

## CHAPTER 14

# COMPETITIVE ADVANTAGE

### ◇ Useful words and concepts

**competitive advantage**

**global markets**

**multinationals**

**returns**

global conduits

**assets**

**intangibles**

**product designs**

**management systems**

**company cultures**

transfer

**open-market transactions**

**local players**

drive

**outsourced**

**offshored**

**source**

**components**

**modular designs**

**value chains**

plug-and-play modules

**Inc.**

line

sleek

feature-packed

quarter

outpacing

**reference designs**

**manufactured**

**component suppliers**

software

localized

**inputs**

**globalization (2)**

**talent**

**expatriates**

gaps

**knowledge**

**capabilities**

oversaw

**product management**

tapping into

**know-how**

eager

diffuse

top-tier

**offshore mergers**

**and acquisitions**

**takeovers**

**market share**

**entities**

**brands**

fuel

**innovation**

bolster

competitiveness

**local integration**

foreignness

**lifestyle**

**adaptation**

**globalization (1)**

undermining

relied on

restore

edge

**senior executives**

**local insider**

country executives

headquarters executives

**global strategies**

## Instructions For Study

1. Turn to the **definitions** following the text *Competitive Advantage*. They refer to the specialist terms printed in **bold** type in the list of **Useful words and concepts**. Study them closely and pinpoint them in the text.
2. Use an **English** language dictionary to check the meanings (in context) of the other words in the list.
3. Do the exercises to improve your language skills.

## Competitive Advantage

For many decades, multinationals were able to earn good returns by acting as efficient global conduits for assets that were difficult to transfer, including intangibles such as product designs, technologies, management systems and company cultures. Transfers within the multinational company were substantially more efficient than obtaining those assets through open-market transactions. In competing with local players, multinationals therefore had a competitive advantage.

However, a number of forces have been eroding that advantage. First, in the drive to reduce costs, established multinationals have focused increasingly on activities with the highest returns. This meant the lower-value activities were outsourced and often offshored to emerging economies — creating global markets in which local companies can also source components and services. The outsourcing drive also necessitated more modular designs. The result is that once-closed value chains have been opened up, enabling local players to source ‘plug-and-play’ modules that can be combined to create products very similar and sometimes superior to those of foreign multinationals.

China’s Xiaomi Inc. is a case in point. Modularization and outsourcing allowed Xiaomi to produce a line of sleek and feature-packed smartphones that became number one in the Chinese market after only five years in business, with a 13.7% share in the fourth quarter of 2014, outpacing both Apple and Samsung. Xiaomi’s phones are based on Qualcomm reference designs, are manufactured by the same companies that make phones for its multinational competitors and use modules from the same component suppliers. Xiaomi’s MIUI software is a localized version of Google’s Android, but it has the advantage of weekly updates that draw on inputs from millions of Chinese users.

A second development is the increasing globalization of the talent and business services markets. A decade ago, it was rare for experienced expatriates living in emerging markets to work for local companies. But as the global talent pool becomes more fluid, successful local companies in emerging markets employ dozens, sometimes hundreds, of foreign experts to fill gaps in their knowledge and capabilities. Hugo Barra, for example, a Brazilian, joined Xiaomi from Google, where he oversaw the rise of its Android ecosystem as vice president of Android product management. Local companies are also tapping into know-how from global professional services firms (design, engineering, consulting, auditing, financial and legal) that are now eager to diffuse best practices in ways that were previously available only to multinationals. Moreover, there is now a large contingent of top-tier students from emerging countries who have returned home after graduating from the world’s best universities.

Third, successful local companies have increasing opportunities to use offshore mergers and acquisitions to capture assets, capabilities and know-how that would otherwise take years to accumulate. Foreign takeovers still face many barriers, including political opposition, but data reveal that companies in emerging markets are making large numbers of acquisitions overseas and that some of these acquisitions are aimed at accessing knowledge that can be brought back home and used to close the gap with multinationals (as opposed to expanding market share abroad).

In sum, multinationals are no longer the only entities that can act as efficient conduits for transferring assets and knowledge around the globe. Companies based in emerging markets can access and acquire brands, product modules, technologies and talent from increasingly efficient global markets and use these assets to fuel innovation and bolster their competitiveness in their home markets.

### **A New Multinational Mission**

Some multinationals can be successful without local integration by turning their foreignness into a virtue. For example, Coca-Cola, Levi Strauss and Disney can continue to sell a piece of American lifestyle, Prada can continue to clothe its foreign customers in Italian fashion sense, and Porsche and BMW can profit from promoting German engineering. Excessive adaptation or local integration would risk undermining the very thing that makes such brands uniquely attractive.

But many other companies that have relied on the traditional advantages of multinationals will continue to see their advantages erode as globalization allows local champions to access similar knowledge and capabilities. To restore their edge, senior executives working for multinationals must make a choice: Either build on their foreignness or integrate locally to create new layers of advantage. Companies that simply rely on adapting the formula they perfected at home will be “stuck in the middle” — neither benefiting from foreign distinctiveness nor enjoying the benefits of becoming a local insider.

Capturing the huge benefits of becoming locally integrated will require both country and headquarters executives and the global organization to change. Multinationals that choose this path will need to look beyond the global strategies that have dominated their thinking over the past 30 years and embrace a new mission: Integrate locally and adapt globally.

Excerpt from: José F.P. Santos and Peter J. Williamson, *The New Mission for Multinationals*, MIT Sloan Management Review, Summer 2015.

## ◆◆ DEFINITIONS ◆◆◆

- ◆ **competitive advantage** the factors that give a company a clear performance differential over its rivals; *competitive edge*
- ◆ **global markets** areas around the world in which goods and services of one country are traded to people of other countries
- ◆ **multinationals** large corporations headquartered in one particular country with operations and subsidiaries in several other countries; *multinational enterprises, multinational corporations*
- ◆ **returns** income generated by an investment, expressed usually as a percentage of the amount invested; *yields*
- ◆ **assets** resources that a company owns or is owed and which can be converted into cash; *business assets*
- ◆ **intangibles** non-physical resources a company owns or is owed, some of which are legally protected; *intangible assets*
- ◆ **product designs** plans or drawings showing how a product is made
- ◆ **management systems** frameworks of policies, procedures and processes designed to support managers' work and to improve organizational decision making in areas which include product quality, client relationships, environment performance, and occupational health and safety
- ◆ **company cultures** values and behaviours that contribute to the unique social and psychological environment of an organization; *corporate culture, organizational culture*
- ◆ **open-market transactions** when prices are determined by the market forces of supply and demand
- ◆ **local players** companies operating within the boundaries of a country or of a limited area within a country
- ◆ **outsourced** contracted or sub-contracted to other firms in order to free up human and financial resources, time and facilities for other activities
- ◆ **offshored** relocated by the same company to another country, which is usually situated in another continent and in which labour costs are markedly lower
- ◆ **source** to obtain materials, goods or services required by companies to operate their businesses
- ◆ **components** identifiable finished products intended to be included as part of larger finished, packaged, and labelled items
- ◆ **modular designs** plans or drawings showing how prefabricated, self-contained, standard units or *modules* can be combined with other different but compatible ones in an assembly
- ◆ **value chains** series of inter-linked activities that create and build value, from the design stage to the marketing of a product, contributing to an organization's overall profitability; *supply chains; logistics networks*
- ◆ **Inc.** abbreviation standing for incorporated, placed after the name of a company in the US, to show that it is a separate entity from shareholders who cannot be held liable for any fiscal obligations
- ◆ **reference designs** technical plans or drawings used as models for other companies to copy
- ◆ **manufactured** produced by industrial processes and usually in large quantities
- ◆ **component suppliers** companies producing and providing parts to assemblers
- ◆ **inputs** resources such as people, raw materials, energy, information, or finance that are put into a system to obtain a desired output
- ◆ **globalization (2)** worldwide dissemination of a phenomenon or a trend
- ◆ **talent** particularly skilled employees able to perform specific tasks
- ◆ **expatriates** citizens of a country living in another one for business purposes

- ◆ **knowledge** sum of information which is entrenched in the memory of individuals and which is used by organizations as a factor of production
- ◆ **capabilities** the competences of an individual or an organization required to get something done
- ◆ **product management** the organization and coordination of activities required to get a product or set of products to the market and the support needed throughout the product life cycle
- ◆ **know-how** expert skill, information or knowledge of the methods or techniques of doing something technical or practical
- ◆ **offshore mergers and acquisitions** strategic alliances companies make abroad by combining with or buying others in order to increase their grip on the market they trade in
- ◆ **takeovers** situations in which one firm buys a controlling interest in another through the purchase of its shares; *acquisitions*
- ◆ **market share** volume of sales of all brands or products competing in the same market that is captured by one particular company, brand or product, usually expressed as a percentage
- ◆ **entities** businesses that have a legal and identifiable existence separate from their owners
- ◆ **brands** unique designs, signs, symbols, words, or a combination of these, employed in creating images that identify products and differentiate them from the competition; *brand names*
- ◆ **innovation** process by which an idea or invention is brought onto the market
- ◆ **local integration** the fact for multinationals to be embedded in local distribution, supply, talent and regulatory networks as well as in the broader society
- ◆ **lifestyle** the way individuals, families or households and societies live and cope with their social environment on a day-to-day basis
- ◆ **adaptation** the process of tailoring company products or services to suit local conditions
- ◆ **globalization (1)** the process of worldwide economic integration, *global integration*
- ◆ **senior executives** high-ranking managers holding responsibility in business organizations for making top-level management decisions
- ◆ **local insider** person or organization from a particular area which they know so well
- ◆ **global strategies** plans developed by an organization to target growth and meet profit objectives on a worldwide scale

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## ◆◆ EXERCISES ◆◆◆

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### ◇ EXERCISE 1

### *Comprehension*

**True / False**     Circle the correct choice and justify your answer

- |  |       |
|--|-------|
| 1. Multinationals enjoyed superiority over local companies in global markets for many years.   | T / F |
| 2. Multinationals earned good returns by sourcing assets, especially intangibles through open-market transactions.   | T / F |
| 3. To cut costs and maintain their lead, multinationals relocated and sub-contracted their highly skilled activities.  | T / F |
| 4. The outsourcing and offshoring of some activities by multinationals had the undesired effect of creating value chains that enabled local companies to start making products that were comparable to theirs. | T / F |

- |  |       |
|--|-------|
| 5. Xiaomi Inc. is an example of a successful local player which has performed better than foreign multinationals in a global market.   | T / F |
| 6. The globalization of talents has contributed to the strengthening of multinational advantage in global markets.   | T / F |
| 7. To start innovating and compete favourably with multinationals, local companies are using the services of experienced expatriates, global consultants and graduate returnees. | T / F |
| 8. Local companies are buying businesses abroad that enable them to get hold of the intangibles they need to catch up on multinationals.   | T / F |
| 9. Adapting their products and services to local conditions is what multinationals have to do to regain their leadership in global markets.                                      | T / F |
| 10. Multinationals need to change if they are to restore their competitive advantage.  | T / F |

## ◇ EXERCISE 2

*Vocabulary*

**(A) Use** the list of definitions above **to select the appropriate term** to fit each sentence

- Multinationals should encourage initiatives from their local units instead of pushing them from the headquarters in order to regain .....
- The pieces of computer hardware and software as well as the servers a company owns are the company's digital .....
- Google and Apple have different ..... even though both multinationals are American.
- Multinationals are losing ground to ..... in global markets across a broad range of industries.
- Car manufacturing companies like Porsche and BMW have large networks of ..... that enable them to meet their production deadlines.
- To enhance their ....., local companies now recruit the talents that only multinationals could afford before.
- Many top local companies increase their ..... by integrating with their local environments and societies to co-create value.
- Coca-Cola competes in global markets with other soft drink .....
- When a multinational is locally integrated, it becomes a ..... of a particular local environment.
- Multinationals need to change their ..... if they wish to win back their superiority.

**(B) Find** abbreviations, words or expressions in the text that mean the following

- organizations used to pass information or scientific knowledge to other people or companies in the world .....
- the passing on of assets from one company to another.....
- repetitive tasks in a factory that are often labour-intensive .....
- ready-to-be assembled units.....
- incorporated business .....
- a relevant illustration of what is being discussed .....
- a type of product.....
- period of three months in a tax year.....
- rival global companies .....
- local market leaders .....

## ◇ EXERCISE 3

*Grammar***The suffixes ‘ness’ and ‘ity’**

**Complete** the following sentences with nouns ending in *-ness* or *-ity* using the adjectives below

available / competitive / distinctive / fluid / foreign / large / rare / similar / sleek / superior

1. Market leaders strive for greater ..... to stay at the top.
2. Apple and Samsung are both manufacturers of smartphones but that is where the ..... ends.
3. The ..... of Android to other mobile operating systems is debatable.
4. .... helps luxury brands such as Porsche or Louis Vuitton to do well in global markets.
5. The ..... of Xiaomi’s smartphones gave the company an edge over other global players in China.
6. The value of an item on the market depends on its ..... and desirability.
7. Knowledge gaps are being bridged between local and multinational companies due to the ..... of talents in global markets.
8. The ..... of cheap labour in emerging economies encourages multinationals to relocate lower-value activities there.
9. A striking feature of global markets is their .....
10. The ..... of a business entity lies in its capacity to offer products or services that are different from the competition.

## ◇ EXERCISE 4

*Assignment*

*“Multinationals should embrace a new mission: Integrate locally and adapt globally”*

**Write** an essay of about 300 words in which you address the challenges multinationals face in meeting this objective. Quote examples of multinational companies to illustrate your viewpoint.