

**Review Sheet for Exam 2**  
**MGMT 434**

**Managing Differences.**

- **AAA Framework.**
  - The AAA framework provides a basis for considering global strategies that encompasses all three effective responses to the large differences that arise at national borders. Clearer thinking about the full range of strategy options should broaden the perceived opportunities, sharpen strategic choices, and enhance global performance.
  - The AAA Triangle allows managers to see which of the three strategies – or which combination – is likely to afford the most leverage for their companies or in their industries overall.
  - New framework for approaching global integration that gets around the problems.
  - The three A's stand for the three distinct types of global strategy.
- **What each of the A's stand for and how you calculate them.**
  - **Adaptation:** seeks to boost revenues and market share by maximizing a firm's local relevance.
    - *Simply creating local units in each national market that do a pretty good job of carrying out all the steps in the supply chain; many companies use this strategy as they start expanding beyond their home markets.*
  - **Aggregation:** attempts to deliver economies of scale by creating regional or sometimes global operations; it involved standardizing the product or service offering and grouping together the development and production processes.
  - **Arbitrage:** is the exploitation of differences between national or regional markets, often by locating separate parts of the supply chain in different places. *Call centers in India, factories in China, and retail shops in Western Europe.*
- **How would your selection processes change depending on which of A's the firm is pursuing.**

	<b>ADAPTATION</b>	<b>AGGREGATION</b>	<b>ARBITRAGE</b>
<b>Competitive Advantage</b> Why should we globalize at all?	To achieve local relevance through national focus while exploiting some economies of scale	To achieve scale and scope economies through international standardization	To achieve economies through international specialization
<b>Configuration</b> Where should we locate operations overseas?	Mainly in foreign countries that are similar to the home base, to limit the effects of cultural, administrative, geographic, and economic distance		In a more diverse set of countries, to exploit some elements of distance
<b>Coordination</b> How should we connect international operations?	By country, with emphasis on achieving local presence within borders	By business, region, or customer, with emphasis on horizontal relationships for cross-border economies of scale	By function, with emphasis on vertical relationships, even across organizational boundaries
<b>Controls</b> What types of extremes should we watch for?	Excessive variety or complexity	Excessive standardization, with emphasis on scale	Narrowing spreads

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<b>Change Blockers</b> Whom should we watch out for internally?	Entrenched country chiefs	All-powerful unit, regional, or account heads	Heads of Key functions
<b>Corporate Diplomacy</b> How should we approach corporate diplomacy?	Address issues of concern, but proceed with discretion, given the emphasis on cultivating local presence	Avoid the appearance of homogenization or hegemonism (especially for U.S. companies); be sensitive to any backlash	Address the exploitation or displacement of suppliers, channels, or intermediaries, which are potentially most prone to political disruption
<b>Corporate Strategy</b> What strategic levers do we have?	Scope selection, Variation, Decentralization, Partitioning, Modularization, Flexibility, Partnership, Recombination, and Innovation	Regions and other country groupings, Product or business, Function, Platform, Competence, and Client industry	Cultural (country-of-origin effects) Administrative (taxes, regulations, securities) Geographic (distance, climate differences) Economic (differences in prices, resources, knowledge)

- **What are the broader lessons?**
  - Focus on one or two of the A's
  - Make sure the new elements of a strategy are a good fit organizationally
  - Employ multiple integration mechanisms
  - Think about externalizing integration
  - Know when not to integrate

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**Strategies that fit emerging markets.**

- **What are composite indices and why they do not work.**
  - Companies that choose new market systematically often use tools like; *Country Portfolio Analysis, Political Risk Assessments, Market Size Growth, GDP & Per Capita Income, Population Composition & Growth, Exchange Rates, Purchasing Power Parity Indices, World Economic Forum's Global Competitiveness Index, The World Bank's Governance Indicators, Transparency International's corruption ratings, Its weight in emerging market funds investments, and Forecasting of country's next political transitions*
  - The Trouble with Composite Indices is that all these indices chiefly focus on the potential profits from doing business in developing countries and the political stability of the country BUT leave out essential information about the soft infrastructures
  - Companies often base their globalization strategies on country rankings, but on most lists, it is impossible to tell developing counties apart.
- **What are the institutional contexts and voids?**
  - Institutional Voids: In the context of globalization the absence of specialized intermediaries, regulatory systems, and contract-enforcing mechanisms for foreign entrants in emerging markets
  - Institutional Context: help companies spot the institutional voids in any country, an application of the framework that helps reveal how different countries are from one another and more important from developed nations.
- **5 institutional contexts are examined-**
  - political and social: political structure, civil society
  - openness: modes of entry,
  - product: product development and intellectual property rights (IPR), supplier base and logistics, brand perceptions and management,
  - capital markets: debt and equity, venture capital, accounting standards, financial distress,
  - labor markets: workers market, market for managers
  - *Be familiar with some of the questions to determine each of these institutional voids.*
- **In the presence of these voids, organizations have 3 options-**
  - Change the context: Many multinational are powerful enough to alter the context in which they operate. The product or services these companies offer can force dramatic changes in local markets. *SUZUKI & STAR TV*
  - Adapt your strategies: modify their business models for each nation. *DELL*
  - Stay away: may be impractical or uneconomical for some firms' to adapt their business models to emerging markets.
- By asking a series of questions that pertain to each of the five areas, executives can map the institutional contexts of any nation. When companies match their strategies to each country's contexts, they can take advantage of a location's unique strengths. But first firms should weigh the benefits against the costs. If they find that the risks of adaptation are too great, they should try to change the contexts in which they operate or simply stay away.