Global Strategy & Organization

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Class 3, 4, & 5
“Home, Sweet Home”

Photos courtesy of Adam Lederer (left), Matti Mattila (right) on Flickr.

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Arrive at IKEA warehouse  
Drop off kids  
Shop for furniture  
Consult store personnel  
Pick up at warehouse  
Shop for small goods  
Get food with family  
Checkout  
Transport to home  
Build furniture
IKEA Facts and Figures (2009)

**TURNOVER** (million EURO)

Of all IKEA stores
(Sales tax excluded)

**STORES**

All operate under
franchise Inter IKEA
Systems B.V

**CATALOGUES** (millions)

Printed in 56 editions
and 27 languages

**VISITS** (millions)

To all IKEA stores
world-wide

(Source: Ikea)

Image by MIT OpenCourseWare.

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The traditional furniture business:
Low scale “build-to-order” + slow full-service at a high price

IKEA’s business model (“radical”) innovation:
Large scale “build-to-stock” + instant satisfaction (and more) at a low price

Sweden
(~1955 ~1970)

Furniture Design  Production  Catalogue, Advertising  Self-service, warehouse+retail store  Delivery  Assembly

...... by customer ......
“Home, Sweet Home”

Image of Swedish dolls removed due to copyright restrictions.

Photos courtesy of Adam Lederer (top), Richard Bott (left), John Edgar Park (middle), Matti Mattila (bottom) on Flickr.

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IKEA is Swedish because…

1. The non-mobile resources required to produce its breakthrough innovation were available in Sweden

2. It found the optimal combination of resources through an emergent process of interaction with local customers, competitors, and shareholders in Sweden (~1955-70).
   
   i. IKEA’s performance worldwide was superior because the local optimum in Sweden was a global optimum (Porter, 1990) …

   ii. … and it found such local optimum with superior efficiency than other Swedish companies to whom the same resources and combinatorial context were available …

   iii. … and it increased its geographic scope in such a way that its original national advantage was at least maintained.
National companies ... turned “global”

Examples:
- Siemens
- General Electric
- Louis Vuitton
- McDonald’s
- IKEA
- IBM
- Camry
- Ford
- Amorim
- Boeing
The primacy of “Home, Sweet Home”

✓ The home-base of the “national” company turned global success provided the company with a set of key success factors:

✓ The ideal cultural context and institutional environment

✓ Local access to superior technologies and organizational capabilities

✓ The origin of critical resources, key suppliers and complements

✓ Intense competition

✓ The most demanding customer base

✓ Lead (advanced/knowledgeable) users

(Sources: M. Porter; Kogut, Redding, ... (Marshall, Vernon, Krugman, Lorenzoni, von Hippel...))
The “competitive advantage of nations”

**Context for Firm Strategy and Rivalry**
- A local context and rules that encourage investment and sustained upgrading (e.g., Intellectual property protection)
- Meritocratic incentive systems across institutions
- Open and vigorous competition among locally based rivals

**Factor (Input) Conditions**
Presence of high quality, specialized inputs available to firms
- Human resources
- Capital resources
- Physical infrastructure
- Administrative infrastructure
- Information infrastructure
- Scientific and technological infrastructure
- Natural resources

**Demand Conditions**
- Sophisticated and demanding local customer(s)
- Local customer needs that anticipate those elsewhere
- Unusual local demand in specialized segments that can be served nationally and globally

**Related and Supporting Industries**
- Access to capable, locally based suppliers and firms in related fields
- Presence of clusters instead of isolated industries

(Source: Porter)
The *Cluster* as Home

Examples:

- Silicon Valley
- GM
- Chrysler
- Ford
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Internationalization 1.: *Exploiting* Capabilities

- What capability(ies) do we have that we seeking to exploit internationally?

- Do they pass the RATs test in a particular *target country*:
  - Are they Relevant?
  - Are they Appropriable?
  - Are they Transferable?

Source: Lessard et al, 2012 (forthcoming)
Internationalization 2.: *Enhancing* Capabilities

- What capability(ies) might we tap in a particular *target country*?

- Apply the CATs test:
  - Are they **C**omplementary?
  - Are they **A**ppropriable?
  - Are they **T**ransferable?

*Source: Lessard et al, 2012 (forthcoming)*
Internationalization: The Full Cycle

Source: Lessard et al, 2012 (forthcoming)
Yoshikazu Hanawa and Louis Scheitzer sign the agreement between Renault and Nissan in Tokyo on March 27, 1999.

1999

ALLIANCE VISION - DESTINATION

The Renault-Nissan Alliance is a unique group of two global companies linked by cross-shareholding.
- They are united for performance through a coherent strategy, common goals and principles, results-driven synergies, shared best practices.
- They respect and reinforce their respective identities and brands.

2004

(Source: Renault-Nissan Corp. docs.)
Japanese? French?

Photographs of Nissan and Renault car models removed due to copyright restrictions.

(Source: Corp. presentations)
In a *Global World*:

- The “cost of distance” is so low that it ...
  - Eliminates the profitability of arbitraging things that are easy to move
  - Increases the intensity of global competition and transnational production
  - Traditional sources of superior performance (such as scale or low labor cost) become *requirements* for *normal* performance (that is, for competitive parity, not competitive advantage)

- Competitive advantage is primarily based on *knowledge* (skills, technologies, user experience, ...) and other *intangibles* (reputation, culture, institutions) that are very hard to move or copy.

- *Knowledge (of the “hard to move” kind) is increasingly dispersed around the world*

*(Source: Doz, Santos, & Williamson, “From Global to Metanational”)*
Global Advantage: National or Metanational?

**National**

Superior performance depends on the attributes ("pitch") of national origin

*Projecting to the World*

(Porter, 1990)

**Metanational**

Superior performance depends on the capabilities of the organisation and management team

*Learning from the World*

(Doz, Santos, & Williamson, 2001)
The Roots of Competitive Advantage and Global Market Leadership

Innovating by melding home-base knowledge or globally dispersed knowledge?
The Roots of Global Superior Performance

Projecting home base advantage into different countries

Augmenting home base advantage by exploiting capabilities and market insights from different countries

Sensing and melding multiple capabilities and market insights across countries

**National**
National exploration provides the sufficient factors for competitive advantage at the World level

**National Plus**
National exploration provides necessary factors that are complemented globally for competitive advantage at the World level

**Metanational**
International exploration provides the sufficient factors for competitive advantage at the National or World level

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Why Internationalize

IKEA

“National” Advantage
Internationalizing to exploit home-based competitive advantage. The World as a source of efficiency and continuous improvement.

Shimano

“National Plus” Advantage
Internationalize to exploit and enhance home advantage. The World as a source of efficiency and discontinuous improvement.

Renault Nissan

“Metanational” Advantage
Internationalize to create competitive advantage. The World as a source of breakthrough innovation.