entrepreneurship/SNV/SNV-Chap5-Industry%20and%20Competitor%20Analysis.pdf>

# Resource based-theory (RBT)

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- RBT views performance primarily as a function of a firm's ability to utilize its resources.
- Competitive advantage is gained through a firm's unique resources.
- Resources include all of a firm's tangible and intangible assets.
- RBT focuses primarily on individual firms rather than on the competitive environment.
  - "The Resource Based Theory of Competitive Advantage: Implications for Strategy Formulation;" Robert M. Grant; California Management Review; Spring 1991."
  - "Resource-based theory : creating and sustaining competitive advantage;" Jay B. Barney, Delwyn N. Clark; Oxford University Press; 2007.
    - <http://library.wur.nl/WebQuery/clc/1882076>
- RBT is often related to a resource focused model of entrepreneurship known as the "Effectual Entrepreneurship Model."
  - "What makes entrepreneurs entrepreneurial? – Effectuation;" Saras D. Sarasvathy;

# An Alternative Viewpoint-Effectual Entrepreneurship

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There are those who have studied entrepreneurship carefully who have criticized the causal process as much too deterministic. Life is simply not that orderly! They have proposed an alternative formulation that they term “the effectual entrepreneur.” In their formulation there are five major principles:

**Bird in Hand** – Who are you? What do you know? Who do you know? What do you have?

**Affordable Loss** – Limit risk by focusing on the downside and knowing what you can afford to lose when you go after the upside.

**Lemonade** – Use your lemons to make lemonade. Use the bad news as a clue to what might work in new markets.

**Patchwork Quilt** – Form partnerships. Working together can increase the probability of success through co-creation of new markets.

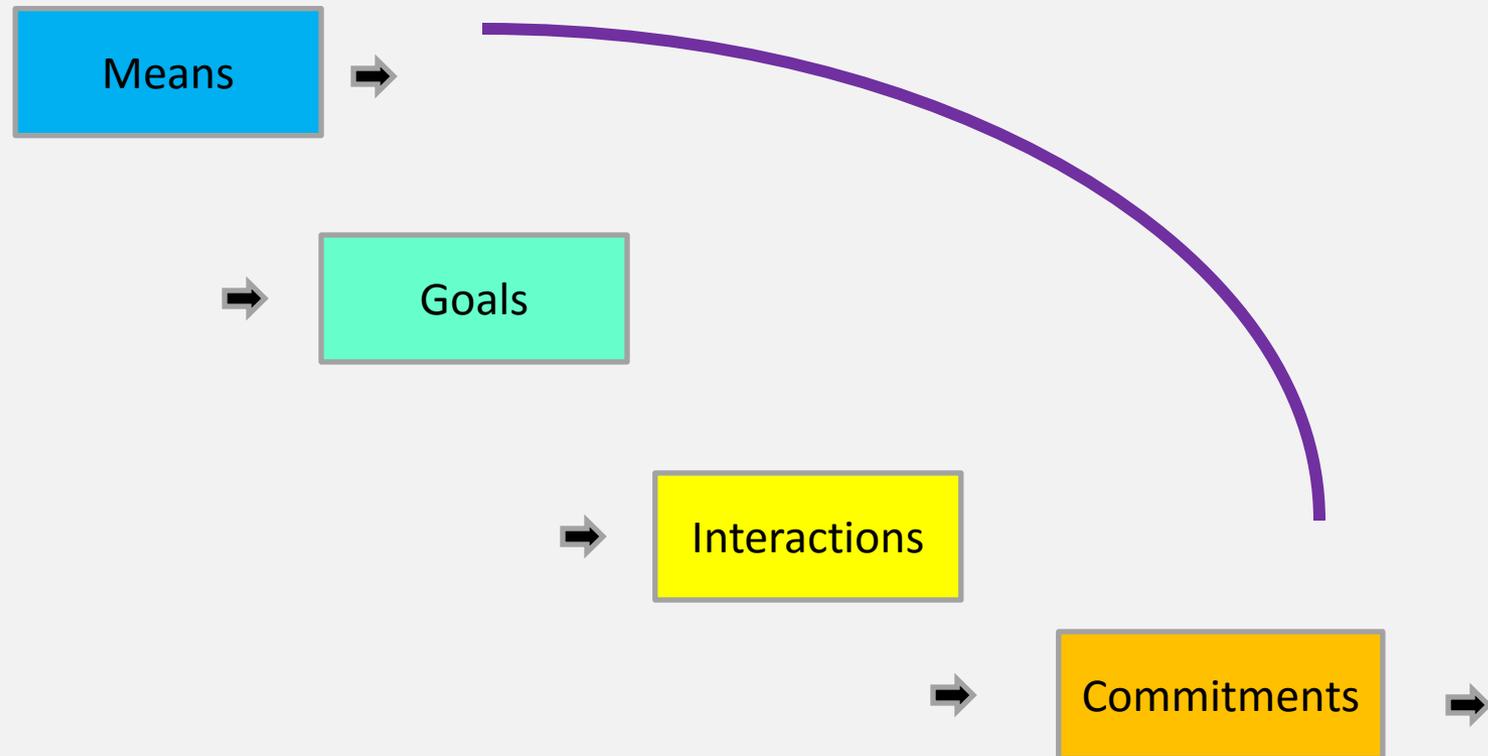
**Pilot in the Plane** – Control rather than predict. The future is created rather than found or predicted.

- <http://www.effectuation.org/sites/default/files/documents/effectuation-3-pager.pdf>
- <http://www.imd.org/news/Creating-entrepreneurs-that-create-opportunities-the-Effectual-Entrepreneurship-textbook.cfm>
- see also “Effectual Entrepreneurship”, by Stuart Read, Saras Sarasvathy, Nick Dew, Robert Wiltbank and Anne-Valérie Ohlsson Routledge Publishing.

# Effectual Entrepreneurship -the Process

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- Rather than a causal chain of events, this formulation sees a continuously interacting series of means, goals, interactions, and commitments which lead to new means and new goals and can develop new markets.



# Effectual Entrepreneurship (EE) vs Causal Entrepreneurship (CE)

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- To some extent the proponents of EE have created a “ straw person” out of CE proponents –who were never as rigid as they are portrayed.
- On the other hand, they have done a great service in reminding anyone interested in entrepreneurship that it is NOT a rigid linear process. It is a messy process of interactions, experiences, and relationships.
- The research is clear: entrepreneurial ventures almost never follow the path originally envisioned, and the ability to pivot, when new information arises, to follow new directions is a hallmark of successful ventures.
- Furthermore, they have codified some of the messiness and even made more comfortable those of us who exhibited the traits that they enshrine as being positive.
- Nevertheless, we will not abandon, in this course, the approach of causal entrepreneurship, but we will use the techniques with our tongue firmly planted in our cheek as we know that, as EE has shown, the process is not linear.
- An aspiring entrepreneur will meet with investors, advisors, employees, customers, and potential partners who will expect to see the kind of planning (and even business plans) that are characteristic of CE. You will need to know it.
- However, we will also introduce you to the concepts of the Business Model Canvas, the Lean Launchpad, the NSF iCorps program and other emerging alternative approaches.

# Contingency Theory (CT)

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- A contingency theory (CT) is an organizational theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. A contingent leader effectively applies their own style of leadership to the right situation.
- CT contends that strategy is most likely to be successful when it is consistent with the organizations mission, its competitive environment, and its resources.
- CT assumes that a firm can increase or decrease entrepreneurial activity to adjust to the characteristics of the environment.
  - [http://en.wikipedia.org/wiki/Contingency\\_theory](http://en.wikipedia.org/wiki/Contingency_theory)

## Three Complementary Perspectives

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- Each of these three (3) perspectives may contribute to the strategic orientation of a firm.
  - Industrial Organization (IO)
  - Resource Based Theory (RBT)
  - Contingency Theory (CT)
- RBT and CT tend to be more dominant in entrepreneurial firms, intent on being innovative and creative.
- Entrepreneurial firms, regardless of size, tend to emphasize the firms unique combination of resources and capabilities in an effort to create change in the environment or align the organization with existing external trends.

# External Environment

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- Movement toward free trade can create a number of business opportunities for entrepreneurial individuals and organizations.
- A strategic manager analyzing the external environment should include a look at the firm's industry as well as the macro-environmental forces that affect its operations.
  - Porter's Five Force analysis is one effective way to do this.
- One also must consider the major trends that will effect any venture:
  - Economic trends
  - Social trends including Demographic trends
  - Technological Advances
  - Political and regulatory trends

# History of protectionism vs. free trade

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- Globally, from WWII through the late 1980's there was increased trade protection.
- This was practiced using tariffs, import duties, and other restrictions.
- Ex. The U.S. convinced Japanese auto makers to restrict exports of cars to the US in lieu of tariffs.
  - This (and other issues) apparently did induce the Japanese auto makers to locate assembly plants in the US.
- Many nations desired to eliminate trade barriers and in 1947, GATT was formed (General Agreement on Tariffs and Trade)
  - an initial membership of 23 countries (123 in 1994).
- In 1994, GATT evolved into the World Trade Organization (WTO)
  - now has 161 members.
- In the late 70's and early 80's, a major shift toward “**deregulation**” occurred –both in the United States and abroad.
- The US reduced governmental influence by deregulating certain industries, lowering corporate taxes and relaxing merger rules.

## There have been various other free trade alliances

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- Europe developed a free-trade European Community, which created a single market of 350 million consumers. This is now the largest economic bloc.
  - The EU represents the largest trading bloc on earth, accounting for more than 40% of the worlds GDP.
- NAFTA is a strategic trading bloc made up of the US, Canada, and Mexico.
- Economic development policies of former Soviet bloc nations and even China have taken on a free market approach since the late 1990's.

# Environmental Changes

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## Opportunities

- Operating outside it's host country, a firm can:
  - Gain access to key resources
  - Develop economies of scale
  - Lower production costs
  - Possibly be offered tax and investment incentives

## Threats

- Along with opportunities, there are potential threats:
  - Trade barriers
  - Cumbersome regulations
  - Learning Curve
  - Political factors (unpopular actions of a firms host country)
    - Nationalization, currency adjustments, unfavorable regulation, etc.

# Internal Environment

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- The mission of an entrepreneurial organization may be closely connected to its international operations.
- A firm may have needs for inputs from another country.
  - Ex. Japan has few raw materials and has to import most of them.
- **Comparative advantage:** certain products may be produced more economically in certain countries due to advantages in labor costs or technology.
  - Ex. Chinese manufacturers have some of the lowest global labor rates for unskilled and semi-skilled production.
- Some advantages are not cost related.
  - Ex. Ford operates plants in Western Europe, where they have gained expertise in the local markets. An example of this where engineers have designed a windshield wiper for the high speed German autobahn.

# Formulation: Strategy Issues at the Corporate Level

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- A firm may choose from three different levels at which to participate in the global market
- **International Orientation** – the most conservative option.
  - Involvement is limited to importing, exporting, licensing, or global partnerships with other firms.
- **Multinational Orientation** –
  - Firm pursues direct investments in other countries
  - Operates the subsidiaries more or less independently.
- **Global Orientation**
  - the most aggressive
  - Interdependent subsidiaries
  - Often standardized products

# Global

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## Global strategic alliances –

- **Benefits**
  - Global strategic alliances can offer benefits to smaller entrepreneurial firms.
  - Foreign firms can offer local market and regulatory knowledge.
  - This works if both partners share common strategic goals but are not in direct competition.
- **Problems with global strategic alliances**
  - Potential for disputes
  - Lack of trust over proprietary knowledge
  - Cultural differences
  - Disputes over how to share costs and revenues associated with partnership.

# Other Options

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## Other options with an international presence

- **International licensing agreement**
  - A foreign licensee purchases the rights to produce a company's products and or use its technology in the licensee's country. This is common the pharmaceutical industry, where drug producers in one nation allow producers in other nations to produce and market their products abroad.
- **International franchising agreement**
  - A local franchisee pays a franchiser in another country for the right to use the franchiser's brand names, promotion, materials, and procedures.
  - Ex. Burger King, KFC, Avis, and Coca Cola.

# Multinational Orientation

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- A firm pursues direct investments in other countries
- Subsidiaries operate independently of one another
  - Ex. Colgate-Palmolive has large worldwide market share through decentralized operations in many foreign markets.
- Advantages include greater strategic control through a fixed strategic position.

# Global Orientation

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- Globally involved firms pursue direct investments and interdependent subdivisions abroad
- Global firms approach the international marketplace with relatively standardized products
  - Ex. Caterpillar has achieved a low-cost position by producing its own heavy components that can be utilized by any of its subsidiaries worldwide.
  - Boeing and Airbus do a similar thing in aircraft manufacturing.

# Selecting the proper orientation

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Whether a firm should pursue international involvement and if so to what extent depends on a number of factors. The following questions may shed light on the appropriateness of a global approach for a firm:

1. Are customer needs abroad similar to those in the firm's domestic market? If so, it may be possible for the firm to develop economies of scale (discussed in greater detail in a future chapter) by producing a higher volume of the same good or service for both markets.
2. Are differences in transportation and other costs abroad favorable and conducive to producing goods and services abroad? Are these differences favorable and conducive to exporting or importing good from one country to another?
3. Are the firm's customers or partners already involved in global business? If so, it may be necessary for the firm to become equally involved.
4. Will it be difficult to distribute goods and services abroad? If competitors already control distribution channels in another country, expansion into that country will be difficult.
5. Will government trade policies facilitate or hinder global expansion? For example, NAFTA facilitates trade among firms in the U.S., Canada, and Mexico. Similar trading blocks, such as the European Union (EU) occur in other parts of the world.
6. Will managers in one country be able to learn from managers in other countries? If so, it is possible that global expansion can improve efficiency and effectiveness, both abroad and in the host country.

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- There are two basic approaches to global strategy orientation
  - **Think globally, act locally**
    - This approach emphasizes the synergy created by serving multiple markets globally but formulates a distinct competitive strategy for each specific market.
    - Proponents argue that different tastes call for different strategies and that consistency across markets may not be possible or desirable
  - **Standardization**
    - This approach argues that consistency across global markets is critical, citing examples such as Coca-Cola, whose emphasis on quality, brand recognition and a small-world theme has been successful in a number of markets.
    - Standardization can lead to scale economies and a clear brand image.

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- The key for any firm is to align its global strategy with its structure, mission, goals, and other characteristics of the organization.
    - Ex. Since the 1970s, Japanese automobile manufacturers have sought to blend a distinctively Japanese approach with a concern for North American and European values.

## Emerging economies

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- Emerging economies such as China, Brazil, South Africa, Mexico and parts of Eastern Europe are attractive, however pose great challenges.
- Poor infrastructure, cumbersome government regulations, and poorly trained work forces
- The advantages notwithstanding, growth through global expansion should be considered carefully before pursuing expansion into any emerging market.
- Today, China is no longer easily characterized as an emerging economy, but it has its own particular challenges as we shall see later in this course.

# CHINA

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- China boasts the world's largest population and has been tabbed to be a world economic leader within the next few decades. (*from text*)
  - It already IS a world economic leader
- Its entrance into the WTO, declining import tariffs and increasing consumer incomes suggest a bright future.
- Western manufacturers, restaurants, and retailers have established a strong presence in China.
- In the last decade China has developed a strong consumer economy in addition to the manufacturing and export strength.
- We will consider China in detail later in the course.

# Implementation and Strategic Control

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A number of implementation issues are critical to the success of firms pursuing global entrepreneurial opportunities.

## Culture

- An organizations culture can be viewed as a subset of the national culture.
- While operating abroad a firm must overcome obstacles in areas such as leadership and maintaining a strong organizational culture.
  - Ex. Leaders of some nations resist innovation, while others welcome change.
- Self-reference criterion
  - When a management team believes that the leadership styles and organizational culture that works in the home country should work elsewhere.
- Like each nation, each organization has its own set of cultures, traditions, values, and beliefs.
- Therefore, organizational values and norms must be tailored to fit the unique culture of each country in which it operates.

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## Strategic Control

- Determining the extent to which the organization's strategies are successful in attaining its goal and objectives.

## Performance factors

- Without strategic control there are no clear benchmarks and no reliable measurements of how the company is doing.

## Organizational and environmental uncertainty

- Strategic control serves as a means of accounting for last minute changes during the implementation process.
- The notion of strategic control has recently added a "continuous improvement" dimension, whereby strategic managers seek to improve the efficiency and effectiveness of all factors related to the strategy.

## Conclusion

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Global opportunities abound for entrepreneurial organizations.

However, the turbulence, rapid pace of change, and often unpredictability of the global environment can create roadblocks for many firms.

Executives in entrepreneurial enterprises, small or large, should take special care to understand the intricacies of the international arena before formulating its corporate and business strategies.

Those who do can greatly improve the prospects for their firms' success in the global arena.