

*Global Strategies & Acquisitions I*  
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Special Topics in Internationalization

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- 1. Introduction (The Case of Danisco)**
2. Competitive Advantages of the Global Firm
3. Global Business Models
4. Growth by Acquisitions
5. Resources Influencing M&A Performance
6. Debates & Extensions
7. Implications for Practice



## ■ Learning Objectives

- Articulate the **STRATEGIC ADVANTAGES** of globally operating firms.
- Explain different **BUSINESS MODELS** to exploit the advantages of a globally operating firm.
- Explain **WHY** global firms decide M&As & strategic alliances.
- Apply the **RBV** to explain the **SUCCESS** of acquisitions.
- Participate in **'2' DEBATES** about European SMEs.

# Introduction



## ■ Danisco: The Evolution of a Global Niche Leader

### PRODUCTS

**Food ingredients:** stabilizers, flavours, enzymes & emulsifiers.

### HISTORY

**1872** **Danish Sugar** was founded by the Danish financier C.F. Tietgen.

**1989** A **merger** of **3 companies** aiming to create a strong Danish company that could compete in the EU common market after its completion in 1992

**1990s** The **foods, food ingredients & packaging** (↑) businesses were grown, while businesses in the **machine building segment** (↓) were sold.

**1999** Danisco A/S acquired **Cultor OY**.

**2009** The sale of Danisco's Sugar division to **Nordzucker**.

**2011** Takeover by **Dupont** Denmark Holding APS.



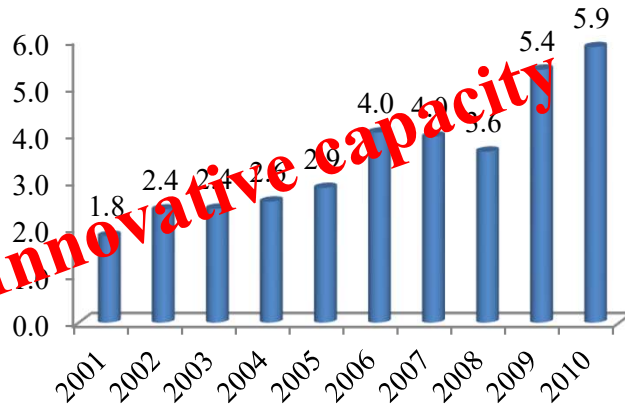
# Introduction



## ■ What is Danisco's Competitive Superiority?

1

R&D intensity (%)



*Innovative capacity*

2



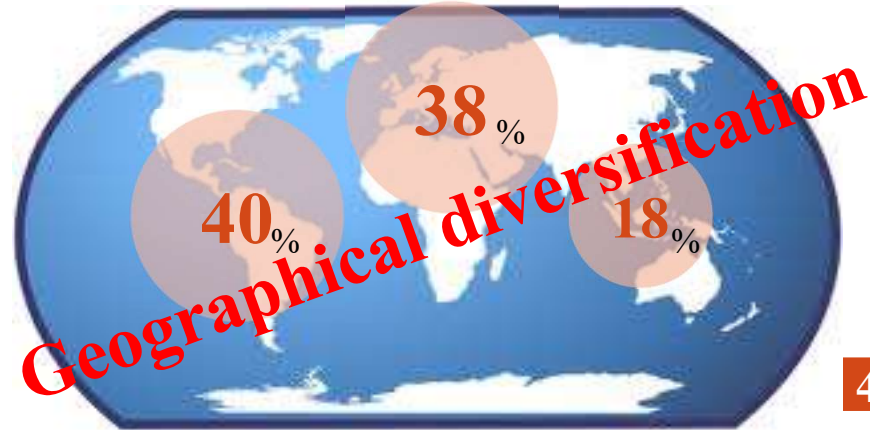
*Customer diversification*

3

*The development of applications for the ingredients jointly with customers*



4



*Geographical diversification*

# Introduction

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## ■ Key Words

**Transformation**

**Global Strategies**

**Divestment**

**AAA Strategies**

**Global Firms**

**Global Focusing**

**Global Business Models**

**Hidden  
Champions**

**Acquisitions**



1. Introduction (The Case of Danisco)



**2. Competitive Advantages of the Global Firm**

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# Competitive Advantages of the Global Firm



## ■ How to Develop Global Strategies (1/5)

### ▶ Global scale advantages

Global sourcing

Global knowledge management

Global customers

Risk diversification

- ❖ A basic advantage of MNEs over their local rivals is simply their **SIZE**.
- ❖ Advantages of size are known as **ECONOMIES OF SCALE**, that is the reduction in unit cost that is achieved by increasing the volume of production.
- ❖ The **DEPTH** of the value chain around the globe.
  - Even if cars produced around the world vary in their design, they may **share a common platform of technologies & components**.
- ❖ Scale economies allow globally operating firms to enjoy **BARGAINING POWER** vis-à-vis suppliers.



# Competitive Advantages of the Global Firm



## ■ How to Develop Global Strategies (2/5)

Global scale advantages

▶ Global sourcing

Global knowledge management

Global customers

Risk diversification

❖ Businesses operating on the global stage can **ACCESS RESOURCES** in a variety of locations.

– Hence, global MNEs can source every input (e.g., raw materials) where it is available **at the best quality** or **the lowest price**.

– The case of **Danisco**: A specialized plant to process specific food ingredients that were only available in the sea off the coast of **Southern Chile**.

**DANISCO**

❖ “2” key benefits from global sourcing.

(1) High levels of **OPERATIONAL FLEXIBILITY**.

(2) The ability to **CONFIGURE & COORDINATE** MNEs’ activities in response to changes in exchange rates or labor costs.

# Competitive Advantages of the Global Firm



## ■ How to Develop Global Strategies (3/5)

Global scale advantages

Global sourcing

▶ Global knowledge management

Global customers

Risk diversification

- ❖ Global companies can spread their **R&D** units to tap into capabilities at different sites.
  - **Silicon Valley**: Access to latest ideas in **IT** sectors.
  - **Cambridge & Copenhagen**: A cluster of **biotechnology** firms
  - Exposure to **different customer expectations & values**.
- ❖ According to a study by consultants Booz & Company, international linkages between R&D units (> increased R&D spending) enhance innovation performance.
  - Strong **CONNECTIONS** with people & businesses that operate in different environments.
  - **EXCHANGE**: Knowledge, experiences & competences.

# Competitive Advantages of the Global Firm



## ■ How to Develop Global Strategies (4/5)

Global scale advantages

❖ Global operations are especially valuable when it comes to serving **CUSTOMERS** themselves that are operating at different locations.

Global sourcing

### ❖ GLOBAL KEY ACCOUNTS

- The **automotive** industry.
- **Danisco** is developing relationships with global key accounts such as food manufacturers: **Nestle**, **Danone** & **Unilever**.
- Many business services such as **consulting**, **accounting**, **advertising** also **work with global key accounts**.

Global knowledge management

▶ Global customers

Risk diversification

**DANISCO**

First you add knowledge...



# Competitive Advantages of the Global Firm



## ■ How to Develop Global Strategies (5/5)

Global scale advantages

Global sourcing

Global knowledge management

Global customers

▶ Risk diversification

❖ Operations in multiple countries reduce the financial risk profile of the overall company.

- Economic recessions;
- Wars & terrorism; &
- Natural disasters.

❖ Sales revenues from a variety of sources reduce the overall risk profile as long as they are less than perfectly positively correlated.

**Risk management practices** that allow MNEs to **react flexibly** to increased frequency of **unexpected events** can be a key competitive advantage.



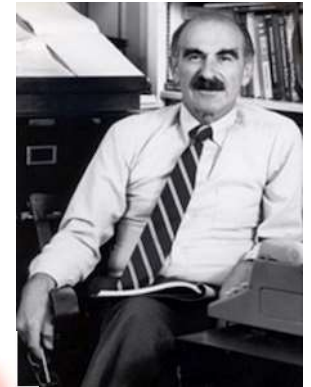
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## ■ Act on the International Stage or in a Single Country?

### ❖ Theodore Levitt (Harvard Business School).

- *The Globalization of Markets* in HBR (1983).
- There is **a worldwide convergence of consumer tastes**.
- Coke Classic, Levi Strauss jeans, Sony color TVs.



– Lev  
pro

**One size does not fit all !**

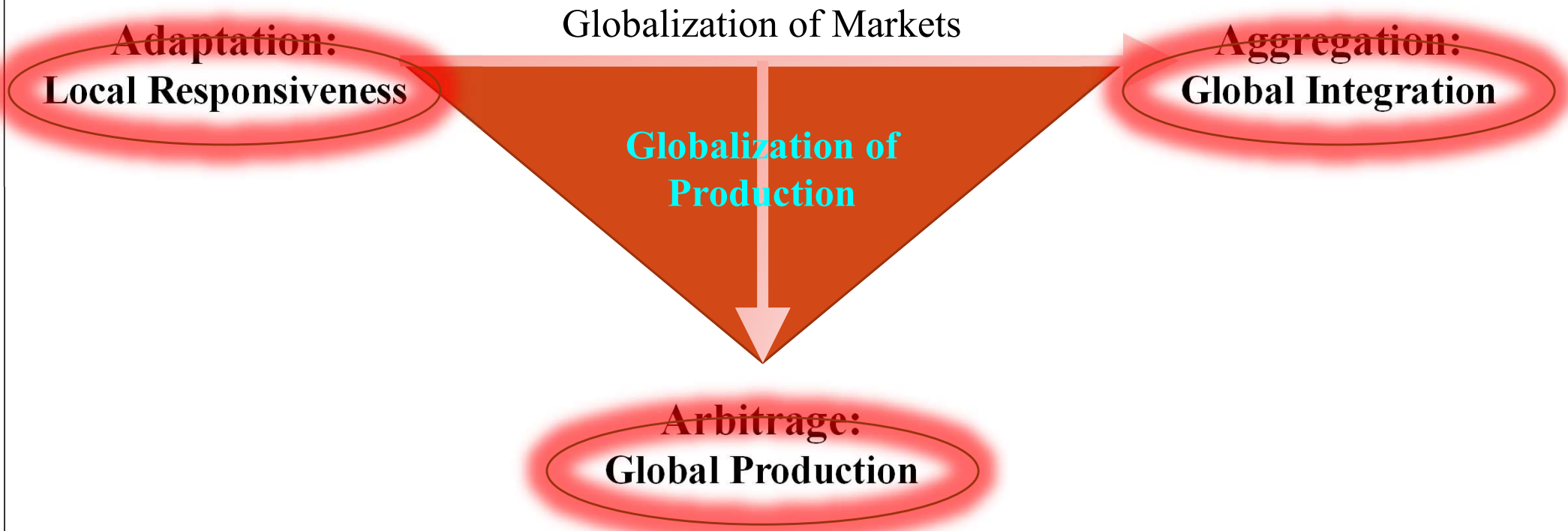
most

- He argued that MNEs should **globally integrate** (↑) their products while minimizing **local adaptation** (↓).
- **HOWEVER**, most of global integration experiments have been **UNSUCCESSFUL**.
  - ✓ *e.g.*, Ford found that there are wide-ranging differences among consumer tastes around the globe.

# Global Business Models



## ■ AAA Strategies



# Global Business Models



## ■ Aggregation Strategy

❖ The realization of **SYNERGIES**.

❖ Exploit **SCALE** economies.

❖ Not necessarily **STANDARDIZATION**.

❖ Stay close to local customers & resources.

❖ Foster **INNOVATION & KNOWLEDGE** management.

❖ Product development, sourcing & finance are often handled **globally**, while sales, marketing & human resource management are typically managed **locally**.

❖ The case of **Toyota**: **REGION**-based supply chain management.



Professor Pankaj Ghemawat (HBS)

Adaptation: Local  
Responsiveness

Aggregation:  
Global Integration



# Global Business Models



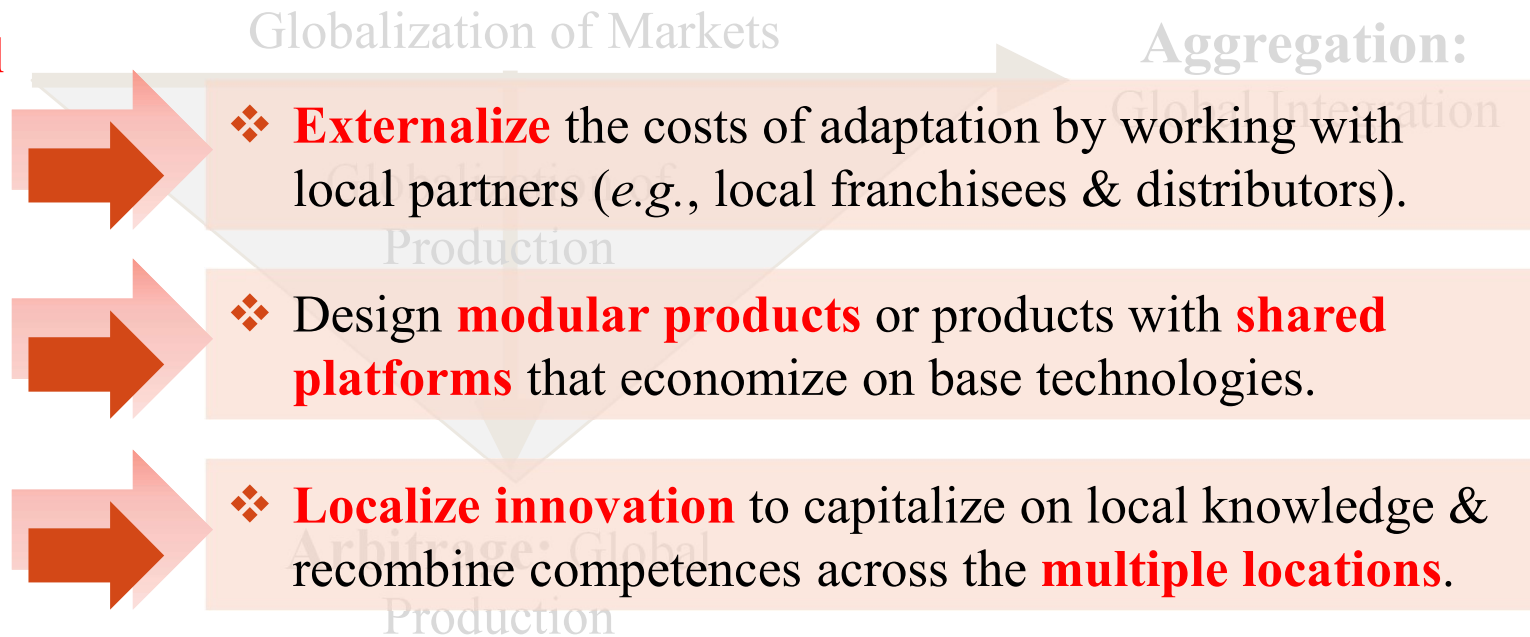
## ■ Adaptation Strategy

“... Is a strategy of delivering locally adapted products in each market.”



Professor Pankaj Ghemawat (HBS)

### Adaptation: **Local Responsiveness**



# Global Business Models



## ■ Arbitrage Strategy

“... is a strategy of exploiting differences in prices in different markets.”



Professor Pankaj Ghemawat (HBS)

- ❖ Arbitrage strategies were associated with **labor, capital & natural resources**.
- ❖ Strategies of labour arbitrage exchange the services of a labor force, & thus allow exploiting **low cost labor** or **specialist human capital**.
- ❖ **Capital arbitrage** is less common as financial markets are generally more efficient. *e.g.*, Chinese companies list in HK, SABMiller list in London.
- ❖ Location-bound human capital gives rise to arbitrage of **knowledge intensive services**. *e.g.*, medical services for patients provided by hospitals in CEECs.

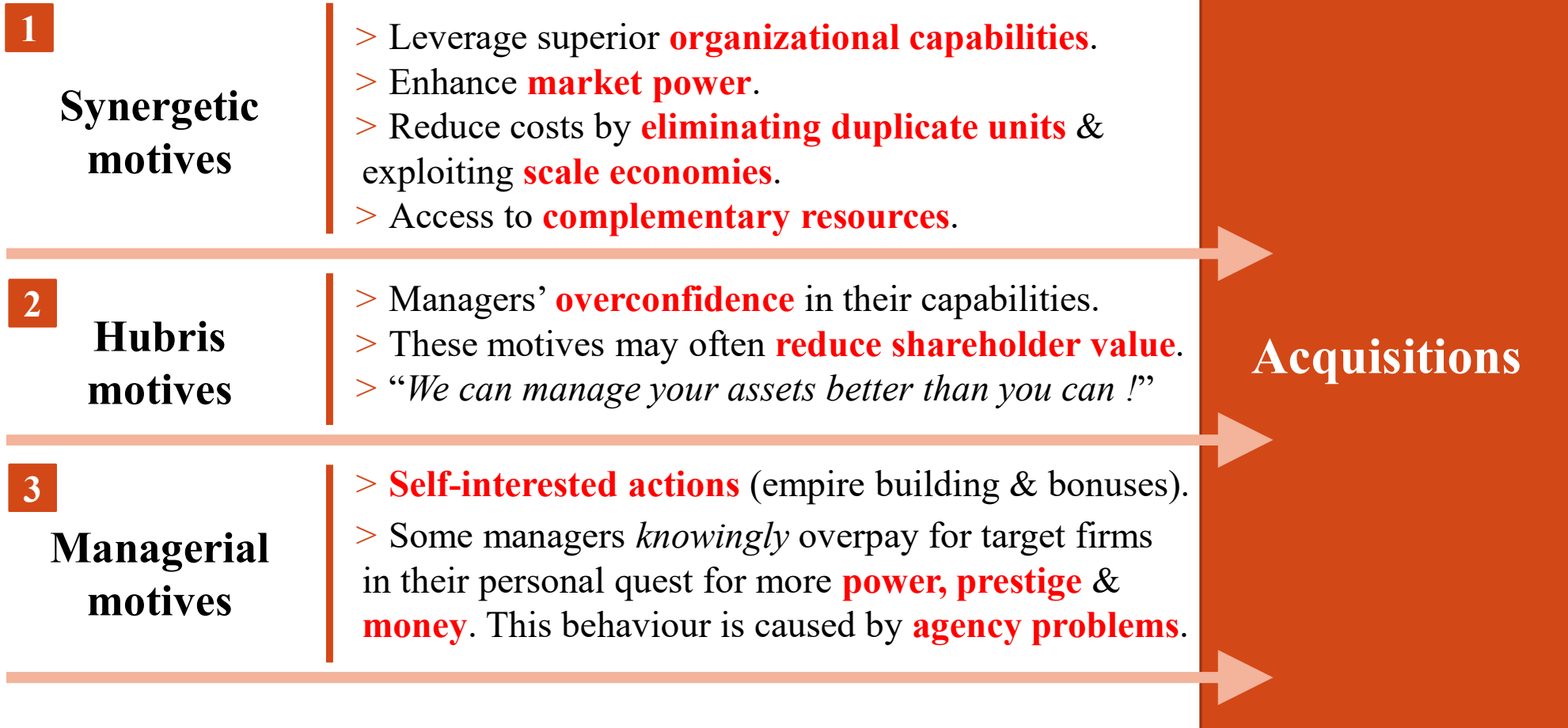


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# Growth by Acquisition



## ■ What are Motives for Acquisitions?



# Growth by Acquisition



## ■ Examples?



# Growth by Acquisition



## ■ Incentives for Strategic Alliance



### ❖ Cost Factors

- Certain airlines have always dominated certain international airports.
- Strong capabilities (*e.g.*, baggage handlers & baggage-handling equipment).
- Ownership in the **Apollo & Galileo reservation systems**.

### ❖ Connecting Flights

- Governments restrict domestic or regional routes to their own carriers.
- Code sharing.



## ■ Why Not a Merger or an Acquisition?

- Ownership requirements.
- Respective pilots' unions under different operating & compensation systems.
- National identity.



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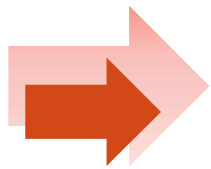


## ■ Value-Destruction or Value-Creation?

- ❖ As many as 70% of acquisitions reportedly fail.
- ❖ Acquiring firms' performance does **NOT IMPROVE** after acquisitions on average.

## ■ The Failure Case of Daimler-Chrysler

- ❖ In 1998, Daimler paid US\$35 billion to acquire Chrysler, a 40% premium over market value.
- ❖ In 2007, Chrysler was sold to Cerberus Capital, US\$7.4 billion.



Consequently, 4/5 of the value had been lost !






## ■ Why Acquisitions Often Fail?

### Pre-acquisition: Overpayment for Targets

- > Managers **OVERESTIMATE** their ability to create value.
- > **INADEQUATE** pre-acquisition screening.
- > **POOR** strategic fit.
- > **LACK** of familiarity with foreign cultures, institutions & business systems.
- > **NATIONALISTIC** concerns against foreign takeovers (political & media levels).

### Post-acquisition: Failure in Integration

- > **POOR** organizational fit.
- > **FAILIURE** to address multiple stakeholder groups' concerns.
- > **CLASHES** of organizational cultures linked to clashes of national cultures.
- > **NATIONALISTIC** concerns against foreign takeovers (firm & employee levels).

 The case of **Daimler-Chrysler**: Little organizational fit (e.g., American managers resented the dominance of German managers).



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# Debates & Extensions



## ■ Hidden Champions

- ❖ ... was coined by German professor Herrman Simon who leads a global consulting firm.
  - Germany's infamous *Mittelstand* (medium size) firms have

**SIMON • KUCHER & PARTNERS**  
Strategy & Marketing Consultants



– REVENUE BELOW US\$4 BILLION.







## ❖ Where do the Hidden Champions come from?

- Out of **2,000** companies considered as the Hidden Champions, **2/3** come from **Germany**, followed by **Scandinavia & Northern Italy**.





## ■ Hidden Champions: Medium-sized Firms with Global Market Shares of 70% or Higher

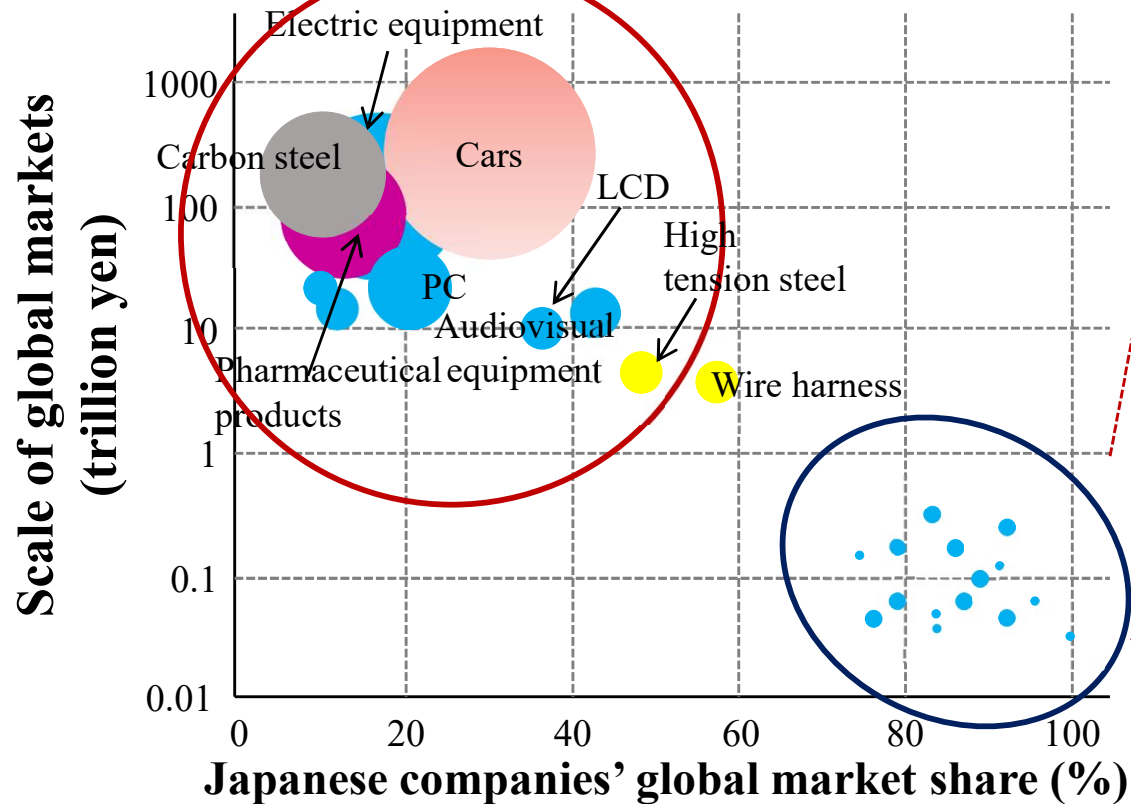
Company	Main Product	World Market Share
Dr. Suwelack 	Collagen	100%
Sky Sails 	Towing kite wind propulsion systems	100%
Gerriets 	Theater curtains, stage equipment	100%
Ulvac 	LCD panel coating	96%
G.W. Barth 	Cocoa processing systems	90%
GKD 	Metal fabrics	90%

Source: Simon, H. (2009: 73)

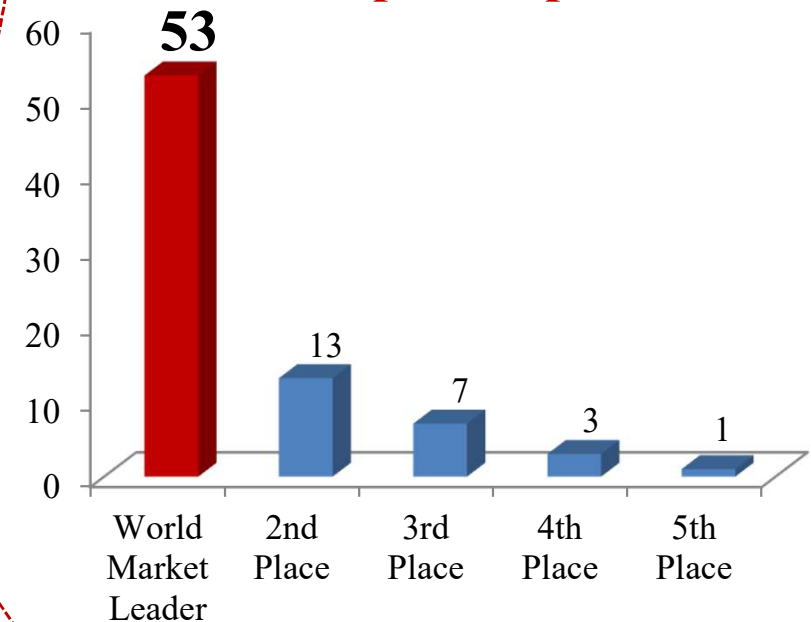
# Debates & Extensions



## Winning Global Markets



## Number of Japanese Global Niche-Top Enterprises



**A number of Japanese firms enjoy their competitive edge in specific product areas.**

Source: Fuji Chimera Research Institute, Inc. (2014). Wagakuni Kigyou no Kokusai Kyoso Position no Teiryoteki Chosa, 1-526. Own illustration based on Kaisha Shikiho (2012) for the figure on the right-hand side.

# Debates & Extensions



## ■ Winning Global Markets

1



Nippon Shokubai has the world's top-class production capacity for acrylic acid & superabsorbent polymers (**Global market leader**)

2



Rheon Automatic Machinery has been manufacturing a wide range of high quality bread production machines (**Global market leader**).

3



Toray having a 40% market share has competitive superiority in developing, manufacturing & supplying carbon fibre materials (**Global market leader**).

4



The Yaskawa Electric Corporation manufactures servos, motion controllers, AC motor drives, switches & industrial robots & it is ranked the 1st in the area of servo motors (**Global market leader**).



## ■ Hidden Champions: '8' Major Successful Elements

### FOCUS

- > Concentrate on **one area**
- > Focus includes “*knowing what you do not want to do*”.

### GLOBALIZATION

- > The **Internet**
- > Modern **transportation**

### INNOVATION

- > Fit between **market & technology**

### CLOSENESS TO CUSTOMER

- > **Customer** orientation > competitive orientation
- > The **long-standing relationships** with customers

### HIGH PERFORMING EMPLOYEES

- > The rigorous selection of the **right employees**
- > **Low** employee **turnover**
- > **Less top-down** intervention

### DEPTH

- > An incredible depth in the value chain system & the **high vertical integration**

### DECENTRALIZATION

- > **Freedom** for execution & implementation
- > A means for mobilizing **entrepreneurial energies**



Source: Simon, H. (2009: 351-356)



## ■ Global Focusing

- ❖ ... refers to a strategic shift from **DIVERSIFICATION** to **SPECIALIZATION** which increasing the international profile.
- ❖ Characteristics of globally focused firms
  - Strong roots in diversified **CONGLOMERATES** of the 1950s & 1960s.
  - Focused on their home markets due to **BARRIERS** to trade & investment.
  - The reduction of trade barriers allowed them to strengthen **A GLOBAL SCOPE** within **a much sharper defined industry**.
- ❖ **HOW** can companies that formerly diversified in a local or regional market develop a global strategy? (**3** ways)
  - (1) Divestment
  - (2) Acquisition
  - (3) The sale of business units





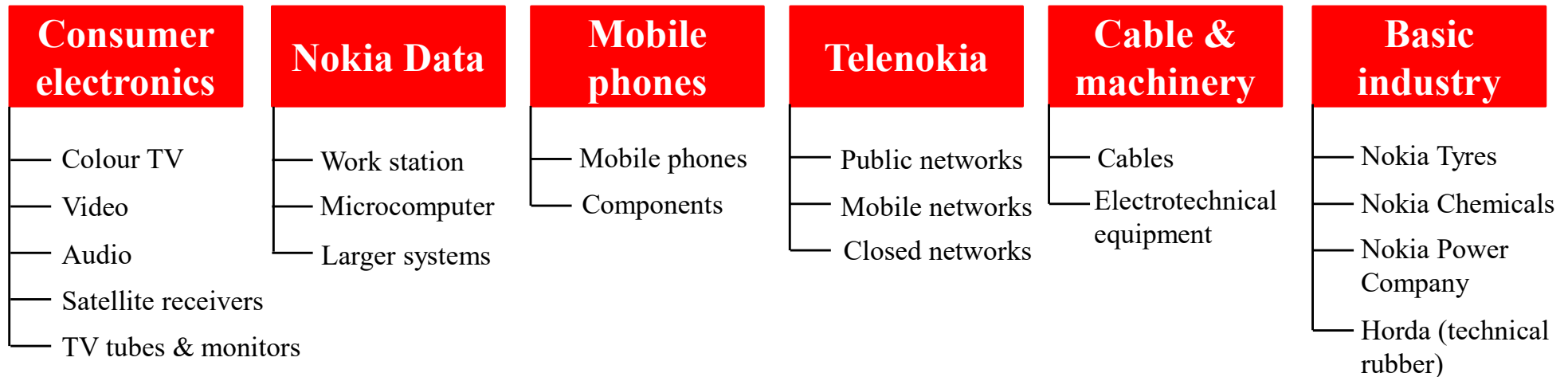
# Debates & Extensions



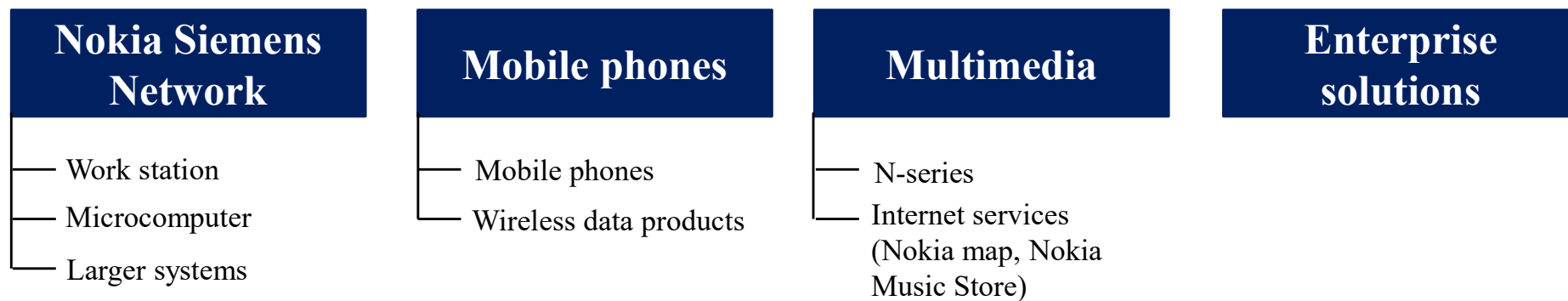
## ■ Global Focusing: Nokia OY 1990-2008



**1990**

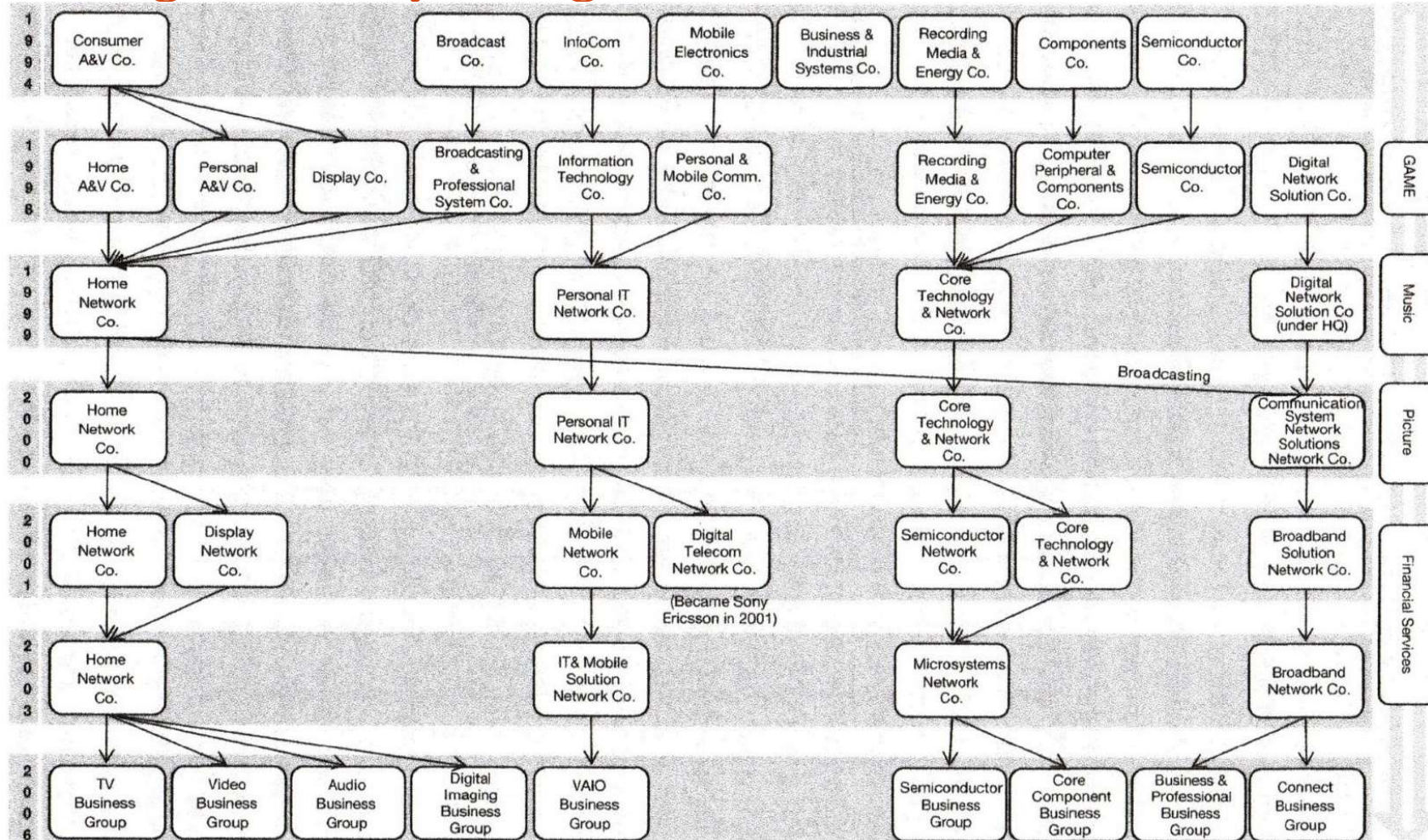


**2008**





## ■ Changes in Sony's Organizational Structure



Source: Chang (2008: 111)



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# Implications for Practice



## ■ What Should Managers Care About?



- ❖ Each firm needs **a business model** that **creates value** from the resources at its disposal around the globe !
  - **Danisco (Denmark)**: Food ingredients (e.g., stabilizers, enzymes & flavours) were developed, manufactured & distributed.
  - **Kärcher (Germany)**: High-pressure cleaning equipment.



- ❖ Managers are advised **not to overpay** for targets & to focus on both **strategic & organizational fit**, when managing **M&As** !
  - Misalignment may result in low morale & high staff turnover.
  - The cultural clashes between Daimler & Chrysler.



- ❖ What does it mean by “**the formation of a strategic alliance**”?
  - It may be (1) a fancy term for a JV, (2) a partial acquisition that is the first step towards a full take-over, (3) a divisional merger that secures the long-term viability of a struggling business unit, & (4) an extensive operational collaboration between 2 or more parties.

# The End of Today's Lecture



ご清聴有難う御座いました。

**Thank you so much!**

**Merci beaucoup !**

**Vielen Dank für Ihre Aufmerksamkeit!**

**Grazie mille !**

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