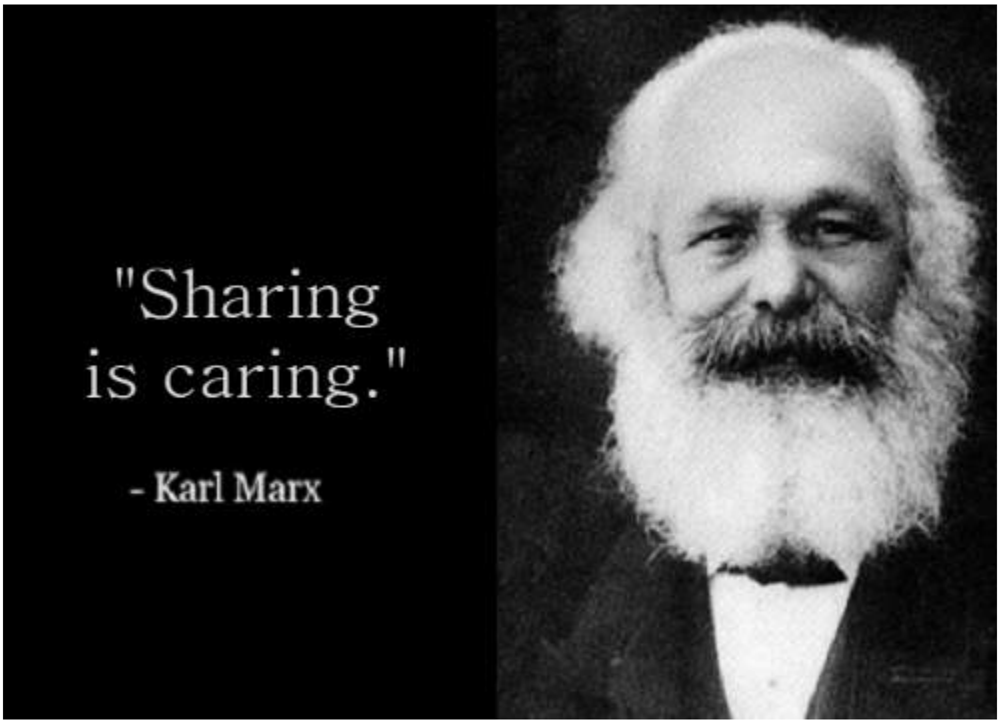
Beste medestudenten, omdat dit vak nogal vaag is en vooral moeilijk om te leren in het handboek, heb ik een samenvatting gemaakt!

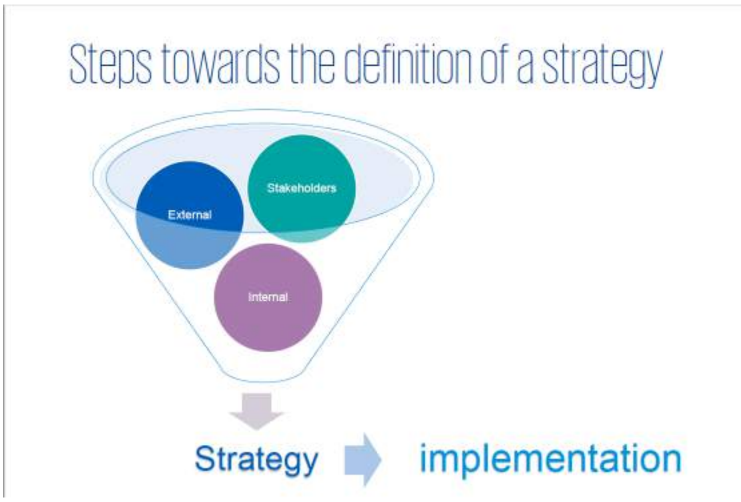
Deze samenvatting bevat:

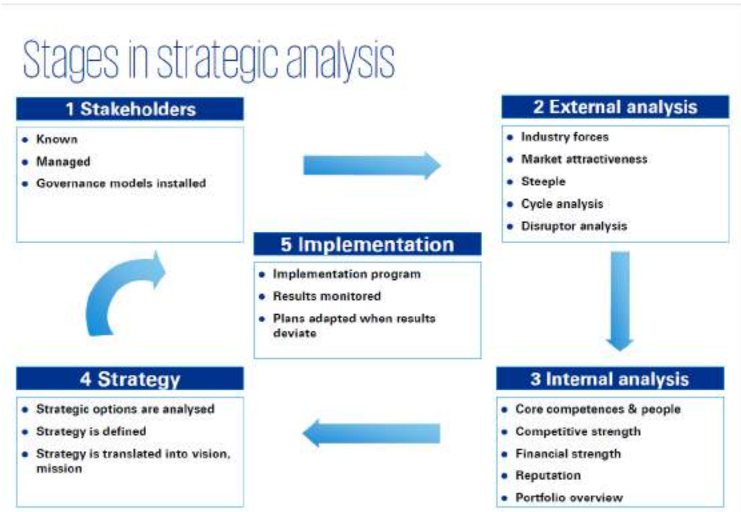
1. **Slides van de intro** (11 pagina's) → te kennen
2. **Slides + aanvulling uit het handboek 'International Business Strategy'** (44 pagina's) → te kennen
3. **Gastsprekers** (16 pagina's): slides + toepassing. → zeer belangrijk
4. **Relevante slides 'private equity', 'M&A' en 'disruptie' + extra info** (46 pagina's) → grote lijnen kennen, de slides met extra info bij zijn het belangrijkste. Hier zal je snel door bladeren!



Intro: what is strategy

1. Stages

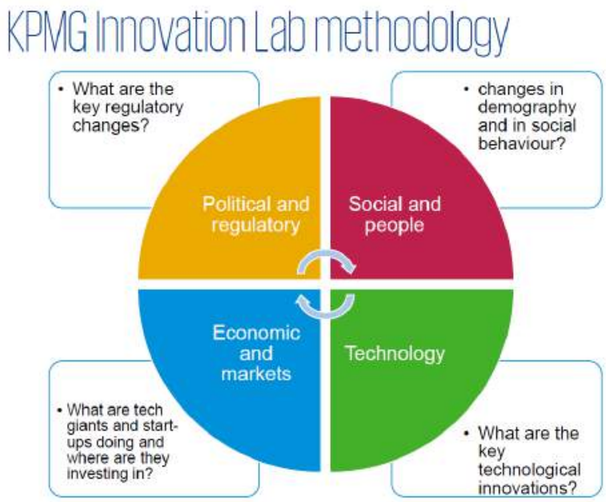


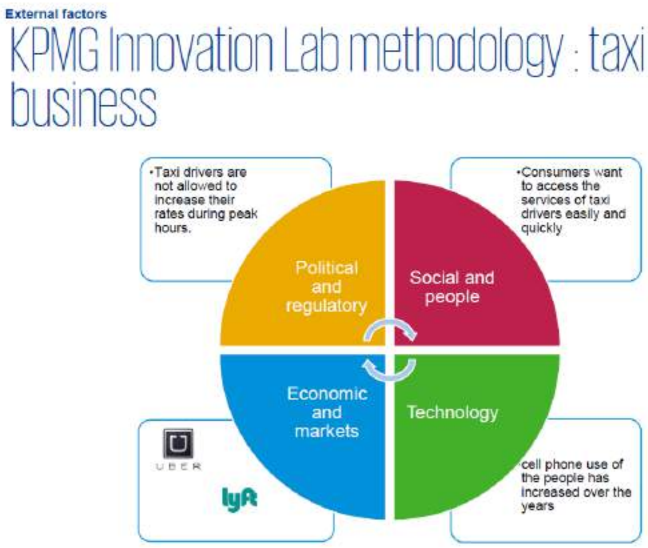


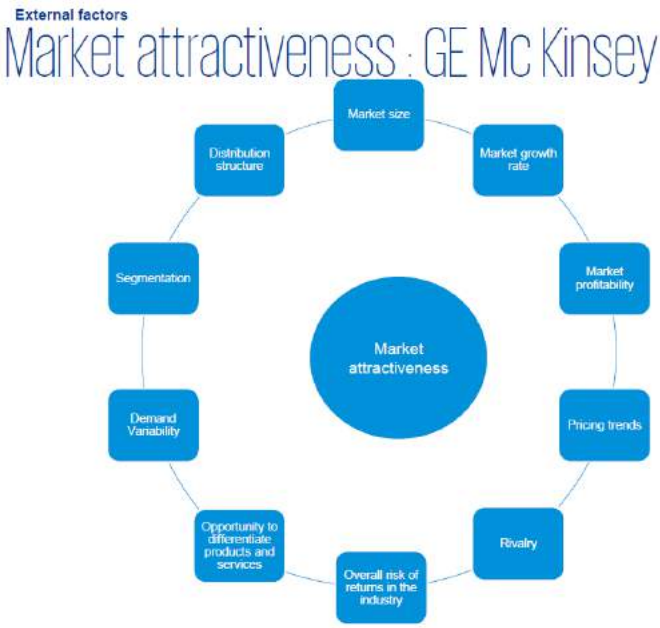
2. Stakeholders

Stakeholder analysis: Why do I do business? What do I want to achieve?

3. External factors

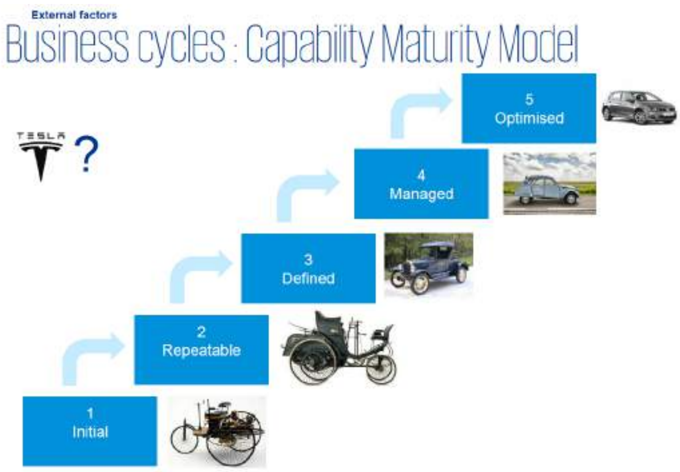

KPMG Innovation Lab methodology
• What are the key regulatory changes?
• changes in demography and in social behaviour?
Political and regulatory
Social and people
Economic and markets
Technology
• What are tech giants and start-ups doing and where are they investing in?
• What are the key technological innovations?


External factors
KPMG Innovation Lab methodology : taxi business
•Taxi drivers are not allowed to increase their rates during peak hours.
•Consumers want to access the services of taxi drivers easily and quickly
Political and regulatory
Social and people
Economic and markets
Technology
UBER
lyft
cell phone use of the people has increased over the years


External factors
Market attractiveness : GE Mc Kinsey
Market size
Market growth rate
Market profitability
Pricing trends
Rivalry
Overall risk of returns in the industry
Opportunity to differentiate products and services
Demand Variability
Segmentation
Distribution structure
Market attractiveness

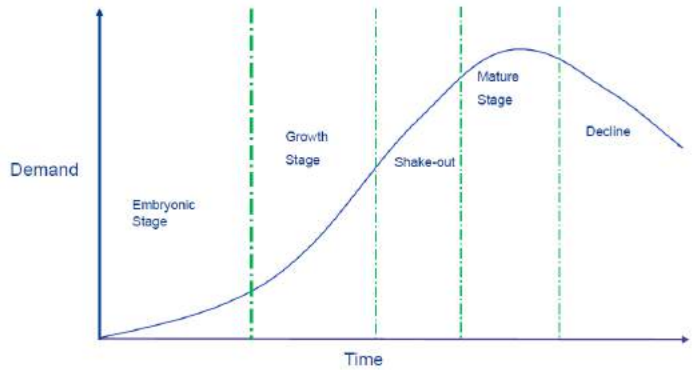

External factors
Market attractiveness : STEEPLE analysis
Social
Legal
Technological
STEEPLE
Ethical
Economical
Political
Ecological


External factors
Market attractiveness : INDIA
Ageing population
Important number of recent legal changes
Strong IT sector
A lot of discrimination issues
Important economical growth
India knows a certain political stability
Quality of the air has been affected by industrialization


External factors
Business cycles : Capability Maturity Model
TESLA ?
5 Optimised
4 Managed
3 Defined
2 Repeatable
1 Initial

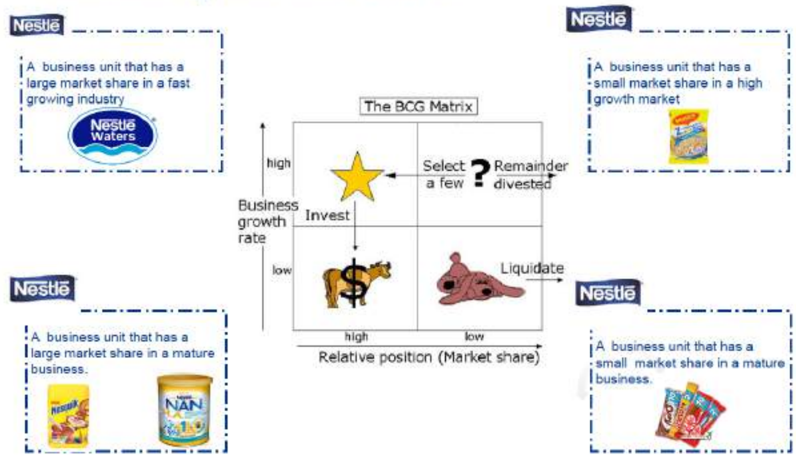
External factors

Business cycles



External factors

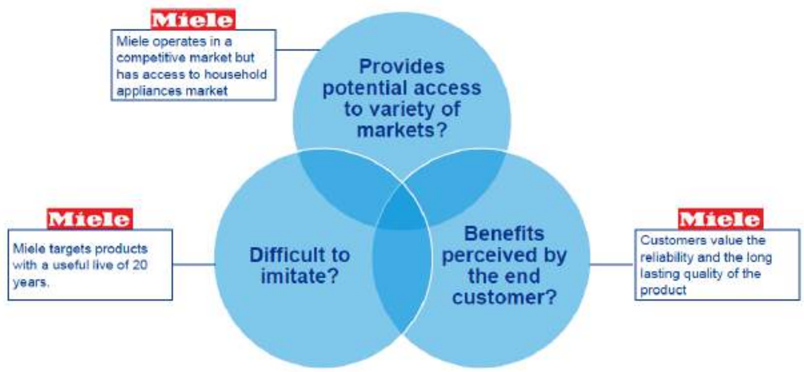
Business cycles: BCG Matrix

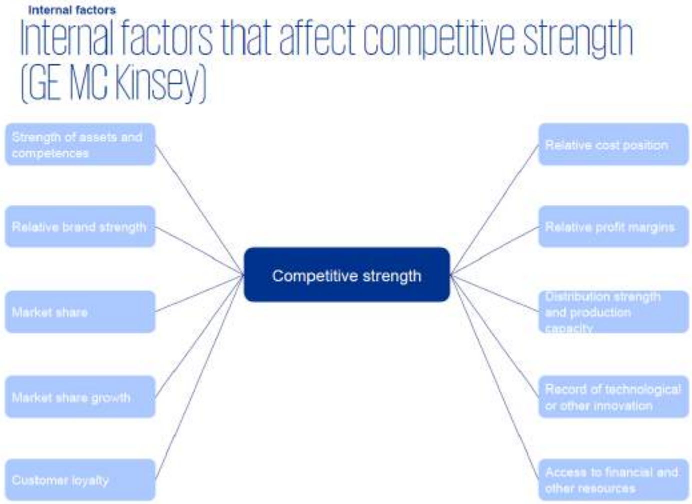


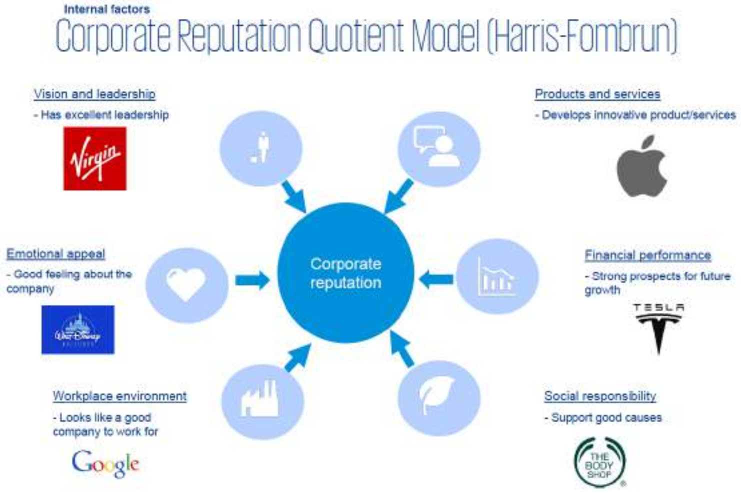
4. Internal factors

Internal factors

Core competences (Hamel-Prahalad)

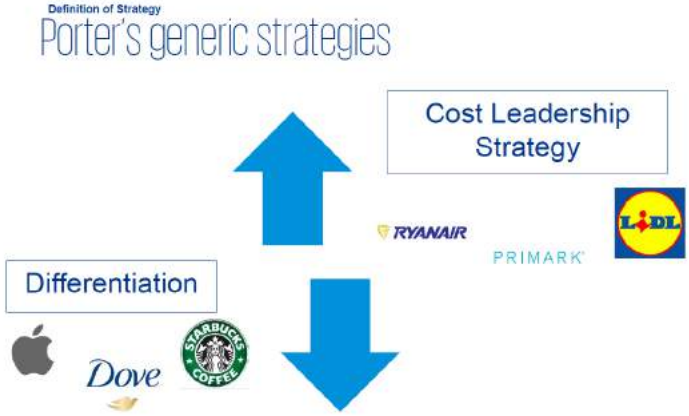


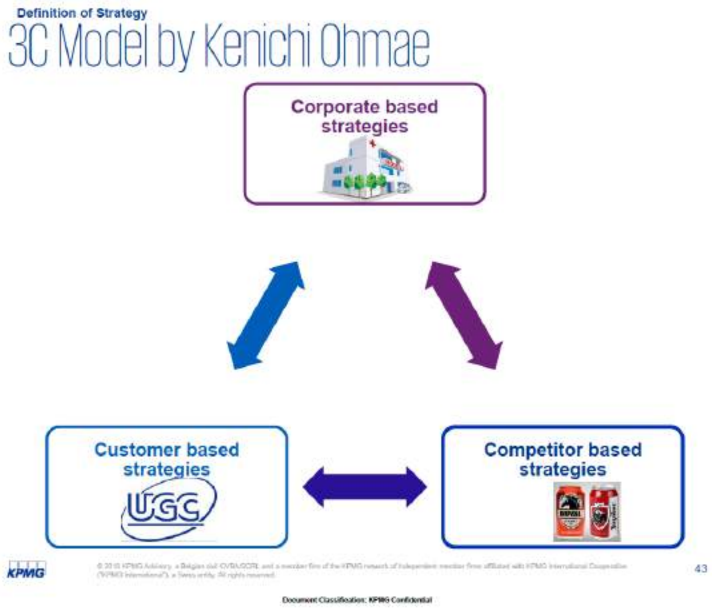


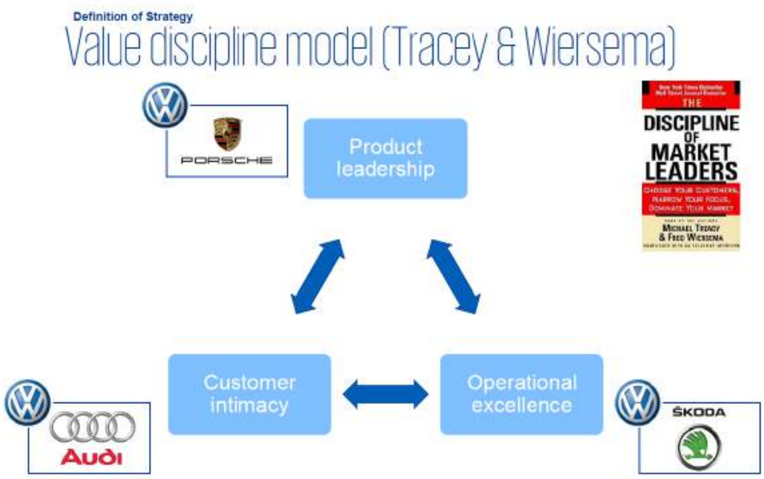


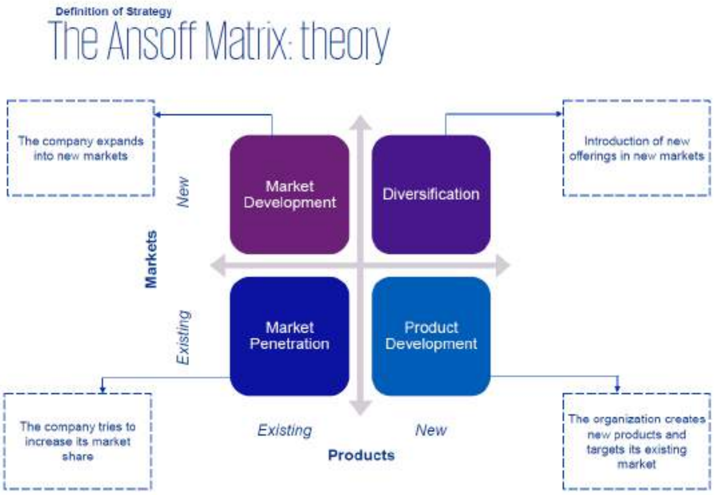
5. External and internal factors combined

6. Definitions of strategy









Motivations for foreign expansion

- Natural resource seeking
- Market seeking
- Strategic resource seeking
- Efficiency seeking

7. Implementation

Chapter 1: conceptual foundations of international business strategy

1.Definition of international business strategy

International business strategy means effectively and efficiently matching a multinational enterprise's (MNE's) internal strengths (relative to competitors) with the opportunities and challenges found in geographically dispersed environments that cross international borders. Such matching is a precondition to creating value and satisfying stakeholder goals, both domestically and internationally.

2. The seven concepts of the unifying framework

1. Internationally transferable (or non-location bound) firm-specific advantages (FSAs)
2. Non-transferable (or location-bound) FSAs: FSAs having challenges for technical transfer
3. Location advantages *bv. Good relationships*
4. Investment in – and value creation through – resource recombination: Recombination ≠ combining resources. It means that some resources used in an initial combination need to be dropped.
5. Complementary resources of external actors
6. Bounded rationality: making mistakes because you don't have enough knowledge
7. Bounded reliability: perform well, having much information, but doing the wrong thing for the overall business.

2.1. Internationally transferable FSAs

- To overcome additional costs of doing business abroad, MNE must have internal strengths (technological, marketing, administrative knowledge).

- These FSAs do not stop creating value when the border is crossed. But value can be somewhat different between host and home country.

- Facing natural or government-imposed trade barriers → MNE may transfer some FSAs abroad directly, as intermediate products.

- Exploitation of FSAs abroad can also be done by external factors (licensees) or by network partners (distributors) who may add their own complementary resources.

- Paradox: If the FSA consists of easily codifiable knowledge (i.e., if it can be articulated explicitly, as in a handbook or blueprint), then it can be cheaply transferred abroad, but it can also be easily imitated by other firms.
  Though expensive and time-consuming to transfer tacit knowledge across borders, the

benefit to the MNE is that this knowledge is also difficult to imitate. It is often a key source of competitive advantage when doing business abroad

- Most important tacit knowledge= the key routines developed by the firm. These are set by the firms particular external circumstances.

2.1.1. Four MNE archetypes

Each type has its own specific routine of international FSA transfer.
All these types transfer at least some FSAs across borders.

1. Centralized exporter

Standardized products manufactured at home embody the firm's FSAs (themselves developed on the basis of a favourable home country environment, including local clustering) and make the exporting firm successful in international markets.

- Selling products internationally
- When you have a good product which is easy to use
- Minor value-creating activities abroad
- Multinational activities occur primarily in the downstream end of the value chain, related to marketing, distribution and logistics.
- Found in many Japanese MNEs
- Case 1: Nippon Electric Limited Partnership: export of products that had already been successful domestically. Has central laboratories and innovation centres for all four R&D domains located in Japan.
- Case 2: Motion picture studios: final products incorporate all the companies' FSAs
- Case3: Apple

2. International projector

Knowledge-based FSAs developed in the home country are transferred to subsidiaries in host countries. The international projector MNE seeks international expansion by projecting its home country success recipes abroad.

- Subsidiaries are clones of the home operations
- Relies on professional managers who can act as expatriates or transfer agents of home country success recipes
- Case 1: Ford: Exported to Great Britain through agents. Affiliates have the same general letters of instruction and the same communications about accounting, sales, production and planning.
- Case2: Disney: Tokio Disneyland, Disneyland Paris and Hong Kong Disneyland cloned the original park in Anaheim. Only have some subtle local adaptations.

3. International coordinator

International operations are specialized in specific value added activities and form vertical value chains across borders. The MNE's key FSAs are in efficiently linking these geographically dispersed operations through seamless logistics.

- Tradition of managing international operations, both upstream and downstream, through a tightly controlled but still flexible logistics function.
- Case 1: BP: Diversified it sources of oil in many countries. Has a wide variety of activities. Manages contracts to integrate supply coming from specific production sites with demand in specific markets.

4. Multi-centred MNE

The multi-centred MNE consists of a set of entrepreneurial subsidiaries abroad which are key to knowledge-based FSA development. National responsiveness is the foundation of the international strategy. The non-location bound FSAs that hold these firms together are minimal:
• common financial governance
• identity and specific business interests of the founders or main owners

- MNE viewed as a portfolio of largely independent businesses
- Case 1: Philips: Ran its affiliates as semi-autonomous organizations because of high cultural differences.
- Case 2: Lafarge group: Leaves operating units with a high degree of autonomy. This multi-local organization is divided in 3 levels: corporate, divisional and business unit level.

2.1.2. Routines

The distinct ability to combine further the firm' s resources, in unique ways valued by the firm' s stakeholders. Routines are stable patterns of decisions and actions that coordinate the productive use of resources, and thereby generate value, whether domestically or internationally. The combination ability expressed in routines is a higher-order FSA.

2.1.3. The MNE's unique resource base

Seven resources:

1. Physical resources (natural resources, buildings, plant equipment).
2. Financial resources (equity and loan capital)
3. Human resources (individuals and teams, entrepreneurial and operational skills).
4. Upstream knowledge (sourcing knowledge, product and process related technological knowledge)
5. Downstream knowledge (marketing, sales, distribution and after sales service).
6. Administrative knowledge (organizational structure, culture and systems).
7. Reputational resources (reputation for honest business dealings)

Building upon its resource base, as well as its access to location advantages, the MNE will develop stand-alone FSAs (e.g., brand names, patents) and routines, and will also engage in resources recombination. FSAs reflect the firm's distinct strengths vis-à-vis rivals, and are the source of its competitive advantage in the marketplace.

2.2. Non-transferable (location-bound) FSAs

Four main types:

1. Stand-alone resources linked to location advantages (privileged retail locations).
   - The immobility of domestic networks
   - Case 1: Kao: Its dominant domestic position was its control of a comprehensive distribution system within Japan
   - Case 2: Citibank: Japanese consumers tended to view foreign banks as les trustworthy than local banks.

2. Local marketing knowledge and reputational resources, such as brand names (may not be applicable to a host country context, or valued to the same extent).
   - Don't have same value across borders because not applicable or not valued to the same extent
   - Case 1: Ralp Lauren: Europeans see it as classic sportswear.

3. Local best practices (i.e. routines), such as incentive systems or buyer-supplier relations (may not work abroad).
   - Routines considered highly effective and efficient in one country.
   - Case 1: Hotel industry in Japan vs VS: In Japan high quality of services, but in applicable in the VS because labour is too expensive.

4. Domestic recombination capability (may not work in foreign markets).
   - May not be adept enough to confront the additional complexity of foreign markets
   - Case 1: Office Depot: Needed to provide Japanese-style office products, different from American ones.

Even if transferability of the relevant resources were technically possible, this does not mean the transfer of the potential for profitable deployment, i.e. the resource bundles that may be transferable from a technical perspective (e.g., the way in which a product is marketed at home), do not constitute an FSA abroad.

The FSA in each host country will need to be created or acquired from third parties operating in these foreign markets.

2.3. Location advantages

Entire set of strengths of a location, and accessible by firms in that location.
Should always be assessed relative to the strengths of other locations.

- Instrumental to FSAs
- Can vary widely in their geographical scope
- Natural resources
- A superior educational system → human resource skills
- Presence of a demanding and sophisticated local market → local innovation
- A combination of the local advantages with specific proprietary business may confer an additional FSA
- Can accrue only to firms operating in a part of a country, but can also reach across country borders (bv NAFTA)

2.3.1. Motivation for foreign expansion

Foreign direct investment (FDI)= the allocation of resource bundles by an MNE in a host country, with the purpose of performing business activities over which the MNE retains strategic control in that country.
MNE should engage in FDI only if the host country confers a location advantage relative to the home country.

4 motivations:

1. Natural resource seeking: search for physical, financial or human resources.

2. Market seeking: search for customers in host countries. If this confers higher value to the firm than engaging in an alternative investment projects at home.
    - Market seeking ≠ exporting: it also involves business activities in the host country.
    - Case 1: Coca-cola

3. Strategic resource seeking: gain acces to advanced resources in the sphere of upstream knowledge, downstream knowledge, administrative knowledge or reputational resources.
    - Typically involves taking over other companies, engaging in alliance activity or becoming an insider in foreign knowledge clusters.
4. Efficiency seeking: firm's desire to capitalize on environmental changes that make specific locations in the MNE's international network of operations more attractive for the consolidation of concentration of specific activities.
    - Technological break-throughs allowing greater scale economies, more focus on innovation, higher R&D investments, shorter product cycles, reduction of trade and investment barriers.

Centralized exporter → market seeker: FSAs are embodied in its final procucts.

International projector → clones operations in the host country, replicating its internationally transferable FSAs

International coordinator → main FSA is ability to coordinate the location advantages accessed in multiple host countries. It may sometimes be necessary to transfer resource bundles to the host country operations to gain access to the location advantages

Multi-centred MNE → Recognizes that each host country operation needs to build upon its own distinct location-bound FSAs, transfers only core routines.

2.4. Value creation through resource recombination

Recombination constitutes the heart of international business strategy. Artful orchestration of resources, especially knowledge bundles, as a response to differences between national and foreign environments, and to satisfy new stakeholder demands in these foreign environments. Entrepreneurial judgment is at the heart of the MNE's recombination capability. Precondition to value creation and satisfying stakeholder needs in complex international settings

Lees pagina 38-50

2.5. Complementary resources of external factors

Needed from external actors (technology providers, licensees, local distributors, joint venture partners, etc.) to be successful abroad.
Distance types that can be covered by partners:
1. cultural vb. Coffee (starbucks) in Italy
2. economic vb. Iphone in Afrika
3. Institutional → authorization
4. spatial

Conditions:
1. attempts at internal development would lead to lower NPV or are not feasible
2. external actors are able and willing to provide the resources

Domestically FSAs, routines and recombination capabilities may be insufficient to be successful in host countries because the cultural, economic, institutional and spatial distance from the home country.

2.6. Bounded rationality

Scarcity of mind: managers responsible for making decisions and engaging in purposive action in the firm always face **information problems**:
1. One source is poor access to information sufficient in quality and quantity → information about the environment (especially the future state) is incomplete.

2. Another source is the limited mental capability to process complex information bundles → not good in determining its relevance and implications for strategy.

- Senior managers in home country and host country adopting different decision-making approaches
- Divergence in judgement which leads to alternative prediction of the future in a context of high uncertainty
- Subsidiary managers receiving information directly from the local environment → typically optimistic
- Case 1: Fuji-Xerox: Fuji Xerox in Japan and Xerox in the US had very different perceptions about future market development and assessed knowledge differently.

2.7. Bounded reliability

Scarcity of effort to make good on open-ended promises
• One source is opportunism (ex ante false promises; ex post reneging on promises).

• A second source is benevolent preference reversal good faith local prioritization: distance in time from punishment; distance in space from the headquarters' monitoring apparatus; proximity to - and intrinsic satisfaction from - focusing on local opportunities with immediate local rewards

- 2 types of benevolence preference reversal:
  1. Good faith local prioritization: promise in good fait but, over time, diverting (=omleiden) their effort to the pursuit of local preferences. Satisfaction derived from focusing on autonomous, locally driven investment opportunities.
  2. Scaling back on over-commitments: Actor who made an initial promise was overconfident in his/her capability to deliver. The problem with opportunism lies with the individual's self-centred desires and effort.
- Promises to headquarters have been replaced by the pursuit of local goals.
- Causes long-term conflicts between subsidiary and headquarters

2.8. Bound rationality versus bounded reliability

Bounded rationality is about the imperfect assessment of a present or future state of affairs, thereby leading to incorrect beliefs;

Bounded reliability is about imperfect effort towards pre-specified goal achievement, thereby leading to incomplete fulfilment of promises.

- Unreliability in the MNE can be eliminated by:
  1. Contractual safeguards
  2. Joint goal development and frequent communication
  3. Routines such as multi-level and multi-stage decision-making processes to reduce the impact of individual evaluation biases and impulsivity

2.9.Key questions in international business strategy

1. What is our distinct resource base, including elements of our administrative heritage, that provides internationally transferable FSAs?
2. Which value-added activities in which foreign location(s) will permit us to exploit and augment to the fullest our distinct resource base?
3. What are the expected costs and difficulties we will face when transferring this distinct resource base?
4. What specific resource recombination (associated with each alternative foreign entry and operating mode) will be required so as to make the proposed international value-added activities successful?
5. Do we have the required resource recombination capability inhouse?
6. What are the costs and benefits of using complementary resources of external actors to fill resource gaps?
7. What are the main bounded rationality and bounded reliability problems we will face when extending the geographic scope of our firm's activities, given the changed boundaries of the firm, the changed linkages with outside stakeholders and the changes in our internal functioning?

Chapter 2: the critical role of FSAs

1.Focus on high-order FSAs

- Firm is a portfolio of '**core competencies'**: higher-order FSAs → the firm's routines and recombination capabilities, shared knowledge, ability to integrate multiple technologies
- A core competence ultimately takes the form of: shared knowledge, organized into routines, and the ability to integrate multiple technologies, reflecting the recombination of internal resources
- Routines/recombination abilities 'carried' by key employees (so-called **competence carriers**) that can be deployed across business units
- Advantage: management's ability to consolidate corporate-wide technologies and production skills into competencies that empower individual business to adapt quickly to changing opportunities.
- Competencies produce core products: key components from which end products are developed and created, which are put together to create end products
- Stand-alone FSAs (know)how, vertical integration strengths) are not core competenties

2.Characteristics of core competence

1. Difficult for competitors to imitate (internal coordination and learning)
2. Provides potential access to wide variety of markets
3. Makes a significant contribution to perceived customer benefits from the end products
4. We add a fourth characteristic: the loss of a core competence would have an important negative effect on the firm's present and future performance, in terms of value creation and satisfying stakeholder objectives

3.Organizational implications

- Senior management should not just make strategic plans with growth and profitability targets for the firm's product lines and SBUs, but it should also develop a 'strategic architecture' (road map) to guide the corporation in building and acquiring core competencies
- Necessary to overcome the challenge of decentralized SBUs acting in their own self-interest

- Senior management should reallocate competence carriers, with deep knowledge of routines and instrumental to resource recombination across functional and business units so as to yield the highest return for the firm as a whole

4.Dangers of outsourcing

- The company must have a clear understanding of the FSAs it is trying to build through the outsourcing partnership, and those it is seeking to protect from being transferred to potential competitors

- Outsourcing strategies for key components in manufacturing, as a shortcut to increase short-term profitability, may lead to the loss of FSAs

5.Context – complementary perspectives

- The redeployment potential of technology from one set of products to another plays a key role in long-term success.

- USA companies attached most importance to product differentiation and diversity of markets for short-term profitability → more appropriate in industries characterized by fundamental technological change and the related commercial breakthroughs and early profits.

- Japanese companies focused on improving process technology (productivity, quality and production time) for standard products with a long-term perspective, they view products more as an outcome of the underlying competencies → better for a competitive advantage

- In industries that change rapidly, core competencies can become core rigidities

- MNEs can't transfer manufacturing FSAs from the home country, hoping to reduce overall costs → bounded rationality problem: Manufacturing knowledge is no stand-alone FSA and this FSA can't be effortlessly recombined with foreign location advantages.

- Core competencies involve the combination of stand-alone knowledge bundles found in different functions into routines, as well as the further recombination of existing resource bundles with new resources.

Five criteria to assess the need for co-locating activities instrumental to further recombination. These criteria determine the scope of the bounded rationality problem to be solves:

1. **Complexity** of information to be transferred: several communication modes
2. **Required level of interaction**: higher uncertainty and need for two-way information flows (mutual adjustment), closer geographic proximity required. For the effective and efficient

resource combination, all the economic activities that require geographical proximity must be co-located.

3. **Similarity of background and expertise** of people involved at home and abroad: less similarity makes it more difficult to communicate
4. **Prior relationships** affecting communication on sensitive issues: this is a precondition for the parties having confidence in each other
5. **Concreteness of information** (emotions, feelings, cultural values embedded?): tacitness + meaning of the information beyond its verbal content

6.Five key management takeaways

1. Identify and nurture your company's core competencies, and differentiate their treatment from that given to less critical FSAs.
2. Develop a 'strategic architecture' to guide your company in building and acquiring core competencies.
3. Understand the economic potential and drawbacks of acquiring FSAs through external strategic alliances.
4. Do not overestimate the transferability of your FSAs across borders, and understand the costs of successful resource recombination.
5. Reflect on co-location requirements when expanding internationally and investing abroad.

Chapter 3: The nature of home country location advantages

1.Porter's diamond

- Any company's ability to compete internationally is based on location advantages in its home country

- Pressure in the home base pushes innovation and upgrading, resulting in FSA creation. Companies benefit from having strong rivals, aggressive suppliers and demanding customers. Building mainly upon natural factor endowments (=schenking) or a protected market environments is usually detrimental to innovation and growth.

- Innovation + firm-level productivity improvements → long-term competitiveness

- It is the interaction among four sets of parameters, together with government and chance that determines the company's ability to compete internationally:
  1. **Factor conditions**: focus on created factor conditions (skilled labour, scientific knowledge and infrastructure) that are specialized
  2. **Demand conditions**: size and customer sophistication of domestic demand
  3. **Related and supporting industries** (world class suppliers), companies in related industries. Exchange of ideas, feedback and short lines of communication.
  4. **Firm strategy, industry structure, and rivalry**: highly competitive domestic industry helps international competitiveness

- Home country diamond cannot be identified for a national or regional economy as a whole, but only for specific industries

- Industry-specific pressures lead to innovation and productivity improvements

- Findings resulted from four-year study over 100 industry groups in ten nations (Denmark, Germany, Italy, Japan, Korea, Singapore, Sweden, Switzerland, the United Kingdom and the United States)

- Empirical work was aimed mainly at validating, not testing, the diamond framework

2.Five key management takeaways

1. Apply the 'diamond' framework to evaluate the sectoral strengths and weaknesses of your domestic industry.
2. Reflect on the relevance of national diamond characteristics to explain the short- and long-term competitiveness of your own firm.
3. Define industry-specific pressures that can strengthen your FSAs through absorbing – or building upon – the complementary resources present in your industry environment.
4. Analyse the economic potential of foreign diamonds, i.e., foreign input markets for providing resources to your firm, and foreign output markets for absorbing its end products.
5. Assess the suitability of the diamond framework for analysing your industry and adjust/add determinants and sub-factors according to your firm-specific needs.

Chapter 4: Problem with host country location advantages

1.Distance components

There are risks and additional costs associated with entering new markets:

1. **Cultural distance**: language, religious beliefs, social norms and race
    - Soft consumer goods as food items are more sensitive to cultural distance
    - bv. Star TV underestimated the market's preference for locally produced, Chinese language content
2. **Administrative distance**: societal institutions.
    - Common historical and political ties significantly increase trade levels.
    - Tariffs, quotas, restrictions on foreign-owned companies and preferential treatment.
3. **Geographic (spatial) distance**: Physical distance, taking into account the ease of transport between countries.
    - Differences in topography or climate can make distance higher, human intervention can reduce distance.
    - Low value-to-weight ratios (such as steel): big costs when spatial distance is high
4. **Economic distance**: Consumer wealth, income level, infrastructure, natural, financial and human resources.
    - Scale or scope economies: more effective is distance is small (centralized exporter, national projector)
    - If a firm concentrates on economic arbitrage: economic distance is good, because it possesses FSAs that allow it to exploit and link the diverse location advantages of high distance countries. (international coordinator)

2.Management insights

- Ghemawat clarifies that the international exploitation potential of FSAs depends upon the type and level of distance among countries.

- Because of bounded rationality, managers often overestimate the international profit potential of their companies' FSAs, and underestimate the efforts required to penetrate international markets.

<u>3.Five management takeaways</u>

1. Pay attention to the four key dimensions of 'distance' when evaluating the attractiveness of foreign markets.
2. Analyse your company's position in the realm of cost leadership and thereby your potential (or need) to develop an FSA in offshoring.
3. Consider the right corporate and product brand names, the right image and the creation of the right perception of quality when launching branded consumer goods in high-distance markets.
4. Reflect on the transferability, deployability and profitable exploitation of your FSAs across borders, as well as on the need to create new FSAs, and on the possibilities of resource recombination. Do not overestimate the profit potential abroad of FSAs that worked well at home.
5. Before making a final decision about entry in potential host markets, do assess several firm- and host country-specific characteristics, which amount to 'distance': evaluate whether strong but hypothetical profit potential in foreign markets can actually be achieved in practice, given the presence of distance.

Chapter 5: Combining FSAs and location advantages in a Multinational Network

1.Roles of subsidiaries

- MNEs do not recognize their subsidiaries' potential to develop strengths
- Selectively decentralizing elements of strategic decision making and control → optimizes the deployment and exploitation of their present FSAs and supports the development of new FSAs at their subsidiaries

Two common, wrong assumptions made by senior MNE management:

1. **United Nations model** of multinational management: treat each subsidiary in a similar manner: either subsidiary independence (multi-centered MNEs) or complete dependence (global exporters or international projectors) → Homogenization
2. **Headquarters hierarchy syndrome**: The dominant central corporate headquarters control key decision-making processes and overall company resources in order to implement a consistent global strategy (only valid in case of complete dependence of subsidiaries) → centralization

2.Dysfunctional effects on the MNE

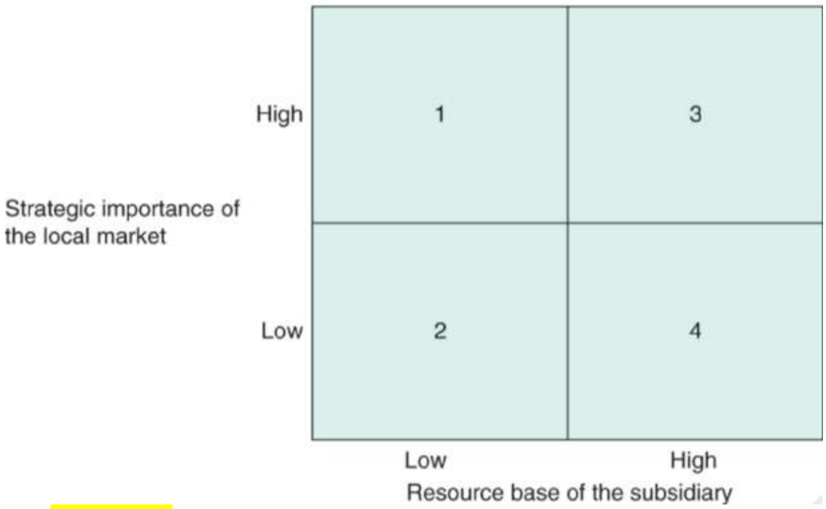
- First assumption: important markets and subsidiaries are treated in the same way as unimportant ones, and therefore the opportunities they provide are not optimally exploited
- Second assumption: subsidiaries with a distinct, specialized resource base are unable to escape from an implementer role, and lose their entrepreneurial motivation

3.Solution

- An organizational model of differentiated rather than homogenous subsidiary roles and of dispersed rather than concentrated responsibilities. Ineffective and overly centralized organizational structure and related decision-making is not good.
  Case1: EMI: strategy overly focused on domestic market needs. Was unresponsive to changing needs outside its home market, unaware of emerging competitive threats in the US and left national managers without the resources to address the growing competitive threats.
  Case2: P&G: Failure because of neglecting the specialized resources, especially in local market knowledge by subsidiaries and by demotivation local managers.

- Simple **normative model** as a response to differentiated subsidiary role requirement:
  1. Assess each market according to its **strategic importance**
  2. **Rate each subsidiary's resource base** in terms of sales and marketing achievements, production capabilities, research and development, or any other strength contributing to competitiveness

- 4 subsidiary types:



1. Black hole: Specialized resources: weak ; located in strategically important market
→Use it to maintain presence in key market, commit more resources to these markets to build up the subsidiary

2. Implementer: Specialized resources: weak ; market of lesser importance
→Key for success, steady stream of cash flow + scale and scope economies

3. Strategic leader: Specialized resources: high ; strategically important
→Role: assist corporate headquarters in identifying industry trends and develop new FSAs

4. Contributor: Specialized resources: high ; less important market
→Developing new FSAs, understand potential economic value for the MNE

4.Context and complementary perspectives

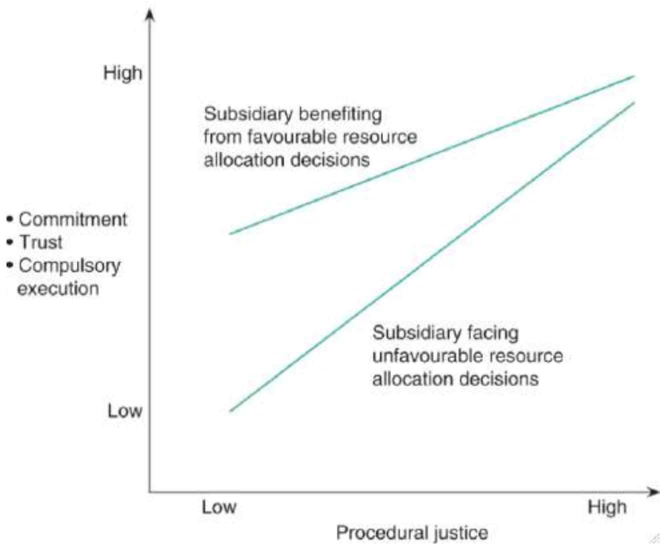
- W. Chan Kim and Renée Mauborgne (SMR): MNE corporate headquarters, faced with the need to make difficult, centralized strategic management decisions, often in the resource allocation sphere, frequently demotivate subsidiary managers rather than bringing out the best in them

- Headquarters often centralize decision-making process → demotivates subsidiary managers. This is very problematic if the host country unit has grown very large.

- Headquarters have limited ability to evaluate appropriately each unit, to exert hierarchical power and to establish a common corporate culture.

- Subsidiary managers attach substantial importance to **due process**: to the way strategic decisions are made, irrespective of the outcome. Fair treatment, normal process.
  Five simple principles of procedural justice:
  1. Corporate headquarters' familiarity with the local situation at the subsidiary level: senior managers understand all the decision for subsidiaries
  2. Effective two-way communication between corporate headquarters and subsidiaries: take subsidiary managers' view seriously
  3. Consistency in decision-making across subsidiaries: transparent criteria and routines
  4. Possibility for subsidiary managers to challenge the dominant perspective at corporate headquarters
  5. Transparent explanation of final decisions made by corporate headquarters

  → Due process is as an attempt to reduce bounded rationality & the outcome of due process is a reduction of bounded reliability problems



Increased procedural justice → reduces negative impact of unfavourable resource allocation decisions on commitment, trust and subsidiary managers' willingness to execute centrally made decision. The impact was larger for disfavoured subisidiaries.

- Anant Neghandi, Golpira Eshghi and Edith Yuen (CMR): **Japanese MNEs** face serious problems in subsidiary management
  Five main problems:
  1. Japanese MNEs adopt a centralized, autocratic approach vis-à-vis their foreign subsidiaries: subsidiaries informed after decisions
  2. Japanese MNEs have little confidence in subordinate, non-Japanese managers
  3. Relationships of trust are confined to a few key managers
  4. Japanese staffing policies are ethnocentric
  5. Japanese MNEs discriminate against women and minorities

→ Conclusions:

1. Strong FSAs in technology, production and government relations do not necessarily imply the MNE has strong capabilities to manage a foreign subsidiary network
2. United Nations approach and headquarters-hierarchy syndrome prevent many Japanese MNEs from developing strategic leader subsidiaries

5.Five management takeaways

1. Assess the current organizational structure and decision-making processes in your firm and reflect on the different roles performed by your subsidiaries
2. Classify your portfolio of subsidiaries as a function of the strategic importance of each market where they operate and the resource base they command.
3. Respect the five components of due process in each corporate head office decision that will affect subsidiaries.
4. Review the main problems faced by many Japanese MNEs and learn from their mistakes.
5. Analyse best practices (inside your firm and industry) for FSA development in subsidiaries and reflect on the key drivers of subsidiary roles and dynamics.

Chapter 6: International innovation

1.Significance

- Many MNEs are moving from centralizing R&D in the home country towards building **international networks** where foreign R&D laboratories fulfill specific roles

- Two main reasons: need for presence in knowledge and innovation clusters (input side), and commercial requirement of moving quickly from innovation to market (output side) so that MNEs must integrate R&D facilities more closely with host country manufacturing

- **Kuemmerle** observed the internationalization of the R&D function

Two distinct types of R&D facilities:

1. Home-base exploiting sites "supporting manufacturing facilities in foreign countries or to adapt standard products to the demand there", with "information flows to the foreign laboratory **from the central lab at home**".
   Invent something → go implement it in the market
2. Home-base augmenting sites have information flows "**from the foreign laboratory to the central lab at home**"
   Real interaction between R&D centres.

- First: the MNE selects the decision makers. Technology steering committee: reports directly to CEO → reduces bounded rationality problems

- Second: Strengthen the lab's initial capabilities. Difference between labs

    - **Home-base exploiting labs**: close to key markets and MNE's foreign manufacturing units
      Initial leadership in the hands of "highly regarded managers from within the company intimately familiar with the company's culture and systems to forge close ties between the new lab's engineers and the foreign community's manufacturing and marketing facilities"
      Bounded rationality problem reduced by these labs: lowering of distance between home-country R&D and host country manufacturing
    - **Home-base augmenting operations** in critical knowledge clusters to tap into new sources of innovations
      Initial senior managers "should be prominent local scientists… to nurture ties between the new site and the local scientific community"
      Main bounded rationality problem is the subsidiary cannot access knowledge in foreign locations without becoming an insider

- Third: Maximize lab's contributions to the MNEs strategic goals. Each lab should interact regularly with the other R&D units, as well with manufacturing and marketing operations. Contributions complement the MNEs existing FSA base.

- Ideal profile of foreign R&D unit leaders, instrumental to knowledge recombination:

  Four qualities:
  1. respected scientists or engineers and skilled managers;
  2. able to integrate the new site into the company's existing R&D network;
  3. comprehensive understanding of technology trends;
  4. able to overcome formal barriers when seeking access to new ideas in local universities and scientific communities

- Managers must connect the labs with other resources in the firm and effectively tap the external environment in host markets for new knowledge

2.Five management takeaways

1. Analyse your firm's portfolio of international R&D facilities, and categorize these according to their home-base-exploiting versus home-base-augmenting status.
2. Assess whether your knowledge-generating activities are located in the best possible knowledge clusters with optimal access to specialized resources.
3. When exploring the drivers of innovation inside the firm, examine the potential of subsidiary initiatives.
4. Reflect on the potential to partner in alliances, so as to absorb new knowledge in your industry.
5. Align R&D initiatives in host country labs with overall corporate goals and consider alternative paths to new knowledge (e.g., acquisitions).

Chapter 7: International sourcing and production

1.Significance

- Focus on key issues of location advantages, transferability of home country FSAs & build-up of host country LB FSAs

- Most successful manufacturing MNEs view their foreign factories as sources of FSAs beyond the ability to save costs

- "How can a factory located outside of a company's home country be used as a competitive weapon not only in the market that it directly serves but also in every market served by the company?"

- Foreign factory senior managers' attitude is critical

- MNEs should leverage their foreign factories to get closer to customers and suppliers, attract skilled and talented employees and to create centres of expertise for the whole company.

- Changes in the international business environment driving assignment of new foreign factory roles:
  1. International trade tariffs declined substantially in the second half of the 20th century, so foreign factories can be more than branch plants
  2. Modern manufacturing increasingly technologically sophisticated, so that location in sophisticated knowledge clusters makes sense
  3. Shortened product life-cycles, requiring close linkages between knowledge development and production

- Subsidiary must develop internationally transferable FSAs, building upon the location advantages of the host country cluster.

- 6 roles for foreign manufacturing, based on 2 parameters:
  Host country location advantages the MNE wants to access
  Level of distinct FSAs held by the plant: additional strength added by the plant itself:

  1. Offshore factory:
     - accesses low-cost input production factors
     - output exported
     - no new FSA development
     - minimum autonomy

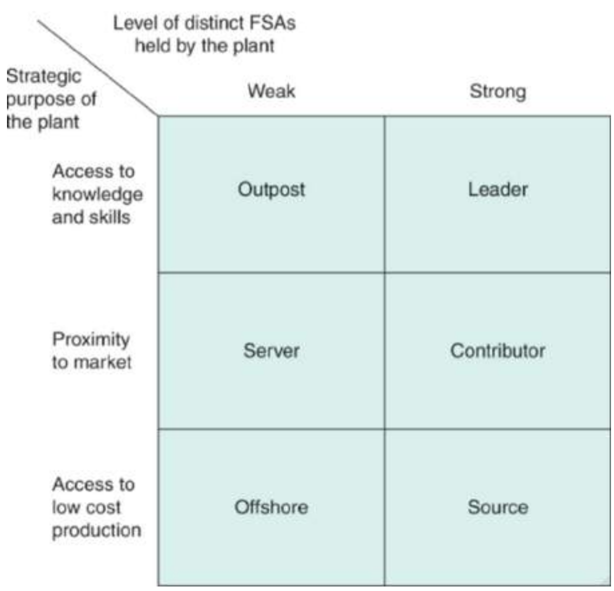
  2. Server factory:
     - supplies predefined, proximate national or regional output market
     - overcomes trade barriers, logistics costs and foreign exchange exposure
     - some FSA development, but narrow charter with relatively little autonomy or specialized capabilities

3. Outpost factory:
    - gathers valuable information from advanced, host country clusters, mainly on input side
    - manufacturing combined with offshore/server factory role

4. Source factory:
    - accesses low-cost input production factors
    - receives resources
    - engages in resource recombination
    - develops FSAs to build 'best practice' plant in MNE's network, more autonomy
    - in locations with good infrastructure and skilled workforce
    - may be a strategic leader at input side, but has narrow charter

5. Contributor factory:
    - oriented towards host country/region output market
    - stronger capabilities
    - at input market side, responsible for resource recombination of process improvements, new product development, customizations, etc.

6. Lead factory:
    - strong resource recombination and new FSA development
    - accesses local cluster's valuable inputs and plays key role in localized manufacturing innovation
    - connected with all key-players in input markets (such as research labs) and end-users at the output side



- Overall: MNE should upgrade offshore, server and outpost to develop FSAs as source, contributor or lead factories
  This involves: enhancing internal performance, accessing and developing external resources and developing new knowledge that can benefit the overall MNE network.

- End result: 'robust network' of factories with FSA-development roles, able to adapt to changes in the marketplace. ←→ Footloose set of plants: capability to relocate operations

- Common obstacles to upgrading of foreign factories:
  - Fear of relying on foreign operations for critical skills
  - Treating overseas factories like cash cows and neglecting long-term investment
  - Creating instability by shifting production in reaction to fluctuating exchange rates and costs
  - Responding to government relocation incentives to move factories to new locations that possess minimal potential for upgrading

2.Management insights

- Upgrading offshore, server and outpost facilities reflects a shift from FSAs development at home towards FSA creation in a host country and the internal MNE network

- FSAs held by weaker affiliates i.e., offshore, server and outpost plants, include non-LB FSAs transferred from the home country, with little distinct knowledge added, consistent with pattern I (international projector).

- MNE managers should not neglect qualitative parameters when location manufacturing plants. In the long run, workforce knowledge and skills are very important.

3.Five management takeaways

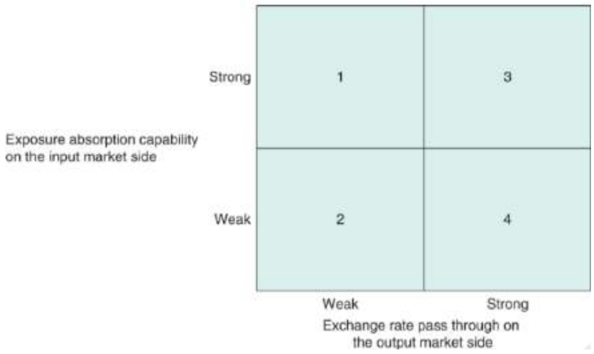
1. View each foreign manufacturing plant as performing primarily one of six generic roles in the firm's portfolio.
2. Consider the potential of 'upgrading' existing, market- and resource-seeking roles of individual factories.
3. Re-evaluate your portfolio of international operations by recognizing changes in initial drivers for expansion.
4. Assist source, contributor and lead factories to transform themselves into centres of excellence.
5. Take into account the quality of human resources when contemplating low-cost locations: successfully exploiting advanced production techniques requires access to a pool of sophisticated human resources.

Chapter 8: International finance

1.Significance

- Fluctuations in foreign exchange rates create the risk of net present value reduction of the firm's future income streams
- **economic exposure=** Potential value reduction
- Refers to the possible negative effects of largely unexpected changes in exchange rates on a firm's competitiveness relative to rivals
- Firm with strongest market position, most differentiated products & greatest flexibility to shift production → lowest negative impact on NPV
- Purely domestic firms → can also incur economic exposure via competitors that can benefit from exchange rates
- Important to distinguish between 'real' versus 'nominal' exchange rates
    - Nominal rates= direct exchange ratio between currencies
    - Real rates= changes in nominal rates – difference in inflation rates.
      → these rate fluctuations create operating exposure risk for companies
- If $ depreciates against the yen in real terms, the US manufacturer will enjoy and improved competitive position vs Japanese competitors.
- Economic exposure adds uncertainty to the value of a firm's location advantages
- Location advantages should be considered, not solely in a positive sense, and on a country-by-country basis, but also as a portfolio of potential risks for future cash flows
- MNEs can develop FSAs allowing risk mitigation through an input-side absorption capability and an output-side exchange-rate-pass-through capability

- **Two parameters** describe the situation for each MNE:
  1. Unit's capability relative to rivals to adjust sourcing structure
  2. Unit's capability to pass through changes in real exchange rates.



Quadrant 3: most desirable
Quadrant 2: least favourable. Typically selling commodity-type products, the sales of which can be greatly affected by small price increases.
Also typical for subsidiaries that import products from the parent company home base.

2.Implications for MNE strategy

- Companies typically **manage operating exposure** through one of **three approaches**
  First approach: each business unit is assessed individually, and each unit therefore configures its own operations to reduce its specific operating exposure
  Second approach: a company-wide perspective, whereby a portfolio of businesses and operational structures is established with offsetting exposures
  Third approach: flexibility in operational planning (switching production between factories)

- Managers who cannot set company policy on operating exposure should not be held responsible either for the effects of volatile exchange rates

- The operating exposure effects on performance of fluctuations in real exchange rates should be eliminated from performance assessments

3.Five management takeaways

1. Analyse how you can reduce economic exposure and impact on the NPV of future income streams.
2. Assess your operating exposure at the level of each subsidiary, in terms of capacity for adjustment at the input as well as the output market side.
3. Consider the implementation of a global cash management system and possible extension and its implications for your corporate strategy.
4. Discuss the degree of responsibility for economic exposure by the head office versus the subsidiaries.
5. Examine the relationship between corporate strategy and international financial management tools.

Chapter 9: International marketing

1.Significance

- Levitt sees the multi-centered MNE being gradually replaced by centralized exporters and international projectors

- Advances in technology, communications and travel confer additional value to non-location bound FSAs, and strengthen the MNE's ability to deploy and exploit such FSAs

- Majority of the world's consumers want high quality, reliable products at low prices

- They are often willing to accept globally standardized products

- Companies that grasp this new 'global' reality and can inject these attributes in simplified products will gain competitive battles

- Two foundations of Levitt's argument:
  1) Cultures and national societal tastes are moving toward homogenization.
     Converging global preferences overpower differences rooted in national cultures and historic customs
     Examples: ethnic foods (pizza, pita bread, Chinese food), music (jazz, country and western), and product brands (Coke and Pepsi soft drinks, McDonald's fast food, Sony TVs, Levi jeans)
  2) Converging tastes allow globally standardized products
     High quality and low cost are complementary goals achievable through innovation and efficiency
     Even small niches allow for a global approach satisfying the three criteria (quality, reliability and low price)

- Some customization may still be required subject to the condition that all efforts to achieve acceptance of standardized products and to change local preferences have been exhausted

- Administrative heritage and corporate culture do play a large role in determining the success or failure of a firm's managerial efforts

- Levitt: two things clearly influence customers to buy:
  1. low prices regardless to feature preferences
  2. heavy promotion regardless of price.

2.Context and complementary perspectives

- John Quelch and Lisa Kelin (SMR): **potential of the Internet** to change international marketing
  - Internet can have revenue enhancing and cost reducing effects
  - Revenue enhancing side: network effects, including network externalities
    Key network effect: services with a broad geographic scope often become more valuable to customers because of services' international availability an accessibility

- Internet is a tool to reduce bounded rationality: inexpensive communication for interactions with potential customers (informing and persuading customers) → need to invest less in developing location-bound FSAs in host countries

- Growth of new types of intermediaries, acting as international projectors.
  bv. standardized logistics services to support Internet-based sales of physical products and intermediaries to reduce the information overload facing internet users

- But: Limits to standardization:
  1. Brand names will become increasingly vulnerable to isolated problems with quality, price and availability
  2. Government imposed restrictions may limit international, Internet-based sales
  3. MNEs must have:
     - twenty-four hour order-taking and customer service response capability
     - regulatory and customs-handling expertise to ship internationally
     - in-depth understanding of foreign marketing environments

- Difficulty of after-sales service provision: requires a physical infrastructure and localized human resources

- Internal challenge inside the MNE: Internet-based sales should not be at the expense of conventional foreign affiliates' sales

3.Five management akeaways

1. Study your firm's product portfolio's potential for global standardization.
2. Examine the potential of the Internet to increase revenues and reduce costs in international markets.
3. Carefully monitor your Internet activities to avoid law suits and reputation losses, and make sure online sales do not cannibalize foreign affiliate sales.
4. Determine the potential and limitations of global account management.
5. Reflect on your own context (administrative heritage, internationalization strategy) to determine the limits of product standardization as the preferred vehicle for international expansion.

Chapter 10: Managing managers in the multinational enterprise

1.Significance

- Managers with a broad mental map covering the MNE's geographically dispersed operations are critical to the MNE's long-term profitability and growth

- Such managers physically:
  1. engage in the international transfer of non-location bound FSAs from the home nation
  2. identify the need for new FSA development in host countries
  3. meld both location-bound and non-location bound FSA types

- These managers are critical to transfer the MNE's routines and are the physical carriers of the MNE recombination capabilities

- Expatriation is the most direct and rigorous route towards deploying individuals with in-depth knowledge of the MNE's FSAs

- Expatriate experience gives managers valuable experiential knowledge → best equipped to reduces bounded rationality problems

- But: many MNEs incur high costs, few reap returns because of poor expatriate management practices

- Black and Gregersen describe their findings as 'alarming': much dissatisfaction, don't meet expectations, leave company, can't apply the knowledge gained…

- **Four common problems** in how firms manage their expatriates:
  1. Senior managers in the home country underestimate impact of cultural distance and do not invest in selecting and training potential candidates
  2. Human resources managers have little international experience themselves, but have the responsibility about the managers
  3. Senior management views expatriates as having little to complain about
  4. Misconception that expatriates do not need help readjusting after having returned home

- Firms with superior expatriate management practices in terms of job satisfaction, performance and retention tend to adopt **three best practices**:
  1. Clear understanding of the expatriation's purpose and related expectations: focus on creating knowledge and developing global leadership skills
  2. Selecting appropriate candidates whose "technical skills are matched or exceeded by their cross-cultural abilities"
  3. Substantial attention to re-integrating expatriates in their home country: deliberate repartition process
     - ➔ Simultaneous adoption of all 3 practises leads to success, adopting 1 or 2 is not insufficient

- **5 characteristics** that personal requires to be expatriate prospects:
  1. Drive to communicate
  2. Broad-cases sociability
  3. Cultural flexibility
  4. Cosmopolitan orientation (=multicultural)
  5. Collaborative negotiation style

- **Three approaches** to **select** the most suitable candidates:
  1. A senior executive personally observes employees in various cultural settings
  2. Extensive survey early in the employee's career and discussions between potential candidates and senior managers to identify interest/gaps and establish personalized development and training plans → 97% success rate
  3. Hiring employees with prior international experience and then sending prospects for expatriation on shorter-term, foreign training assignments

2.Context and complementary perspectives

- Paradox: higher effectiveness in home country FSA transfers to foreign affiliates simultaneously makes these affiliates less dependent on the home country

- How multi-centred MNEs try to shed (afwerpen) their dysfunctional properties imposed by administrative heritage, when these characteristics cease to be effective in a changed external environment.
  Philips example: largely autonomous subsidiaries → want more coordination within its affiliates network.
  How? Increased focus on innovation in subsidiaries and more attention to integration, through expatriates: managers following long-term career trajectory abroad and sharing strong social linkages in its network. They can effectively advocate for national subsidiary interest when they think central corporate strategy I wrong. Headquarters take them seriously.

- Effective integration of geographically dispersed operations in large MNEs requires new organizational capabilities carried by each firm's cadre of managers with international experience and an international mindset

- Building this capability requires the extensive use of expatriation, international assignments, international team formation, etc.
  Here, host country operations are infused with knowledge from central headquarters.

3.Five management takeways

1. Reflect carefully on the common problems of expatriate management faced by every MNE.
2. Learn about best practices to manage expatriates, including experiences from competitors.
3. Given your administrative heritage, explore the possible purposes and forms of expatriation (e.g., 'external' expatriation, overseas knowledge transfers, extended/permanent expatriation).
4. Focus strategic change on fine-tuning the MNE's organizational context, and follow eight implementation steps that have proven successful in many firms.
5. Train managers to integrate successfully the activities of geographically dispersed international operations.

Chapter 11: Entry mode dynamics 1 : foreign distributors

1.Significance

- Describes local distributors' changing role when MNEs try to grow foreign markets

- **Initial use of local distributors**: select a largely unplanned or reactive way
    - **First**: reduce costs and minimize risks. Distributors' complementary capabilities substitute for developing new, LB FSAs to access host country markets in cases of high uncertainty
    - **Later**: After early market penetration and reaching of a ceiling → blame the local partner: alleged lack of reliability to make good on performance commitments and expectations
    - **Reflex**: MNE's reflex is to take control: buying out the distributor to build a self-owned, dedicated distribution network, but often resulting in disruptive and costly transition period

- Effective strategic planning of distributor selection and relationship governance may avoid/solve many problems with local distributors

- MNEs often seek new markets through the "**beachhead strategy**": Wait and see what can be achieved with minimal commitment.

- They cede (afstaan) too much control of marketing decision to the local partners.

- Vicious cycle of bounded reliability: each side assumes the arrangement is temporary and invests minimally. Expectations are not met, and a blame game further destroys the relationship.

- Arnold's research shows:
    - Many MNEs do not give proper direction and resources to distributors, and cede control of strategic marketing to them
    - MNEs maintain too long the initial entry strategy with low resource commitments, thus impeding rapid growth

- **Solutions**:
    - MNEs should keep independent, local distribution partners in the long term, even after establishing their own local network for primary clients
    - Should recognize that the phases are predictable and plan for them from the start
    - Evolve from beachhead strategy to a mix of direct distribution by the MNE itself (for major customers) and long-term relationships with local distributors. (for discrete segments or smaller accounts)

- **Characteristics of success cases**: distributors
  1. did not distribute competing product lines from rivals
  2. shared market information with the MNE
  3. initiated new projects and collaborated with other distributors in adjacent markets (aangrenzende)
  4. invested to grow the business in areas such as such as training, ICT and promotion

- **Guidelines for MNEs managing local distributors**:
  1. **Pro-actively select locations and only then suitable distributors**: do not expand as a response to unsolicited proposals from local distributors. Best distributors are not necessarily the largest, who may have contracts with rivals and an interest in dividing the existing market among them, rather than rapidly building this market for one firm
  2. **Focus on distributors' market development capabilities**. Critical is the best 'company fit' in terms of strategy, culture and willingness to invest, not the 'market fit' with distributors already serving key target customers with related products
  3. **Manage distributors as long-term partners**: give incentives to invest in long-term development. E.g., if the buy-back price depends on sales volumes, not profit margins, the distributor may position the product as a commodity, rather than extract the highest price from customers and harm the product's positioning
  4. **Provide resources** (managerial, financial and knowledge-based) to support distributors for market-development purposes: committing more resources (skilled support staff, minority equity participations and knowledge sharing) earlier may foster higher performance
  5. **Do not delegate marketing strategy to distributors:** the MNE should provide clear leadership on choice of products, their positioning, marketing budget size, etc. Distributors should adapt this strategy to local market needs
  6. **Secure shared access to the distributors' critical market and financial intelligence**: their willingness to share this information, signals their commitment to becoming a solid, long-term partner
  7. **Link national distributors with each other, especially at the regional level** (spanning a number of countries): regional headquarters to coordinate distribution efforts, or autonomous distributor councils, may lead to best practices diffusion inside the distributors' network, and act as an internal monitoring mechanism, stimulating more consistent strategy implementation throughout the region

2.Five management takeaways

1. Review your international distribution strategy and portfolio of relationships with local distributors.
2. Follow the seven guidelines for MNEs when using local distributors in international expansion.
3. Consider the disadvantages of using distributors and the benefits of direct sales.
4. Assess in a comparative fashion the uncertainty in your input and output markets in your supply chain.
5. Evaluate the optimal governance of international distribution and apply an integrative approach to coordinate various components of your supply chain.

Chapter 12: entry mode dynamics 2: Strategic alliance partners

1.Significance

- Focus on large MNEs forming **alliances** with foreign firms that are also rivals (competitive collaboration)

- **Rationale**: enormous R&D costs – and gaining easy access to the scarce resources required – to launch new products. Problems are amplified within a context of compressed timeframes

- Question: why do some MNEs gain strongly, in terms of FSA development and others not.

- **Benchmark for evaluating** alliance success: NOT how long the alliance lasts but the change in competitive strength experienced by each partner.
  The learning race: how to learn more from your partner than your partner learns from you.

- Overall, Japanese MNEs and more generally Asian firms often come out ahead in strategic alliances

- **Four reasons for better performance by Asian MNEs**:
  1. Intrinsically more receptive and willing to put effort into learning from alliance partners
  2. View alliances as an opportunity to develop new FSAs, not primarily as a tool to reduce investment costs and risks
  3. Define clear learning objectives and focus efforts on acquiring new knowledge and observing their partners' practices.
  4. Own contribution to alliances often involves complex, tacit process knowledge that is not easily imitated or transferable

- Many **alliances between Western and Asian MNEs** are outsourcing arrangements: manufacturing and technology development become the Asian partner's responsibility.
  →Risk is that the Asian partner enters markets on its own, outside the alliance agreement because of what it has learned inside the alliance. (all FSA-developing activities have been transferred to the Asian partner)

- Weaker firms become trapped in a dependency spiral

- MNE managers should respect **four principles to avoid increasing dependency on a partner**:
  1. Outsourcing cannot replace building FSAs
  2. Negative consequences of outsourcing should be measured in terms of capability losses
  3. Managers should be aware of the cumulative effects of outsourcing decisions (deepening dependence on outside actors)
  4. If FSAs do dissipate, they must be rejuvenated and strengthened as quickly as possible

- It is possible for **both MNEs to benefit**: the key condition is each MNE's willingness and ability
  to learn from its partner, while avoiding excessive transfer of its own proprietary knowledge. The challenge is to share enough skills to create advantage compared to companies outside the alliance, while preventing a wholesale transfer of core skills to the partner.

- Each MNE should also disseminate new knowledge internally in an effective fashion

- The nature of the FSAs contributed by an MNE affects **how easily these may diffuse** to a partner: FSAs' mobility and ease of sharing, without problems of interpretation or absorption across cultures

- How to **limit replicability and unintended FSA diffusion**:
    - Limit the formal scope of the alliance to a well-defined learning area
    - Locate away from the MNE headquarters
    - Establish incremental, performance-related checkpoints to assess alliance's scope and impacts
    - Empower company gatekeepers to control informal information transfers to the partner

2.Context and complementary perspectives

High trust makes a relationship more vulnerable to bounded reliability, unless **safeguards** (six types) are introduced:

1. Regular re-evaluation of the alliance relationship
2. Continued focus on profitability, not volume. Relationship size can be a poor indicator of the relationship's contribution to profitability.
3. Continued attention to alternatives ("back-ups"): avoid being too dependent on one specifit alliance partner.
4. Swapping hostages: both partners should invest resources that cannot easily be redeployed outside of the alliance without significant loss of value. Alliance-specific investments must be made by both partners.
5. Setting and reassessing common goals
6. Avoiding vicious cycles of suspicion and the resulting build-up of bounded reliability. Transparency of all available information and open communication are critical.

3.Five management takeaways

1. Remember the four key principles for successful international partnerships and prevention of excessive dependency on an alliance partner.
2. Limit the unintended diffusion of FSAs by assessing their 'mobility' and 'embeddedness'.
3. Examine whether sufficient safeguards have been established in your alliance agreements.
4. Evaluate your learning performance in alliances.
5. Consider the impact of your own strategic decisions on the quality of your relationship with your alliance partners.

Chapter 13: Entry mode dynamics 3: mergers and acquisitions

1.Significance

- Ghemawat and Ghadar **criticize global mega-mergers** (M&As) among large MNEs from different regions. General believe that increasing internationalization will ultimately lead to industry consolidations whereby only a few large firms will survive is fault.

- But: consistent with the main strategy rule at GE (former CEO Jack Welch): the firm should only be active in businesses where it can be the number one or two in the world in terms of size
→Ghemawat and Ghadar: inappropriate because several internationalizing industries had **decreasing market share** concentration during past 50 years

- **Herfindahl index**: measure of market share concentration. Lies between 0 and 1. High number reflects high degree of market share consolidation.
→ most industries ar far removed from a conventional monopoly or oligopoly, with a decreasing market concentration.

- Value creation through consolidation= hard. Consolidation often reduces value because of pre-integration challenges, purchase price premiums and post-integration barriers associated with M&As.

- **Six senior management biases:**
  1. "Top-Line Obsession": focus too much on growing revenues rather than profits
  2. "Stock Price Exploitation": if the firm has an overvalued stock price that makes it affordable to engage in large M&As, or if the management want to maintain an elevated share price based on promise synergies.
  3. "Grooved Thinking": Follow the traditional mindset within an industry even if it has become obsolete.
  4. "Herd Behavior": follow and imitate the action of competitors (especially with oligopoly)
  5. "Personal Commitments": Hold fast to own personal views in favour of M&As.
  6. "Trust in Interested Parties": Outside parties (bankers, consultants) have an incentive to further own interests, rather than act in the best interest of the firm.

- Alternatives to pursuing international M&A deals:
  1. "Pick Up the Scraps": spin-offs and divestments that arise from mega M&As if the assets are complementary for the buyer.
  2. "Stay Home": Improve competitive position locally.
  3. "Keep Your Eye on the Ball": Remaining focused on developing and exploiting key FSAs.
  4. "Make Friends": Strategic alliances.
  5. "Appeal to the Referee": Slow the M&As of the competitors by calling on regulations to review antitrust implications.
  6. "Stalk Your Target": In industries where first-mover advantages are dubious, it may be best to wait and observe the others.
  7. "Sell Out": If consolidation is economically justified, it may prove more profitable to be the seller rather than the buyer.

2.Context and complementary perspectives

- Sebenius (SMR): **success story** of Italian MNE Societa Metallurgica Italiana (SMI), realizing rapid and profitable growth through cross-border acquisitions in Europe
  4 reasons for sustained acquisition success:
  1. Senior management was always “very clear about the industrial and strategic logic behind (the) proposed acquisition and the genuine value it will create”
  2. Senior executives engaged in careful stakeholder management long before any deal was negotiated
  3. In early negotiation stages: developed good personal relationships with relevant actors working for the acquisition target
  4. during and after the acquisition negotiations: shifted the negotiation focus from the economic valuation principles towards clauses allowing even the most critical stakeholder groups to see value in the acquisition for themselves (development of a shared vision with each stakeholder group)

- Inkpen, Sundaram and Rockwood (CMR): studied **European acquisitions of technology-based firms in California**
  - The only winners were usually the shareholders of the acquired entities
  - The acquirer, typically a large European MNE, usually ended up with negative value creation

- Barriers to acquisition success: differences in entrepreneurial culture, corporate governance and routines in Silicon Valley versus large European MNEs

- Acquirers typically restricted autonomy of their acquisitions and had little experience with stock option compensation for employees

- Slow integration and rigid decision-making: time-consuming consensus-building before making changes; no articulation of credible view for acquired firm; expatriates typically socialized among themselves; confusion often arose about who was at the helm

3.Management insights

Three limitations of Ghemawat and Ghadar (HBR):

1. “Global” M&As may be valuable to large MNEs if they legitimate deep, structural change throughout the entire MNE(s) involved.
2. Data on low consolidation levels in industry paradoxically provide a strong rationale for M&As for MNEs that previously dominated national and home region markets
3. Underestimating the impact of distance is not merger-specific. The advice to expand inside the home country/ region might be valid for all entry modes

4.Five management takeaways

1. Do not overestimate the potential for value creation and do not underestimate the potential for value destruction of international M&As.
2. Do not fall into the trap of typical senior management biases when deciding on possible M&A deals.
3. Trade-off the benefits and costs of international M&As vis-à-vis alternative uses of resources for expansion.
4. When assessing M&A targets, always focus on the ‘industrial logic’, and engage in stakeholder management from the outset.
5. Understand how to benefit from the complementary capabilities of acquired parties and focus on effective post-merger integration.

Chapter 14: The role of emerging economies

1.Significance

- **Emerging economies** are the world's fastest growing markets. These countries also offer cost, innovation advantages and represents new output markets
  - Availability of inexpensive skilled labour and trained managers → low manufacturing and service costs.
  - Access to a different genre of innovation that can be found in mature markets: creativity of individuals.

- **Three common aspects of an emerging economy**:
  1. Absolute level of economic development: GDP per capita
  2. Pace of economic development: GDP growth rate
  3. Extent and degree pf stability of the 'free market' system features.

- MNEs face difficulties due to the unavailability of efficient local intermediary firms and broader macro-level institutions to facilitate business

- MNE success in emerging economies depends upon filling institutional voids= forms of market failure: difficulties in emerging economies due to unavailability of 2 kinds of institutions: efficient local intermediary firms and macro-level institutions.
  → institutional voids require MNEs to engage in substantial investments to create compensating location-bound FSAs.

- **Five most important components of the institutional context**:

  1. **Macro-level political/social context**: a country's power centres and presence of checks and balances
     → What form of private property rights exists? How independent are the media? How accountable are politicians? Can strangers be trusted? Is the government corrupt?

  2. **Country openness**: the extent of it welcoming FDI, but also its openness to ideas and openness to travel
     →Is the country receptive to foreign investment? Can a company make greenfield investments and acquire local companies? Are foreign intermediaries allowed?

  3. **Product markets**: respect for intellectual property rights, brand perceptions and brand management; availability and quality of intermediaries such as suppliers, logistics providers and retail chains
     →Is there data of customer tastes and purchasing behaviour? Are there cultural barriers? Can consumers obtain unbiased information?

  4. **The labour market**: education infrastructure (technical and management training)
     →What is the language of business? Are there large post-recruitment trainings needs? Can employees move easily from one company to another?

5. **Capital markets**: a country's debt, equity and venture capital institutions, as well as this country's accounting standards and procedures surrounding financial distress

- After the analysis of the 5 contexts, **MNEs have three main options**:
  1. **Adapting the business model** to the host country while keeping the core value proposition constant (pattern III of FSA development). The MNE melds non-location-bound FSAs from the home country with newly developed location-bound FSAs in the host emerging economy.
  2. **Changing the emerging economy's context** (only for large MNEs)
  3. **Stay out of emerging economies:** when the requirements for new FSA development are too high.

2.Five management takeaways

1. Reflect on the key institutional context dimensions of each newly entered emerging economy and create a 'map' of this institutional context to determine the required investments in location-bound FSAs.

2. Decide, when contemplating entry into an emerging economy, whether you are: (1) willing to adapt your business model to this host country, or (2) capable of changing this emerging economy's institutional context, or (3) ultimately unwilling to take the risk of investing in this emerging economy, therefore staying out because of the challenging institutional context.

3. Revisit your marketing strategy on four dimensions when entering an emerging economy: timing of entry, market assessment, product policy and partner policy.

4. Focus sufficiently on understanding the cultural specificities of the potential customer base in the emerging economy.

5. Carefully envision the various possible patterns of capability building specific to expansion in a particular emerging economy, including the impact of the 'relational component' of contracting.

Chapter 15: Emerging economy multinational enterprises

1.Significance

- Increasing importance of **EMNEs**.

- Traditionally, companies from emerging economies successful primarily in industries with a low level of technology and advertising intensity.

- **Reason of success**:
  1. Usage of low-cost labour and materials in large scale manufacturing plants.
  2. Having efficient inbound and outbound logistics.
  3. Privileged network ties with local stakeholders: allow sustaining these advantages
  4. Trying to emulate the FSAs of rivals and engage in various forms of cooperation.

- Firms from emerging economies have tried to develop or acquire technology-based or marketing-based FSAs.

- Engagement in new forms of resource recombination

- Example of **Google and eBay** that started as industry leaders in China, but were, over time, **outperformed by Baidu and Taobao:** Despite less global content or quality assurance, the competitive success resulted from FSAs in low cost production, better understanding of local customer needs and stronger network ties with regulatory authorities.

- A **EMNE can react in four ways** to developed economy MNE entry and resource recombination efforts in its home country:
  1. Continue to specialize in cost efficient, mass-scale manufacturing at home.
  2. Perpetuate (vereeuwigen) initial cost advantages by spreading the own value chain across borders
  3. Increase own value added by moving up the value chain in the form of technology development or creating brand names: acquisitions/alliances may speed this up.
  4. Specialise in the narrow segments of the value chain in which the EMNE is most competitive and commands high value.

- Main challenges for EMNEs:
  - Manage an internationally dispersed network of operations.
  - Engage in resource recombinations whereby initial FSAs are complemented with location-bound ones in new host countries.
  - Initial FSAs will be challenged by foreign MNEs that emulate these FSAs or engage in new resource recombinations to improve their competitive position.

2.Context and complementary perspectives

- Orit Gadiesh and Till Vestring (SMR): focus on the **rise of Chinese MNEs**.

- Success largely attributed to their focus on products of sufficient quality and sufficiently low price to gain market share in segments of the middle class and B2B.
  Example of Huawei (ICT firm) and its three strategic pillars: (1) government support, (2) augmented FSAs in cost leadership with advanced technologies and (3) partial outsourcing to Chinese suppliers and engagement in low-cost R&D and engineering

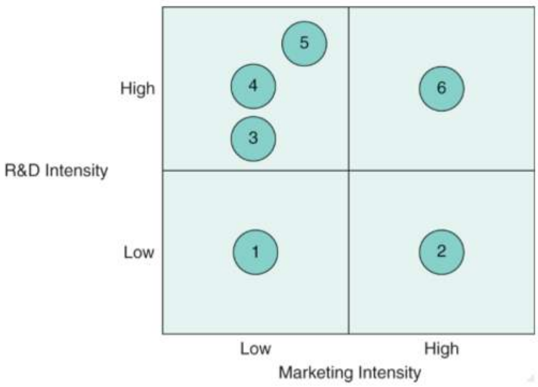
- In some industries, the share of the good enough products represents 80 per cent of the total market.

- Chinese firms develop FSAs in branding and technology.

- Strategy for foreign MNEs: dual branding= products cover either the upscale portion of the market or the good-enough market.
  Example of Gillette (unit of P&G): Duracell- Nanfu batteries.

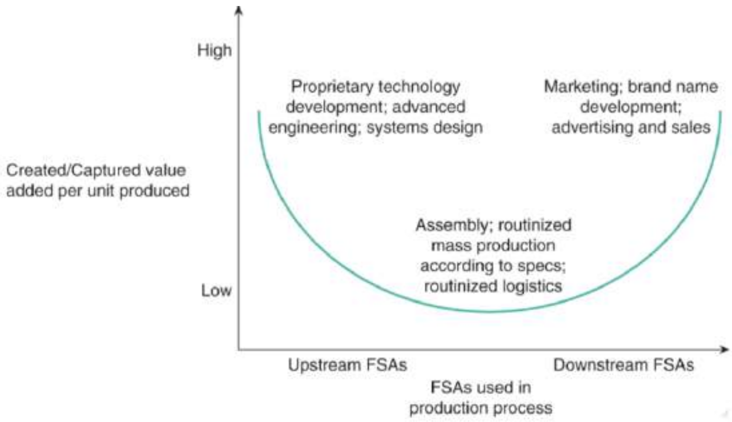
- **MNEs strategy**:
  - Foreign MNEs try to enter the good enough market through joint ventures with - and acquisitions of -Chinese manufacturers.
  - Foreign MNEs complement initial FSAs in upscale market segments with new FSAs to be deployed in the potentially much larger good enough market.

- **Six types of MNEs** based on internationalization strategies:



1. Regional exporters/importers: engage in sales and distribution of their products is neighbour countries
2. Global exporters/importers: Focus on product quality
3. Technology fast followers: contract manufacturers. Want OEM or ODM contracts with large MNEs.
4. Technology leaders: Rely much more on their in-house technological innovation.
5. Global market niche players: also focused on marketing. Succes based on finding a narrow product niche where they can be successful in international markets.
6. Multinational challengers: can engage in head-to-head competition with large MNEs.

- **Smiling curve:** How to position the firm in knowledge-intensive industries.
  →Not each activity in the value chain leads to similar value creation per unit produced.



  - Most EMNEs start as producer of commodity-type products and services → OEM/OED contracts with MNEs
  - A time goes by, they will attempt to perform more upstream activities in the form of technology development and engage in marketing so as to increase revenue. If the strategy is successful, value will be added both at the upstream and downstream. →potentially becoming rival of its original MNE client.

3.Five management takeaways

1. Understand that FSAs from EMNEs evolve over time: natural tendency to try to capture more value through new FSA development, therefore making EMNEs more of a competitive threat than would be suggested by a static industry analysis.
2. Consider that the Achilles Heel of many EMNEs remains their lack of managerial and organizational capabilities to govern a multinational network. Therefore, platform capabilities in the form of well-oiled routines/business systems may be the best tool to keep EMNEs at bay..
3. Remember that building a successful business in emerging economies while competing with EMNEs, may require a prime focus on the good enough market. FSA development should therefore be carefully tailored to allow accessing that market.
4. Carefully classify EMNE rivals as a function of their relative strengths in R&D and branding. Each type of rival will require a different competitive response.
5. Keep the eye on value capture rather than on mere value creation. Moving up the smiling curve may be instrumental to value creation but it does not guarantee value capture.

Chapter 16A: International strategies of corporate social responsibility

1.Significance

- CSR= Corporate Social Responsibility →Good citizenship can be viewed as a cost increase but also as an opportunity to develop FSAs and to improve performance
  It is possible to do well and do good simultaneously.
- Focus on Hewlett-Packard's (HP) CSR efforts: the i-community initiative in Kuppam, India
- HP attempts to apply sound business practices to each project: privacy, environment and e-inclusion.

2.Context and complementary perspectives

- Doing well and doing good can't reinforce each other in the world's **extremely poor regions**. MNE activity cannot replace the role of a government.
- MNEs should **collaborate closely with suppliers** to attack problems of poor working resources at their source →information is central to this model of private, voluntary regulation
- Sushil Vachani and N. Craig Smith (CMR): focus on **pricing of AIDS Drugs** in developing countries
- Necessity of and ecosystem of partners: making drugs affordable for developing country customers requires the MNE to mobilize effectively complementary resources provided by governments, multilateral institutions and NGOs
- Pricing allows the MNE to fulfil obligations to society rather than maximizing profits
- Socially responsible pricing can involve agreeing to pay higher prices for inputs, as seen with fair trade coffee
- Fair trade means vulnerable producers are given prices that allow a minimum level of economic security and sustained self-sufficiency, and empower them as legitimate economic participants in international supply chains
- At the output market side, CSR pricing revolves around lowering prices benefiting poorer customers with a weaker ability to pay
- Vachani and Smith focus on how AIDS drug pricing policies affects the MNE and societal welfare

- **Three main approaches to improve drug access**:

    1. Drug donation programs:
    +gives the MNE tax benefits and gives the developing country social welfare benefits.
    -problems with this approach: hidden costs such as drug distribution costs
    -not sustainable for diseases requiring extensive and long term treatments

    2. Out-licensing: host country manufacturet produces the drugs under license, profits in frosm of royalties.
    +offers the MNE "distance" from the lower price in the developing country and favorable media attention
    +commercially appealing response to generic manufacturers
    +reduces the potential for price referencing: in developed markets lower prices because of references to the low prices in developing economies
    -prices may not be low enough
    -limited complementary resources availability

    3. Differential pricing: MNEs use their monopolistic position (patents), to sell in developing countries covering manufacturing costs only
    -Unreliability of intermediaries such as wholesale distributors
    -Price referencing
    -Overhead costs from setting up, managing, policing, and fine-tuning differential price systems
    -Drugs may not be taken as prescribed, creating potential drug resistant strains of the disease
    -Perverse effect of reducing ex post host government (and donor) efforts for providing financial support for drug access.

3.Five management takeaways

1. Determine the meaning of 'corporate citizenship' in each country where you operate and across all of the firm's international operations
2. Assess each CSR initiative in terms of its joint contribution to 'doing well' and 'doing good', and evaluate the longer-term business opportunities that CSR activities can create for the firm in host countries
3. Improve working conditions and labour standards at your factories and your suppliers' by effectively implementing CSR activities
4. Rethink your pricing decisions by trading off profit maximization against fulfilling obligations to society
5. Align your CSR activities to your host country business objectives and the host country socio-economic and institutional context

Chapter 16B: Corporate environmental responsability

1.Significance

- Environmental management is playing an increasingly important role within broader MNE corporate social responsibility (CSR)

- **Government-imposed regulations** can trigger innovative solutions to environmental problems; which may turn lead to cost efficiencies or value enhancement.

- Concerns over global warming have put the environment at the forefront of consumer (NGO) movements. MNEs are particularly scrutinized as they dominate pollution-intensive sectors

- Porter and van der Linde argue that environmental standards can trigger innovations and lead to competitive advantage

- Environmental regulations trigger **two innovation types**:
  1. Converting pollution sources into something of value
  2. Improves resource productivity: taking into account all the costs and benefits across the product's life cycle

- **Early adoption** of advanced environmental management approaches may produce a first-mover advantage: herein lies the relevance for international business strategy. Case of German companies specializing in less-packaging intensive products

- Regulations alert, educate and motivate companies to adopt environmental innovations

- Good regulations focus on outcomes, not on specific technologies (let industries discover how to solve their own problems)

- Countries should develop regulations in sync with or slightly ahead of other countries (examples of Scandinavian pulp and paper and the Dutch flower industry)

2.Five management takeaways

1. Keep track of expected, new environmental regulations and assess not only their likely cost, but also their potential contribution to green FSA development
2. Fight ill-conceived messages from external stakeholders that more stringent environmental regulations at home will lead to first-mover advantages abroad, since this is usually not true for firms in small open economies
3. Develop new FSAs through environmental innovation by considering the different consumer groups in developed, emerging and survival economies that might benefit from such innovation
4. Analyze the scope of the MNE's environmental strategy (inside focus; vertical value chain focus; broader industry focus) to identify relevant environmental initiatives
5. Beware of exaggerating the economic potential of environmental innovation initiatives, especially if the firm is unlikely to build unique expertise in this area and may be better off 'purchasing best practice solutions' in the external market

Gastsprekers

1.Algemene info

Ga snel door de slides van de gastsprekers

Desotec

een Belgisch bedrijf dat werd opgericht in 1990 door Joost Desmet en Bart & Peter Sobry. Het bedrijf richtte zich oorspronkelijk op het ontwerpen en bouwen van installaties voor waterzuivering en slibverwerking

- To optimize logistic costs: hubs over all Europe
- Understanding the customer is very important → visit the customer

Lensonline

een Belgisch bedrijf dat online lenzen aanbiedt.

- Giving advice → customers buy more, more expensive and less drop-outs
- SAP system → more stable environment, less chaos
- Other countries need other approaches:
  - Spain: legal issues
  - Netherlands: other culture than Belgium, didn't work well
  - Italy: land where it is easy to sell
  - France: many prescriptions necessary → harder to sell
  - Germany: contact lenses are bought for 35% online, this is a huge opportunity
  - Hungary: only 1% wears lenses

Agfa-Gevaert

De onderneming ontwikkelt, produceert en verkoopt analoge en digitale beeldvormingsystemen en IT-systemen. Agfa-Gevaert heeft zijn hoofdkantoor in Mortsel, België. Het heeft verkooporganisaties in 40 landen en in andere landen wordt de markt door een netwerk van agenten en tussenpersonen bediend. Agfa-Gevaert telt drie divisies: Agfa Graphics levert klanten in de grafische industrie geïntegreerde drukvoorbereidingsystemen (ook bekend als prepress-systemen) en industriële inkjetsystemen. Deze divisie vertegenwoordigt ongeveer de helft in de totale omzet. Agfa HealthCare biedt ziekenhuizen en andere zorgorganisaties medische beeldvormingsystemen en informatiesystemen. Agfa Specialty Products levert producten in verscheidene industriële markten. Het is de kleinste divisie met een aandeel van minder dan 10% in de totale omzet. Deze laatste divisie is onderdeel van de Agfa Materials-organisatie. Naast de activiteiten van Agfa Specialty Products, levert Agfa Materials ook film en verwante producten aan Agfa Graphics en Agfa HealthCare.

- 3 business groups based on the past: graphics, healthcare and specialty
- Problem: negative growth because of some older products & bad developments in the development countries.
- Resolution: 4 pillars:
  1. Resist decline in traditional business: reposition in growing markets, consolidate market
  2. Boost growth engines: medical IT, …
  3. Analyse clever, profitable acquisitions

4. Develop competences & cultural change

- Idea: 2 different companies: healthcare & imaging → more focus possible
- Multi-local → R&D: 70% global, 30% local; service team 10% global, 90% local
- Plates: supply chains (4) close to markets, because this is heavy
- Films: only 1 supply chain, not heavy

The cookware company

The Cookware Company is a global cookware manufacturer with worldwide brand presence. Starting in Belgium in 2007 with their original brand, GreenPan, The Cookware Company was the first to introduce PTFE-free non-stick cookware into the market.

Since the birth of GreenPan, The Cookware Company has introduced numerous sister brands, such as GreenLife, VitaVerde, Twiztt, Michel Roux and signed a license with Homer Laughlin China Co., creating Fiesta cookware. Celebrities such as Todd English, Elena Malysheva and Joan Lunden have endorsed The Cookware Company's different brands and have helped spread the word about Thermolon ceramic non-stick technology.

Today, GreenPan and The Cookware Company's other brands can be found in retail, department, hardware, grocery, mass market and specialty stores as well as on television shopping channels and retail websites in over 90 countries around the world. The Cookware Company continues to be known as the house of innovation!

- Very much exposed to raw materials
- Greenpan: home shopping network.
- Being able to communicate directly with consumer → sold many products
- In retail: need to have differentiation in your branding. → good-better-best brand
- Offline: retail, loyalty programs, TV sales (more popular in USA and Asia)
  <--> online: e-commerce, own web shops
- APAC: much cultural differences in consumer products → hard to sell there
- Market shift in budget behaviour: buying much more online
- Very difficult to set up factory in India → no social mobility, certain cast systems. Too much busy with religion
- China was better to set up factory.
- Chinese government invest much in education, less in military → invest for future economic growth
- China: no production market anymore because it doesn’t have low wages anymore. For low wages, you now need to go to Vietnam, Thailand etc.
- Now: China is a huge consumer market, with much interest for on-line.
  New retail: integrated model offline/online. (Alibaba)
- Important to know the Chinese values and connect with the peoples and important to value the local partnerships well.

Agidens

Verbeteren. Daar draait het om bij Agidens. In de eerste plaats helpen wij onze klanten bij het verbeteren van hun processen en procedures. Die ondersteuning kan in de vorm van consulting & engineering, door turn key geautomatiseerde oplossingen te leveren of door te zorgen voor onderhoud & support.

FLEXIBEL, BETROUWBAAR EN DUURZAAM
Al 70 jaar helpen wij bedrijven in verschillende sectoren om hun werking te verbeteren op gebied van veiligheid, betrouwbaarheid, efficiëntie en duurzaamheid. Niet toevallig is is onze naam opgebouwd uit de begrippen Agility, Confidence en Sustainability. Het zegt perfect wie we zijn:
Agility: Wij staan zowel voor vakkundigheid als voor flexibiliteit. Onze goed opgeleide en vakkundige teams leveren creatieve oplossingen voor de praktijk.
Confidence: Met betrouwbare oplossingen en respect voor deadlines creëren we vertrouwen. Succesvolle projecten bij veeleisende klanten vormen een mooi bewijs van ons kunnen.
Sustainability: Door vakkundigheid, flexibiliteit en betrouwbaarheid aan elkaar te koppelen, creëren we duurzame relaties met klanten, partners, medewerkers en aandeelhouders. Mens en milieu zijn onze eerste zorg.

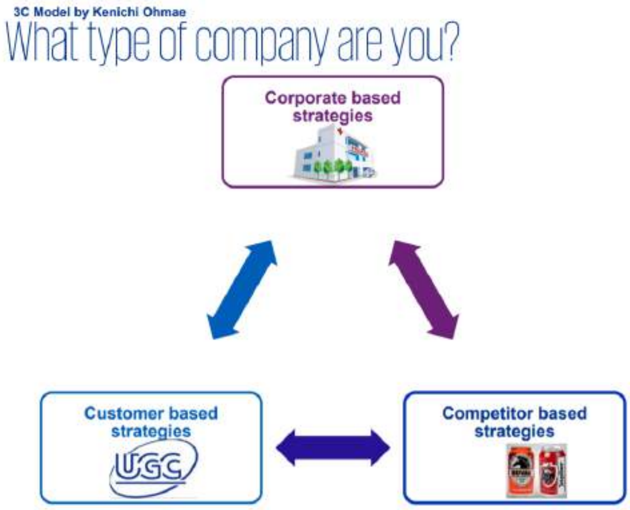
- Agidens: industrial automation company. → automate processes
- Kion acquired the material handling division for their warehouses
- Mission different between different stakeholders
- Industrial automation: to boost productivity, decrease labour costs

2.Key question slides

Desotec: profits + destroying contamination (add value)
Lensonline: /
Agfa-gevaert: add value: eco-friendly plates, healthcare
Cookware company: profit + add value
Agidens: processes are related to making money. But also sustainability: make society more safe

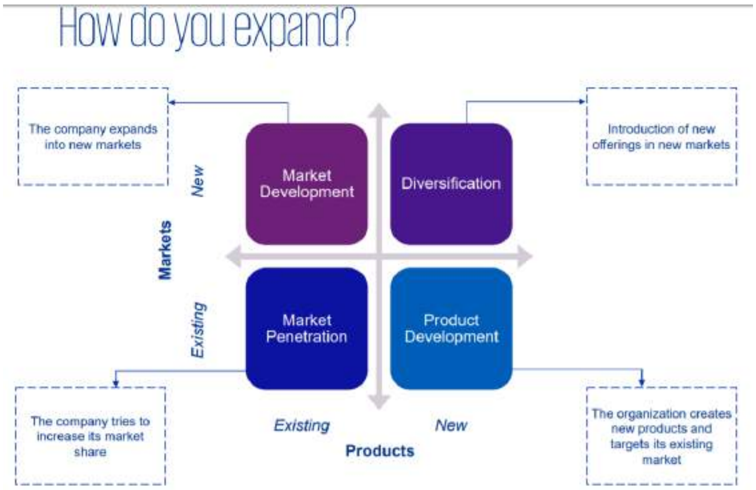
Desotec: regulatory: more control on regulations (less pollution)
Lensonline: demography: people are aging
Agfa-gevaert: /
Cookware company: /
Agidens: /

Desotec: differentiation: solution driven company, they want to be the best
Lensonline: differentiation: via online business
Agfa-gevaert: differentiation: sell very valuable products
Cookware company: cheapest can only work short term, but is not good long term. You need to differentiate as well.
Agidens: differentiation



Desotec: corporate based & customer based: adapt strategy to customers
Lensonline: /
Agfa-gevaert: customer based: listen to the market, develop products what customers want
Cookware company: customer (consumer) based strategy
Agidens: /

Desotec: /
Lensonline: /
Agfa-gevaert: Focus on all → problems → need for company to split in 2
1. IT healthcare: customer intimacy + product leadership
2. Other: operational excellence
Cookware company: /
Agidens: operation excellence (for one division) + customer intimacy (other divisions): relationships with customers is very important. Having good partners is important.



Desotec: market development + diversification + product development : focus on multiplying know-how → new for customer, not for company.
Lensonline: market development
Agfa-gevaert: product development
Cookware company: Product development: same market with new things. Always looking for product improvement.
Agidens: /

What are the key resources of the MNE?

1. ***Physical*** resources (natural resources, buildings, plant equipment).
2. ***Financial*** resources (equity and loan capital)
3. ***Human*** resources (individuals and teams, entrepreneurial and operational skills).
4. ***Upstream knowledge*** (sourcing knowledge, product and process-related technological knowledge).
5. ***Downstream knowledge*** (marketing, sales, distribution and after sales service).
6. ***Administrative knowledge*** (organizational structure, culture and systems).
7. ***Reputational resources*** (reputation for honest business dealings).

Desotec: /
Lensonline :/
Agfa-gevaert: /
Cookware company: /
Agidens: /

What are the key routines of the MNE?

The distinct ability to *combine* further the firm's *resources*, in *unique ways* valued by the firm's stakeholders.

Routines are *stable patterns* of decisions and actions that coordinate the productive use of resources, and thereby generate value, whether domestically or internationally.

The combination ability expressed in routines is a *higher-order FSA*.

Desotec: /
Lensonline :/
Agfa-gevaert: /
Cookware company: /
Agidens: /

What are the key recombinations used?

Constitutes the heart of international business strategy.

Artful orchestration of resources, especially knowledge bundles, as a response to differences between national and foreign environments, and to satisfy new stakeholder demands in these foreign environments.

Entrepreneurial judgment is at the heart of the MNE's recombination capability.

Precondition to value creation and satisfying stakeholder needs in complex international settings.

Desotec: /
Lensonline :/
Agfa-gevaert: /
Cookware company: /
Agidens: /

What are they key motivations for foreign expansion?

- Natural resource seeking
- Market seeking
- Strategic resource seeking
- Efficiency seeking

Desotec: market seeking: looking for new customers
Lensonline : markets seeking + strategic resource seeking: strategic sometimes to put pressure on competitors
Agfa-gevaert: market seeking + efficiency seeking: Healthcare for growth and new markets; plates

because its heavy to transport plates
Cookware company: going to China → for efficiency seeking. Also market seeking. One of the mistakes: not seeing that China went from production country to consumer country.
Agidens: market seeking. Example: big customers are all present at 3 of the 4 hubs.

Which type of business is the MNE?

Centralised exporter
- *Exporter of central products (eg apple)*

International Projector
- *Exporter of recipes (eg Disney)*

International Coordinator
- *Combines resources of multiple counties (eg BP)*

Multi-Centred MNE
- *Multiple home bases (eg Phillips)*

Desotec: centralised exporter : thinking globally, acting locally
Lensonline: international projector: install the same system in another country
Agfa-gevaert: centralised exporter: film exported from home country
+ international coordinator: platers to hedge currency problems
Cookware company: /
Agidens: between centralised exporter and international projector (more this one). In different countries they have an own organisation.

What resources of external actors are used?

Needed from *external actors* (technology providers, licensees, local distributors, joint venture partners, etc.) to be successful abroad.

Distance types that can be covered by partners
1. cultural
2. economic
3. institutional
4. spatial

Desotec: cultural, institutional and spatial: language is really important to work with local partners
Lensonline : cultural & institutional: better to work with Italian people to sell in Italy
Agfa-gevaert: /
Cookware company: /
Agidens: /

How do you manage Bounded rationality and bounded reliability?

- Bounded rationality is about the *imperfect assessment* of a present or future state of affairs, thereby leading to incorrect beliefs;
- bounded reliability is about *imperfect effort* towards pre-specified goal achievement, thereby leading to incomplete fulfilment of promises.

Desotec: much conferences, so everybody is on the same line, but there are cultural differences
Lensonline: /
Agfa-gevaert: rationality: bad take-over because company didn't have the same equipment
Cookware company: /
Agidens: Bounded reliability: Management in the US → want to do it their way
Bounded rationality: move too quickly to a new country.

How do you Communicate with local managers (guide versus command)

Five simple principles of procedural justice:

1. ***Corporate headquarters' familiarity*** with the local situation at the subsidiary level
2. ***Effective two-way communication*** between corporate headquarters and subsidiaries
3. ***Consistency in decision-making*** across subsidiaries
4. ***Possibility*** for subsidiary managers ***to challenge*** the dominant perspective at corporate headquarters
5. ***Transparent explanation*** of final decisions made by corporate headquarters

Desotec: /
Lensonline :/
Agfa-gevaert: /
Cookware company: /
Agidens: /

What are the core competences of the MNE?

- ***Difficult*** for competitors to ***imitate*** (internal coordination and learning)
- Provides potential ***access*** to wide ***variety of markets***
- Makes a significant contribution to perceived ***customer benefits*** from the end products
- ***We add*** a fourth characteristic: the ***loss*** of a core competence would have an important ***negative effect*** on the firm's ***present and future performance***, in terms of value creation and satisfying stakeholder objectives

Desotec: /
Lensonline :/
Agfa-gevaert: /
Cookware company: /
Agidens: /

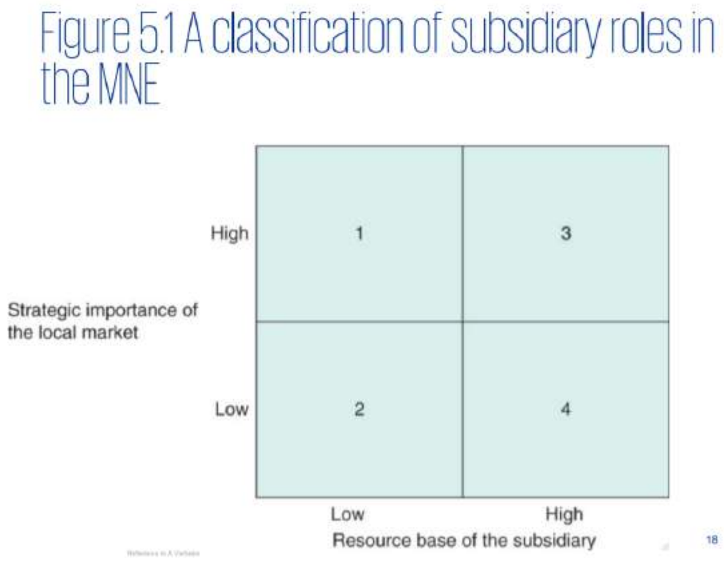
What are the roles of the subsidiaries?

- Two common, wrong assumptions made by senior MNE management:

1. ***United Nations model*** of multinational management: treat each subsidiary in a similar
manner implies either subsidiary independence (multi-centered MNEs) or complete dependence (global exporters or international projectors)

2. ***Headquarters hierarchy syndrome:*** corporate headquarters rule (only valid in case of complete dependence of subsidiaries)

Desotec: /
Lensonline :/
Agfa-gevaert: /
Cookware company: /
Agidens: /



Desotec: /
Lensonline :/
Agfa-gevaert: /
Cookware company: /
Agidens: /

Desotec: expoiting: central R&D, so it keeps being unique
Lensonline: /
Agfa-gevaert: expoiting: central R&D, they don't want to break the R&D culture.
Cookware company: /
Agidens: Only in Belgium. After more growth, there could come a second R&D hub.

What types of factories do you have?

Possible ***roles*** of foreign manufacturing facilities result from:

1. ***Offshore factory:*** accesses low-cost input production factors; output exported; no new FSA development; minimum autonomy
2. ***Server factory:*** supplies predefined, proximate national or regional output market; overcomes trade barriers, logistics costs and foreign exchange exposure; some FSA development; narrow charter with relatively little autonomy or specialized capabilities
3. ***Outpost factory:*** gathers valuable information from advanced, host country clusters, mainly on input side; manufacturing combined with offshore/server factory role
4. ***Source factory:*** accesses low-cost input production factors; receives resources; engages in resource recombination; develops FSAs to build 'best practice' plant in MNE's network; more autonomy; in locations with good infrastructure and skilled workforce; may be a strategic leader at input side; narrow charter
5. ***Contributor factory:*** oriented towards host country/region output market; stronger capabilities; at input market side, responsible for resource recombination of process improvements, new product development, customizations, etc.
6. ***Lead factory:*** strong resource recombination and new FSA development; accesses local cluster's valuable inputs and plays key role in localized manufacturing innovation; connected with all key-players in input markets (such as research labs) and end-users at the output side

Desotec: /
Lensonline: /
Agfa-gevaert: server factories and lead factories (for films)
Cookware company: /
Agidens: /

Figure 7.1 Six roles of foreign manufacturing plants

Strategic purpose of the plant \ Level of distinct FSAs held by the plant	Weak	Strong
Access to knowledge and skills	Outpost	Leader
Proximity to market	Server	Contributor
Access to low cost production	Offshore	Source

How do you manage Foreign currency?

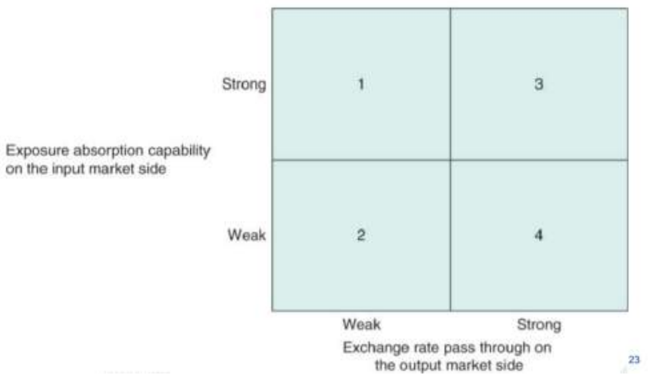
- Important to distinguish between 'real' versus 'nominal' exchange rates
- ***Real exchange rate fluctuations*** create operating exposure risk for companies
- Operating exposure depends not only on decision-making inside the individual firm, but also on ***choices*** made by ***rivals*** in terms of the geographic configuration of their investments and their sourcing policies

Desotec: hedging with currency: part of costs in $ and RMB. Competitors would have same problem. They are reviewing prices when the purchase prices are higher they ask higher prices as well.
Lensonline: /

Agfa-gevaert:
1. Plates: closer to customers → local currency in and out= natural hedge
2. If aluminium prices rise, they can pass it to customer because competitors are in aluminium as well

Cookware company: /
Agidens: More revenue than costs in dollar → natural hedging, if there is a big capital expenditure, they make an arrangement with the bank.

Figure 8.1 A classification of operating exposure at the subsidiary level



What FX strategy is used?

- Companies typically manage operating exposure through one of ***three approaches***
- First approach: each business unit is assessed individually, and ***each unit*** therefore ***configures its own operations*** to reduce its specific operating exposure
- ***Second*** approach: a ***company-wide perspective***, whereby a portfolio of businesses and operational structures is established with offsetting exposures
- ***Third*** approach: ***flexibility in operational planning*** (switching production between factories)

Desotec: /
Lensonline: /
Agfa-gevaert: /
Cookware company: /
Agidens: /

How do you manage Marketing?

- Levitt sees the ***multi-centered MNE*** being gradually replaced by ***centralized exporters*** and ***international projectors***
- Advances in technology, communications and travel confer additional value to ***non-location bound FSAs***, and strengthen the MNE's ability to deploy and exploit such FSAs
- Majority of the world's consumers want high quality, reliable products at low prices
- They are often willing to accept ***globally standardized*** products
- Companies that grasp this ***new 'global' reality*** and can inject these attributes in simplified products will gain competitive battles

Desotec: /
Lensonline: one brand for every country (only different names)
Agfa-gevaert: /
Cookware company: /
Agidens: /

How do you Manage Expat managers

1. Reflect carefully on the ***common problems*** of ***expatriate management*** faced by every MNE.
2. Learn about ***best practices*** to manage expatriates, including experiences from competitors.
3. Given your administrative heritage, ***explore*** the ***possible purposes*** and ***forms*** of ***expatriation*** (e.g., 'external' expatriation, overseas knowledge transfers, extended/permanent expatriation).
4. Focus ***strategic change*** on fine-tuning the MNE's organizational context, and follow eight implementation ***steps*** that have proven successful in many firms.
5. ***Train*** managers to integrate successfully the activities of geographically dispersed international operations.

Desotec: /
Lensonline: /
Agfa-gevaert: /
Cookware company: /
Agidens: /

How do you Manage distributors? (1/2)

1. ***Pro-actively select locations and only then suitable distributors:*** do ***not*** expand as a response to ***unsolicited proposals*** from local distributors. ***Best distributors*** are ***not*** necessarily the ***largest***, who may have contracts with rivals and an interest in dividing the existing market among them, rather than rapidly building this market for one firm
2. ***Focus on distributors' market development capabilities.*** Critical is the best ***'company fit'*** in terms of strategy, culture and willingness to invest, not the ***'market fit'*** with distributors already serving key target customers with related products
3. ***Manage distributors as long-term partners:*** give incentives to invest in long-term development. E.g., if the buy-back price depends on sales volumes, not profit margins, the distributor may position the product as a commodity, rather than extract the highest price from customers and harm the product's positioning
4. ***Provide resources (managerial, financial and knowledge-based) to support distributors for market-development purposes:*** committing more resources (skilled support staff, minority equity participations and knowledge sharing) earlier may foster higher performance

How do you Manage distributors (2/2)

5. ***Do not delegate marketing strategy to distributors:*** the MNE should provide clear leadership on choice of products, their positioning, marketing budget size, etc. Distributors should adapt this strategy to local market needs
6. ***Secure shared access to the distributors' critical market and financial intelligence:*** their willingness to share this information, signals their commitment to becoming a solid, long-term partner
7. ***Link national distributors with each other, especially at the regional level (spanning a number of countries): regional headquarters*** to coordinate distribution efforts, or autonomous ***distributor councils***, may lead to ***best practices diffusion*** inside the distributors' network, and act as an ***internal monitoring mechanism***, stimulating more consistent strategy implementation throughout the region

Desotec: /
Lensonline: /
Agfa-gevaert: ask question : what is best thing to serve the customer? → distributors for many customers
3 main objectives:
1. Product
2. Reach big market
3. Cost-effective

Cookware company: works a lot with other people. Did sessions for distributors (100 people). Now few distributors (6) left in the difficult countries, because it takes a lot time to cooperate with them.
Cookware company: /
Agidens: no distributors

How do you manage alliances?

High trust makes a ***relationship more vulnerable*** to bounded reliability, unless ***safeguards (six types)*** are introduced:

- Regular ***re-evaluation*** of the alliance relationship
- Continued focus on ***profitability***, not volume
- Continued attention to ***alternatives*** ("back-ups").
- ***Swapping hostages***
- Setting and reassessing ***common goals***
- Avoiding ***vicious cycles of suspicion*** and the resulting build-up of bounded reliability

Desotec: /
Lensonline: /
Agfa-gevaert: /
Cookware company: /
Agidens: Partner management programs → important : win-win situation. Give something & get something out of it. Communication is central here.

How do you manage M&A?

1. ***Do not overestimate*** the potential for ***value creation*** and ***do not underestimate*** the potential for ***value destruction*** of international M&As.
2. ***Do not fall*** into the ***trap*** of typical ***senior management biases*** when deciding on possible M&A deals.
3. Trade-off the benefits and costs of international M&As vis-à-vis ***alternative uses of resources*** for expansion.
4. When assessing M&A targets, always focus on the ***'industrial logic'***, and engage in stakeholder management from the outset.
5. Understand how to benefit from the ***complementary capabilities*** of acquired parties and focus on effective ***post-merger integration***.

Desotec: look for companies who are complementary with the business
Lensonline: /
Agfa-gevaert: M&A in a big company is very difficult
Cookware company: /
Agidens: /

What is the role of CSR?

1. Determine the meaning of ***'corporate citizenship'*** in each country where you operate and across all of the firm's international operations
2. Assess each ***CSR initiative*** in terms of its ***joint contribution*** to '***doing well***' and '***doing good***', and evaluate the ***longer-term business opportunities*** that CSR activities can create for the firm in host countries
3. Improve ***working conditions*** and ***labour standards*** at your ***factories*** and your ***suppliers***' by effectively implementing CSR activities
4. Rethink your ***pricing*** decisions by ***trading off profit maximization*** against fulfilling ***obligations to society***
5. Align your CSR activities to your ***host country business objectives*** and the host country ***socio-economic and institutional context***

Desotec: is having much attention for CSR
Lensonline: /
Agfa-gevaert: /
Cookware company: /
Agidens: /

How do you manage Environmental issues?

- ***Environmental regulations*** trigger two innovation types:
  - ***First*** type ***converts pollution*** sources into something of value
  - ***Second*** form ***improves resource productivity***
- Early adoption of advanced environmental management approaches may produce a ***first-mover advantage***: herein lies the ***relevance for international business strategy***. Case of German companies specializing in less-packaging intensive products

Desotec: /
Lensonline: /
Agfa-gevaert: sees environment as an opportunity, build for a better society.
Cookware company: /
Agidens: /

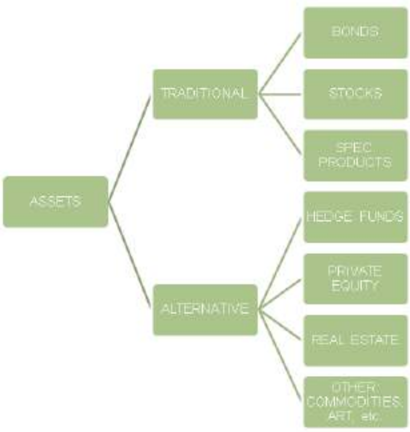
Extra: Private Equity

LBO Market: Mega Deals

Top 10 LBO's of all time (adj. for inflation)

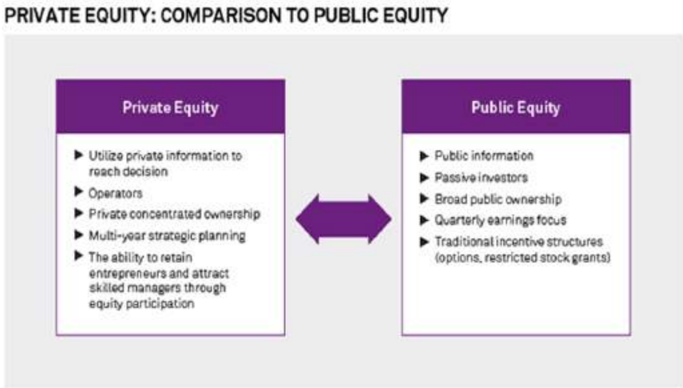
Target	Enterprise Value ($ billions)
1. RJR Nabisco (1989/KKR)	59.6 (31.1)
2. TXU (2007/GS+KKR+TPG)	50.9 (44.4)
3. Equity office (2007/BlackStone)	44.6 (38.9)
4. HCA (2006/BainC+KKR+ML)	38.6 (32.7)
5. First Data (2007/KKR+TPG)	33.3 (29)
6. Ceasar (2006/Apollo+TPG)	32.4 (27.4)
7. Alltel (2007/GS+TPG)	31 (27)
8. Clear Channel (2006/KKR+BainC)	30.3 (25.7)
9. Hilton (2007/Blackstone)	29.8 (26)
10. Alliance Boots (2007/KKR)	28.4 (24.8)

Private Equity as an asset class



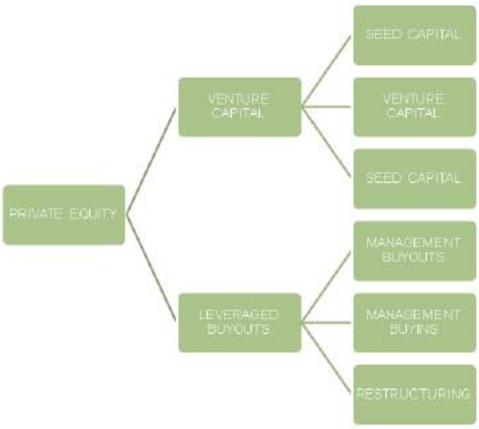
Private equity → asset allocation.
Alternative asset class.

Private equity v. public equity



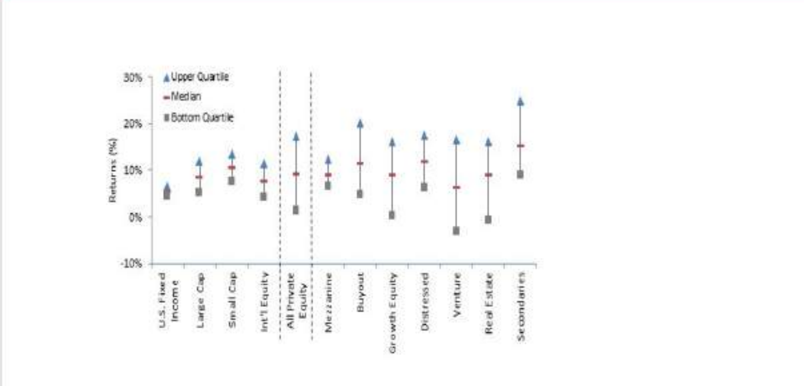
Private equity: Illiquid, you can fuck it up while nobody knows about it.
Public equity: you know real value, found on stock market, you can read a lot of information about it.

Private equity as a sub asset class



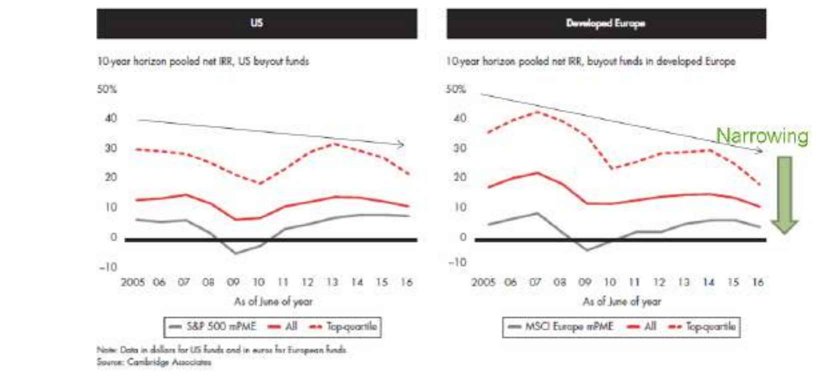
Different stages
Seed capital: very early
Growth capital: to grow a company
LBO: already much cash flow.

Investor Objectives – High Standard deviation returns



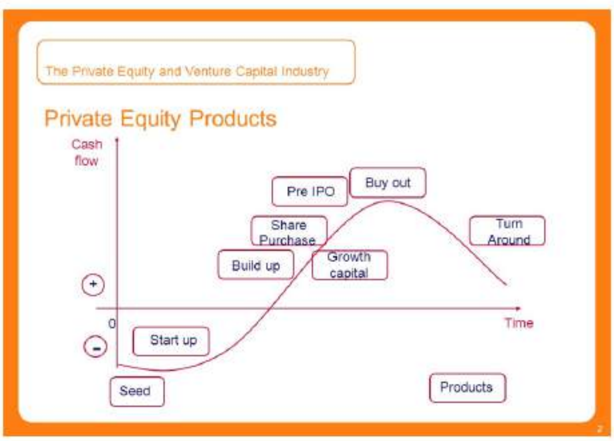
Private equity: high standard deviation → risky business

Investors objectives - Returns



Normally 10-15% return, but risky!
Top: 20-30%
Good days are over, returns are going down.

Private equity segmentation: life cycle



For every period, there are specialized investors.

Leveraged buy-outs: definition

The Purchase of a Business where:

1. Private equity funds provide the majority of the shareholders' funding
2. A significant portion of the total funding is from bank debt
3. Management (incumbent and/or new) have a stake in the business
4. In order to further manage & develop the business (as a stand-alone)
5. There will be a capitalisation event in due course

Control + Leverage + Management+ Develop + Exit

Big chunk of money you use, comes from bank.
Private equity gets funds from pension funds.

Buy-out deal types

	Corporate Spin-off	Secondary or...	Public to Private	Roll-up	Turnaround
ASSET	Mozzarella	HANS ANDERS	DEBENHAMS	IPCOM INSULATION PRODUCTS	ABX LOGISTICS
SELLER	Danone	Gilde Private Equity	Stock Market	Different families (+20)	Belgian railroad
DATE of ACQUISITION	2002	2011	2003	2010-2016	2006
ACQUIRER	BC Partners	Groupe Alpha	CVC, TPG, Merrill	Waterland Private Equity	3i
SIZE of TRANSACTION	€1bn	€+200m	£1,9bn	€<50m	€300m (€10m equity)
DATE of SALE	2006	2017	2006	2017	2008
ACQUIRER	Lactalis	3i (tertiary !)	Stock Market	??	DSV
SIZE of TRANSACTION	€2bn	€+200m	£3bn	€250m ?	€750m

1. Corporate spin-off: if it is not part of your strategy anymore, sell it.
2. Secondary buy-out: private equity company buys it from private equity company.
3. Public to private: buy it out of the stock market when the company is cheap
4. Roll-up: buy platform company and buy companies around it, bring all the companies together in one big group.
5. Turnaround: buy company which is badly run

LBO101: The Leverage effect (1)

"Like buying a house"

Nobody buys a house entirely with equity !

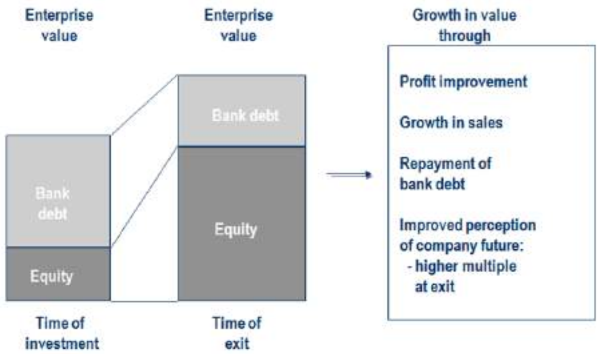
You buy a house for a value of 100, with a mortgage of 80 and you put in 20 of your own money ('equity')

A couple of years later, you sell your house at 120. You have been paying interest on your mortgage but have not reimbursed anything.

You receive 120 and pay off your mortgage (-80) and have 40 left.

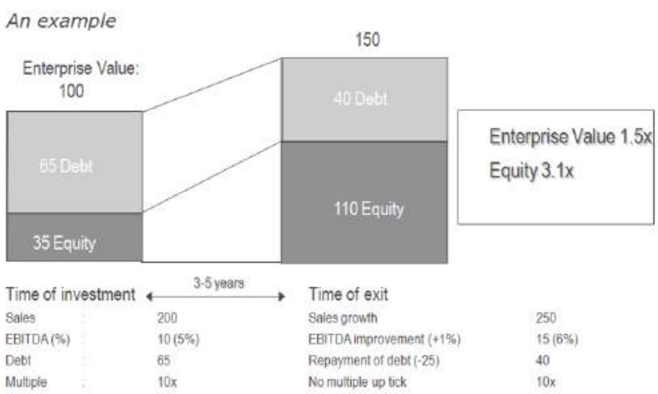
You doubled your money (20 x 2 = 40) assuming that the interest payments would equal rent payments.

LBO101: The Leverage effect (2)

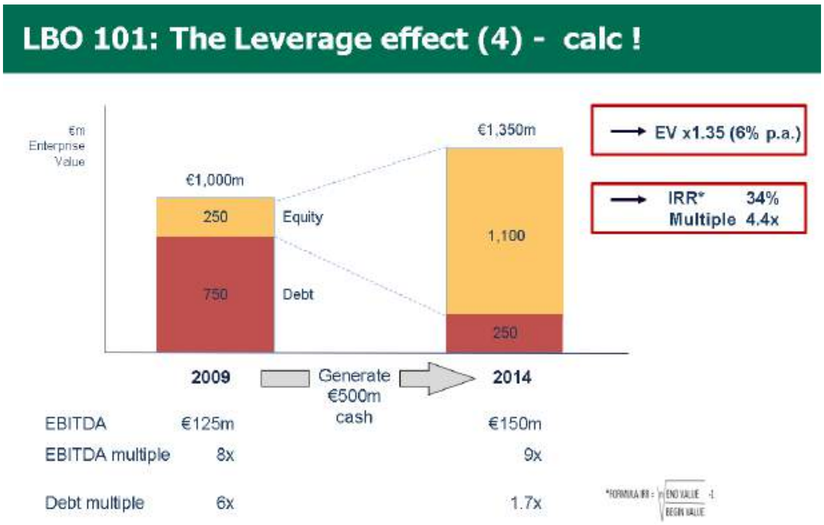


Every bank has specialized division for acquiring a company.
You buy company with equity + debt → grow turnover → make more sexy, get higher price

LBO101: The Leverage effect (3)



Value of company is valued at multiple of EBIT or EBITDA.
Leverage effect: 35/100 from you own money. Equity is tripled, while EV is x1,5. The effect of the debt is very important.



Now multiple is higher as well because the business is made more 'sexy'.
→ money made because of 3 things: leverage effect + higher profits (EBITDA) + more sexy business

IRR= Internal Rate of Return= $\sqrt[n]{\frac{\text{END VALUE}}{\text{BEGIN VALUE}}} - 1$
In private equity they think in IRR: how much return do you have every year.

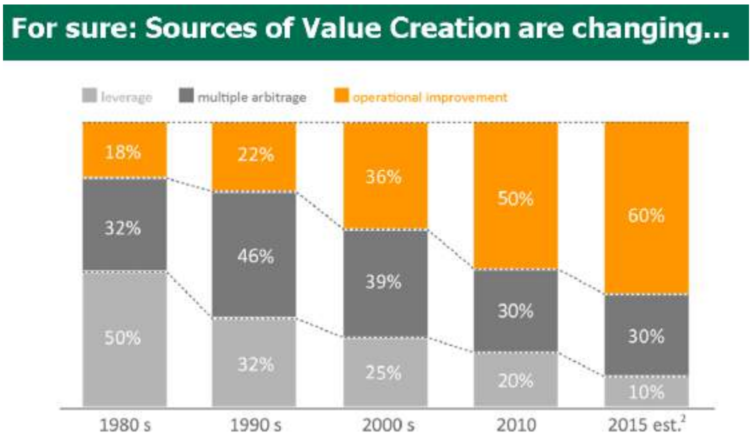
LBO 101: Basic value creation split - calc !

	2009	2014
Equity Value	€250m	€1,100m
	→	€850m of value creation

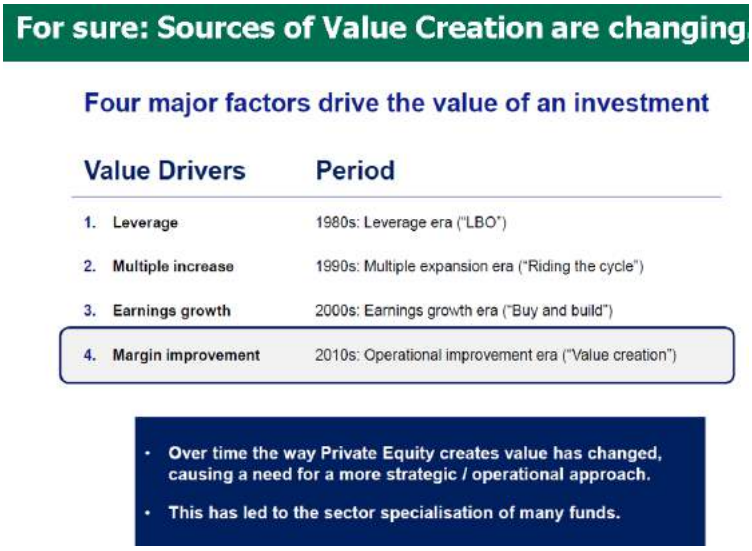
allocated to:

Deleverage	€500m	(59%)	[Initial debt 750 – debt at exit 250]
Growing EBITDA	€200m	(24%)	[(Exit EBITDA 150 - Entry EBITDA 125) x Entry Multiple 8]
Multiple Expansion	€150m	(18%)	[(Exit Multiple 9 - Entry Multiple 8) x Exit EBITDA 150]
	€850m		

Highest multiple: online pharma > steel business
Amazon > Delhaize



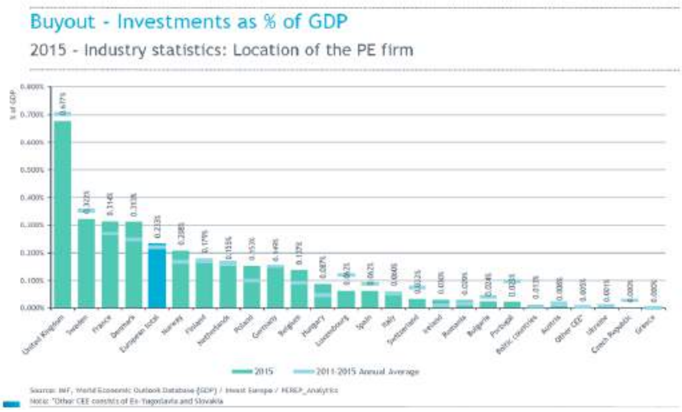
Operational improvement is the most important one.
Now it is more hard work to make money, leverage effect is not important anymore.



How big is this industry ? (in % of M&A volume)

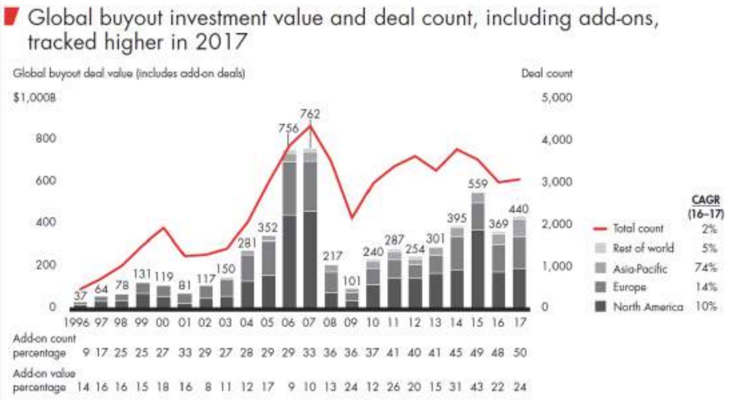
How large is this industry ? (in % of GDP)

- The culture has to be there…..



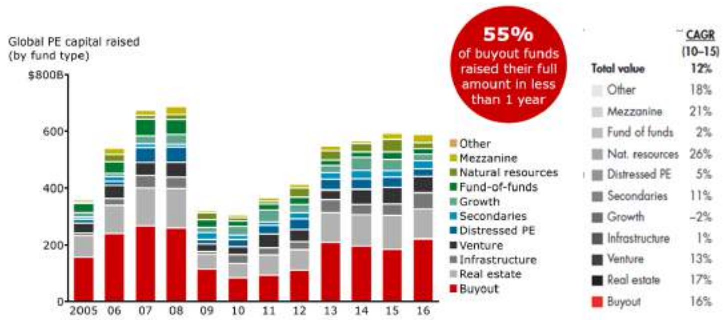
Uk: country with most private equity.
Benelux: good.

How large is this industry ? (in deals)



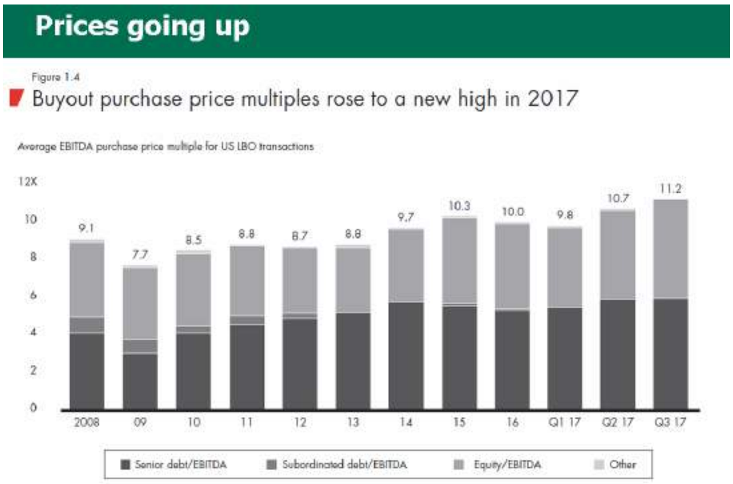
Financial crisis: big drop.

How big is this industry ? (in funds $)

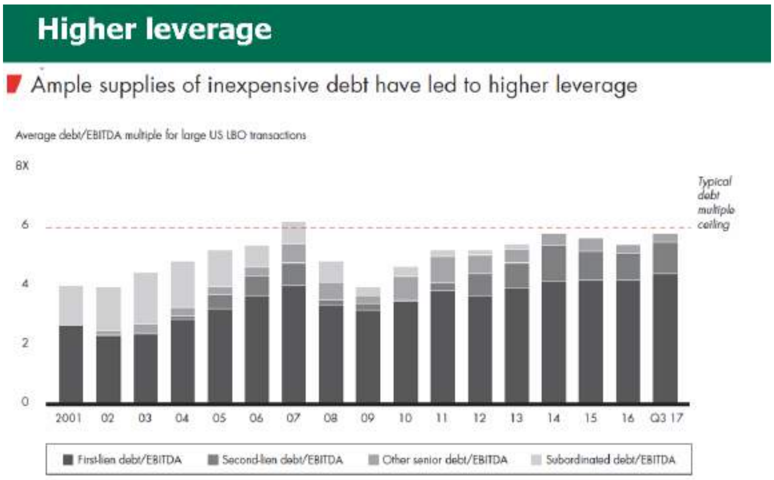


Investors

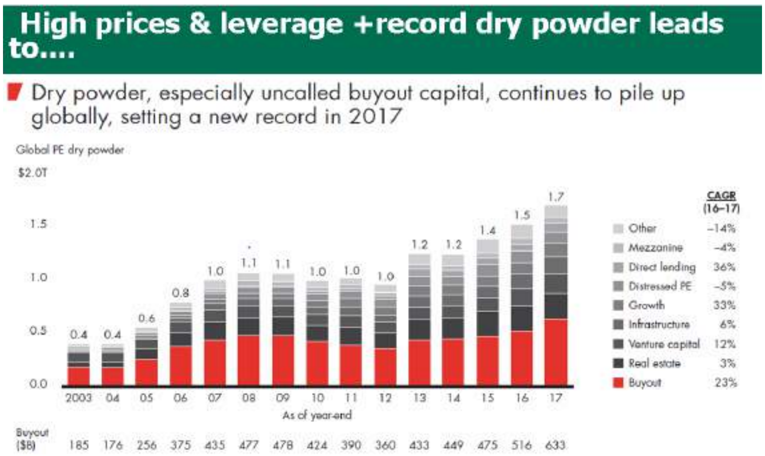
Rank	LPs (PEI LP 50)	# of Overlaps with CalPERS (PEI LP 50)	Total Capital Committed in 2010-2014 ($bn) (PEI LP 50)	% of Global Fundraising (2010-2014) (Preqin)
1	CPP Investment Board	54	28.1	1.90%
2	AlpInvest Partners	24	19.7	1.30%
3	Hamilton Lane	7	18.7	1.20%
4	HarbourVest Partners	33	16	1.10%
5	Washington State Investment Board	48	14.4	1.00%
6	Goldman Sachs Asset Management	5	14.3	1.00%
7	CalPERS	N/A	11.7	1.00%
8	Pantheon	52	12.1	0.80%
9	La Caisse de Depot et Placement du Quebec	14	12.1	0.80%
10	Teacher Retirement System of Texas	39	11.6	0.80%
11	CalSTRS	72	10.7	0.70%
12	Florida State Board of Administration	41	10.2	0.70%
13	Oregon State Treasury	58	10	0.70%
14	Alaska Permanent Fund	22	7.9	0.50%
15	Virginia Retirement System	8	7.1	0.50%
	Total		204.5	13.60%



Multiples are going up → getting more expensive.
EBITDA= Earnings Before Interests, Taxes, Depreciation and Amortization.

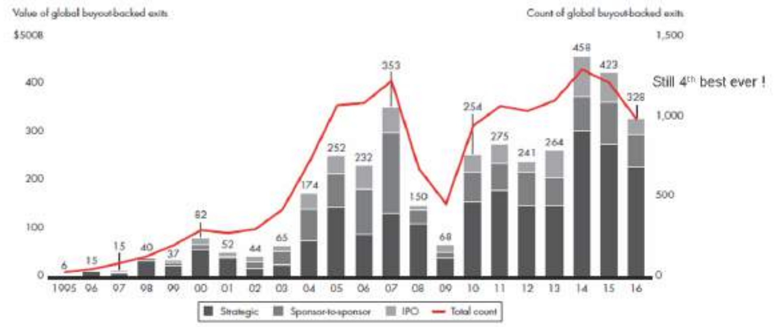


Debt multiple is going higher: more companies are paid with debt.



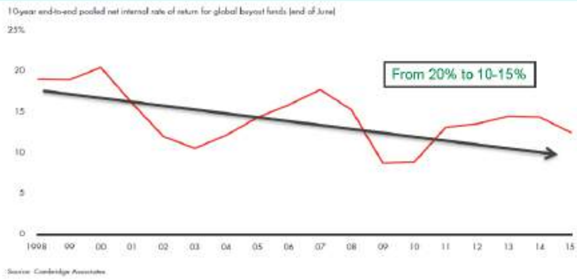
1,7 trillion dollar is waiting to get invested. → having much money, but prices are too high.

For starters...more exits



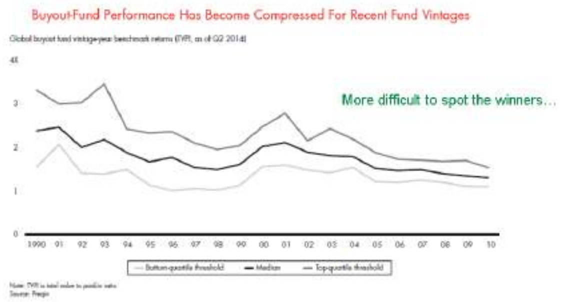
People are selling their businesses, because the prices are so high.

And for sure: returns will come down further

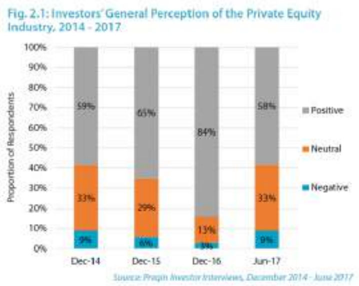


Return go down because the prices are too high.

And for sure: returns will come down further

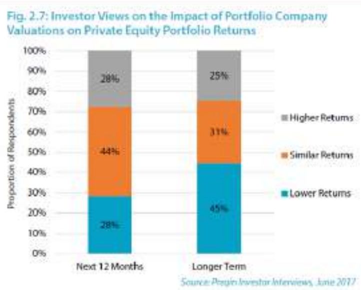


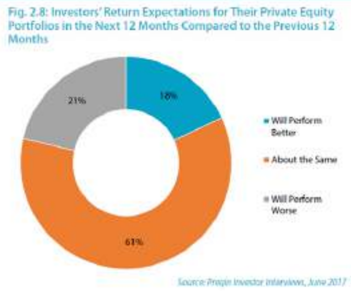
Investors satisfaction with PE returns



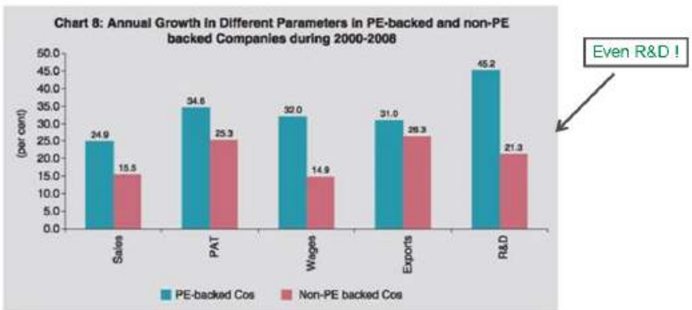
Most people are happy with that 10-15%. People are pretty pessimistic about the future returns.

Expectations confirm this....





LBO firms – Growth Investors or Asset Strippers?



Private equity is good:

-Money made is used to pay pensions.
-Realize higher sales
-Higher profits
-Higher R&D: to make company sexy again.
-Higher wages, exports.

In short:

- Private Equity has developed into a large industry
  - 0,5%-1% of GDP, $2.4trn PE assets under management, >$400bn investments (2015)
  - Ever growing (despite downturn)
- It promises investors attractive absolute returns
- Yet it is cyclical and correlated with other sectors of finance and the economy
- It has shown risk-adjusted outperformance, certainly in the top two quartiles in the past
- Whether this can persist remains to be seen

Private Equity - what we have learned

- Private Equity is different from public equities, leveraged or not
- There are fundamental reasons for the asset class to continue to outperform:
  1. Clarity of focus – cash increase in value vs. empire building
  2. Motivated managers with shared objectives
  3. Smart & experienced GPs with shared objectives
  4. Longer time scales [5 years vs quarterly results]
  5. Leverage

- Responsibility is great.....

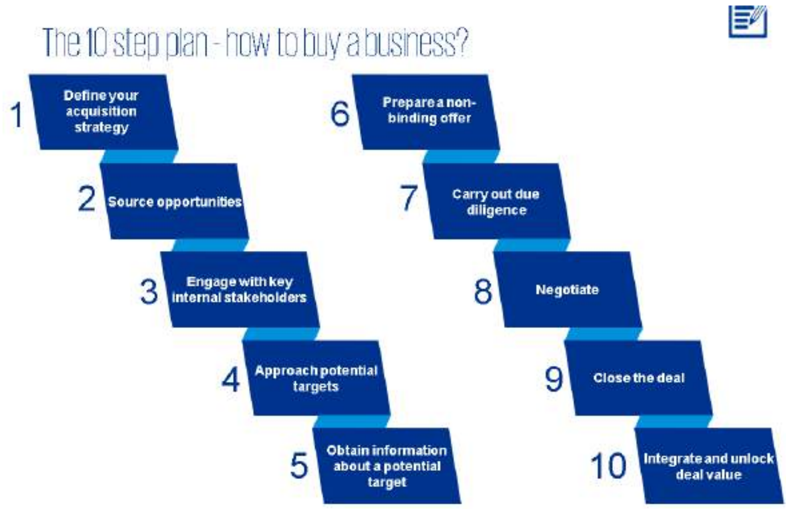
  ....The risk of hubris is even greater

What will the future bring ?

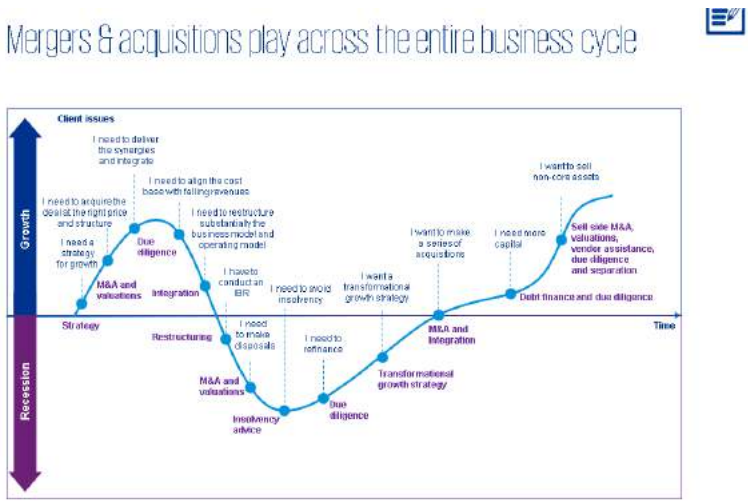
- Currently highly competitive market with many players, all-time high prices and record dry powder....
- PE investors under pressure to invest (earn your fees !)
- Allocations will go up further ! (SWF, Family offices,....)...due to low interest rate environment
- Too much money...chasing too few (good) deals....
- Returns will go down.....for sure....from high teens to MID-TEENS !
- Deal composition contains a wider skillset (not only financial profiles, access to network of experts, operational partners,...)
- Bain Report: PE companies have to build more than ever before on portfolio value creation up capabilities – Easier said than done...
  - More active, hands-on involvement/monitoring (operational partners) [leverage effect and multiple uptick is not enough]
  - More proactive dealsourcing
  - More focused... Specialization "thematic approach"/"Investment sweet spot", sector expertise. E.g. Energy funds 2017 +5bn (v. €1.8bn in 2016)
  - Strategies: Buy & build strategies, PtoP, special situations,

Extra: Mergers and acquisitions

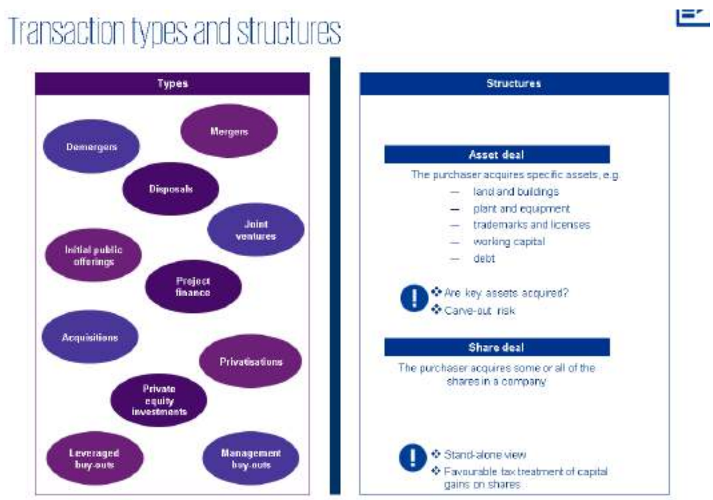
1.Introduction



Non-binding offer: I could give you…
Due diligence: look at it



Do M&A in all the cycles.

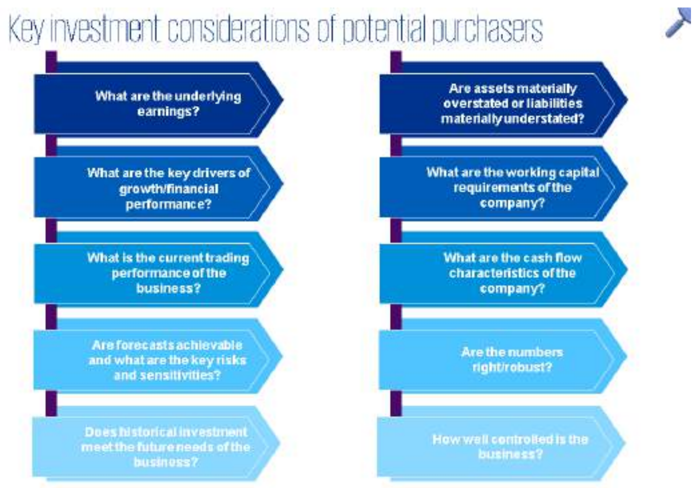


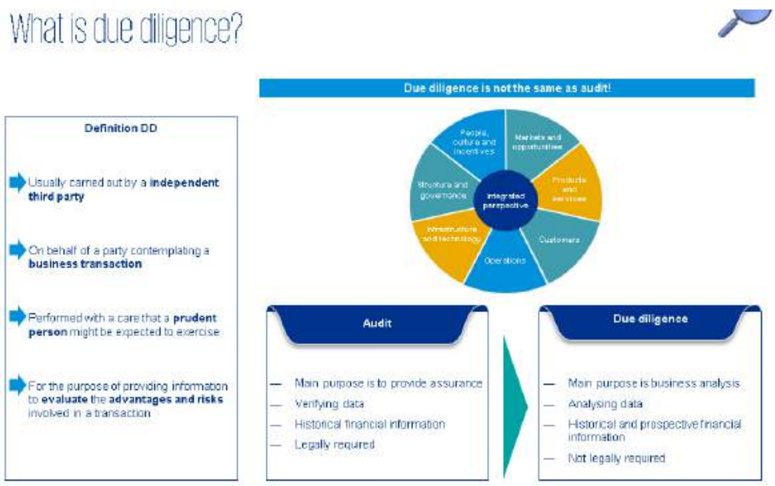
When you have a share deal: many more things to take into account.

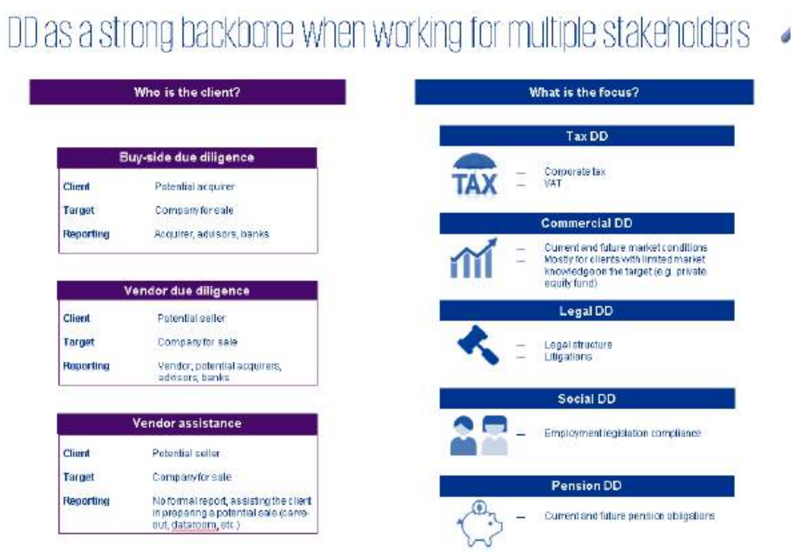
2.Due diligence

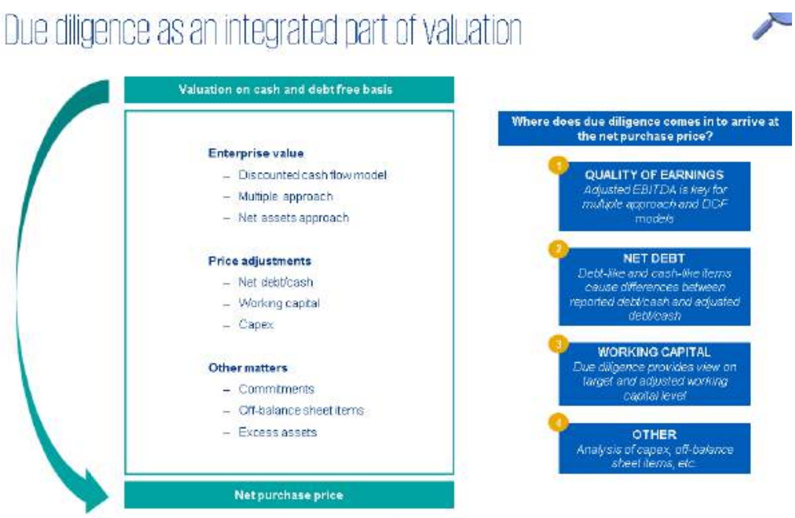
= finding out what is really in the company and looking what is possible to do with the company

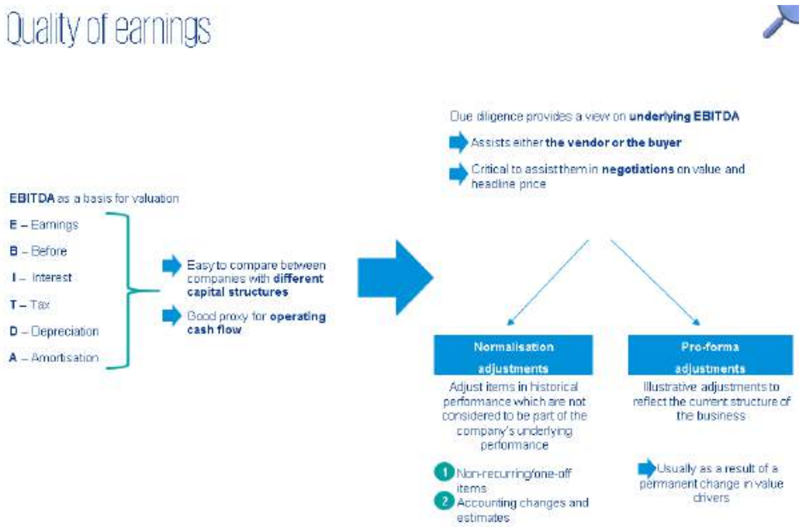
Vendor due diligence: same for seller of the company. How much is it worth and what can buyer do with the company.

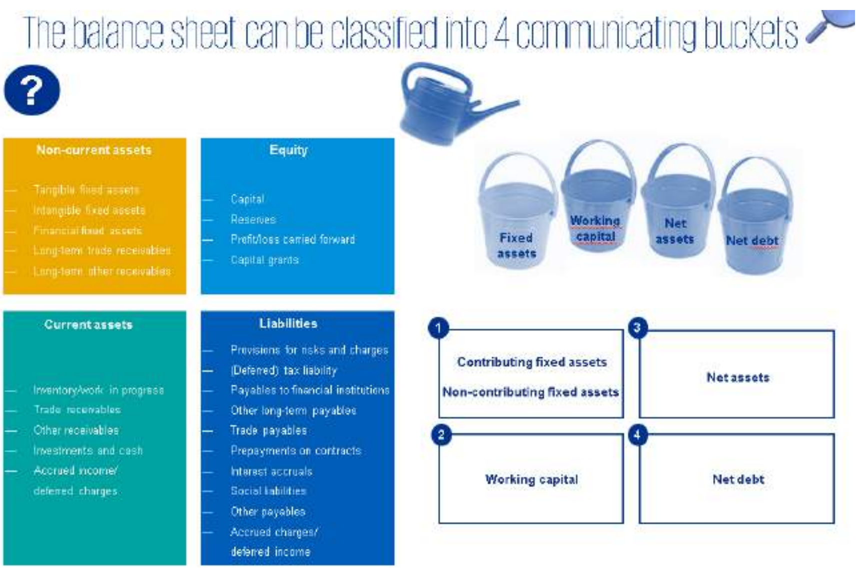

Key investment considerations of potential purchasers
What are the underlying earnings?
What are the key drivers of growth/financial performance?
What is the current trading performance of the business?
Are forecasts achievable and what are the key risks and sensitivities?
Does historical investment meet the future needs of the business?
Are assets materially overstated or liabilities materially understated?
What are the working capital requirements of the company?
What are the cash flow characteristics of the company?
Are the numbers right/robust?
How well controlled is the business?

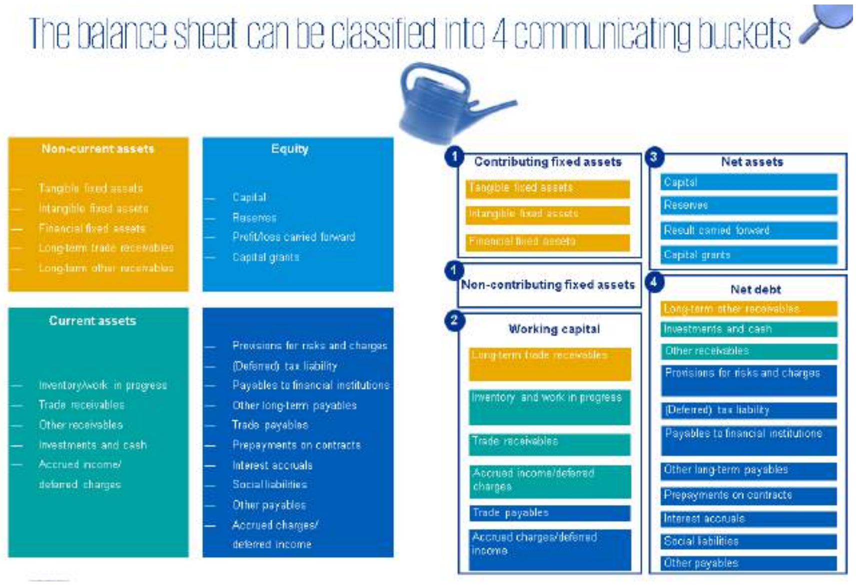

What is due diligence?
Due diligence is not the same as audit!
Definition DD
Usually carried out by a independent third party
On behalf of a party contemplating a business transaction
Performed with a care that a prudent person might be expected to exercise
For the purpose of providing information to evaluate the advantages and risks involved in a transaction
People, culture and incentives
Markets and opportunities
Products and services
Customers
Operations
Infrastructure and technology
Structure and governance
Integrated perspective
Audit
Main purpose is to provide assurance
Verifying data
Historical financial information
Legally required
Due diligence
Main purpose is business analysis
Analysing data
Historical and prospective financial information
Not legally required

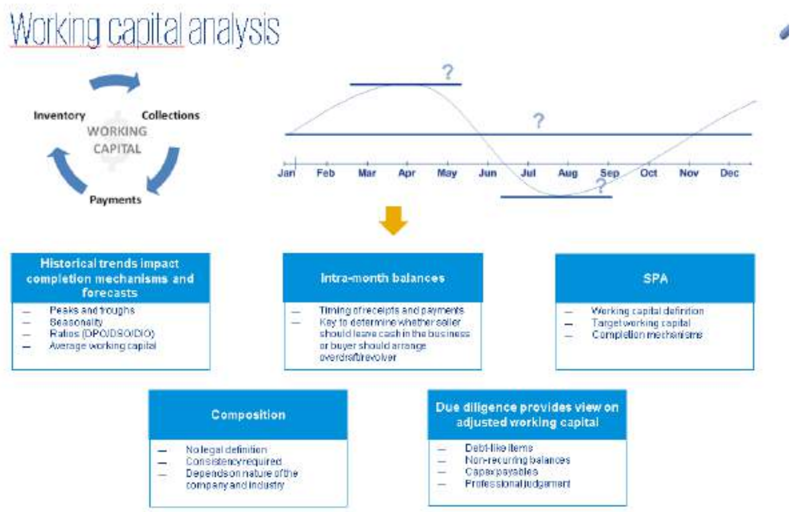

DD as a strong backbone when working for multiple stakeholders
Who is the client?
Buy-side due diligence
Client Potential acquirer
Target Company for sale
Reporting Acquirer, advisors, banks
Vendor due diligence
Client Potential seller
Target Company for sale
Reporting Vendor, potential acquirers, advisors, banks
Vendor assistance
Client Potential seller
Target Company for sale
Reporting No formal report, assisting the client in preparing a potential sale (carve-out, dataroom, etc.)
What is the focus?
Tax DD
TAX
Corporate tax
VAT
Commercial DD
Current and future market conditions
Mostly for clients with limited market knowledge on the target (e.g. private equity fund)
Legal DD
Legal structure
Litigations
Social DD
Employment legislation compliance
Pension DD
Current and future pension obligations


Due diligence as an integrated part of valuation
Valuation on cash and debt free basis
Enterprise value
– Discounted cash flow model
– Multiple approach
– Net assets approach
Price adjustments
– Net debt/cash
– Working capital
– Capex
Other matters
– Commitments
– Off-balance sheet items
– Excess assets
Net purchase price
Where does due diligence comes in to arrive at the net purchase price?
1 QUALITY OF EARNINGS
Adjusted EBITDA is key for multiple approach and DCF models
2 NET DEBT
Debt-like and cash-like items cause differences between reported debt/cash and adjusted debt/cash
3 WORKING CAPITAL
Due diligence provides view on target and adjusted working capital level
4 OTHER
Analysis of capex, off-balance sheet items, etc.


Quality of earnings
EBITDA as a basis for valuation
E – Earnings
B – Before
I – Interest
T – Tax
D – Depreciation
A – Amortisation
Easy to compare between companies with different capital structures
Good proxy for operating cash flow
Due diligence provides a view on underlying EBITDA
Assists either the vendor or the buyer
Critical to assist them in negotiations on value and headline price
Normalisation adjustments
Adjust items in historical performance which are not considered to be part of the company's underlying performance
1 Non-recurring/one-off items
2 Accounting changes and estimates
Pro-forma adjustments
Illustrative adjustments to reflect the current structure of the business
Usually as a result of a permanent change in value drivers


The balance sheet can be classified into 4 communicating buckets
?
Non-current assets
– Tangible fixed assets
– Intangible fixed assets
– Financial fixed assets
– Long-term trade receivables
– Long-term other receivables
Equity
– Capital
– Reserves
– Profit/loss carried forward
– Capital grants
Current assets
– Inventory/work in progress
– Trade receivables
– Other receivables
– Investments and cash
– Accrued income/ deferred charges
Liabilities
– Provisions for risks and charges
– (Deferred) tax liability
– Payables to financial institutions
– Other long-term payables
– Trade payables
– Prepayments on contracts
– Interest accruals
– Social liabilities
– Other payables
– Accrued charges/ deferred income
Fixed assets
Working capital
Net assets
Net debt
1 Contributing fixed assets
Non-contributing fixed assets
2 Working capital
3 Net assets
4 Net debt

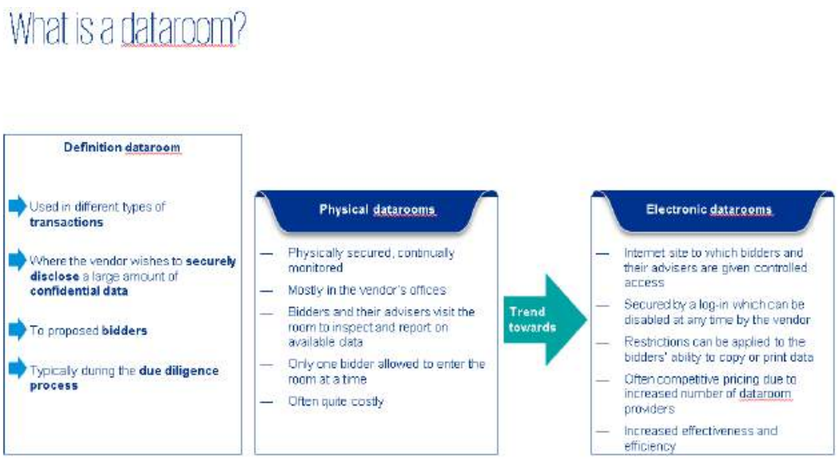




Valuation of the company:
bv. €250.000 value of apartment + loan of €100.000 → value= €150.000

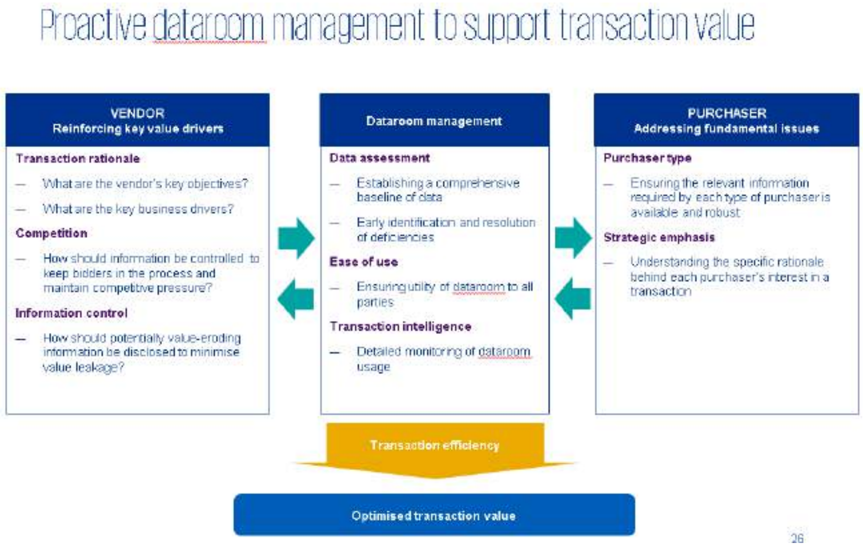
Fluctuations of working capital.
Cash is added to the value of a company: look to fluctuations of working capital. If you sell out inventory, you have more cash.

3.Dataroom management



Dataroom: when you sell company, you don't want all the people to look inside the whole company. You make a physical dataroom to give all the information you want to give, now more electronic datarooms.

Smarter to put bad information in it as well, because they will eventually investigate it and this will destroy the trust between them.



4.Share purchase agreement

A deal = a package → need to watch out

Importance of the share purchase agreement

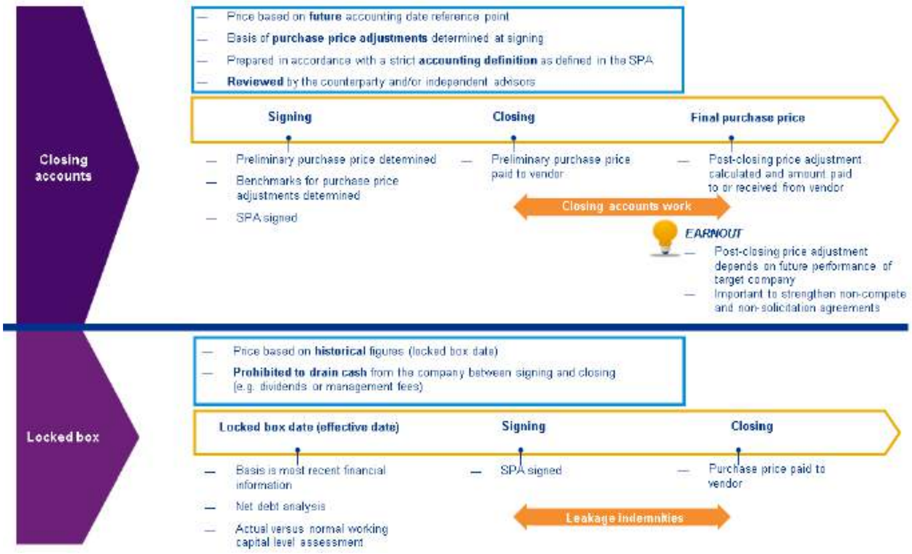
Definition SPA

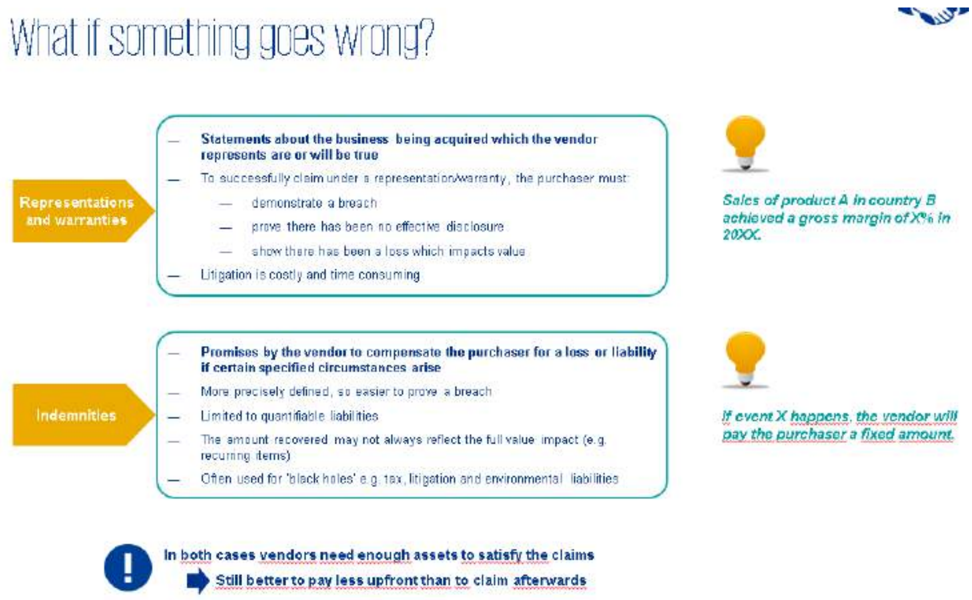
- Gives **legal substance** to the transaction
- Defines exactly **what is being purchased** (definitions, transaction structure, consideration etc.)
- Provides a **protection mechanism** to:
  - Obtain a purchase price adjustment
    - *closing mechanisms*
  - Get some money back
    - *representations, warranties, indemnities*
  - Terminate the deal
    - *conditions precedent, material adverse change clauses*

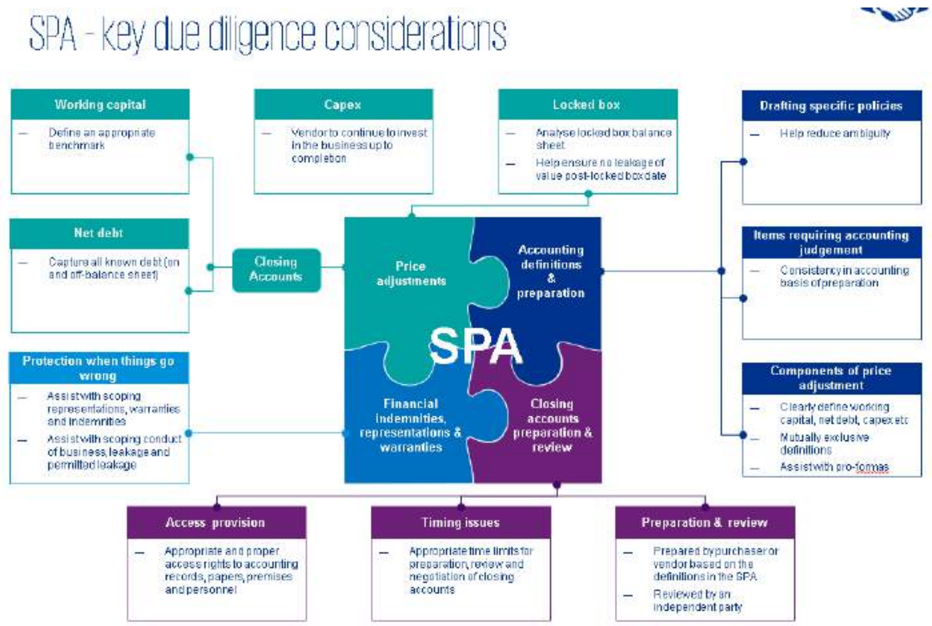
Indicative SPA structure

Share purchase agreement		
1.	**Definitions**	Clear description of all terms
2.	**Transaction structure**	Share deal versus asset deal
3.	**Base consideration**	Typically the enterprise value of the business
4.	**Adjustments to the consideration**	Adjustments for debt, cash, working capital, capex
5.	**Conditions precedent**	How should the vendor manage the business in the period to completion?
6.	**Actions on completion**	Time, place, transfer of consideration
7.	**Representations and warranties**	Protection mechanism if things go wrong
8.	**Indemnities**	Liabilities to be borne by the seller
9.	**Schedules**	Appendices e.g. completion mechanisms and accounting policies
10.	**Ancillary agreements**	Transition arrangements, shared-service agreements, licenses, non-compete agreements, etc

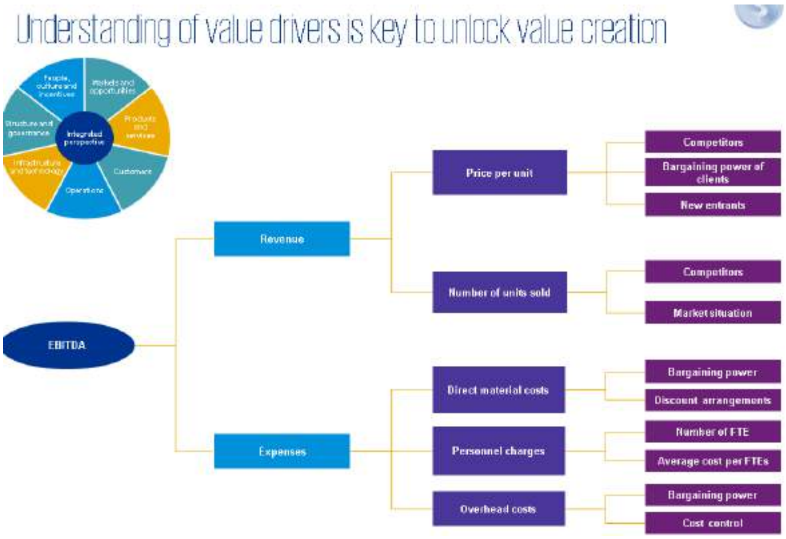
Purchase price adjustments – closing mechanisms

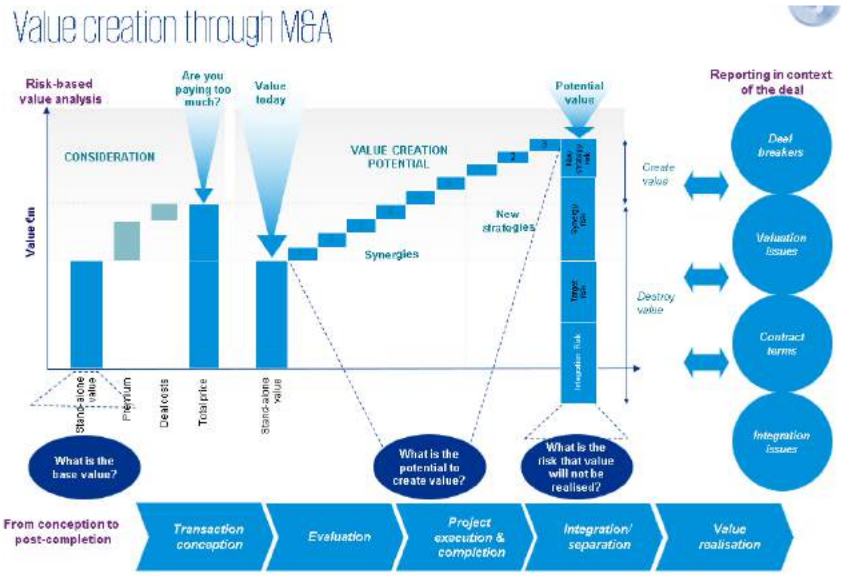



What if something goes wrong?
Representations and warranties
Statements about the business being acquired which the vendor represents are or will be true
To successfully claim under a representation/warranty, the purchaser must:
demonstrate a breach
prove there has been no effective disclosure
show there has been a loss which impacts value
Litigation is costly and time consuming
Sales of product A in country B achieved a gross margin of X% in 20XX.
Indemnities
Promises by the vendor to compensate the purchaser for a loss or liability if certain specified circumstances arise
More precisely defined, so easier to prove a breach
Limited to quantifiable liabilities
The amount recovered may not always reflect the full value impact (e.g. recurring items)
Often used for 'black holes' e.g. tax, litigation and environmental liabilities
If event X happens, the vendor will pay the purchaser a fixed amount.
In both cases vendors need enough assets to satisfy the claims
Still better to pay less upfront than to claim afterwards


SPA - key due diligence considerations
Working capital
Define an appropriate benchmark
Capex
Vendor to continue to invest in the business up to completion
Locked box
Analyse locked box balance sheet
Help ensure no leakage of value post-locked box date
Drafting specific policies
Help reduce ambiguity
Net debt
Capture all known debt (on and off-balance sheet)
Closing Accounts
Price adjustments
Accounting definitions & preparation
SPA
Financial indemnities, representations & warranties
Closing accounts preparation & review
Items requiring accounting judgement
Consistency in accounting basis of preparation
Protection when things go wrong
Assist with scoping representations, warranties and indemnities
Assist with scoping conduct of business, leakage and permitted leakage
Components of price adjustment
Clearly define working capital, net debt, capex etc
Mutually exclusive definitions
Assist with pro-formas
Access provision
Appropriate and proper access rights to accounting records, papers, premises and personnel
Timing issues
Appropriate time limits for preparation, review and negotiation of closing accounts
Preparation & review
Prepared by purchaser or vendor based on the definitions in the SPA
Reviewed by an independent party

5.M&A strategic elements





Most important slide! → exam!

What you pay for company?
Share value + pay a premium + deal cost (fees to arrange it)
→ earn price back by synergies (better position) and new strategies (bv. Website + shop).

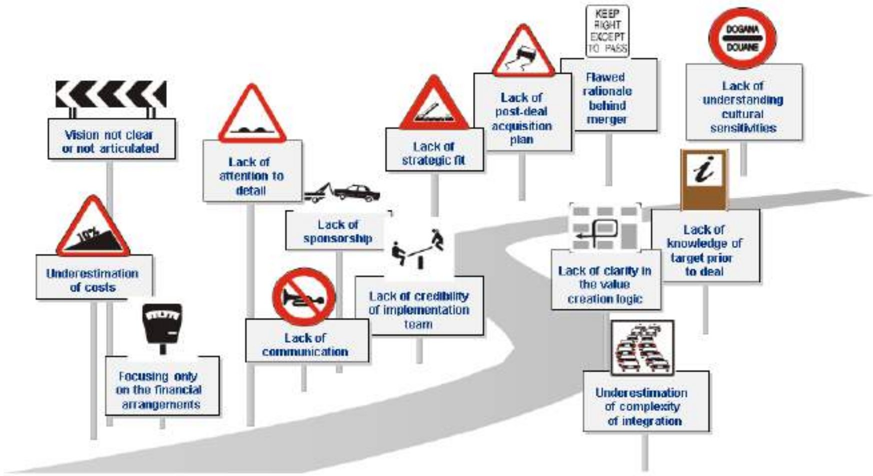
Things could go wrong to get to the potential value:

- Integration risk: all the clients go away, you can't keep the
- Target risk: you thought it was good, but it seems that it isn't valuable
- Synergy risk
- New strategy risk

You can catalogue each issue into:

- Deal breaker: not buy company anymore
- Value issues bv. just lost contract with big customer → pay less
- Contract terms bv. If that happens, then …
- Integration issues: if you take it over, you need to do…

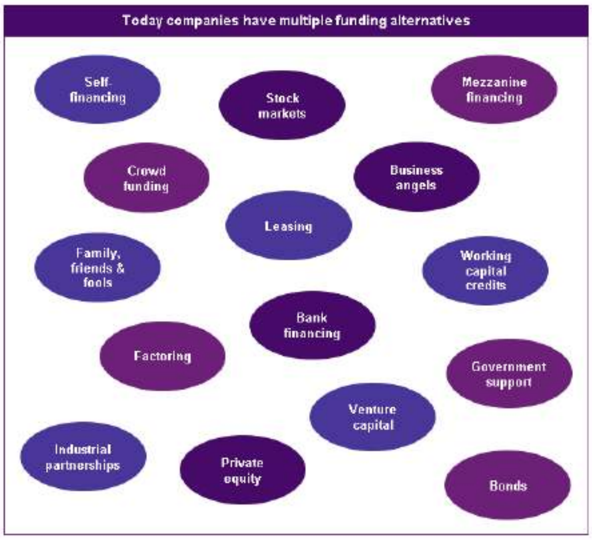
Pitfalls to fulfilling strategic objectives



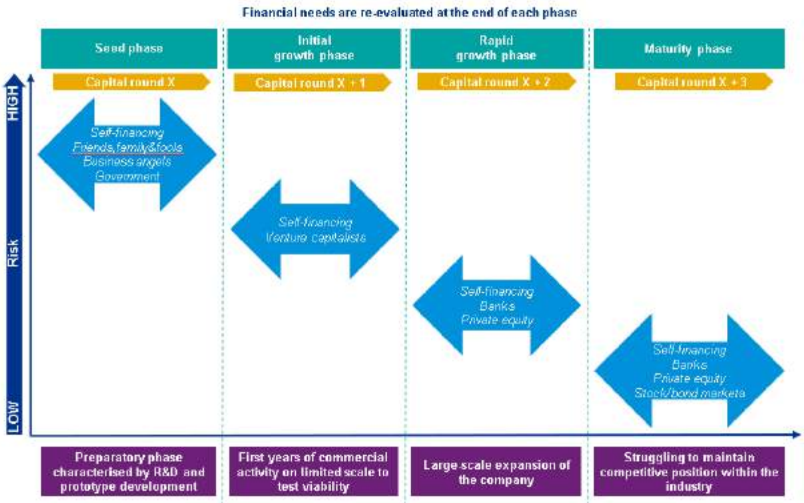
Extra: financing

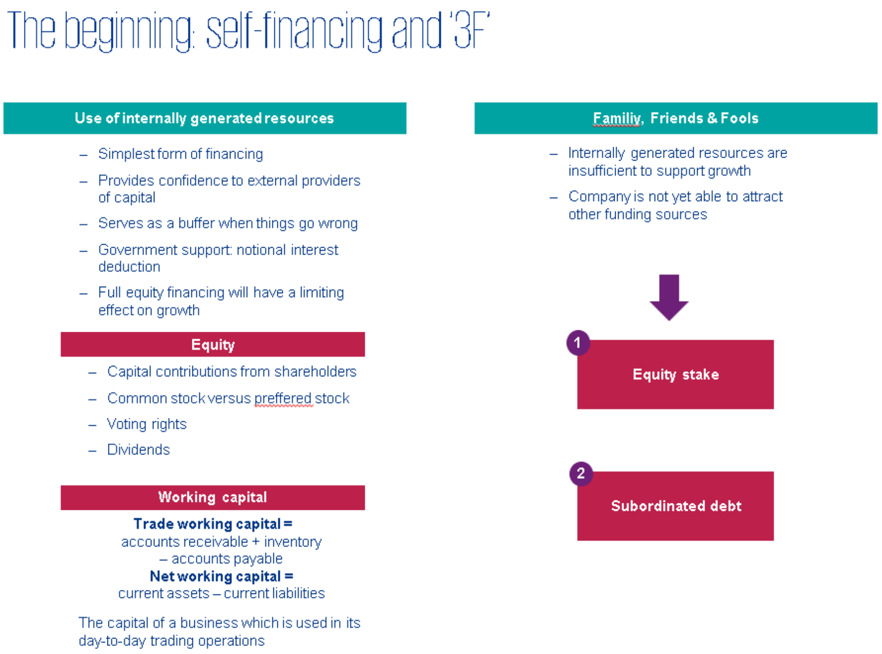
1.Introduction

Sources of funding



Impact of lifecycle on financing options

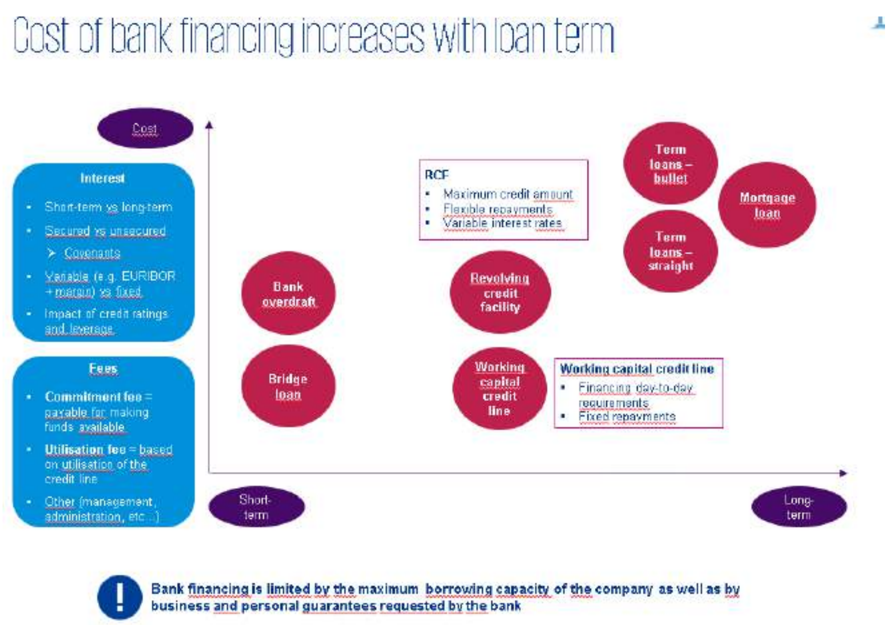


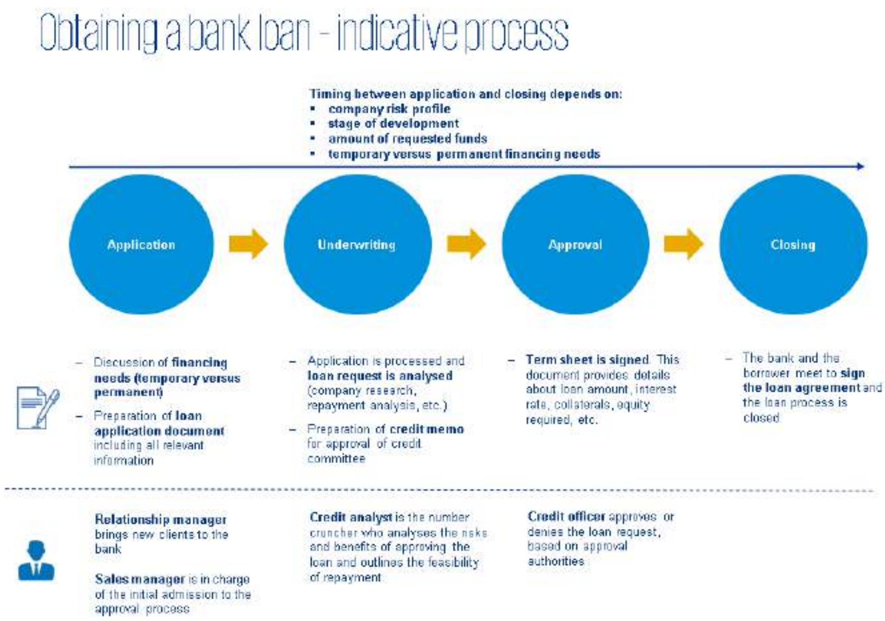


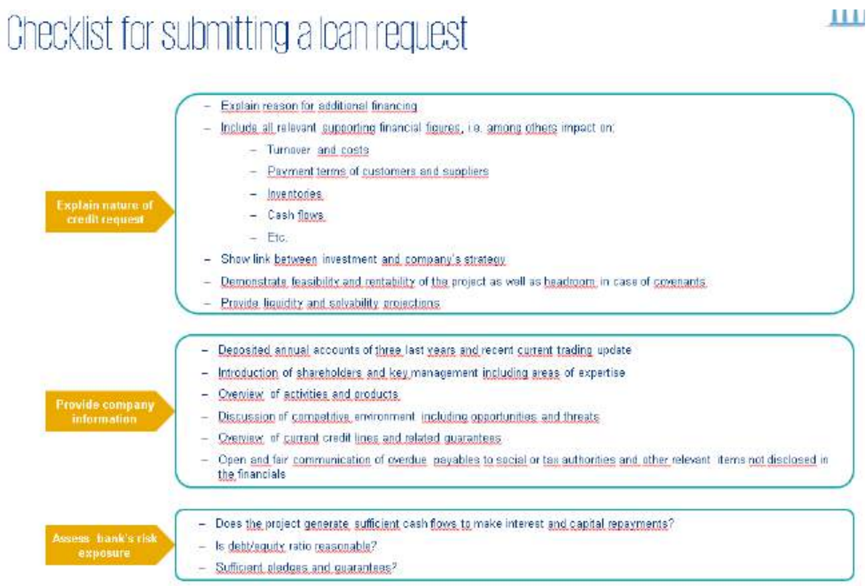
Start-up gets money from 3 F's:

1. Friends
2. Family
3. Fools

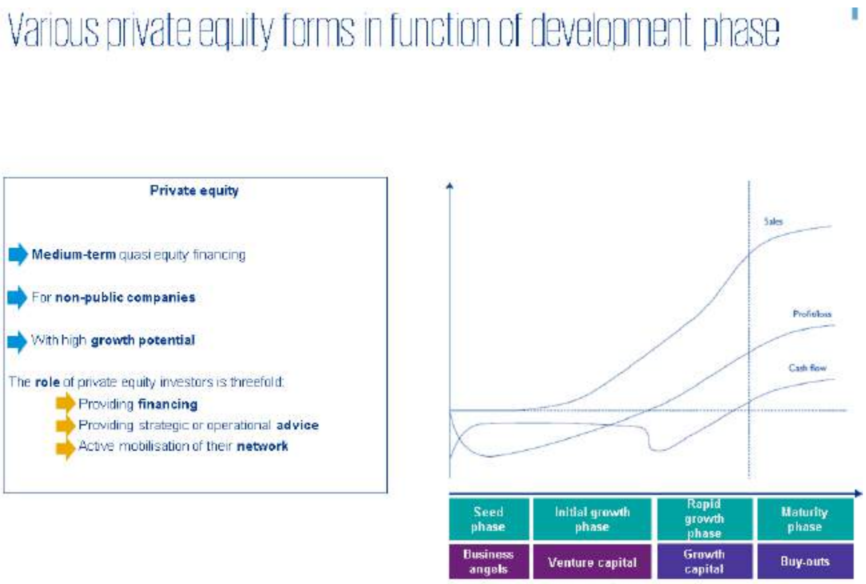
2.Bank financing




Obtaining a bank loan - indicative process
Timing between application and closing depends on:
company risk profile
stage of development
amount of requested funds
temporary versus permanent financing needs
Application
Underwriting
Approval
Closing
– Discussion of financing needs (temporary versus permanent)
– Preparation of loan application document including all relevant information
– Application is processed and loan request is analysed (company research, repayment analysis, etc.)
– Preparation of credit memo for approval of credit committee
– Term sheet is signed. This document provides details about loan amount, interest rate, collaterals, equity required, etc.
– The bank and the borrower meet to sign the loan agreement and the loan process is closed
Relationship manager brings new clients to the bank
Sales manager is in charge of the initial admission to the approval process
Credit analyst is the number cruncher who analyses the risks and benefits of approving the loan and outlines the feasibility of repayment
Credit officer approves or denies the loan request, based on approval authorities

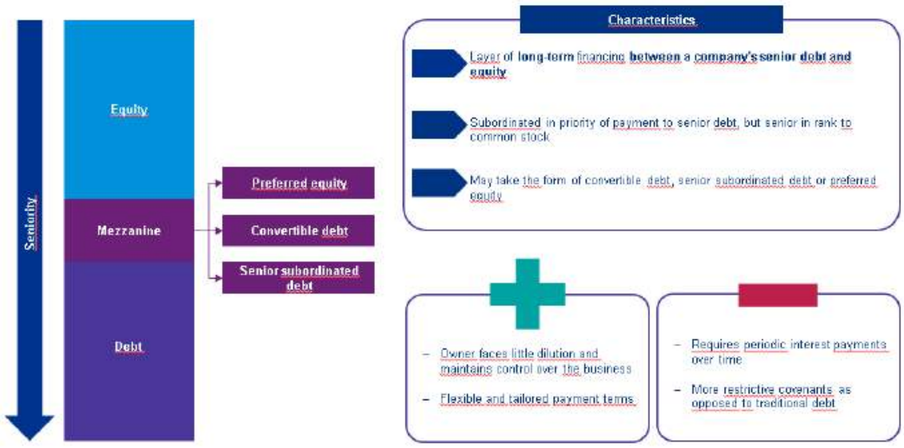

Checklist for submitting a loan request
Explain nature of credit request
– Explain reason for additional financing
– Include all relevant supporting financial figures, i.e. among others impact on:
– Turnover and costs
– Payment terms of customers and suppliers
– Inventories
– Cash flows
– Etc.
– Show link between investment and company's strategy
– Demonstrate feasibility and rentability of the project as well as headroom in case of covenants
– Provide liquidity and solvability projections
Provide company information
– Deposited annual accounts of three last years and recent current trading update
– Introduction of shareholders and key management including areas of expertise
– Overview of activities and products
– Discussion of competitive environment including opportunities and threats
– Overview of current credit lines and related guarantees
– Open and fair communication of overdue payables to social or tax authorities and other relevant items not disclosed in the financials
Assess bank's risk exposure
– Does the project generate sufficient cash flows to make interest and capital repayments?
– Is debt/equity ratio reasonable?
– Sufficient pledges and guarantees?

3.Private equity

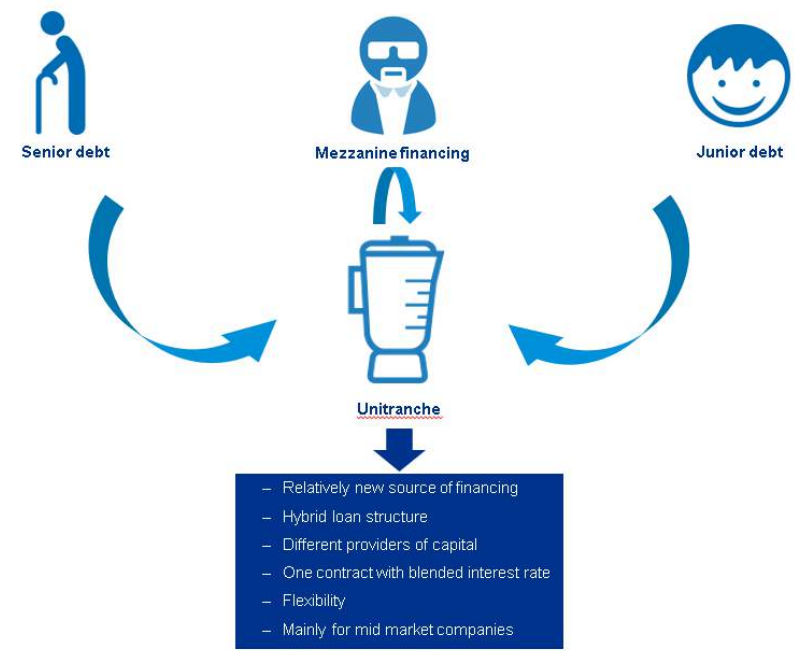


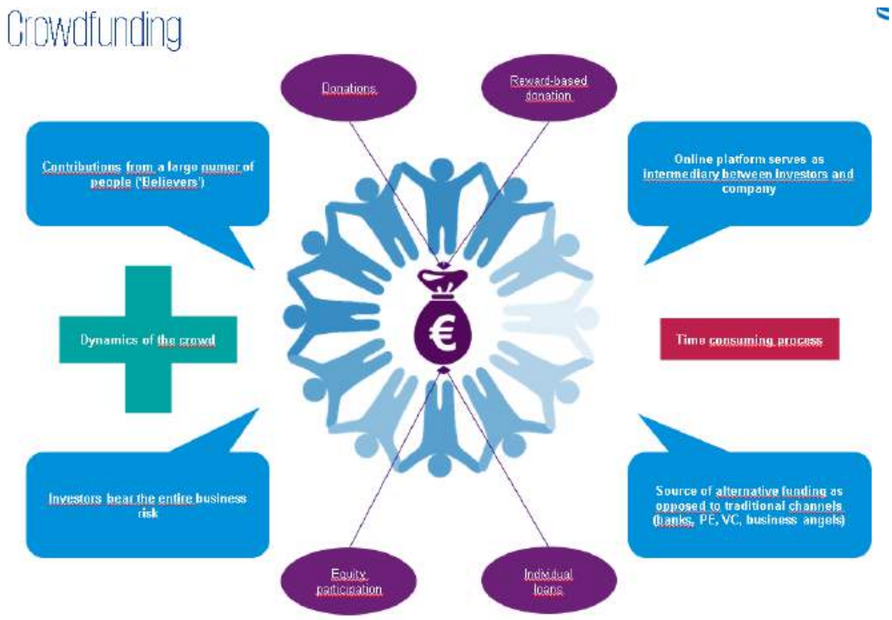
4.Other types of funding

Mezzanine financing



Unitranche





Other financing sources

Leasing

- A contract in which one party agrees to rent property owned by another party
- The lessee makes use of the asset and guarantees the lessor to make regular payments for a specified period
- Typical leasing contracts cover cars, machines, computers, etc

Operational lease
- Rental contract
- Monthly lease payments in P&L

Financial lease
- On-balance sheet financing
- Monthly depreciations in P&L

! For IFRS reporting purposes no off-balance sheet leases will be allowed anymore as from 2019 (effective date of IFRS 16)

Factoring

A funding source that agrees to pay the company the value of the outstanding receivables less a discount for commissions and transaction fees

Recourse
The company itself agrees to absorb the client default risk

Non-recourse
The factoring company faces the client default risk

Industrial partnerships

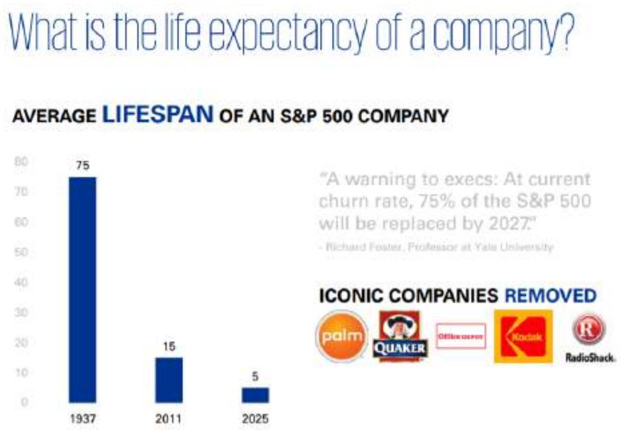
- Legal agreement between two or more industry players
- Contract defines terms and profit-sharing mechanisms
- Contribution of specialised knowledge and network results in higher growth opportunities

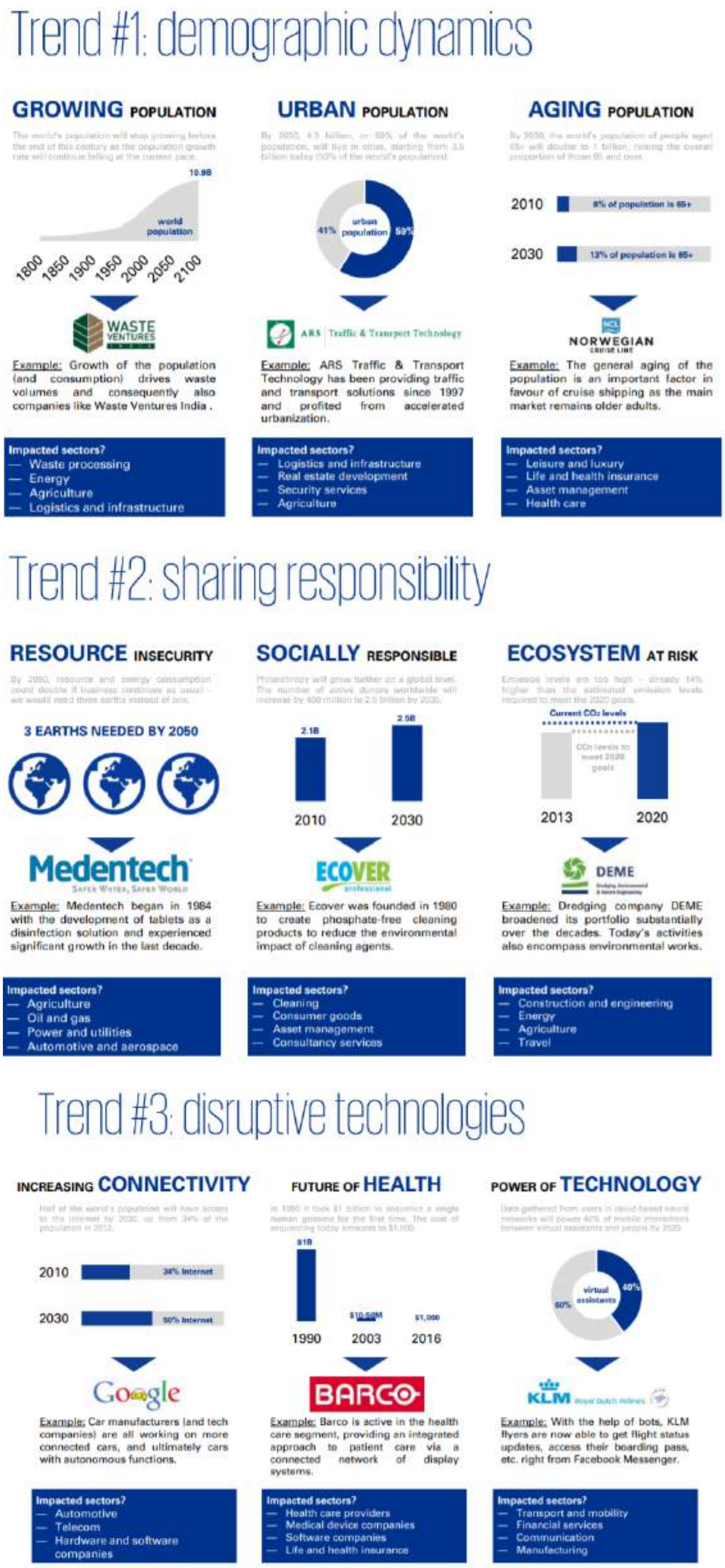
General partner
- Unlimited liability
- Active management

Limited partner
Liability is bounded by share of ownership

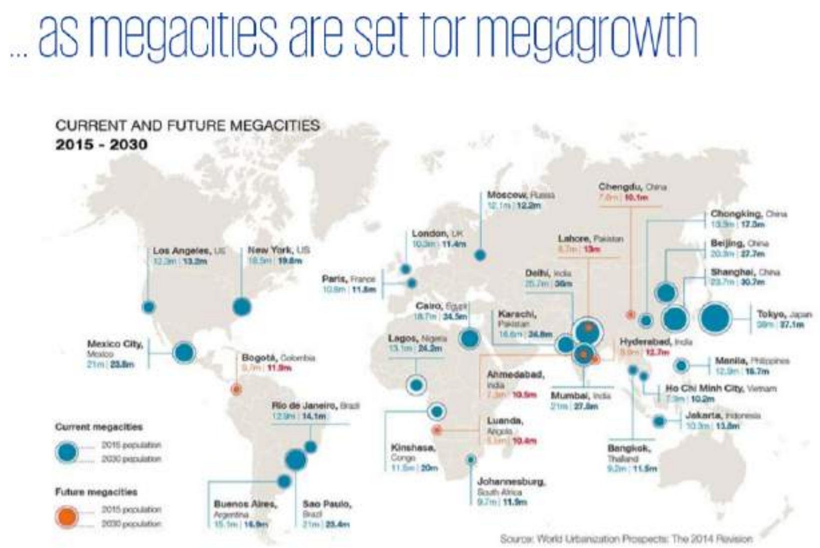
Extra: disruptive

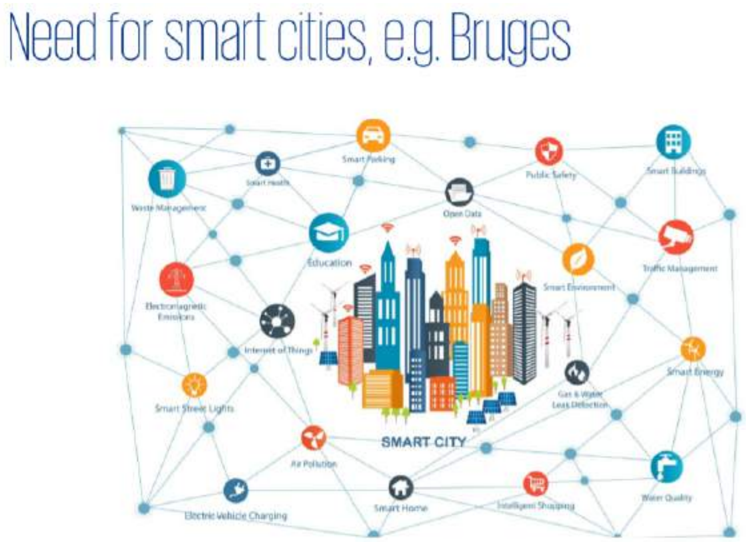
1.Megatrends shaping the world of the future



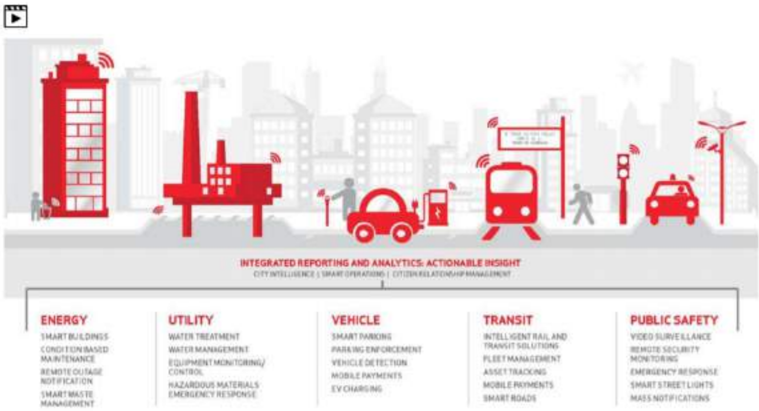

Trend #1: demographic dynamics
GROWING POPULATION
10.9B
world population
1800 1850 1900 1950 2000 2050 2100
WASTE VENTURES
Example: Growth of the population (and consumption) drives waste volumes and consequently also companies like Waste Ventures India .
Impacted sectors?
— Waste processing
— Energy
— Agriculture
— Logistics and infrastructure
URBAN POPULATION
41% urban population 59%
ARS Traffic & Transport Technology
Example: ARS Traffic & Transport Technology has been providing traffic and transport solutions since 1997 and profited from accelerated urbanization.
Impacted sectors?
— Logistics and infrastructure
— Real estate development
— Security services
— Agriculture
AGING POPULATION
2010 8% of population is 65+
2030 13% of population is 65+
NORWEGIAN CRUISE LINE
Example: The general aging of the population is an important factor in favour of cruise shipping as the main market remains older adults.
Impacted sectors?
— Leisure and luxury
— Life and health insurance
— Asset management
— Health care
Trend #2: sharing responsibility
RESOURCE INSECURITY
3 EARTHS NEEDED BY 2050
Medentech
Example: Medentech began in 1984 with the development of tablets as a disinfection solution and experienced significant growth in the last decade.
Impacted sectors?
— Agriculture
— Oil and gas
— Power and utilities
— Automotive and aerospace
SOCIALLY RESPONSIBLE
2.1B 2.5B
2010 2030
ECOVER professional
Example: Ecover was founded in 1980 to create phosphate-free cleaning products to reduce the environmental impact of cleaning agents.
Impacted sectors?
— Cleaning
— Consumer goods
— Asset management
— Consultancy services
ECOSYSTEM AT RISK
Current CO2 levels
2013 2020
DEME
Example: Dredging company DEME broadened its portfolio substantially over the decades. Today's activities also encompass environmental works.
Impacted sectors?
— Construction and engineering
— Energy
— Agriculture
— Travel
Trend #3: disruptive technologies
INCREASING CONNECTIVITY
2010 34% Internet
2030 50% Internet
Google
Example: Car manufacturers (and tech companies) are all working on more connected cars, and ultimately cars with autonomous functions.
Impacted sectors?
— Automotive
— Telecom
— Hardware and software companies
FUTURE OF HEALTH
$1B
$1,000
1990 2003 2016
BARCO
Example: Barco is active in the health care segment, providing an integrated approach to patient care via a connected network of display systems.
Impacted sectors?
— Health care providers
— Medical device companies
— Software companies
— Life and health insurance
POWER OF TECHNOLOGY
60% virtual assistants 40%
KLM
Example: With the help of bots, KLM flyers are now able to get flight status updates, access their boarding pass, etc. right from Facebook Messenger.
Impacted sectors?
— Transport and mobility
— Financial services
— Communication
— Manufacturing

2.Trend 1: demographic dynamics

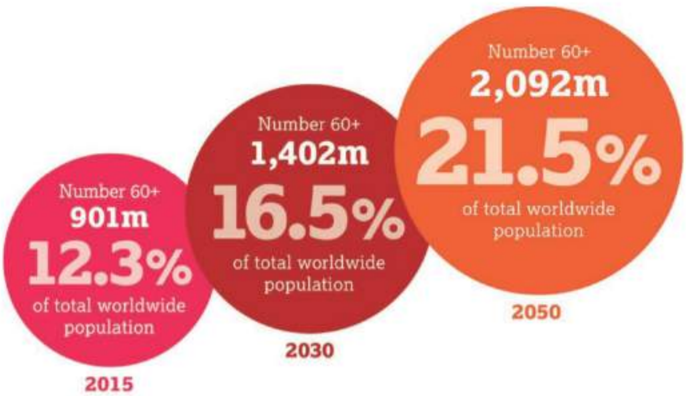




How smart cities can improve our lives



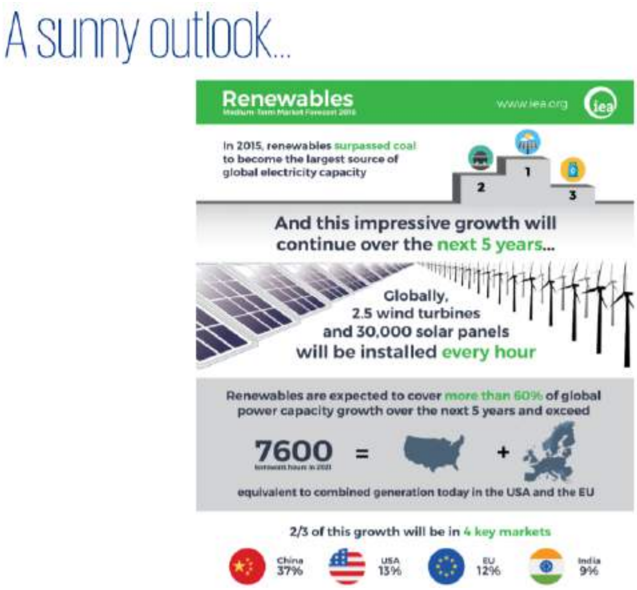
Threat of an aging population...



... with associated risks

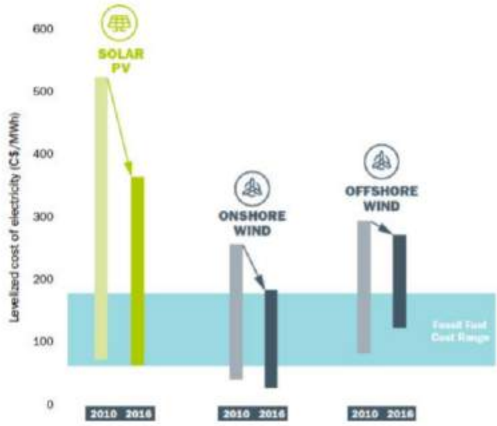
3.Trend 2: sharing responsibility

Platform economy → platform= intermediary, not direct contact with customer.



... as a result of decreasing costs

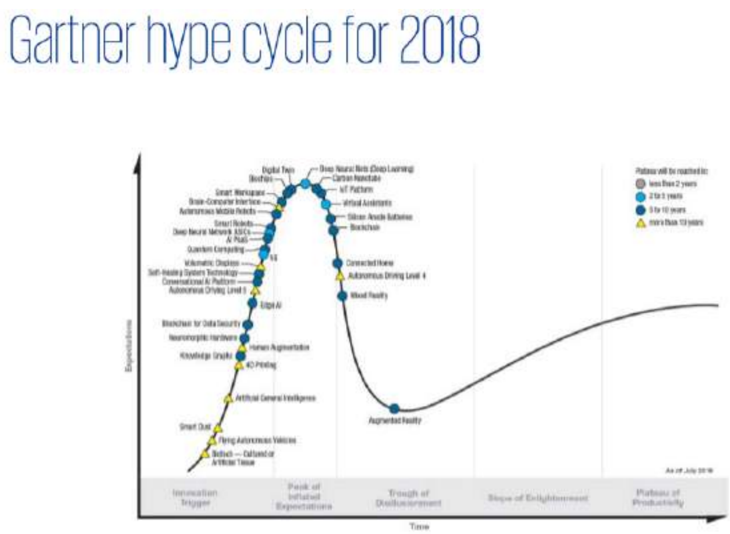
Global levelized cost of electricity for utility-scale power (ranges), 2010 and 2016



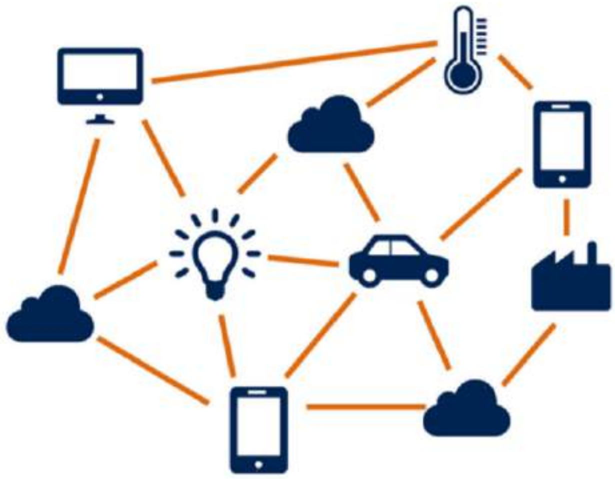
Value added? Significant energy savings!

- **Power savings**: energy savings can be realised by automating thermostats, lights and other environmental systems such as garden sprinklers
- **Security**: using smart home technology, you can protect your house while being away
- **Entertainment**: using fairly simple automation, you can make the lights dim, the fridge would check for adequate ice levels for your soda, etc.
- **Applications**: you can monitor your home, you can control your heating while you are away of the home by networking

4.Trend 3: disruptive technologies



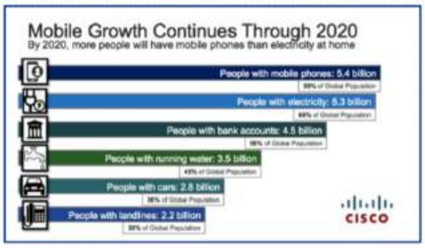
What is the Internet of Things?



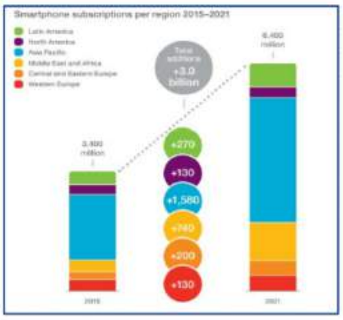
"Iedereen aan de smartphone", worldwide

BE smartphone penetration reached 69% in 2015, (+12% vs 2014), and raising to 95% in the upcoming years.

By 2020, more people worldwide will have access to mobile phones than to electricity.



By 2021, 70% of the world's population will own a smartphone.



Communication will get a virtual layer...

- **Digital heroes working on their own AR/VR devices,** trying to tie developers to their hardware and build applications.
- **Smartphones becoming a tool** for virtual/augmented reality.
- **By 2020, Forrester predicts that mixed-reality computing will be mainstream** and that millions of people will be likely to buy HoloLens-like products as they look to experience the next big thing.
- Research analysts at CCS Insight believe **more than 24 million VR devices will be sold in 2018.**

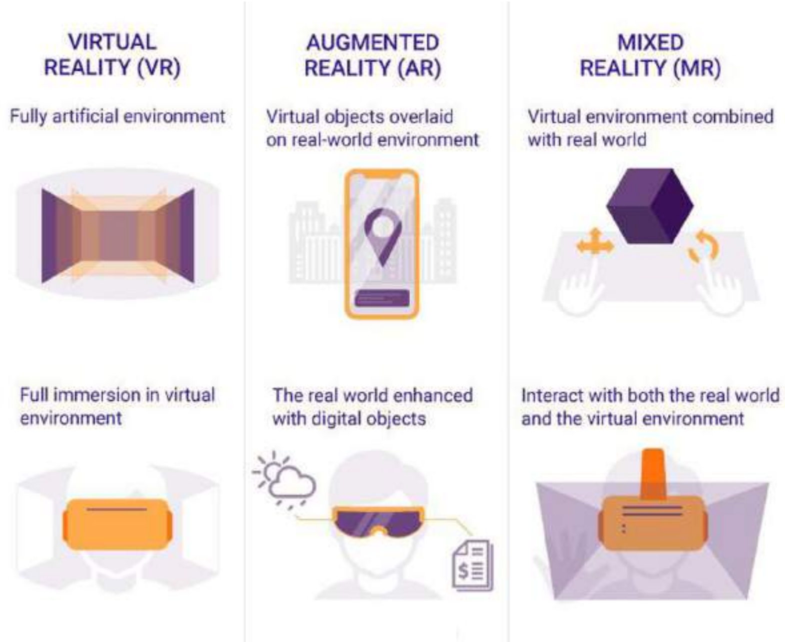
EXAM!

VR= Virtual Reality= the reality is not there, it is another world
AR= Augmented Reality= an extra layer of information on top of the reality

From the internet:

Virtual reality (VR) immerses users in a fully artificial digital environment.
Augmented reality (AR) overlays virtual objects on the real-world environment.
Mixed reality (MR) not just overlays but anchors virtual objects to the real world.

Have a look at this helpful infographic:



Virtual Reality
This technology immerses users in a completely virtual environment that is generated by a computer. The most advanced VR experiences even provide freedom of movement – users can move in a digital environment and hear sounds. Moreover, special hand controllers can be used to enhance VR experiences.

You need to wear a special VR headset to experience virtual reality. Most VR headsets are connected to a computer (Oculus Rift) or a gaming console (PlayStation VR) but there are standalone devices (Google Cardboard is among the most popular) as well. Most standalone VR headsets work in combination with smartphones – you insert a smartphone, wear a headset, and immerse in the virtual reality.

Immersive videos
Have you ever noticed a small cardboard icon when watching videos on YouTube? It enables the 360-degree mode that means you can wear a VR headset and experiences fully immersive videos. 360-degree videos are considered a form of VR.

Augmented Reality

In augmented reality, users see and interact with the real world while digital content is added to it. If this sounds unclear think of Pokemon Go – millions of people all over the world have been rushing with their smartphones in search for small virtual creatures. That's the most vivid example of augmented reality.

If you own a modern smartphone, you can easily download an AR app and try this technology. There's a different way to experience augmented reality, though – with special AR headsets, such as Google Glass, where digital content is displayed on a tiny screen in front of a user's eye.

Mixed Reality

This is the most recent development in reality technologies that sometimes causes confusion, primarily because different experiences are called so. Without going too deep into science, let's look at two forms of reality technologies that are referred to as mixed reality (we've mentioned just one of them at the very beginning):

Mixed reality that starts with the real world – virtual objects are not just overlaid on the real world but can interact with it. In this case, a user remains in the real-world environment while digital content is added to it; moreover, a user can interact with virtual objects. This form of mixed reality can be considered an advanced form of AR. If you can't figure out how this works, take a look at how Skype is used on Microsoft HoloLens.

Mixed reality that starts with the virtual world – the digital environment is anchored to and replaces the real world. In this case, a user is fully immersed in the virtual environment while the real world is blocked out. Sounds like virtual reality, right? In fact it does, but the digital objects overlap the real ones whereas in conventional VR the virtual environment isn't connected to the real world around a user. To experience this form of mixed reality, you can wear Windows mixed reality headsets. Here's an example of how it all works.

Consolidation is taking place in AI market

- By 2020, **40% of the population are expected to interact primarily using virtual assistants.** Market penetration currently stands at 1%.
- "**Artificial Intelligence (AI)** will help us with increasingly more daily tasks and decisions, and when one gets used to this, AI will do those tasks itself and take decisions for us."
- According to Gartner's Hype Cycle, **Intelligent Virtual Assistants still have to evolve before they go mainstream** (likely, 5-10 years).

amazon alexa

"Big 5 in AI"

Bots will start replacing human interactions

- "**People will be able to interact with machines just as they do with other people**, and may not even know they are doing so." (The Guardian)
- Big advancements in **"deep learning"**, a technique for recognizing patterns in enormous amounts of data.
- Digital heroes are training thousands of contractors to 'digital assistants' in the hope that with enough data and technological improvements, **these bots will one day train themselves.**
- "As my ability to converse with Siri increases, our relationship will be **more intimate, more loyal and more personal.**" (Apple)

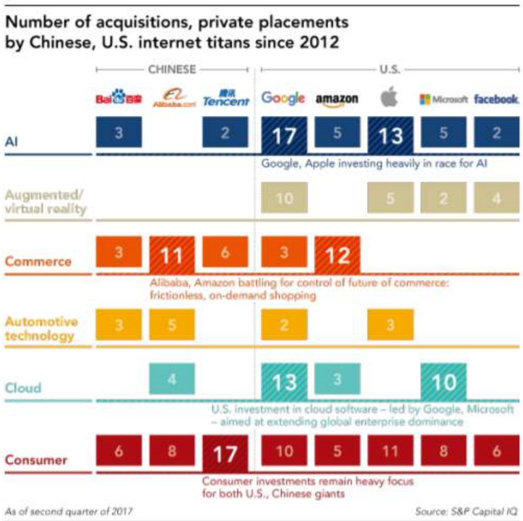
Apple Siri

Amazon Echo ad

New centre of communication and consumption

- **Messaging apps becoming app stores** — a gateway to finding the best additional plugins to add to your interface with a single tap of a button.
- Apps built on top of messaging become a **hub** for consuming content, playing games and conducting transactions (e.g. Line, WeChat City Services,…)
- **New consumer businesses** will be built on messaging platforms (e.g. banks, travel agency,…)
- As a result, **more and more time** will be spent **messaging platforms.**

Tech giants in acquisition mode

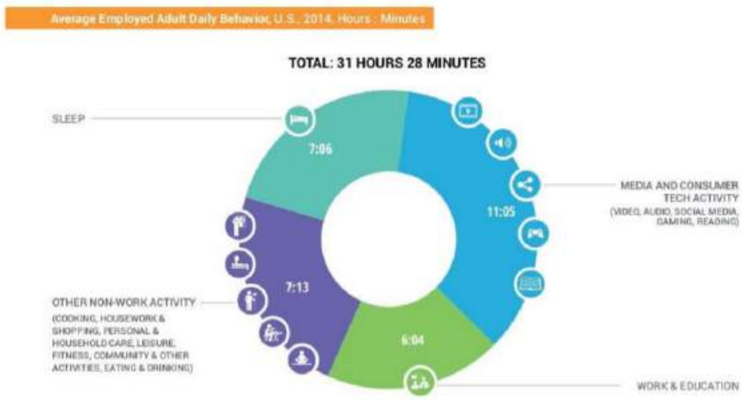


Blockchain will lead to what exactly?

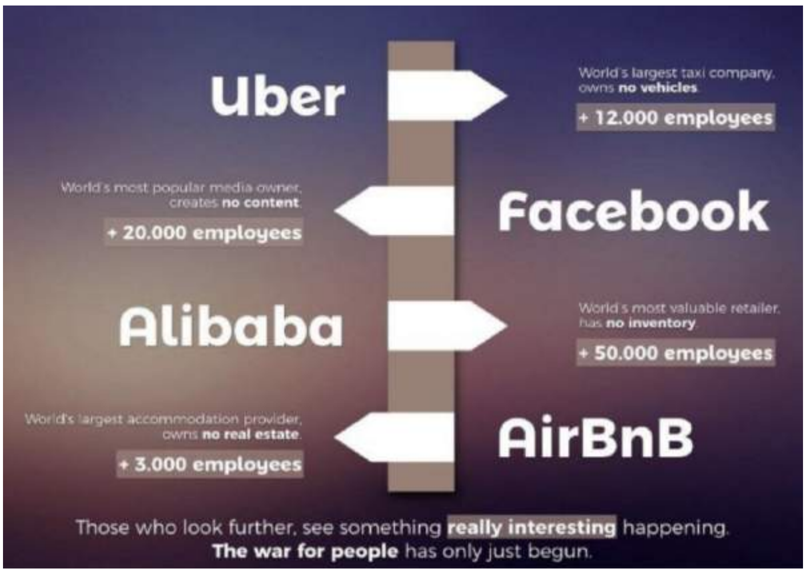
- Administrative simplification based on a decentralised database and direct access to data
- Increase of efficiency as a result of process automation with the help of smart contracts
- Fraud prevention thanks to the transparency of transactions
- Increase of involvement of citizens with the set up of public questionnaires

5.Trend 4: social values & behaviour

>50% of waking day is spent on tech and media



But regional differences exist...



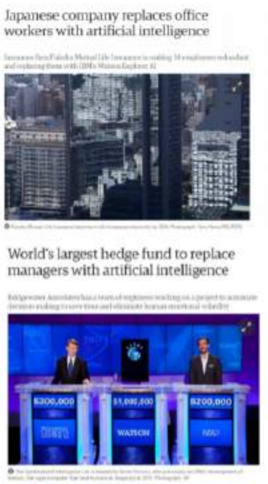
It's all about personalisation

*"The idea is Amazon would use A.I., purchase history, its reputation for value and web of warehouses to create a **zero-click retail experience**.*

*It will use **Big Data** to know what you want before you do.*

*That type of power and Amazon's massive scale, really does **change the world**."*

What about the future of jobs?



Privacy concerns in Belgium

Vlaming staat open voor nieuwe technologie maar is bezorgd over privacy

'Telenet, de Big Brother uit Mechelen'

"Consumenten achten bedrijven verantwoordelijk voor bescherming data"

9 op 10 Europeanen willen communicatie versleutelen

But also security risks...

Major cyber attack disrupts internet service across Europe and US

Denial of service attack from unknown culprits on domain name system company Dyn caused access to be severely restricted for users on Friday

How 2016 Became the Year of the Hack, and What the Future Holds

*Unisys: "**The fact that people will buy more IOT devices creates a huge security risk**. These devices are simply too easy to abuse and present in large volumes."*

6.Schumpeter's theory

Creative destruction

"Le nouveau ne sort pas de l'ancien, mais apparaît à côté de l'ancient, lui fait concurrence jusqu'à le ruiner."
- Joseph A. Schumpeter

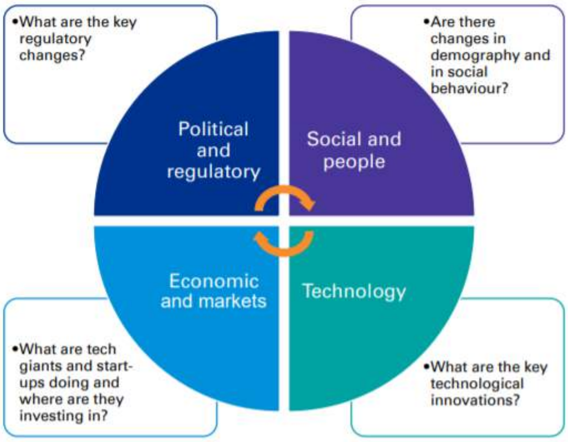
Definition: Schumpeter's Theory of Innovation is in line with the other investment theories of the business cycle, which asserts that the change in investment accompanied by monetary expansion are the major factors behind the business fluctuations, but however, Schumpeter's Theory posits that innovation in business is the major reason for increased investments and business fluctuations.

According to Schumpeter, the cyclical process is almost exclusively the result of innovation in the organization, both industrial and commercial. By innovation he means, the changes in the methods of production and transportation, production of a new product, change in the industrial organization, opening up of a new market, etc. The innovation does not mean invention rather it refers to the commercial applications of new technology, new material, new methods and new sources of energy.

7.Exercise: rethinking the restaurant business

Porter five forces: the "old" way

KPMG Innovation Lab methodology



Application of KPMG methodology to restaurants

Regulatory

- Smoking ban
- "Witte kassa"
- ...

Social and demographic

- Speed
- Convenience
- Experience driven
- Reservation of parking, seat and food?
- ...

Tech giants and start-ups

- Maps
- Fork
- Foursquare
- Tripadvisor
- Start-ups (see heat map)
- ...

Technology

- Food preparation
- Service
- ...

Succes met het examen!