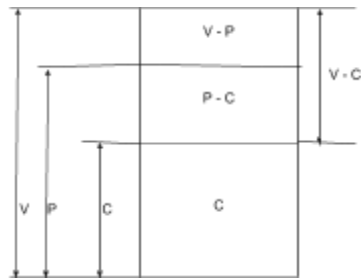


## Organizational Design and International Networks

- Historical context
  - From Napoleon Bonaparte to WWI/II and depression (93 years)
    - Industrial revolution
    - Colonization
    - Mercantilism
  - From WWI/II and depression to 2017 (73 years)
    - Global cooperation
    - UN, WTO, WHO, WB, IMF
    - “Freer trade”
- Each organization must create a process which places higher priority over specific organizational outcomes
  - Global organization → national organization → community → family → individual
- 4 tensions of organization design
  - Strategy <--> Structure
    - An organization’s design needs to reflect its business strategy (rigid bureaucracy) but resources must also be configured in a way that facilitates learning and responsiveness to changing circumstances
  - Accountability <--> Adaptability
    - Decentralized accountability allows lower level managers to make more operational decisions but does not leave room for failed experiments (experimentation and failure is a prerequisite for innovation and market adaptability)
  - Ladders <--> Rings
    - Organizational silos are effective for moving information up and down but work flows often must be coordinated across hierarchy (vertical/horizontal differentiation)
  - Self-Interest <--> Mission
    - Organizations attempt to find a way to assign decision authority based on performance measurements and compensation programs that incentivize the individual to increase stakeholder value (principal/agent problem)
- Levers of organizational design
  - Ultimate goal : to align the span of attention for each individual such that their work is focused on appropriate implementation of organizational strategy
  - Supply of organizational resources (ladders <--> **rings**)
    - Span of control: the range of resources for which individuals are given decision rights and are held accountable
    - Span of support: expectations for the range of support an individual will receive from people in other functional areas
  - Demand for organizational resources
    - Span of accountability: the range of tradeoffs embedded in performance measures

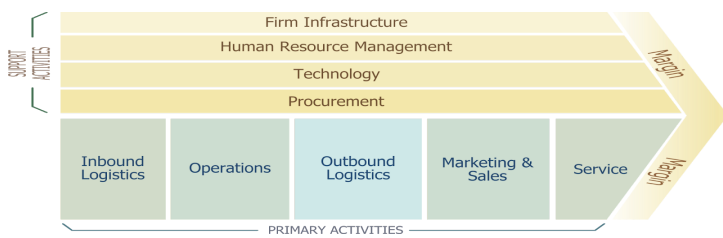
- Span of influence: how widely can an individual probe across functional silos to collect data, find solutions and implement strategy

- Generic business objectives



V = Value of product to an average consumer  
 P = Price per unit  
 C = Cost of production per unit  
 V - P = Consumer surplus  
 P - C = Profit per unit sold  
 V - C = Value created per unit

- Internal value creation

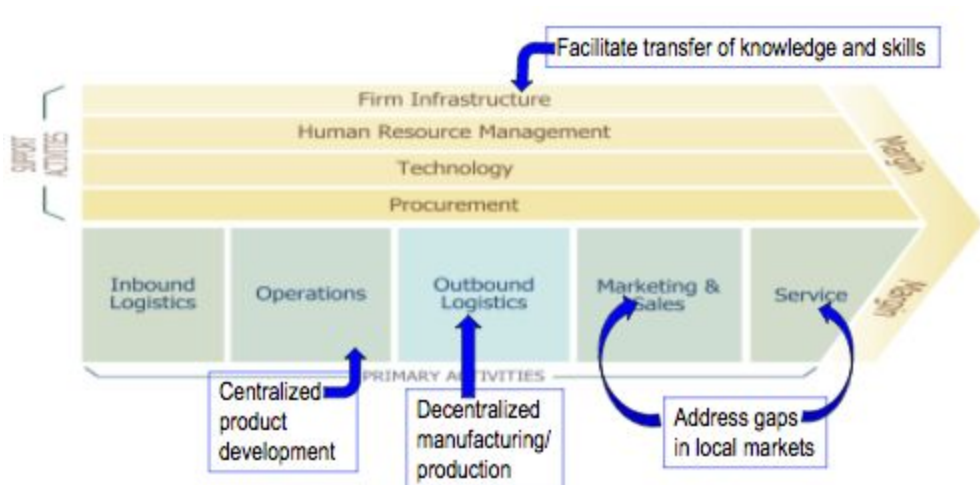


- The value created and captured by a company is the profit margin
- Value created and captured - cost of creating value = margin
- The more value a firm creates, the greater the competitive advantage

- Business types

- International

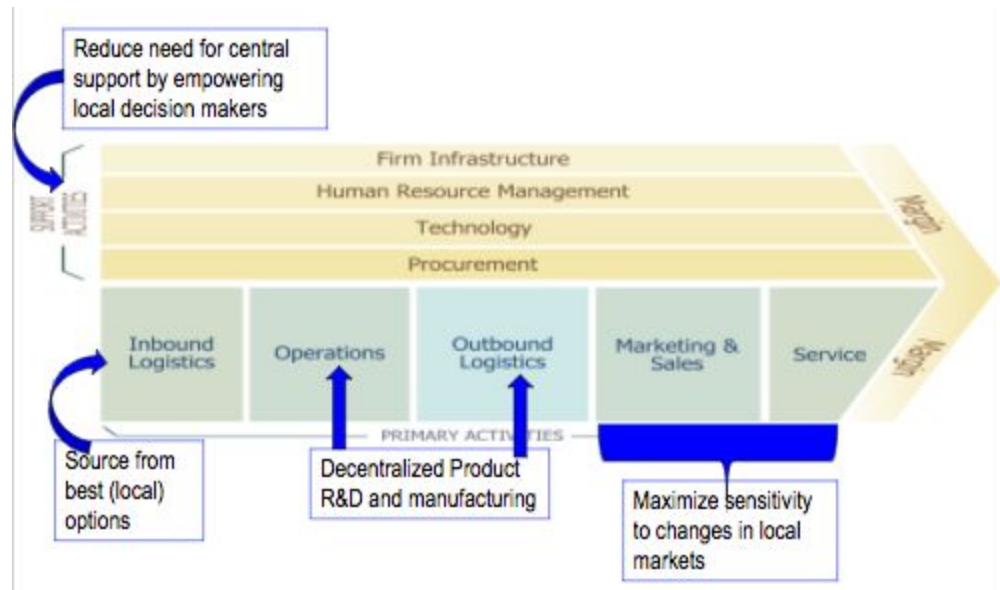
- Facilitates the transfer of skills and know-how from parent company to international units
- Provide differentiated product offerings in new markets
- Address a gap in new markets by leverage core competencies
- Centralize product development
- Decentralize manufacturing/production



- Multi-domestic

- Maximise local responsiveness
- Reduced need for central support to manage local activities
- Greater sensitivity to local preferences

- Decentralized product development and marketing



- Global

- Configures and coordinates value activities to make low-cost, high-quality products with world-wide appeal
- Limited production locations (clusters)
- Leverage the experience curve



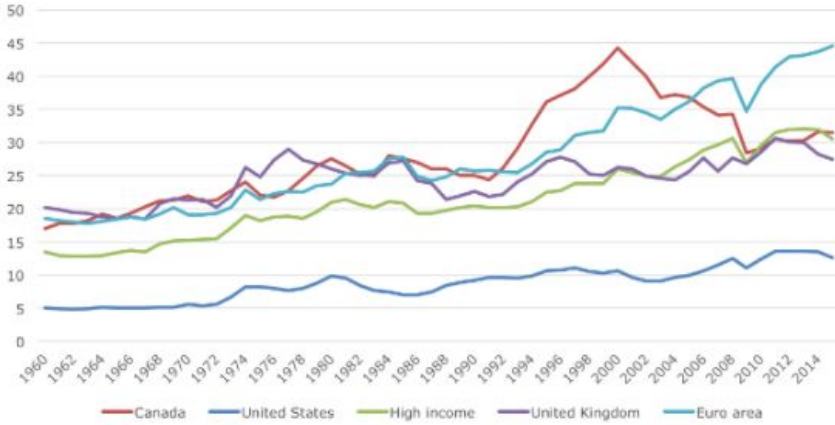
- Transnational

- Supports efficiency, compels effectiveness and leverages learning that drives innovation to serve global and local markets

### Canada's Place and Cultural Effects on Business Decisions

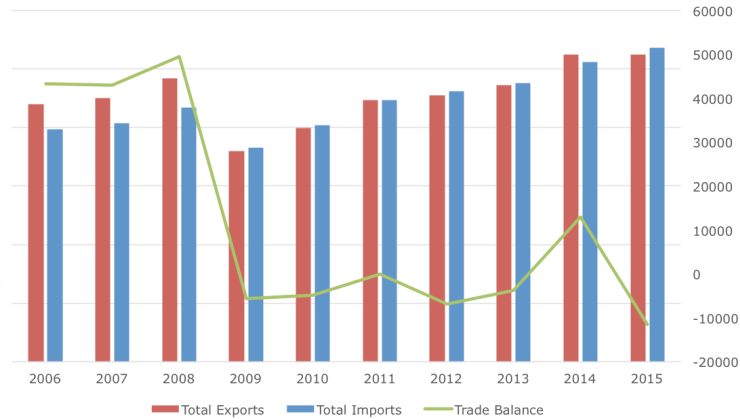
- Canada as Exporter and net exports

Exports as a Percentage of GDP  
Canada and Select Countries and Comparators  
1960-2015

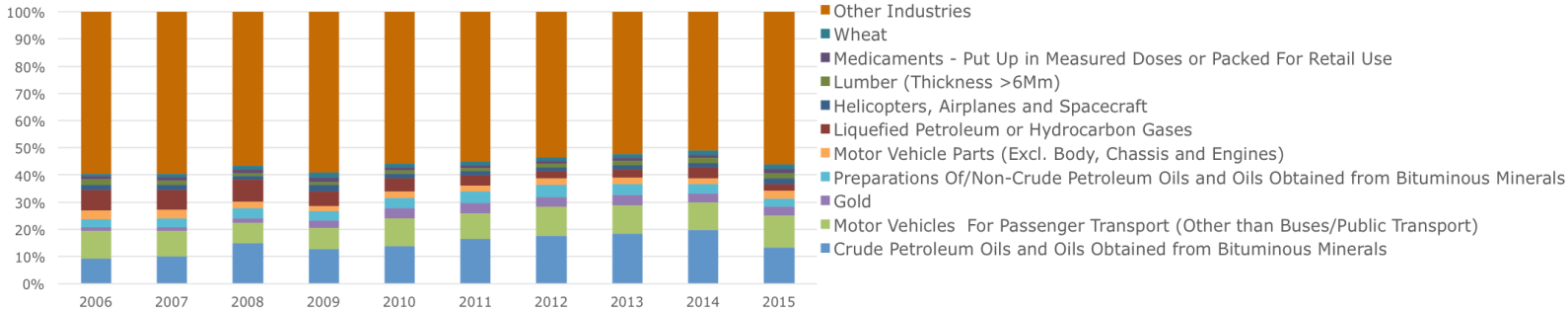


- Exports by industry in Canada

Imports (Left Column) Exports (LC) and Net Imports (RC)  
Canada 2006-2015



Top 10 Industries as a % of Total Exports



- 5 forces of natural resources
  - Threat of new entrants
  - Bargaining power of suppliers
  - Bargaining power of customers
  - Threat of substitute products or services
  - Competitive rivalry
- Forestry industry
  - Continental cover: 40% of Canada = 401.9 million hectares of wooded land
  - Home for 180 species of trees, in nearly all ecozones inhabited by Canadians
  - Conservation: Canada has legally protected 8.4% of its territory, including representatives forest ecosystems areas
  - Economic importance: a \$81.8 billion industry
  - Balance of trade (exports - imports): \$29.7 billion
  - Desired outcome : profit on the long and short term
    - Low supplier power
      - Public ownership : 93% of forested area is under government stewardship

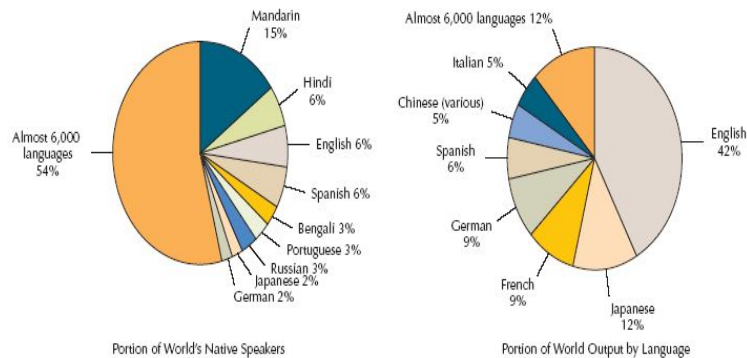
- Supply of labour: 300+ communities are forest-dependant which leads to an excess of 376 000 jobs
- National Aboriginal Forestry Association: promotes and supports increased Aboriginal involvement in forest management and related commercial opportunities, while staying committed to holistic forestry, to build sustainable Aboriginal communities
- Climate change: warmer winters allow the mountain pine beetle population to grow, mountain pine beetles are attacking Alberta's pine trees, if they are left unmanaged the beetles could devastate Alberta's pine forest and spread eastward across Canada's boreal region
- Competitive rivalry
  - Canada has the largest area of third party independently certified forests in the world (104.6 in Canada, 38.6 in USA, 22.4 in Finland, 16.9 Sweden, etc. of millions of hectares)
  - Indication of the importance of Canada's forest to Canadians and the world
- Competitive advantage
  - Stable and mature institutions
    - Forest industry
    - Federal and provincial governments
    - Public service core
    - Engaged communities
    - Academics (SME) which have a different set of objectives than the industry (not profit but long term trends, predictions, innovation)
  - National Forest Strategy (an overarching national vision for action in areas of :
    - Ecosystems management
    - Community resilience and capacity-building
    - Rights and participation of Aboriginal people
    - Forest industry products and market access
    - Science and innovation for competitiveness
    - Urban forestry
    - Reporting and accountability
- Consumer power
  - Falling demand for conventional products
    - Traditionally Canada has been a producer of high volume commodities
  - Cyclical pressures
    - Global Economic Recession
    - Housing Market Collapse in the USA
  - Structural Pressures
    - Decline of graphic paper industry

- Decline or “death” of newspaper
- Threat for substitutes



- Industry transformation
  - Revitalize rural economies
  - Meet the growing global demand for “green” low-carbon products
  - Bioenergy: renewable heat and electricity from combustion of forest biomass
  - Bioproducts : forest-based biomaterials, biochemicals and biocomposites
- Culture: that complex whole which includes knowledge, belief, art, morals, law, custom and other capabilities acquired by man as a member of society
  - Subcultures: location, generation, income, ethnicity, sex, etc.
- Cultural lexicon
  - Values: abstract ideas about “good”, “right” and “desirable”
  - Norms: social rules and guidelines, determine appropriate behaviour in specific situations
  - Attitudes: positive or negative evaluations or feelings toward a concept
  - Memes: a unit for carrying cultural ideas, symbols, or practices that can be transmitted from one mind to another through writing, speech, gestures, rituals, or other imitable phenomena with mimicked theme; supporters of the concept regard memes as cultural analogues to genes in that they self-replicate, mutate and respond to selective pressures
- Cultural reconciliation
  - Ethnocentrism: belief that one’s own ethnic group or culture is superior to that of others (pre-existing bias)
  - Polycentrism: organization around several political, social or financial centers
- Levels of culture
  - Past culture
    - Folklore: storytelling
    - Indigenous culture: hand-made garments, tools
    - Institutional memory: employee handbook, annual reports, existing policies
  - Present culture
    - Popular culture: television programs (entertainment), clothing (function)
    - High culture: film festivals (enlightenment), clothing designers (form)
- Gauging Cultural realities

- Society that is not subject to borrowing can not build on past cultural success VS 2017 twitter/snapchat/facebook, fake news, 24 hours immediate feedback loop
  - Political economy
    - The systems of a country which affect domestic activities and international relations
      - Political systems
      - Economic systems
      - Legal systems
  - Social structure
    - Degree to which
      - Unit of a social organization is the individual or the group
      - Society is stratified into classes or castes
        - High-low stratification
        - High-low mobility between strata (social groups)
    - The individual: building block of many Western society
      - Entrepreneurship
      - Social, geographical and inter-organizational mobility
  - Social class and caste
    - Class consciousness: a tendency for individuals to perceive themselves in terms of their class background
  - Language groups



- Religion
  - Differences between religious heritage and religion in modern cultures
    - Discussions of post-christianity
  - Ex. 15% of Brits go to Church every week compared to 40% of Americans; 75% of Swedes are baptized Lutheran Christians but only 5% go to church regularly
  - Who has more in common : religious people of different denominations or people with similar religious origins?
- Education (SPI)
  - What it is
    - Medium through which people are acculturated
    - Language, myths, values, norms are taught

- Teaches personal achievement and competition
    - The absence of education is a fundamental constraint in economic development in many nations
  - Critical element of national competitive advantage
    - Canada has increasingly identified this and is attempting to pursue it now
  - Education system itself may be cultural outcome
  - Social progress index: The Social Progress Index is an aggregate index of social and environmental indicators that capture three dimensions of social progress: Basic Human Needs, Foundations of Wellbeing, and Opportunity.
- National Culture
  - Nation could be a useful definition of society
    - Similarity among people is a cause and effect of national boundaries
    - National boundaries are not fixed
  - Nation is a useful way to bound and measure culture for conduct of business
    - Culture is a key characteristic of society and can differ significantly across national borders
      - Can also differ significantly within national borders
    - Political economy is established along national lines
    - Culture is both a cause and an effect of economic and political factors that vary across national borders
- Hofstede's dimensions
  - Power distance
    - Degree of social inequality considered normal by people
    - Distance between individuals at different levels of a hierarchy
  - Individualism vs Collectivism
    - Degree to which people in a country prefer to act as individuals rather than a group
    - The relations between the individual and his/her fellows
  - Uncertainty avoidance
    - More or less need to avoid uncertainty about the future
    - Degree of preference for structured vs unstructured situations
      - Structured situations : have tight rules
    - High uncertainty avoidance: people with more nervous energy, rigid society, "what is different is dangerous"
  - Masculinity vs Femininity
    - Division of roles and values in a society
    - Masculine values prevail: assertiveness, success, competition
    - Feminine values prevail: quality of life, maintenance of warm personal relationships, service, care for the weak, solidarity
- Hofstede's Workplace

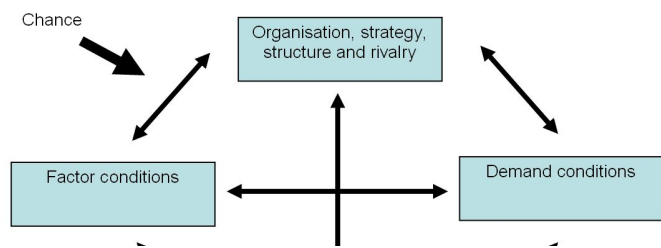
- Relationships between national cultures and Multinational Corporations (MNC) are not uniform
  - European: siestas and 6 weeks of paid vacation per year
  - National values may persist over Corporate efforts to “make” culture
  - Local values used to determine HQ policies
  - MNC may create unnecessary morale problems if it insists on uniform moral norms
- Hofstede provides a starting point for understanding of business situations across-cultures
- MUST understand own culture AND other culture(s)
- Limitations of Hofstede’s work
  - Methodology
    - Study based on 64 national subsidiaries, 116 000 workers (not just managers), three world regions
    - Report averages, may not fit exact individual situations
    - Is valid for broader groups not individuals
  - IBM values may overwhelm national values
    - Yet, if IBM culture so overwhelming, differences across countries may be attributable to “national” culture
  - Privileged group of subjects
  - Researcher bias? Western stereotypes and culturally biased conclusions?
  - Many recent studies validate Hofstede’s dimensions
- Issues to consider
  - Must a company adapt to local cultures or can corporate (often home-country dominated) culture prevail?
  - Protection of domestic culture
    - CRTC Can-Con
    - Quebec sign laws
  - What is the relationship between culture and thought?
    - Does culture conform us to “it’s” way of thinking?
    - Do we shape culture to our way of thinking?
    - Are we cultural “makers” or “takers”?
  - How quickly does culture change?
    - Where is “our” culture going?
    - How is culture changed?
- How selective are we in our perceptions of culture?
  - How coherent are our own values, attitudes and beliefs?

### **Classic Trade Theory & National Trade Policy**

- Foreign exchange markets : Average daily turnover in foreign exchange (traditional instruments) was estimated to be \$3.2 trillion (there’s not enough silver and gold to back all of this money)
- Chronicle
  - Classic trade theories: major theories typically studied concepts of mercantilism, absolute advantage, and comparative advantage

- Modern trade theories: major theories typically study concepts of product life cycle, strategic trade, and national competitive advantage
- Absolute advantage: produce more efficiently, with less resources
- Comparative advantage: multiple efficiency advantages and decide which one to allocate more to
- Classic Trade Theories
  - Theory of mercantilism
    - Belief that wealth of the world (measured in gold and silver) was fixed, and that a nation that exported more and imported less would enjoy the net inflows of gold and silver and this become richer
    - Protectionist approach: idea that governments should actively protect domestic industries from imports and vigorously promote exports
    - Suggests that the financial resources available are fiat (there is a limited amount, we're not creating more, we're just redistribution)
  - Factor Endowment Theory (Heckscher-Ohlin theory)
    - Factor endowments are the extent to which different countries possess various factors, such as labour, land and technology
    - The theory proposes that nations will develop comparative advantage based on their locally abundant factors
    - The pattern of international trade depends on differences in factor not on differences in productivity
    - Absolute amounts of factor endowments matter
    - Leontief paradox
      - Ex. US has relatively more abundant capital yet imports goods more capital intensive than those it exports
        - US has special advantage in producing new products made with innovative technologies
        - These may be less capital intensive till they reach mass-production states
    - Factor endowments vary among countries
    - Products differ according to the types of factors that they need as inputs
    - A country has a comparative advantage in producing products that intensively use factors of production (resources) it has in abundance
    - Factors of production: labour, capital, land, human resources, technology
  - Recourse mobility assumption
    - A resource removed from one industry can be moved to another industry without loss of production
- Elements of Classic Trade Theories
  - Free trade: idea that free market forces should determine how much to trade with little (or no) government interventions
  - Opportunity cost: given the alternatives, the cost of pursuing one activity at the expense of another activity

- Theory of absolute advantage: economic advantage one nations enjoys that is absolutely superior to other nations
  - Adam Smith
  - Mercantilism weakens a country in the long run and enriches only a few fragments
  - A country should specialize in and export products for which it has absolute advantage (import others)
  - A country has absolute advantage when it is more productive than another country in producing a particular product
- Theory of competitive advantage: relative (not absolute) advantage in one economic activity that one nation enjoys in comparison with other nations
  - David Ricardo
  - Country should specialize in the production of those goods in which it is relatively more productive (even if it has absolute advantage in all goods it produces)
  - Absolute advantage is really a special case of comparative advantage
- Modern Trade Theories
  - Product Life Cycle Theory: economic theory that accounts for changes in the patterns of trade over time
    - Leontief paradox
      - Ex. US has relatively more abundant capital yet imports goods more capital intensive than those it exports
        - US has special advantage in producing new products made with innovative technologies
        - These may be less capital intensive till they reach mass-production states
  - Strategic Trade Theory: theory that suggests that strategic intervention by governments in certain industries can enhance their odds for international success
  - First-Mover Advantages: advantages that first entrants enjoy and do not share with late entrants, a country can find a sustainable advantage in the export of a good based on being the home to the first firm to produce the good
    - Assumptions
      - The cost of experimentation (failure) is not prohibited in innovation
      - Establish brand recognition for your industry/country
      - Assumes no other movers (difficult to achieve)
      - Drastic change is culturally accepted
    - Government intervention
      - Important first buyer (military intervention)
      - Can influence market forces via protectionist policy
  - Strategic Trade Policy: Economic policies that provide companies a strategic advantage through government subsidiaries
  - Theory of national competitive advantage of industries (or



Porter's diamond industry): the competitive advantage of certain industries in different nations depends on four aspects that for a diamond (predicting national advantage in trade agreement)

- Life Cycle of the International Product

	LIFE CYCLE STAGE			
	1: INTRODUCTION	2: GROWTH	3: MATURITY	4: DECLINE
Production location	<ul style="list-style-type: none"> <li>In innovating (usually industrial) country</li> </ul>	<ul style="list-style-type: none"> <li>In innovating and other industrial countries</li> </ul>	<ul style="list-style-type: none"> <li>Multiple countries</li> </ul>	<ul style="list-style-type: none"> <li>Mainly in developing countries</li> </ul>
Market location	<ul style="list-style-type: none"> <li>Mainly in innovating country, with some exports</li> </ul>	<ul style="list-style-type: none"> <li>Mainly in industrial countries</li> <li>Shift in export markets as foreign production replaces exports in some markets</li> </ul>	<ul style="list-style-type: none"> <li>Growth in developing countries</li> <li>Some decrease in industrial countries</li> </ul>	<ul style="list-style-type: none"> <li>Mainly in developing countries</li> <li>Some developing country exports</li> </ul>
Competitive factors	<ul style="list-style-type: none"> <li>Near-monopoly position</li> <li>Sales based on uniqueness rather than price</li> <li>Evolving product characteristics</li> </ul>	<ul style="list-style-type: none"> <li>Fast-growing demand</li> <li>Number of competitors increases</li> <li>Some competitors begin price cutting</li> <li>Product becoming more standardized</li> </ul>	<ul style="list-style-type: none"> <li>Overall stabilized demand</li> <li>Number of competitors decreases</li> <li>Price is very important, especially in developing countries</li> </ul>	<ul style="list-style-type: none"> <li>Overall declining demand</li> <li>Price is key weapon</li> <li>Number of producers continues to decline</li> </ul>
Production technology	<ul style="list-style-type: none"> <li>Short production runs</li> <li>Evolving methods to coincide with product evolution</li> <li>High labor input and labor skills relative to capital input</li> </ul>	<ul style="list-style-type: none"> <li>Capital input increases</li> <li>Methods more standardized</li> </ul>	<ul style="list-style-type: none"> <li>Long production runs using high capital inputs</li> <li>Highly standardized</li> <li>Less labor skill needed</li> </ul>	<ul style="list-style-type: none"> <li>Unskilled labor on mechanized long production runs</li> </ul>

- Realities of International Trade

- Import tariff: tax imposed on imports
  - Ad valorem (levied as a proportion of the estimated value of the product)
  - Specific (fixed charge per unit)
  - Compound
- Non-tariff barriers (NTBs): restricts imports but are not in the usual form of a tariff
  - Subsidies, import quotas, export restraints, local content requirements, administrative policies, anti dumping duties, over-elaborate or inadequate infrastructure, "buy national" policy, bribery and corruption, unfair customs procedures, restrictive licenses, etc.
- Deadweight costs: net losses that occur in an economy as a result of tariffs

- Realities of International Trade

- Import quotas : restrictions on the quantity of imports for specific period of time
- Voluntary Export Restraints (VRAs): superficial policy to show that exporting countries voluntarily agree to restrict their exports
- Local Content Requirements: a requirement that a certain proportion of the value of the goods made in one country originate from that country
- Embargo: a complete ban on imports from a particular country or into a particular country
- Antidumping duties: costs levied on imports that have been "dumped" (selling below cost or below exporter's home market price to "unfairly" drive domestic firms out of business)
- Financial controls: increasingly effective means of imposing economic sanctions

- Barriers to provide financing to companies from certain countries
- Case for (free) trade
  - Everybody is doing it... and benefiting (correlation between increased trade and GDP growth)
  - Reduction of armed conflict through mutually beneficial long-term relationship
  - Increase availability of (shared) resources
  - National specialization allows for increased global production/consumption
  - Increased production efficiencies via specialization
  - Benefits to the domestic consumer (reduced costs and increased product quality)
  - Incentivizes domestic industry to innovate and increase efficiencies
- Economic Argument Against Free Trade
  - The need to protect domestic industries : the oldest and most frequently used economic argument against free trade is the urge to protect domestic industries, firms, and jobs from “unfair” foreign competition → protectionism
  - The necessity to shield infant industries : belief that if domestic firms are as young as “infants” in the absence of government intervention, they stand no chance of surviving and will be crushed by mature foreign rivals
- Political Arguments Against Free Trade
  - Political arguments against free trade advance a nation’s political, social and environmental agenda regardless of possible economic gains from trade
    - National security
    - Consumer protection
    - Foreign policy
    - Environmental and social responsibility

## **Globalization**

- Globalization: a term that can mean just about anything and everything, narrowly defined it can refer to trend towards ever greater international economic integration, broadly defined it can refer to economic and social convergence
  - Trade integration
    - Regional and global agreements : EU & NAFTA to WTO
    - Standardization of products
    - Standardization of production process
  - Political stability and global cooperation
    - Establishment of trust between nations
- Evolution of the International Monetary System
  - Gold Standard: system in which the value of most major currencies was maintained by fixing their prices in terms of gold, which served as the common denominator
  - Bretton Woods System (1944)
    - Pegs all currencies at a fixed rate to the US dollar
    - Created the IBRD → the World Bank
    - Created the International Monetary Fund
  - Post-Bretton Woods System: system of flexible exchange rate regimes with no official common denominator

- International Monetary Fund (IMF) : international organization of 185 member countries established to
  - Promote international monetary cooperation, exchange stability, and orderly exchange arrangements
  - Foster economic growth and high levels of employment
  - Provide temporary financial assistance to countries to help ease balance of payments adjustment
- IMF intervention in countries require them to:
  - Slash government spending
  - Raise interest rates (to curb inflation)
  - Raise taxes
  - Which all leads to Austerity
- Foreign Exchange Rates
  - Foreign exchange rate: price of one currency in terms of another
  - Balance of payments: country's international transaction statement
  - Purchasing power parity: theory that suggests that in the absence of trade barriers (such as tariffs), the price for identical products sold in different countries must be the same
- Strong dollar vs Weak dollar
  - During the Bretton Woods system, the dollar was the only common denominator
  - Since the demise of Bretton Woods the importance of the US dollar has been in gradual decline
  - This does not mean that the US dollar is no longer important, it still is
  - Focus on the dollar's relative importance, especially its value
- Advantages and disadvantages of a strong vs weak dollar

**TABLE 7.6** A STRONG DOLLAR VERSUS A WEAK DOLLAR

PANEL A. A STRONG (APPRECIATING) DOLLAR

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• US consumers benefit from low prices on imports</li> <li>• Lower prices on foreign goods help keep US price level and inflation level low</li> <li>• US tourists benefit from lower prices when traveling abroad</li> </ul>	<ul style="list-style-type: none"> <li>• US exporters have a hard time competing on price competitiveness abroad</li> <li>• US firms in import-competing industries have a hard time competing with low-cost imports</li> <li>• Foreign tourists find it more expensive when visiting the United States</li> </ul>

PANEL B. A WEAK (DEPRECIATING) DOLLAR

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• US exporters find it easier to compete on price competitiveness abroad</li> <li>• US firms face less competitive pressure to keep prices low</li> <li>• Foreign tourists benefit from lower prices when visiting the United States</li> </ul>	<ul style="list-style-type: none"> <li>• US consumers face higher prices on imports</li> <li>• Higher prices on imports contribute to higher price level and inflation level in the United States</li> <li>• US tourists find it more expensive when traveling abroad</li> </ul>

Source: Adapted from R. Carbaugh, 2007, *International Economics*, 11th ed. (p. 373), Cincinnati, OH: Thomson South-Western.

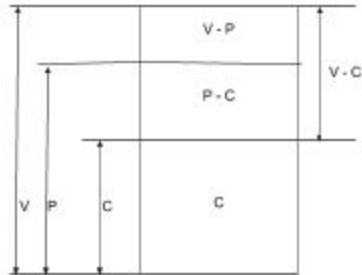
- What determines foreign exchange rates (all factors influence supply and demand of foreign exchange and therefore its rates)
  - Relative price differences & PPT
  - Interest rates & money supply

- Productivity & balance of payments
- Exchange rate policies
  - Floating (flexible) Exchange Rate Policy: willingness of a government to let the demand and supply conditions determine exchange rates
  - Clean (Free) Float: pure market solution to determine exchange rates
  - Dirty (managed) Float: common practice of determining exchange rates through selective government intervention
    - Ex. buy back large amounts of currency, which is done to mitigate the effects of a foreign investor/institution who is “shorting” our currency
  - Target Exchange rate or Crawling Bands: limited policy of intervention, occurring only when the exchange rate moves out of the specified upper or lower bounds
  - Fixed Exchange Rate Policy: fixing the exchange rate of a currency relative to other currencies
    - Purpose: encourage foreign investment via stability
    - Additionally: also an alternative to artificially manipulating exchange rates
  - Peg: stabilizing policy of linking a developing country’s currency to a key currency
  - Currency Board: monetary authority that issues notes and coins convertibles into a key foreign currency at a fixed exchange rate
- Investor psychology
  - Bandwagon Effect: result of investors moving as a herd in the same direction at the same time
  - Capital Flight: phenomenon in which a large number of individuals and companies exchange domestic currencies for a foreign currency
- Big Mac index : price of Big Mac in different countries (bought with their currencies) in order to see each country’s currency weights
- Foreign Exchange Transactions
  - Spot Transactions: classic single-shot exchange of one currency for another (ex. when travelling)
  - Forward Transactions: foreign exchange transaction in which participants buy and sell currencies now for future delivery, typically in 30, 90 or 180 days, after the date of the transaction
  - Currency Hedging: transaction that protects traders and investors from exposure to the fluctuations of the spot rate
  - Forward Discount: forward rate of one currency relative to another currency is higher than the spot rate
  - Forward Premium: forward rate of one currency relative to another currency is lower than the spot rate
  - Currency Swap: foreign exchange transaction in which one currency is converted into another in Time 1, with an agreement to revert it back to the original currency at a specific Time 2 in the future
  - Offer Rate: price offered to sell a currency

- Bid Rate: price offered to buy a currency
- Spread: difference between the offered price and the price

## Corporate strategy

- Generic objectives



$V$  = Value of product to an average consumer  
 $P$  = Price per unit  
 $C$  = Cost of production per unit  
 $V - P$  = Consumer surplus  
 $P - C$  = Profit per unit sold  
 $V - C$  = Value created per unit

- Internal value creation



- The value created and captured by a company is the profit margin
- Value created and captured - cost of creating value = margin
- The more value a firm creates, the greater the competitive advantage

- Support activities: provide inputs that allow for primary activities to take place
  - Procurement (purchasing): how a firm acquires resources necessary for operation
  - Human resources: how a firm recruits, hires, trains, motivates, rewards, and retains its workers
  - Technological development: activities related to managing and processing information, as well as protecting a company's knowledge base
  - Infrastructure: the firm's support systems, that allow it to maintain daily operations (accounting, legal, administrative, and general management)
- Primary activities: refers to the design, creation, delivery and maintenance of the product
  - Inbound logistics: all processes related to receiving, storing, and disturbing inputs internally
  - Operations: those transformations activities that change inputs into outputs that are sold to customers (R&D, production, quality control, etc.)
  - Outbound logistics: delivery of the firm's product/service to the consumer (ex. collection, storage, and distribution systems)
  - Marketing and sales: means of persuasion designated to incentivize consumers to purchase from the firm (instead of the competitors)
  - Service: those activities related to maintaining the value of your product to your consumer, once it's been purchased

## Economic Integration

- Economic integration is good
  - Absolute and comparative advantage
  - Trade creation: increase the level of trade between partner nations

- Political cooperation: a group of nations is less likely to be pushed around
- Avoid armed conflict
- Approaches to economic integration (tariff reduction)
  - Bilateral integration: two countries cooperate closely, usually in the form of tariff reductions (ex. Canada and US)
  - Regional integration: a group of countries located in the same geographic proximity decide to cooperate (ex. the European Union, which started with 7 countries who cooperated in the steel market)
  - Global integration: countries world wide cooperate through the WTO (CETA, NAFTA), everybody agreeing to get on board, share their information and the WTO makes sure that no new agreement goes against a pre existing one
- Social Change Map
  - Start small/local: central Europe lowers tariffs in Coal and Steel industries following WWII
  - Have success
  - Facilitate further integration (mimicry): created the institutions necessary (maastricht treaty)
- Levels of Integration
  - Trade: transfer of goods and services from one person or entity or another, often in exchange for money
  - Free trade (NAFTA): partner nations seek to remove all barriers to trade among themselves
  - Customs unions: partner nations seek to remove all barriers to trade among themselves AND negotiate common barriers against non-members
    - Positive: have more influence and confidence, stronger partners
    - Negative: less decision freedom, Canada has a weaker position because they trade with Mexico (NAFTA), because it's an inferior country (inequality in partnership) therefore makes Canada less strong traders in negotiations with Europe, but same argument in verse can be made of our close trade agreement with an economy stronger than Canada's through NAFTA (US)
  - Common Market: partner nations remove barriers to trade AND the international flow of labour and capital
  - Economic Union (ex. European Union): partner nations remove barriers to trade and the international flow of labour and capital AND coordinate economic policies (we are negotiating together against the other group in the agreement and we are sharing currency)
  - Political Union (ex. Canada): coordination of economic and political systems (Canada which is formed by all the provinces and territories)
- Possible messiness
  - Trade Diversion: reduction of trade with non-member countries
  - Increased Competition: the opposite of protectionism
  - Partner inequalities
  - Loss of sovereignty for individual nations
- Legislated Equality (EU)

- Consumer price inflation must be below 3.2%
- Consumer price inflation must not exceed that of high performing by more than 1.5%
- Government debt has to be under 60% of GDP
- General government deficit has to be under 3%

### **Emerging and Developing Economies**

- Neocolonialism: India and China are the colonizers and the African countries are the one ones being colonized for crude oil
- Brazil, India, Russia and China (4 largest producers in the next few years, emerging economies), South Africa (sometimes), Vietnam (not yet but coming up)
- Country classifications (just because a country is developing, it won't always stay like that)
  - Developed: highly industrialized and efficient and open economy, stable currency=long term plans
  - Newly Industrialized/Emerging: recently increased the national production and exports derived from industrial operations
  - Developing: poor infrastructure and extremely low personal incomes, lowest of all producers (usually high corruption levels, little motivation to go to work)
- Stable currency allows for long term planning, unstable currency in developing countries nations makes investment difficult (risk vs reward)
- Economic transitions
  - How do developing nations leave their position? (promotion of middle class, it drives the economy: voters, debts innovators, etc.)
    - Floating currency (risky) or align with more stable economies (safer)
- Pattern of transitioning economy
  - Open economy, willingness to trade (reduce barriers = open trade)
  - Reduce deficits
    - Good reasons for developed countries
    - Developing countries unattractive to investors and debtors (IMF: spends the most time with developing countries and Greece, rule: reduce deficit through raising taxes → viewed as recovery of growth)
  - Stabilize economy (governments fail to foresee with industry is more effective (communism))
    - Signal to investors (strength)
    - Best factor to accomplish: thriving middle class
      - Privatization necessary
      - Motivate start up firms → drive economy
  - Free market pricing
  - Education subsidies: funding middle class, loans for students → expansion of credit
  - Expand credit
    - Precursor to privatization
  - Legalize and privatize
  - Allow free market pricing
- BRIC Nations (BR have natural resource advantage and IC have human resource advantage)
  - Brazil (US of South America)

- Regional power (population, GDP, landmass, etc.)
  - Opportunity for growth in comparison to neighbours
- Natural resource rich (Amazonian forest)
  - Specialize in most plentiful resource
- Russia
  - Natural resource rich (30% of natural gas to EU)
  - Provides roughly 30% of natural gas to EU
  - Land mass - 16.3 km<sup>2</sup>
- India
  - Population: 1.25 billion
  - English speakers
  - Service oriented economy
- China
  - population : 1.35 billion
  - \$4USD Trillion in foreign exchange reserves
  - High producer of goods (final products)
- More people = cheaper labour
- Innovation in western world = produce in east
  - Countries operate based on resources held
  - Where to invest? Stable developed countries or BRIC
- Obstacles of transition
  - Lack of managerial experience: central planning eliminated the need for strategists, researchers, innovators and corporate leaders (lack of man experience → void in middle class)
  - Shortage of capital: developing basic infrastructure and extending credit are expensive therefore difficult (no experience or credibility with money management → must attract FDI)
  - Cultural differences: attracting FDI also means attracting foreign management styles
  - Armed conflict: internal and external strife hinders the maturity of those institutions which are essential for transition (protection of investment)
- Economic paradigm shift (from nomadic to knowledge) (leverage internet to provide services to global market → “leapfrogging” passed manufacturing directly to knowledge)
  - Nomadic (wild game, no definite constant sedentary-related economy)
  - Agricultural (labour intensive)
  - Manufacturing (labour exploitative, environmentally exploitive)
  - Knowledge
  - Lever
- Knowledge/Digital
  - Human resources are easy to export
  - Lowered barriers to entry across industries
  - Consumer demand in rich countries
  - High competition
  - Durable, flexible & transferable investment (movement of capital)

- Developing country example
  - Colonial Affect
    - French Indo-China
    - Relationship built on resource extraction
    - Bureaucratization creates a local middle class
    - Need for educated specialists creates a foreign middle class
    - Heavy reliance on industrialized production
  - Communist Affect → attractive option for nations impacted by colonialism
    - Rejection of Class system
    - Government control over factors of productions
    - 'equitable' distribution of wealth
    - closed/guarded economy
    - Mis-trust between trading partners
  - Timeline
    - **1976** - Unification of North/South
    - **1980s** – Liberalization of domestic economy
    - **1994** – Removal of trade embargos
    - **2009** - %5 growth during global financial crisis
  - Government Intervention
    - Control over foreign operators licenses
      - Restricted number of outlets available to operators (must deal with government as foreign producer, difficult to get)
    - Rigorous economic needs test
      - Government assesses regional needs (protectionist)
    - Strictest possible application of WTO guidelines
  - Results
    - Growth of middle class in 2009
    - 92.5% Literacy rate
    - 2003-2008 – Number of post-secondary students doubled
    - 40% of national consumption takes place in the (6) cities
    - Over \$40Billion in retail sales

### **Foreign Direct Investment**

- Trans-pacific partnership (TPP)
  - Japan
    - Neglcted
    - Stable currency (UK and Japan 1st to leave Bretton Woods)
    - China and Japan, 2 most powerful countries in region (rival)
  - Canada → & EU (ceta)
  - USA → & China (beef trade)
  - Mexico
  - South Korea
  - Australia
  - New Zealand
  - Vietnam
  - Singapore
  - Peru
- NAFTA: showed us what our relationship is with Mex and US

- Foreign Direct Investment (FDI)
  - The acquisition or construction of physical capital by a firm from a source country in another host country
- Types of FDI
  - Mergers and acquisitions: the key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies, two companies together are more valuable than two separate companies (risk because of possible clash of the companies' cultures)
  - Greenfield investment: establishing a new operation in a foreign country (host) → greater risk
  - Brownfield: existing operation purchased
- Economic transition
  - Willingness to trade (reduce barriers)
  - Reduce deficits
  - Stabilize economy
  - Expand credit: precursor to privatization
  - Legalize and privatize
  - Allow free market pricing
- Host countries
  - Direct advantage to host nation (motivation: physical and human needs met): each dollar of FDI makes available a dollar of domestic earned currency for subsequent endeavors (capital source in developing countries), supplements (resources allocated to government spending (ex. infrastructure, clean drinking water, education), removes spending dilemma (foreign firm will maintain or create infrastructure)
  - Positive externalities for host nation: technology, human resources and knowledge transfers
- Political ideology
  - Radical view: argues that FDI is never positive for the host nation, foreign firms tightly guard technologies, knowledge, talent and profits in a manner that exploits the host country (can't see motivation for source country to want to benefit host)
  - Free market view: countries should specialize in the production of goods and services that they can produce most efficiently, mutual advantage
  - Pragmatic nationalism: FDI both benefits and costs the host nation, FDI should only be allowed if the benefits outweigh the costs
- Business case for FDI
  - Internationalization theory: favors FDI due to major drawbacks of licensing
    - Firm loses/gives away valuable technological information and capability
    - Loss of control over marketing, manufacturing and strategy
  - Firm will undertake FDI
    - In an attempt to ensure they have significant presence in strategic regions
    - In order to build facilities in close proximity to major consumers (access to markets)
    - To take advantage of local laws and opportunities
    - Access to raw materials (mining/oil)
    - Lower labour costs
    - "Tariff-jumping"
- Motivation for FDI
  - Capitalize on skilled workforce (education)

- Government support (subsidies, grants)
- Cultural fit
- Cost structure/labour
- Natural resources
- Access to consumers
- Practice Exercise  
[\(http://news.nationalpost.com/full-comment/john-ivison-liberals-may-be-prepared-to-ease-foreign-ownership-restrictions-to-attract-investment\)](http://news.nationalpost.com/full-comment/john-ivison-liberals-may-be-prepared-to-ease-foreign-ownership-restrictions-to-attract-investment) 
  - **Foreign Stakeholders** - Which foreign (non-Canadian) individuals, groups or organizations would advance an argument to ease Canadian Foreign Ownership rules? What are the primary concerns of these entities?
  - **Trudeau Strategy** – Describe how these two actions intersect to create a cohesive national strategy
    - a) Plan to attract FDI by easing foreign ownership rules (barriers)
    - b) Intent to run a national deficit over 3 years
  - **Supporting Details** – Construct your personal interpretation of information presented in the article
  - **Challenge** – Deconstruct your interpretation (biases held?)

## Strategy and Innovation

- Business ethics
  - Media, natural resources and telecommunications
    - Canada is restricting : to protect culture, advertising content
  - Network of suppliers → competitive advantage → lowered prices
  - Investors changing laws with money invested as incentive → unethical
  - Short term vs Long term motivation: be first to implement fair/sustainable practices
  - Government responsibility
    - Motivation related to economic wealth
    - Interested in short term goals (influx of capital)
- Internet (disruptor)
  - Enables of other innovations
- Developing nations becoming new world powers (in the future)
- Strategy (using Porter's diamond)
  - Goals/objectives
    - Specific
    - Measurable
    - Achievable
    - Realistic
    - Time sensitive
  - Internal evaluations (SW)
    - Growth through acquisition
    - Achieving economies of scope - decentralized
    - Uneven control of variables
      - Partners – resources/risk sharing
      - Licensees – control operations
      - Acquires co.

- Environmental evaluations (OT)
  - Taste is cultural (factor + demand condition)
  - Domestic market decline + foreign opportunity
  - Subject to differing regulations by country
- Stakeholder analysis
  - Who are we?
  - Who are our clients, competitors, partners, suppliers, collaborators
  - What are the objectives of our clients, competitors, partners, suppliers, collaborators
  - What actions do we expect/project/forecast will be taken by our clients, competitors, partners, suppliers, collaborators
- Appropriate/advantageous niche or action
  - What could we do? (Alternatives)
  - What will we do (Reco)?
- Implementation/tactics
- Measurement/evaluations
- Strategy formulation
  - Identify company mission and goals
    - Define the business/industry
    - Define main objectives
  - Identify value creating activities
    - Analyze core competencies
    - Analyze primary activities
    - Analyse support activities
    - Analyse business environment
- Support activities: provide inputs that allow for primary activities to take place
  - Procurement (purchasing): how a firm acquires resources necessary for operation
  - Human resources: how a firm recruits, hires, trains, motivates, rewards, and retains its workers
  - Technological development: activities related to managing and processing information, as well as protecting a company's knowledge base
  - Infrastructure: the firm's support systems, that allow it to maintain daily operations (accounting, legal, administrative, and general management)
- Primary activities: refers to the design, creation, delivery and maintenance of the product
  - Create value
    - Less input to create output
    - New ideas
  - Inbound logistics: all processes related to receiving, storing, and disturbing inputs internally
  - Operations: those transformations activities that change inputs into outputs that are sold to customers (R&D, production, quality control, etc.)
  - Outbound logistics: delivery of the firm's product/service to the consumer (ex. collection, storage, and distribution systems)

- Marketing and sales: means of persuasion designated to incentivize consumers to purchase from the firm (instead of the competitors)
- Service: those activities related to maintaining the value of your product to your consumer, once it's been purchased
- Environmental issues
  - Culture (language, approach to work, religion, etc.)
  - Foreign exchange exposure
    - Risk
  - Government intervention (taxes)
  - Governing institutions (not much influence can be leveraged)
  - Trade barriers
  - Industry regulations
- Emerging challenges
  - President Trump
  - Foreign direct investment
  - Innovation/creativity
  - Organizational design
  - Ethics
  - Information in digital paradigm
- Corporate/Firm Focus (not linear)
  - Business type
  - Innovative direction
  - Market selection
  - Support activities management
  - Organizational design
  - Production opportunities
- Business types
  - International
    - Facilitates the transfer of skills and know-how from parent company to international units
    - Provide differentiated product offerings in new markets
    - Address a gap in new markets by leverage core competencies
    - Centralize product development
    - Decentralize manufacturing/production
  - Multi-domestic
    - Maximise local responsiveness
    - Reduced need for central support to manage local activities
    - Greater sensitivity to local preferences
    - Decentralized product development and marketing
  - Global
    - Configures and coordinates value activities to make low-cost, high-quality products with world-wide appeal
    - Limited production locations (clusters)
    - Leverage the experience curve
  - Transnational

- Supports efficiency, compels effectiveness and leverages learning that drives innovation to serve global and local markets
- Corporate level strategy
  - Status quo: could be viable strategy
  - Growth: designed to increase the scale and/or scope of corporate activities. Achieved through organic growth, innovation, mergers/acquisition or entering new markets
  - Retrenchment: designed to reduce the scale and/or scope of corporate activities
  - Stability: designed to guard against change, interest in maintaining present position (s)
- Acquisition (different from Greenfield)
  - 100% absolute control of your business (all risk and all reward)
  - Resource incentives (labour, financial, TIME)
  - Quicker than a greenfield investment
  - Play keep away from your competitors (take space away)
  - Buy assets, own assets
  - Apply your management approach (increased efficiencies)
- Joint ventures
  - Sacrifice absolute control of your business (shared decision making, joining for specific project)
  - Access to your partner's resources/assets (& Goodwill)
  - Reduce/share financial risk
  - Acquire knowledge related to foreign market factors (economic, political and legal considerations)
  - Swerve (protectionist) foreign ownership regulations in the host country
  - Share business acumen and/or unique management style
- Innovation
  - A new idea brought to market
    - New product, New process, New market, New way of organizing, New material
  - Can be new to you, to industry or to the world
  - Over any extended period of time, businesses will need to change in order to survive (the rates of change vary very considerably between industries and product classes)
  - Radical innovations disrupt industries and cause incumbent firms to fail
  - Many firms seek to make innovation a core elements of their strategy (necessary to survive a competitive environment)
    - Particularly important in the production of global products
  - Essential to not just innovate once, but to create a dynamic ability to develop innovations
  - The innovative process generally includes multiple innovations which are aligned strategically
    - Technological innovation
    - Geographic innovation
    - Network innovation
    - Functional innovation
- ID Strategic Opportunity Area (s)
  - A unique core competency held by your firm that cannot be easily replicated
  - A task that many consumers need done that is not being done well
  - A technology that will enable the needed task to be done less expensively or more efficiently

AND/OR

- A change to the economic or social landscape which intensifies the need for the task
- Strategic opportunities
  - Core competencies
  - Take what consumers need, not done well before
  - Technology: enabler
    - Can exist or be invented
  - Change to social/economic landscape
- Transformation opportunities
  - Does innovation add value for consumers
    - Price aligned with value
    - Limited new/early adapters
- Innovation types
  - Core innovation
    - Designed to improve/strengthen on-going businesses
    - Tied to current strategy
    - Enhance existing offerings
    - Improve internal operations
    - Expect substantial returns (ROI) in short term
  - New growth innovation
    - Designed to extend existing strategy
    - Develop new business models (production processes/facilities)
    - Reach new customers/markets, market penetration (new regions)
    - New products for existing consumers
    - Typically over funded/high costs
    - Revenue/profit (ROI) is realized in the long term
- Innovation and profit
  - Innovations are the result of investments which cost in the short-term but potentially have payoffs over the long term
    - Potential mismatches between shareholder demands and the innovation production process
  - Successful innovations can create competitive advantages and allow firms to realize exceptional profits in the short and longer terms
- Arguments against innovation
  - Prohibitive cost at the bottom of the curve
  - Risk averse in the short term
  - Threat of imitations/substitutes
  - Immature environment
    - regulations/regulators
    - Proven business models
    - Mixed messages from consumers
  - Limited early adapters
    - Mature market = provides more insights
    - Regulations established in mature market
- Design of innovative company
  - Small group of focused individuals dressing a gap
    - More than a few, creativity declines
  - Influential leaders (CEO, COO, etc.) → executive sponsor
    - Ensure adequate resources

- Innovation manager: day-to-day, on the ground
- Cross-functional team: include all sectors of value chain (marketing, production, etc.)