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Globalization and Application of Strategic Management Model and Theories to Entrepreneurs in a Turbulent Economy

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Globalization had changed the competitive landscape in which entrepreneurs used to compete. There are advantages and disadvantages of doing business globally. Globalization had also brought about many challenges to entrepreneurs in the management of their organization. The values and beliefs of managers and staff across the globe influence visions, missions of their organization. Culture, resources and business practices of countries vary widely. Entrepreneurs must deal with global issues side by side with domestic considerations. This paper looks into how the theories and model of strategic management remain useful and relevant to entrepreneurs in a globalized business world especially in a turbulent economy.

Keywords: globalization, strategic management, international business, entrepreneurial studies

Introduction

Each year many millions of dollars of capital investments, capital flows and goods and services made their way around the world economy. Entrepreneurs expanded their operations all over the world. With these new opportunities, there are also new risks for entrepreneurs to be concerned. The global economy is the product of three main changes namely internationalization, liberalization and technological innovation (Hashim & Jedin, 2007).

Why do entrepreneurs go abroad? One of the main reasons is that many successful organizations find that their domestic markets have become more competitive and saturated while foreign markets offer opportunities for expansion and growth that are often not available domestically. By expanding overseas, many leading companies have made their way to great success (In Asia and Europe for example: Mc Donalds, Coca Cola, Tesco and J. W. Marriott). Other Japanese companies used a combination of methods like joint venture, exporting, and international production to become world leaders for example in the automotive industry.

Opportunities to expand overseas are never limited to big multi national companies, but there are also a lot of opportunities for domestic companies to go abroad. For example, Malaysian retailer Parkson went overseas and found that they benefitted by entering growing international markets like China than to compete for local saturated domestically .

Due to the above business expansion opportunities, there is a growing economic interdependence between companies and countries. The International Monetary Fund (IMF) defines this phenomenon as globalization

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which is a growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services, free international capital laws and more rapid and widespread diffusion of technology.

According to Hashim and Jedin (2007), globalization covers several aspects which includes: (1) industrial globalization, which is the rise and expansion of multinational companies (MNCs); (2) financial globalization, which involves the emergence of worldwide financial markets and better access to external financing for corporate, national and sub-national borrowers; (3) political globalization, which is the spread of political interests to the regions and countries outside the neighborhood of political actors; (4) information globalization, which sees the increase in information flow between geographically remote locations; and (5) cultural globalization, which resulted in the growth of cross cultural contacts.

Impact of Globalization

What are the impacts of globalization to entrepreneurs? Globalization can be viewed as a both beneficial and destructive process. The proponents of globalization viewed globalization as a beneficial process because globalization led to openings of new markets, more efficiencies of resources allocation, lower prices of supplies of raw materials, goods and services, greater choices for consumers and traders, greater opportunities for business and employment and with international competition, companies compete to become more efficient.

Politically and economically, globalization encourages nations to have more international contacts, higher economics and political freedom and improved bilateral relationships among nations. Due to globalization, percentage of poverty in developing countries has been reduced and quality of life has also improved when employment and more business opportunities are created.

However, those who opposed globalization claimed that globalization is a process that mainly provides towards corporate interests with no concern for human rights and environmental issues. MNCs which come to the developing countries to set up branches were claimed to merely took advantage of the low costs situation or incentives provided by the host government. Labor rights such as child labor and minimum wages have been neglected. Some argued that globalization benefits more of the industrialized nations or developed countries than developing countries. Others viewed globalization as a way for the United States to spread its political and economic power over less developed nations. For example, loans which were provided by developed countries to less developed countries experiencing economic crises were a means for these countries to undermine the domestic affairs of another nation.

The Impact of Globalization to Competitive Landscape

As a result of the process of globalization too, many entrepreneurs have to cope with global markets, products and demands. Entrepreneurs can no longer confine their management products, services, practices and policies to the domestic market.

Strategic management, as a management discipline has always been concerned primarily with the performance of the organization and actions of organization to achieve competitive advantage and create value for customers and its stakeholders. The competitive environment is intensified by globalization and rapid changes in technology. For example, the increase in the rate of technological change and diffusion, changes in the information technology and increase in knowledge intensity. Globalization has resulted in the changing of the competitive landscape, as depicted in the model below (see Figure 1).

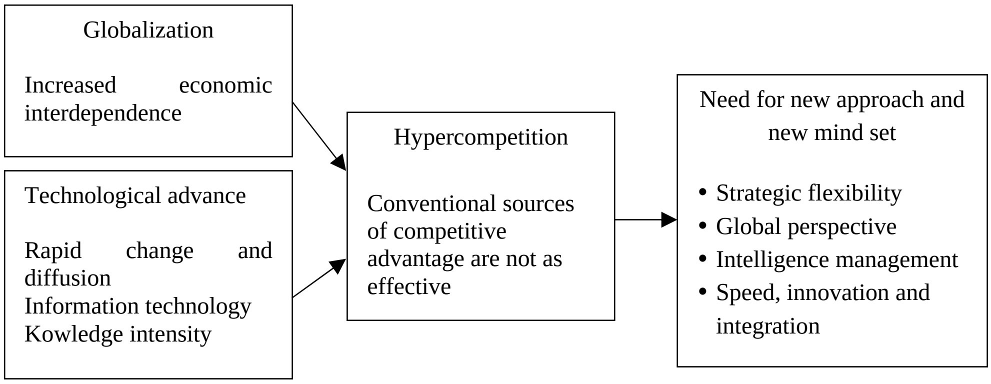

Figure 1. Impact of globalization and competitve landscape. Source: Kim and Oh (2004), *How do hotel firms obtain a competitive advantage?*

The model above explains the dominant influence of globalization and technological advances to today's changing landscape competition and the firm's strategic actions. The model specifies the need for changes—in order to compete intensely in the global economy there must be change—a changing mind set of the firm which mean entrepreneurs must be more flexible in their business styles of dealings, managers must take a global perspective in their decision makings and speed, quality and innovation become the yardsticks for customer preference and firm performance.

Strategic Management Model and Porter's Theory of Competitive Advantage

Wheelen and Hunger (2004) provided a model for implementing strategic management which starts from environment scanning, strategic development or formulation to strategic implementation and strategic evaluation. This is depicted in the model below (see Figure 2).

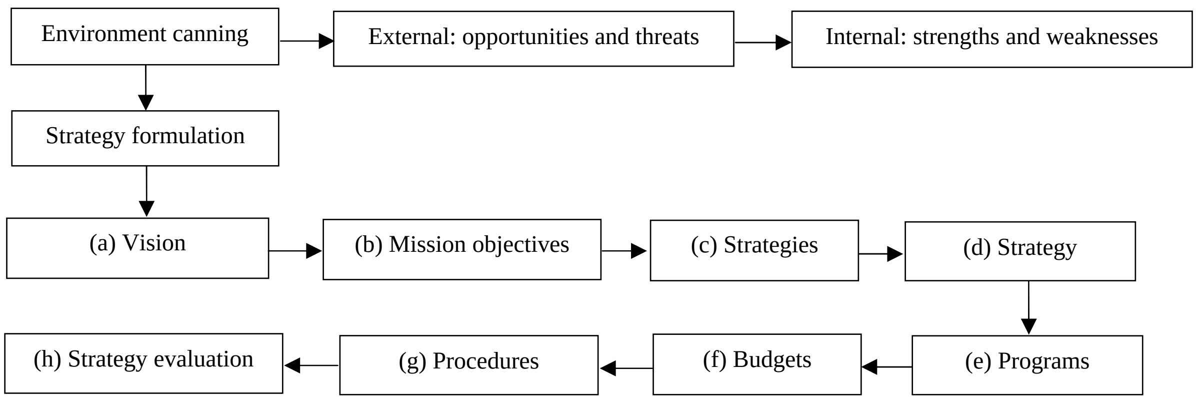

Figure 2. Strategic management model by Wheelen and Hunger (2008). Source: Thomas and Hunger (2004), *Strategic management and business policy.*

Porter (1990) provided the notion of competition in the *Competitive Advantage of Nations*, and developed arguments that the global competition and environment need to be assessed according to the four characteristics to create globally competitive firms in certain business. These four characteristics are:

(1) Factor conditions: These are the endowments enjoyed by specific nations such as uncommon raw materials or laborers with specific skills that can lead to advantages in particular industries. Other factors that can lead to advantage are superior factors producing mechanisms such as excellent schools or universities;

(2) Demand conditions: If buyers of a product or services in a particular country are among the most discriminating and demanding in the world, competitors in that industry have to work harder to please them;

(3) Related and supporting industries: If supplies to an industry are the best in their world, their excellence is passed on to the buyers who use their products. Advantages can also be obtained if firms in the related industries are global leaders as well;

(4) Firm strategy, structure and rivalry: This has to be assessed in terms of competitive forces among the competitors in terms of their strategy, structure and rivalries.

Application of the Model

How does the model of Wheelen and Hunger (2008) apply to a global company? Usually, companies do not draw a clear distinction between their domestic and international strategies. However, more and more companies are beginning to extend the company's sales, marketing, sourcing, production, human resource and financial strategies beyond national borders. The common phrase heard in the global business now is "think global, act local". The justification is to customize products and marketing and sales approaches to the local market.

In the global strategy, entrepreneurs need to create global organization by expanding their local/organization vision to include overseas operations. In order to do this, they should include certain values and beliefs that can be found globally to formulate the visions and missions of the organization. Specific missions to monitor global stakeholder groups, economic trends and markets have to be integrated into ongoing strategic management process. Entrepreneurs or CEOs must constantly discussed global customers, economic trends and markets and help to integrate this information into ongoing strategic management processes in the organization and through business intelligence.

Entrepreneurs need to lead by communicating the values of employees from the home country to the staff in the host countries with an aim of integrating with the parent companies' values and also to make sure in the hiring and firing and other human resources processes all employees are given a fair chance. Head office must incorporate fair chances for promotion opportunities for all its employees globally.

Organization must then seek to response to opportunities globally, and this process may often evolved through the four stages of international development (Hashim & Jedin, 2007) each having its own implementation challenges. In the first stage the organization will be at its domestic stage, where it focuses its efforts on domestic operations but begin to export its products or services as part of a growth strategy, through exporting their products and services as part of a growth strategy or through an export agency or department.

When the business is successful through the international growth strategy, the firm will move to the international stage which involves creating a international division to handle sales and etc.. Marketing strategies programs at this stage will often be customized to suit the needs of each local country.

When the second stage is successful, the firm will move up to the multinational stage with marketing and production facilities through out the world. A firm is labeled as a multinational when more than one third of sales originate overseas and the firm has a worldwide access to capital markets (Sheth, 1989).

In the final stage, the firm is no longer associated primarily with any one country. Global firms like Exxon, Philips, Unilever operate in dozens of country or more. However, according to Sheth (1989) many companies become multinational reluctantly. They start off as export houses, then as international business grows and becomes significant part of corporate revenues, they become involved in foreign operations. However many of these firms still remain domestic in culture and the international division is treated as a specialized branch. The situation becomes "one of them versus us" and what is lacking is a true worldwide orientation in product design, manufacturing and marketing functions.

Foreign subsidiaries may then be set up which play three primary roles in organizations: local implementers that help meet local needs, specialized contributors that play a unique role as part of an interdependent network and a subsidiary with a global mandate due to that are responsible for an entire global business.

Evaluating and controlling a global company is never easy. The model in Figure 3 depicts how evaluation and control can be done. Organizations have to find accepted measures to assess performance of staff across the global companies. Monitoring global subsidiaries have to be done carefully and occasionally and corrective measures have to be taken if performance is not up to expectations.

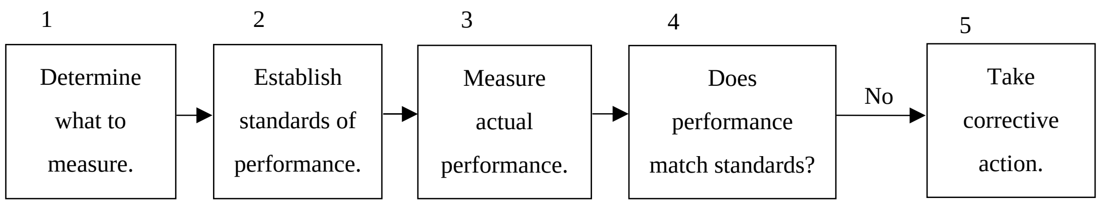

Figure 3. The evaluation process of strategic management. Source: Fred (2003), *Strategic management*.

How Do Firms Achieve Competitive Advantage? The Different Approaches of Strategic Management

Besides formulating and implementing strategies, adding values to customers and stakeholders has always been a central theme in strategic management. To create values for these stakeholders, entrepreneurs need to achieve competitive advantage over its competitors by adapting itself quickly to the ever changing global business environment.

According to Porter (1980) achieving competitive advantage has often been recognized to be the single most important goal of a firm. How can a firm achieve or secure an advantageous competitive advantage in a global business environment?

Porter (1980) argued that managers or entrepreneurs need to identify the sources of competitive advantage of the firm and make an attempt to systematically identify these sources. To help them achieve this, strategic management provided three different approaches in addressing the issue. The three approaches are:

(1) Porter's five forces (P5F);

(2) The resource based approach (RBA);

(3) The relational based approach (RA).

Each of the above approach concentrates on resources in different aspects of the industries. For example, the Porter's five forces seeks resources comparison across the industries, resource based approach seeks resources within the firm itself while relational approach seek resources between industries to obtain synergies. Porter argued that these three approaches need to be integrated and it is not enough for them to work alone for a company to achieve competitive advantages.

The Porter's Five Forces Approach (P5F)

The five forces framework provides a model to compare the industry forces with firm performance to achieve competitive advantage. The five forces looks at:

(1) Threat of new market entries;

(2) Threat of substitute products or services;

(3) Bargaining power of buyers;

(4) Bargaining power of suppliers;

(5) Competitive intensity among industry incumbents or rivalry among firms.

The P5F adopts an outside-in approach which looks at the industry forces and how it affects firm performances in understanding competitive advantage and it views competitive advantage as stemming from these five industry forces. The assumption of this approach is based on homogeneity of resources in the same industry. As a result, a firm's success depends greatly on how an entrepreneurs reacts to and accurately predict the threats, opportunities and changes of the industry which it is in. In the turbulent economy, entrepreneurs must be ready to face the challenges of the threats in their industry and they may have to revert to contingencies plans of their strategies (see Figure 4).

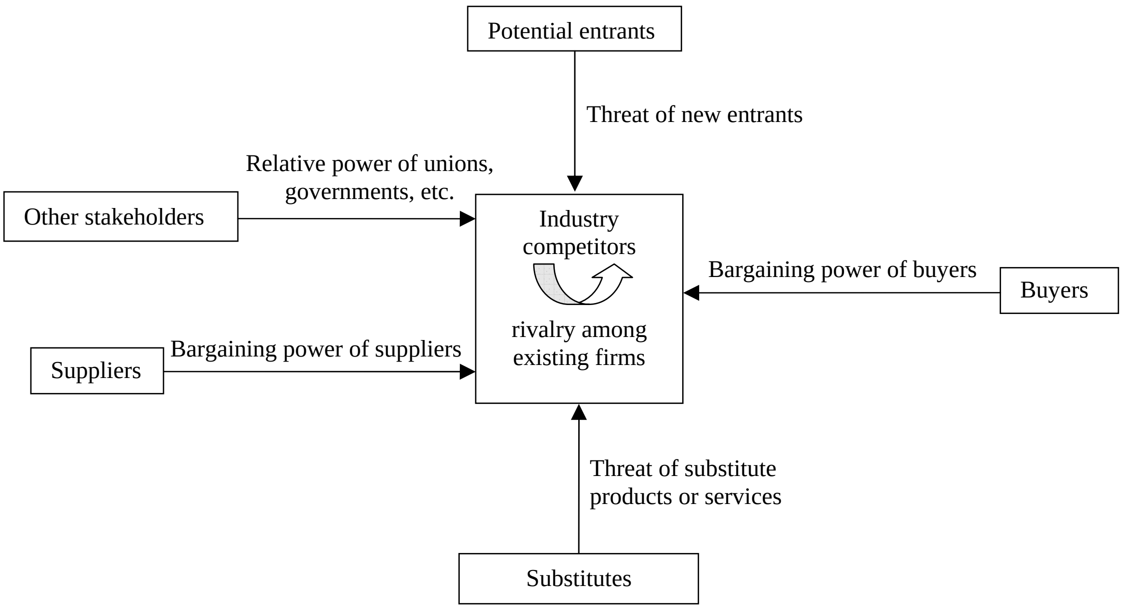

Figure 4. Driving industry forces. Source: Thompson and Strickland (2003), *Crafting and executing strategy*.

The Resource Based Approach (RBA)

The RBA is somehow in contrast with the P5F assumption because the basic assumption of RBA is the qualities and quantities of resources which are not equally dispersed or distributed among competitors. The assumption calls to look at the heterogeneity of resources among firms (Barney, 1991). The theory suggests that competitive advantage stems from internally developed resources (tangible and intangible) with the characteristics of value, rare, inimitability and non-substitutability.

The resource based approach assumes that an individual firm's unique collection of resources and capabilities is the primary influence on the selection and the use of its strategies. Resources are inputs into a firm's production process such as capital equipment, the skills of individual employees, patents, finances and talented managers. Resources and capabilities realize their competitive potential when they are valuable, rate, costly to imitate and non-substitutable.

The argument is that resources with such characteristics can not be easily acquired or imitated by its competitors to remain sustainable. The difference between the P5F approach and the RBA is the RBA adopts an internal perspective in understanding competitive advantage while the P5F looks it from the external point of view. Resources of the company include the intangible assets of resources such as capabilities, culture, and knowledge of the workers. Hence, entrepreneurs must build up its internal resources to cushion the challenges they have to face during a turbulent economy.

The Relational Approach (RA)

This approach is very useful to the entrepreneur who has globalized subsidiaries or branches as it incorporates the different inter-relationships of the company which usually exist between the companies in a globalised situation for example joint ventures, strategic alliances and mergers. The basic assumption of this approach is that firms within an industry are heterogenous (i.e., having different resources, structures etc.). Hence, firms resources are neither easily acquired nor traded in a market place across the firms. The focus of analysis is on the inter-firm relationships performance and the internal resources and inter-firm resources of the companies. During a turbulent economy, entrepreneurs may have to cooperate with their alliances to build up strength and resources to reduce competitors' threats based on the inter-firm relationships that they have build up.

The Integrated Approach

Although the three approaches are different they try to pursue a similar goal. Dyer and Singh(1998) suggested an integrated approach that can be used to achieve competitive advantage of a company. Consequently, Dyer and Singh (1998) came out with an integrated framework of the three approaches as depicted in Figure 5.

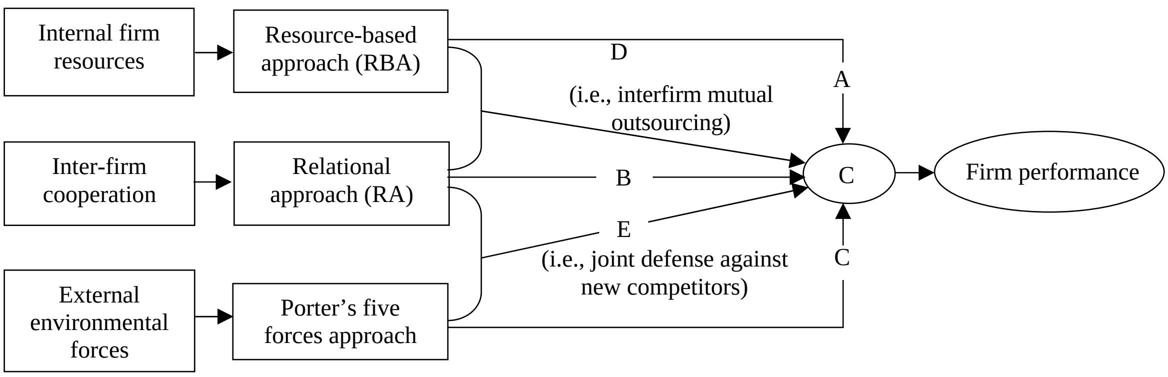

Figure 5. An integrated framework of the three approaches. Source: Kim and Oh (2004), *How do hotel firms obtain a competitive advantage?*

The differences and similarities of the three approaches in strategic management can also be summarized in Table 1. The table compares the differences of the three approaches in terms of assumptions, firms' goals, unit of analysis, focus of analysis and strategies.

Table 1

Differences and Similarities of the Three Approaches

Category	Porter's approach	Resource based approach	Relational approach
Sources of competitive advantage (CA)	Five industry (e.g., threat of new entry, buying power of buyers, etc.).	Internally-developed resources (e.g., financial, human, etc.).	Inter-firm relationships (e.g., strategic alliances, joint ventures, etc.).
Assumptions	Firms within an industry are identical (i.e., homogeneous). Firm resources are identical. Firm resources are short-lived and highly mobile because of their homogeneity.	Firms within an industry are different (i.e., heterogeneous). Firm resources are heterogeneous. Firm resources are neither easily acquired nor traded in the marketplace across firms because of their heterogeneity.	Firms within an industry are heterogeneous. Firm resources are neither easily acquired nor traded in the marketplace across firms because of their heterogeneity.
Firms' goal	Achievement CA Creation of customer and firm value		
Unit of analysis	Industry (sometimes individual firms)	Individual firms	Individual firms
	Industry forces-strategy-performance relationship. Focused on positioning a firm in an industry.	Internal resources-strategy-performance. Focused on developing unique firm resources.	Interfirm relationships-performance. Internal resources-interfirm resources-performance. Focused on building and maintaining partnerships.
Strategies suggested	Differentiation and low costs	Differentiation and low costs	Not suggested
Representative references	Porter (1980)	Barney (1991); Wernerfelt (1984)	Dyer and Singh (1998)

Note. Source: Kim and Oh (2004), *How do hotel firms obtain a competitive advantage?*

Application of Strategy Management in Globalization

The concepts and theories of strategic management help entrepreneurs to have a clear and practical approach by applying strategic thinking in the organization. Strategic thinking manager used the strategic management model to understand their company's present situation and desired future. The entrepreneur will not only understand the firm's present situation but also its future direction.

A common integrated framework allows for better coordination among the staff, departments and levels. Decision making can take place at a faster rate when it is coordinated. Strategic management therefore allow for better delegation as expectations are more aligned between the home country and the branch overseas. In a globalized business world, this can allow a common understanding and a common language and alignment of mental models across the organization.

Strategy is about choices. Most practitioners usually will consider industry structure, firm specific resources and capabilities before choosing their strategies. A contribution of the integrated approach is to emphasize the importance of cooperative strategies. This means that in turbulence time, entrepreneurs can work together with other partners to cooperate in order to increase the resource capabilities or to offset the negative impact of the economy.

Finally, what determines entrepreneurs should do during turbulence times around the globe? The integrated theory suggests that firm performance, at least in part can be improved by cooperative strategies, besides firm resources or capabilities and adaptability to its continuously competitive industry, a notion brought forth by Porter's five forces.

Conclusion

This paper looks into the impacts of globalization to entrepreneurs and provides an idea on how Wheelen and Hunger's (2008) strategic management model and Porter's competitive theory, resource based theory, relationship approach theory and the integrated approach theory can be used by entrepreneurs in a globalized business and during turbulent economy. Although there are different approaches in handling competition in all these theories, these theories can be integrated as suggested by Dyer and Singh (1998). An integrated approach provides a comprehensive way of looking at competition and handling any situation especially business during economic turbulence.

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