Managing Global Initiatives

A Partnership of IP Solutions and Stanford Center for Professional Development
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No Global Strategy?—RATS!
Donald Lessard

Prof. Lessard will kick off the program with an integrated framework to understand why some organizations try to expand globally fail miserably and why others seem to hit the ball out of the park. The application of this RATS framework will be brought to life by using it to retrospectively analyze the 50-year evolution of several prominent global businesses. You will leave the session prepared to apply the RATS framework to evaluate the extent that your organization is positioned to expand beyond its home base.

Understanding Institutional Context, Conflicts, and Costs
W. Richard Scott

Professor Scott will present an overview of institutional theory: a comprehensive, powerful, theoretical framework to understand how cognitive-cultural, normative, and regulative institutional elements enable, guide, and constrain human behavior and how institutional arrangements vary significantly across different human societies. Following the talk, you should be able to identify specific cognitive-cultural, normative, and regulative institutions that influence your business and family interactions.

Cracking the Cognitive-Cultural Code
Hazel Markus

Drawing heavily on research from her own lab, Hazel Markus will offer an approach to help you begin to understand the tacit, taken-for-granted, subconscious beliefs, assumptions, and preconceptions that you hold—and to help others do the same. Through an interactive exercise, you will identify some of the deep mental models and cognitive templates that have a profound influence on your daily life and decision making.

Transplanting and Transforming Management Systems Across Institutional Contexts
Mary Yoko Brannen

Prof. Brannen will present an approach for determining the parts of your business and management system that can be easily "plopped and dropped" into the foreign market context, and the parts that require substantial recontextualization upon transfer. Through a hands-on exercise, you will analyze your business and management system with an eye for those elements that are the most susceptible to recontextualization.

Institutional Costs, Embeddedness, and Strategies for New Institutional Contexts
Ryan J. Orr

Dr. Orr will offer an approach to understand how entrant firms incur "institutional costs," how entrant firms in different industries face different levels of exposure to unfamiliar institutions, and how entrant firms develop strategies to cope with unfamiliar institutions and embeddedness so as to avoid their adverse effects. You will assess the degree to which your organization is embedded in an unfamiliar institutional context for a typical overseas project.

Aligning Institutional Context, Strategy, and Structure
Raymond Levitt

Prof. Levitt offers a framework to help you better understand how your organization’s strategy and structure must align with the institutional context in the host country where you have operations. Through his talk, you will learn to assess the fit of your organization’s strategy and structure to the various institutional contexts where you do work.

Designing Global Organizations
Jay Galbraith

Galbraith will present ideas from one of his landmark books, Designing the Global Corporation, on designing organizational units that are rapidly reconfigurable to suit quickly changing demands of customers and markets across multinational boundaries.

Connecting People, Delivering Value: How Fluor Competes in the Global Market
John McQuary

John McQuary's talk will offer a unique look into the inner workings of the Fluor knowledge management system, which is the backbone for global collaboration and distributed teamwork in one of the world’s most successful engineering-construction companies.

Managing the Global Supply Chain for Agility
Hau Lee

Most companies have global supply chains to take advantage of costs and capabilities in different parts of the world. Can companies still retain agility, i.e., flexibility and responsiveness, with a global supply chain structure? Examples again and again show that, by properly designing the supply chain network, product, and processes, and the use of proper technologies, it is possible to have an efficient and agile global supply chain. You will use the framework to examine several key questions: What factors drive the structure of your supply chain? Is your supply chain agile enough? Where are you vulnerable to disruptions?
Creating Values from the Global Supply Chain

Hau Lee

A well-designed and well-executed global supply chain can be an effective means to support your business strategies. It can also be used to enable new strategies, new offerings, and new services. Hence, companies can also create great values from their global supply chains. Professor Lee will explore some key practices for value creation. He will prepare you to assess your supply chain based on the key practices, and to see what gaps exist in your supply chain as well as what steps are necessary to enhance value creation.

Supply Chains at Nokia-Siemens

Dennis Lorenzin

Drawing on his experience managing the global deployment of an integrated supply chain system, Dennis will provide an overview of the implemented solution, highlighting the benefits it enabled when managing highly diversified and geographically scattered project operations. From his current role at Nokia Siemens Networks, he will bring a view on the challenges of expanding those ideas to support the company in emerging as a leader in a telecom market increasingly driven by services and solutions.
Stanford Center for Professional Development

The Stanford Center for Professional Development (SCPD) collaborates with School of Engineering faculty and other Stanford University departments to provide academic graduate education and professional education short courses for engineers, scientists, technology professionals, and managers in industry and government worldwide. We offer degree and academic certificate programs, individual courses, seminars, and workshops in engineering, computer science, and engineering management, as well as emerging multidisciplinary areas such as bioengineering, biomedical informatics, and nanotechnology. All instruction builds on the Stanford tradition of dynamic exchange with industry—combining theory and practice, and focusing on the intersection between industry needs and faculty research. Courses are delivered via the Internet, television broadcast, videoconferencing, and videotape, as well as on campus. SCPD also works with companies to develop customized courses presented at the worksite. For more information, go to http://scpd.stanford.edu, call 650.725.3000, or e-mail SCPD-Customer-Relations@stanford.edu.

IPS

IP Solutions, LLC, an innovative global professional services firm focused on organizational mastery of implementation, enables organizations to convert business strategies into realities. An array of products and services is designed to drive strategy into meaningful execution. These products and services focus on the conversion of strategy into actionable projects and programs nested in a carefully crafted portfolio process. Services include planning facilitation, consulting, coaching and mentoring, project development workshops, and classroom training. The company has completed more than 7,500 engagements in over 250 cities and 35 countries worldwide, with clients including more than 200 of the Fortune Global 500 corporations.

Founded in 1988, IPS has corporate offices in San Mateo, California, as well as senior professionals located throughout the world. For more information, go to www.ipsassociates.com, call 650.578.6300, or e-mail info@ipsassociates.com.
Professional Development Units (PDUs)
Project managers who seek to maintain their certification as a PMP® from the Project Management Institute (PMI®) will be awarded PDUs upon the successful completion of this course. Participants should contact PMI for information on how to apply for PDUs at http://www.pmi.org.

The course Program Number will be printed on the certificates given to successful participants.

The Stanford Center for Professional Development and IPS are Global Registered Education Providers of PMI.

Continuing Education Units (CEUs)
Individuals who seek to maintain other professional certifications or who require a transcript verifying course participation have the opportunity to earn Continuing Education Units (CEUs) from Stanford University. Transcripts will indicate a grade of “pass/no pass.” CEUs are usually transferable into other professional or personal development programs, but are not typically accepted towards a graduate degree.

If you requested and paid the CEU fee as part of the registration process, your transcript will be sent to you automatically within three to four weeks of completion of this course. If you have not yet registered for CEU credits, please contact apm@scpdinfo.stanford.edu or call 650-725-4694.
Donald Lessard
Donald R. Lessard is the Epoch Foundation Professor of International Management at the MIT Sloan School of Management. His research and teaching interests include international strategic management, international corporate finance, and finance for developing countries including privatization and infrastructure financing. He plays a key role in the BP Projects Academy, an executive education program that spans management and engineering, and directs MIT Sloan’s new alliance with ITESM (Monterrey Tec) in Mexico.

His current research focuses on globalization strategies in network industries and the linkage of strategy and risk management in major projects. His most recent book, Strategic Management of Large Engineering Projects: Shaping Institutions, Risks, and Governance (with Roger Miller) was published by the MIT Press. He has published extensively on risk management, global strategy, international corporate finance, and the debt crisis.

A leader in international management education, Lessard is a past president of the Academy of International Business and currently the Dean of the Fellows of the Academy. He has a BA in Latin American Studies and both an MBA and PhD in business administration from Stanford University.

W. Richard Scott
W. Richard (Dick) Scott is a professor of sociology, emeritus, at Stanford University, with courtesy appointments in the Schools of Business, Education, and Medicine. His major field is organizational studies, particularly of educational, research, and health-care organizations. His most recent empirical research project examined changes in the health-care delivery systems in the San Francisco Bay area during the second half of the 20th century. His work depicted and explained changes in five populations of health-care organizations in terms of wider changes in the material resource and institutional environments. He continues to focus on the general issues of institutional influences on organizational forms and functions, including changes in political regimes and policies.

Hazel Markus
Hazel Rose Markus is the Davis-Brack Professor in the Behavioral Sciences at Stanford University. She also co-directs the Stanford Center for Comparative Studies in Race and Ethnicity. Before moving to Stanford in 1994, she was a professor at the University of Michigan, where she received her PhD. The focus of her work is on how the self-system, including current conceptions of self and possible selves, structures and lends meaning to experience.

With her colleague Shinobu Kitayama at the University of Michigan, she has pioneered the experimental study of how culture and self influence one another. Markus was elected to the American Academy of Arts and Sciences in 1994 and is a Fellow of APS, APA, and Division 8. Some of her recent co-edited books include Culture and Emotion: Empirical Studies of Mutual Influence; Engaging Cultural Differences: The Multicultural Challenge in Liberal Democracies; and Just Schools: Pursuing Equal Education in Societies of Difference.
Mary Yoko Brannen

Mary Yoko Brannen is the AMD/Fujitsu Chair of Multicultural Integration at San José State University’s College of Business. She currently teaches at INSEAD in Fontainebleau, France, and has worked as a cross-cultural consultant for over 20 years to various Fortune 500 companies. Her research focuses on ethnographic approaches to understanding the effects of changing cultural contexts on technology transfer, work organization, and multinational mergers and acquisitions. Her consulting specialty is in helping companies conceptualize and enact strong and effective working cultures in cross-cultural mergers and acquisitions.


Brannen has a BA in comparative literature from the University of California at Berkeley. She also has an MBA with emphasis in international business and a PhD in organizational behavior from the University of Massachusetts at Amherst.

Ryan Orr

Ryan J. Orr is executive director at the Collaboratory for Research on Global Projects, a multidisciplinary center that supports research, education, and industry outreach on the themes of global projects, business, and infrastructure finance and development.


Raymond E. Levitt

Ray Levitt is academic director and founder of the Stanford Advanced Project Management program. He is Professor of Civil and Environmental Engineering, Director of the Collaboratory for Research on Global Projects, and Courtesy Professor of Medical Informatics at Stanford University. He also co-founded and directed Stanford's Center for Integrated Facility Engineering. Before coming to Stanford in 1980, he served on the MIT civil engineering faculty. Currently, he teaches classes in strategic planning and organization design for project/matrix organizations to Stanford engineering undergraduate and graduate students as well as project and corporate executives.

Since 1975, he has served as a consultant to Fortune 1000 and other global companies in the design of project/matrix organization structures, work processes, and IT applications to support project work. His present research focuses on modeling and simulating the significant institutional costs that can arise in global projects due to substantial differences in goals, values, and cultural norms among project stakeholders. His Virtual Design Team (VDT) research group has developed ground-breaking organization theory, methodology, and computer simulation tools to design organizations that can optimally execute complex, fast-track projects and programs. He founded Vité Corporation in 1996 to commercialize the VDT research results. VDT methods and tools are currently being used to model and simulate work processes in fields such as health care delivery and offshore platform maintenance. He also co-founded Design Power, Inc., in 1989 to develop applications to automate many kinds of semi-custom engineering work.

He earned his PhD and MSCE in construction engineering and management from Stanford University and his BSCE, cum laude, from the University of Witwatersrand in South Africa.
Jay R. Galbraith
Jay Galbraith is an internationally recognized expert on organizational development and researcher of strategy and design at the corporate, business unit, and international levels. His work also focuses on international partnering arrangements including joint ventures and network-type organizations.

He is currently examining organizational units that are rapidly reconfigurable to suit quickly changing demands of customers and markets across multinational boundaries. He is a senior research scientist at the University of Southern California’s Center for Effective Organizations and professor emeritus at the International Institute for Management Development (IMD) of Lausanne, Switzerland. He previously has been on the faculty of the Wharton School at the University of Pennsylvania and the Sloan School of Management at MIT.


John McQuary
John McQuary is vice president of knowledge management and technology strategies at Fluor Corporation. McQuary has worked for Fluor for more than 23 years, beginning in piping and material engineering and then moving to more strategic change initiative roles and leadership of the Computer Integrated Engineering department, Information Services, and the Global Automation Team.

In addition to his Fluor responsibilities, he sits on the FIATECH Board of Directors and is a member of the Advisory Panel for Harnessing Information Technology in the Engineering and Construction Industries. He is also frequently invited to be a speaker at various knowledge management and technology conferences.

McQuary has an undergraduate degree in mechanical engineering from the University of Arkansas and in leadership studies at the Thunderbird Graduate School of International Management and University of South Carolina.

Hau L. Lee
Hau Lee is the Thoma Professor of Operations, Information and Technology at the Graduate School of Business at Stanford. He is also the founder and director of the Stanford Global Supply Chain Management Forum, an industry-academic consortium that advances the practice and theory of supply chain management.

His research interests include global logistics and supply chain management, ebusiness, product/process design and supply chain performance, inventory planning and control, and manufacturing and distribution strategies. He has published widely in journals such as Management Science, Harvard Business Review, Sloan Management Review, and IIE Transactions, and he has served on the editorial boards of many international journals. Companies such as Hewlett-Packard, Microsystems, Apple Computer, IBM, General Motors, Xilinx, Andersen Consulting, McKesson, and Motorola have benefited from his consulting services. He has also taught production management and strategic uses of information technology in numerous executive development programs.

He obtained his PhD in operations research from The Wharton School of the University of Pennsylvania, his MSc degree in operational research from the London School of Economics, and his BSc degree in economics and statistics from the University of Hong Kong.
Dennis Lorenzin

Dennis Lorenzin is Director of Strategy and Business Development for the Delivery Services unit at Nokia, a leading company in mobile communications. In this capacity, Dennis is responsible for customer networks’ delivery, deployment, and project management.

Since starting at Nokia in 1996, Dennis has occupied several managerial positions, mostly in the project management area, serving in Italy, Greece, and southern Europe. Before moving to his current position, Dennis led the deployment of a centralized after-sales management system in southern Europe and the worldwide deployment of an advanced project management program integrating the customer front-end operations to the back-end supply chain.

Before joining Nokia, Dennis held a project manager position in research and development for a Hewlett-Packard operation in Italy.

Dennis has an MSc degree in electronic engineering from the University of Padua, Italy. He is also certified as a Project Management Professional (PMP®) by the Project Management Institute.
No Global Strategy?—RATs!

Donald Lessard
About me

- Epoch Foundation Professor of International Management
- BA (Latin American Studies), MBA, PhD Stanford
- At MIT since 1973
- Faculty director: BP-MIT Projects Academy
- Teach:
  - Strategy Options in Energy
  - Global Strategy
- Most recent book:
  - *Strategic Management of Large-Scale Engineering Projects* (MIT Press 2001)
- Current research
  - Uncertainty, Complexity, and Performance in Major Projects
  - The Co-evolution of Global Configuration and Capabilities
- Frequent traveler
  - Greater China
  - Latin America
  - …
- Fun
  - Long-distance motorcycling
  - Skiing
Why internationalize?

- Out of space at home
- The “game” is regional or global (integration)
- Good at something that passes RATs test (best practice)
- Need key resources (integration)
What game are you in?

Bigger diamond indicates “more global”

Market similarity

Commercial aircraft

Soft drinks

National (knowledge/resource) advantage

Global regimes/national regulation

Notes:

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Your industry

Market similarity

Scale economies

National advantage

Regulation

Notes:
How big is the game?

- Is global (multi-continental) scope an imperative, an option, or a trap?
  - Do you have to be global to play?
  - Are there substantial benefits from being multi-continental?

- Is regional (continental) scope an imperative, an option, or a trap?
  - Do you have to be regional/continental to play?
  - Are there substantial benefits from being regional?

- How do you define an effective region?
Targeting markets

Country attractiveness

High

Low

(growth, industrial structure, regulation, risk)

Country distance

High

Low

Notes:

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Re-defining distance: the RATs test

● What matters is “closeness” defined in terms of your business model and associated core competencies
● RATs tests your potential to exploit existing competencies internationally:
  ● Are they Relevant?
  ● Are they Appropriable?
  ● Are they Transferable?
Which products/services pass the RATs test for which markets?

- **R**—Similar customers, tastes, appeal?
- **R**—Similar channels?
- **T**—Have we done it before, does org. support?
- **T**—Do we have the competencies?
- **A**—Access to/power with channels, advisors?
- **A**—Will spillovers be valued?

<table>
<thead>
<tr>
<th>Rats Platform</th>
<th>No</th>
<th>Yes</th>
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**Notes:**

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Targeting resources

- Competitiveness requires a combination of resources
- Countries (regions) often characterized in terms of resource “field” or resource “diamond”

Source: Porter (1991)

Notes:
Dynamic virtual diamond—Shimano

Local rivalry

Japanese metal-working/manuf. skills

Japanese demand conditions

Local R&S

Notes:

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Dynamic virtual diamond—Shimano

Japanese metal-working/manuf. skills

China low cost

Local rivalry

Japanese demand conditions

Local R&S

Notes:

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Dynamic virtual diamond—Shimano

Notes:
Dynamic virtual diamond—Shimano

Notes:
Dynamic virtual diamond—Shimano

European local

Japanese metal-working/manuf. skills

Chinese low cost

Local rivalry

Japanese demand conditions

U.S., Chinese, Japanese suppliers, specialists

European (road)

US (mountain)

Notes:

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Dynamic virtual diamond—Shimano

- International rivalry -- US, Taiwan, China
- Japanese working/manuf. skills
- China low cost
- U.S., Chinese, Japanese suppliers, specialists
- European (road)
- European (mountain)
- Japanese demand conditions

Notes:
Defining strategic platforms

- Countries/locations that strengthen core competencies
- Countries/locations that facilitate developing capabilities that provide access to other segments, activities
- Countries/locations that create/extend the virtual diamond
Parallels in your industry?

Source: Porter (1991)

Notes:
Competence exploiting internationalization

- RATs tests your potential to **exploit** existing competencies internationally:
  - Are they **Relevant**?
  - Are they **Appropriate**?
  - Are they **Transferable**?

<table>
<thead>
<tr>
<th>Rats</th>
<th>No</th>
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Notes:

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Competence enhancing internationalization

- Strategic platforms are:
  - Countries/locations that enhance core competencies
  - Countries/locations that facilitate developing capabilities that provide access to other segments, activities
  - Countries/locations that create/extend the virtual diamond

![Diagram showing the relationship between exploiting home-based resources/capabilities and enhancing internationally-derived resources/capabilities.]

**Notes:**

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The case of CEMEX: a middle-out multinational

- Major success in industry with moderate "globalization drivers"
  - No. 1 concrete, no. 3 cement, no. 1 cement transport
- Major success from a country without obvious advantage
- Interesting business model
- Interesting global organizational structure
### Process of growth and international expansion

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1900</td>
<td>Founded 31 Cementos Portland and Cementos Mexicanos merged</td>
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<td>1970s</td>
<td>70s National Via Acquis. 76 Lists on the Mexican St. Ex.</td>
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<td>1980s</td>
<td>82 Debt Crisis / Exports Program</td>
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<td>Divest non-core – bulk</td>
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<td></td>
<td>Zambrano in 89 Holderbank → Apasco</td>
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<tr>
<td>1990s</td>
<td>90 US Anti Dumping</td>
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<tr>
<td>2000s</td>
<td>99 NYSE Listing 00 S&amp;P Investment Grade</td>
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<tr>
<td></td>
<td>TOLTECA, MX (1989)</td>
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<td></td>
<td>SPAIN (1992)</td>
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<td>DOMINICAN REPUBLIC (1995)</td>
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<td>COLOMBIA (1996)</td>
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<td>PHILIPPINES (1997)</td>
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<td>EGYPT (1999)</td>
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<td>COSTA RICA (1999)</td>
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<td>SOUTHDOWN, USA (2000)</td>
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<td>BANGLADESH (2000)</td>
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<td>FRANCE (2001)</td>
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<td>THAILAND (2001)</td>
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<td></td>
<td>PUERTO RICO (2002)</td>
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<td></td>
<td>RMC, UK (2005)</td>
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</tbody>
</table>

### Notes:

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**Managing Global Initiatives: Strategy and Execution**

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No Global Strategy?—RATs!

Process of growth and international expansion

Source: Cemex

Notes:
Stage 1: Spain

- Initially defensive

Operations expertise

Exploit

Home-based resources/capabilities
Internationally-derived resources/capabilities

Enhance

Cost of capital
PMI process

Notes:
Stage 2: Latin America

Operations expertise
PMI
“Branded bags”

Exploit

Home-based resources/capabilities

Internationally-derived resources/capabilities

Enhance

Pooling

The Cemex Way

Notes:
Stage 3: RMC/Rinker

Operations expertise
PMI
GPS
Cemex Way

Exploit

Home-based resources/capabilities
Internationally-derived resources/capabilities

Enhance

Concrete
"Slump meter"

Notes:

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Co-evolution of process

- Stage 1: Exploit via PMI
- Stage II: Deepen, perfect PMI, develop business models that travel
- 1997 PMI on Mexico
- Stage III: Cemex Way, integrated global capabilities base, single culture
Why middle out?

- Based in a Middle Country that has (demand and factor) conditions that give rise to competencies that are internally relevant
- Driven through process/operational excellence at the middle management, technical level (Nonaka)
  - Resulting operational culture that passes RATs

“When one wants to globalize a company, especially when it is from a developing country like Mexico, you really need to apply more advanced management techniques to do things better. We have seen many cement companies that use their capital to acquire other companies but without making the effort to have a common culture or common processes and they get stagnant.” [1]
—Lorenzo Zambrano, Chairman and CEO CEMEX

Notes:

[1] Reference or source information for the quote from Lorenzo Zambrano.
Context matters

- Demand conditions
- Volatility
- Ideologies, world views
- ... 
  - Not just about places
  - Not just about management
  - It’s about management in and across places (which in turn are cultural, political, economic constructs)

Notes:
CHAPTER 2:

UNDERSTANDING INSTITUTIONAL CONTEXT, CONFLICTS, AND COSTS

W. Richard Scott
Facets of the environment

- Physical environment
  - Water, trees, mountains, minerals

- Human/social actors
  - Individuals, varying in numbers, demographic char.
  - Collective actors (organizations and associations)

- Built (constructed) physical environment
  - Buildings, bridges, roads, dams

- Constructed social environment
  - Religions, kinship structures, banking systems

If relatively enduring, consequential forms:
INSTITUTIONS

Notes:
**Understanding institutional context, conflict, and costs**

- Institutions are:
  - Regulative
  - Normative
  - Cultural-cognitive

- Frameworks, which together with
  - Associated activities, relations, and resources provide stability and meaning to social life

**Notes:**

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**Institutional theory**

- **Institutions** – Socially constructed symbolic systems that, together with associated activities and resources, provide stability and meaning to social life (Scott, 2001)

<table>
<thead>
<tr>
<th>Type</th>
<th>Examples</th>
<th>Formality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulative</td>
<td>Rules, regulations, laws, governance systems</td>
<td>Formal, explicit</td>
</tr>
<tr>
<td>Normative</td>
<td>Values, expectations, taboos, roles, conventions, practices, protocols, traditions</td>
<td>Informal, tacit, taken for granted</td>
</tr>
<tr>
<td>Cognitive-cultural</td>
<td>Beliefs, mental models, cognitive templates, categories, identities, schemata, scripts</td>
<td></td>
</tr>
</tbody>
</table>

### Three pillars of institutions

<table>
<thead>
<tr>
<th></th>
<th>Regulative</th>
<th>Normative</th>
<th>Cognitive</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basis of compliance</strong></td>
<td>Expedience</td>
<td>Social obligation</td>
<td>Taken for granted</td>
</tr>
<tr>
<td><strong>Mechanisms</strong></td>
<td>Coercive</td>
<td>Normative</td>
<td>Mimetic</td>
</tr>
<tr>
<td><strong>Logic</strong></td>
<td>Instrumentality</td>
<td>Appropriateness</td>
<td>Orthodoxy</td>
</tr>
<tr>
<td><strong>Indicators</strong></td>
<td>Rules, laws, sanctions</td>
<td>Certification, accreditation</td>
<td>Prevalence isomorphism</td>
</tr>
<tr>
<td><strong>Basis of legitimacy</strong></td>
<td>Legally sanctioned</td>
<td>Morally governed</td>
<td>Culturally supported, Recognizable, Comprehensible</td>
</tr>
</tbody>
</table>

**Notes:**

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**Managing Global Initiatives: Strategy and Execution**

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“It’s not fair! Bankers can write all kinds of bad poems without you caring a bit—but let a poet write one lousy, bad check...”
Importance of belief systems

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist . . . But soon or late, it is ideas, not vested interests which are danger for good or evil.

Keynes: General Theory of Employment
Mechanisms of institutionalization

- Increasing returns
  - Positive feedback loops
- Increasing commitments
  - Loyalty trust
  - Relational contracts
- Increasing objectification
  - Unchallenged assumptions
  - Homogenous systems
Levels of institutional structures

- World regions
  - Types of legal systems, shared ideologies, treaties
- Cultures
  - Religious beliefs, ethnic identities
- Nation-states
- State-local governments
- Sector governance systems
  - Trade associations, regulatory regimes, applicable standards
- Occupations
  - Jurisdictional boundaries, recipes, and routines
- Corporate organizations
- Project organization
- Host community

Notes:

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Organization field definitions

Those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services and products.

DiMaggio & Powell, 1991

The notion of field connotes the existence of a community of organizations that partake of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside the field.

Scott, 1994

Notes:
Organizational field

- Field allows attention to:
  - Horizontal and vertical ties
  - Local and distant connections
  - Similar and dissimilar forms
  - Established and emergent forms
  - Structural and cultural systems
  - Consensus and conflict

- Links organizations and wider societal structures
Global projects: interconnected organizations and fields

International field

Professional fields (labor, engineering, finance, etc.)

Some global players highly globally connected

Global project

Some local players highly locally connected

Local field

Structuration

Bilateral adaptation over time

Notes:

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Forces shaping globalization

- Technologies, including ICT
- Ideas and belief systems
  - Davos culture
  - Intellectual and professional culture
  - Popular culture
  - Reactive or corrective critics and skeptics
  - Institutional systems
  - Existing societal systems
  - Transnational systems
Chapter 3:

Cracking the Cultural-Cognitive Code

Hazel Markus
Exercise 1

Please describe yourself

Notes:
Exercise 2

For each of the following items, please indicate what percentage (from 0 - 100) of your colleagues have MORE of each quality than yourself.

1. Intellectual Ability
2. Decision Making Ability
3. Memory Ability
4. Athletic Ability
5. Independence
6. Interdependence

Notes:
Exercise 3

Indicate your level of agreement with each of the following statements by circling one number on the rating scale that best describes the way you feel about yourself. Use the following scale as your guide.

<table>
<thead>
<tr>
<th></th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>At times I think I am no good at all.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>I take a positive view of myself.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>All in all, I am inclined to feel that I am a failure.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>I wish I could have more respect for myself.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>I certainly feel useless at times.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>I feel that I am a person of worth, at least on an equal plane with others.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>7</td>
<td>On the whole, I am satisfied with myself.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>8</td>
<td>I feel I do not have much to be proud of.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>9</td>
<td>I feel that I have a number of good qualities.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>10</td>
<td>I am able to do things as well as most other people.</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

Notes:

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Culture, Meaning, and the Individual

People who are independent of time, place, and circumstance do not now and have not ever existed, and by the very nature of things could not exist.

...becoming human is becoming individual, and one becomes individual under the guidance of cultural patterns and historically created systems of meaning in terms of which we give form, order, point, and direction to our lives.

(Geertz, 1975)
A word about culture...

- Our major evolutionary advantage

- Human nature involves creating cultures and creating ourselves in response to them

- Each of us interacts with many cultures--in a lifetime and in a single day
Culture

Culture consists of explicit and implicit patterns of historically derived and selected ideas and their embodiment in institutions, practices, and artifacts.

Cultural systems may, on one hand, be considered as products of action, and on the other as conditioning elements of further action.

(Kroeber & Kluckholn, 1963, p. 357)
The Mutual Constitution of Culture and Psychological Tendencies

Collective Reality
- Core cultural ideas
  - What is good?
  - What is moral?
  - What is self?
- Ecological, economic, historical factors

Socio-psychological processes
- Practices and institutions reflecting and promoting the core ideas
  - Language
  - Educational systems
  - Political system
  - Media
  - Legal system

Individual Reality
- Daily experiences that personalize core ideas
  - Home
  - School
  - Workplace

Psychological Tendencies
- Psychological structures and processes
  - Cognition
  - Motivation
  - Emotion
  - Agency/self

Figure adapted from The Cultural Shaping of Psychological Reality, (Kitayama & Markus, 1994)
# Varieties of Agency

<table>
<thead>
<tr>
<th>DISJOINT MODELS</th>
<th>CONJOINT MODELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition and identification of normatively good actions</td>
<td>Self-focused Independent from others</td>
</tr>
<tr>
<td>Sources of actions</td>
<td>“Freely chosen” contingent on one’s own preferences, goals, intentions</td>
</tr>
</tbody>
</table>

(Markus & Kitayama, 2003, Vol 49 of *Nebraska Symposium on Motivation*)

**Notes:**

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Models of Agency

It’s inside!

It’s in adjustment to relationships!

Notes:

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Middle Class European American
Formulation of the Disjoint Model

• I’m independent,
  • in control,
  • free to choose,
  • successful,
  • hardworking;

• I like myself;

• and I am this way because of what’s inside me.
Japanese Formulation of the Disjoint Model

• I’m interdependent,
  • a connection in a network of relations,
  • self-reliant, trying not to bother others,
  • maintaining the sympathy of others,
• trying to improve myself and meet standards,
  • maintaining harmony, avoiding strained relationships,
  • reflecting on and improving myself;

• and I am this way because of my relations and my situations.
私は煙で、人にまとわりついていた。
My smoke is enveloping that man over there.
煙の行方。本人だけが、他人事だった。
Where does the smoke go? Only the person producing it is unconcerned.

Notes:
Success in life determined by forces outside of our control

![Bar chart showing the percentage of people who agree and disagree that success in life is determined by forces outside of our control for various countries.](chart)

**Notes:**

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- [ ]
- [ ]
- [ ]
American cultural products

The American "cultural nightmare is that the individual throb of growth will be sucked dry in slavish social conformity. All life long our central struggle is to defend the individual from the collective" (Plath, 1980)

"We don't rely on the government; we don't rely on the company; we don't rely on the neighbors—we bet only on ourselves." American advertisement for Suretrade.com, 1999

"I have a lot of positive energy. I'm in control, and I do the things I like." Stanford University student, 1998
Japanese cultural products

"The social self does not exist without the social other, and the social self is always dialogically defined in terms of the social other in a given social context. A lone individual who must pour his own sake is on the verge of becoming a non-self." (Ohnuki-Tierney, 1996)

"With effort, you can prepare pork for dinner that is almost as good as your mother-in-law's." (Japanese advertisement for a supermarket, 1999)

"I behave in order for people to feel peaceful." (Kyoto University student, 1998)
Sociocultural Models of Agency

Models are:

- **In the head** -- individual, internal mental attitudes and schemas
- **In the world** -- public, external, social, realized in artifacts, practices, institutions, patterns of social interaction

(D’Andrade, 1984; Fryberg & Markus, 2002; Holland & Moscovici, 1998; Quinn, 1987; Plaut, 2002; Shore, 1996)
Stacy Dragila, Pole Vaulting:

Growing up, I realistically thought my Olympic dream wouldn’t come true, but with hard work and going after my goals and dreams, it was obtainable. Anything you put your mind to and body to with dedication and hardwork, it’s possible to obtain your goals and dreams. So never stop dreaming!

Gary Hall, Swimming:

I don’t want to sound selfish in saying that I’m swimming for myself you know? There’s a lot of influences and motivating factors. But when I stand up on the blocks, it has to be coming from within me.
2000 Summer Olympics

Ryoko Tamura, Judo:

Trusting coach--such trusting relationship is crucial. Athletes improve their performance out of such relationship, and that kind of quality is definite necessity for the most important moments in games.

Naoko Takahashi, Marathon:

I can’t think like I did it myself. Here is the best coach in the world, the best manager in the world, and all the people who support me -- all these things were getting together and became a gold medal. So I think I didn’t get it alone, not only by myself.
## Olympic Coverage

<table>
<thead>
<tr>
<th>American TV coverage contains more mentions of:</th>
<th>Japanese TV coverage contains more mentions of:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Athlete’s strengths</td>
<td>• Advice received from coaches, teammates, family</td>
</tr>
<tr>
<td>• Individual style / game plan</td>
<td>• Desire to meet expectations of fans, nation</td>
</tr>
<tr>
<td>• Competitor’s performance</td>
<td>• Physical stress or injury</td>
</tr>
</tbody>
</table>

(Markus, Uchida, Omoregie, Townsend & Kitayama, 2004)
Western Philosophical Origins

John Calvin
1509-1564

Benjamin Franklin
1706-1790

Adam Smith
1723-1790

Protestant Ethic

Capitalism

Notes:

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The American Dream

- Doesn’t matter where you’ve come from (separation from others and context)
- If you work hard, you can succeed
- Success = Virtue
- Greatest good is to be as individually successful as possible

(Bellah et al., 1985; Hochschild, 1995)
### Philosophical and Historical Building Blocks

<table>
<thead>
<tr>
<th>Independent Models</th>
<th>Interdependent Models</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ideas and Practices of Independence / Individualism</td>
<td>Ideas and Practices of Sympathy / Compassion</td>
</tr>
<tr>
<td>Protestant Ethic / Capitalism</td>
<td>Buddhism / Confucianism / Taoism</td>
</tr>
<tr>
<td>American Dream</td>
<td>Hierarchy / Filial Piety</td>
</tr>
</tbody>
</table>
Stanford University Students

- In general, I am very easy going and free spirited. I believe that I’m exceptionally optimistic. Little brings me down. This doesn’t mean that I don’t get frustrated though. I often push myself to do the best at all I set out to do. If I feel I haven’t given it my all, I haven’t made the activity worthwhile. This drive leads to disappointment at times, but I usually remain hopeful to the end. This drive can make me quite intense. I may be running around as if I don’t have a second to spare.

- I like to live life with a lot of positive energy. I feel like there is so much to do and see and experience. However, I also know the value of relaxation. I love the obscure. I play ultimate frisbee, juggle, unicycle and dabble on the recorder and concertina. I have a taste for the unique. I am very friendly and in most situations very self-confident. I’m almost always happy and when I am down, it’s usually because of stress.

- In general I feel like I am a happy person and an asset to society. I guess I am pretty open and spontaneous. I am reliable and hard working. If I put my mind to something I am very dedicated to the task at hand. Sometimes I am a bit unorganized when it comes to personal things and often I jump to conclusions as a person. I need to have more patience or tolerance with people I am not particularly found of.
Kyoto University Students

• I do what I want to do as much as possible, but I never do something which could bother other people. Although sometimes I make a decision all by myself, if it is related to a group or it involves a very important decision, I always talk to somebody in order to make a final decision.

• I am a rather gentle and respect harmony with people. I express my own interests to a certain degree, but I avoid conflicts almost all the time. I behave in order for people to feel peaceful.

• I cannot decide quickly what I should do, and I am often swayed by other people’s opinions and I cannot oppose the opinions of people who are supposed to be respected because of age or status. Even if I have displeasure, I compromise myself to the people around me without getting rid of the displeasure. When I cannot make a decision, I often do it according to other people’s opinions. Also, I am concerned about how other people think about me, and often decide what I do based on that consideration. I try to have a harmless life. I calm down by being the same as others.
Notes:
"I'm drawing up a list of all my good points and all my flaws, and so far my good points are running way, way ahead of my flaws."
Self-Enhancing Bias

-10%  0%  10%  20%  30%
   Ability  Independence  Interdependence

Japanese  American

Notes:

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Comparative perceptions of success

Average 8th-grade science scores (out of 800 points)

- Australia: 520
- Taiwan: 570
- Hong Kong: 540
- Japan: 530
- South Korea: 550
- Singapore: 580
- USA: 510

Percentage of 8th-grade students with high confidence in learning science

- Australia: 40%
- Taiwan: 20%
- Hong Kong: 30%
- Japan: 10%
- South Korea: 25%
- Singapore: 50%
- USA: 35%

Notes:
Consider the following examples:

Most businesspeople see themselves as more ethical than the average businessperson (Baumhart, 1968; Brenner & Molander, 1977).

Ninety percent of business managers rate their performance as superior to their average peer (French, 1968).

Most drivers—even most drivers who have been hospitalized for accidents—believe themselves to be safer and more skilled than the average driver (Guerin, 1994; Svenson, 1981).

Most people perceive themselves as more intelligent than their average peer (Wylie, 1979), as better looking (Public Opinion, 1984), and as less prejudiced than others in their communities (Fields & Schuman, 1976; Lenihan, 1965; Messick & others, 1985; O’Gorman & Garry, 1976).

Los Angeles residents view themselves as healthier than most of their neighbors, and most college students believe they will outlive their actuarially predicted age of death by about 10 years (Larwood, 1978; C. R. Snyder, 1978).

Notes:
Grover’s Song

I am very proud of me
I think I will sing out loud of me
There ought to be a crowd of me
Because I am so special
Yes, I do have pride in me
I love every bright blue side of me
I feel so satisfied in me because
I am so special...
I seldom have a doubt of me
I love every in and out of me
I think I have to shout of me
Because I am so very, very,
very PROUD of me
Degrees of Exposure to North American Culture (Heine, Lehman, Markus, and Kitayama, 1999)

Self-Esteem and Exposure to North American Culture

- Degrees of Exposure to North American Culture
  1 – Japanese, “Never Been Abroad”
  2 – Japanese, “Been Abroad”
  3 – Recent Asian Immigrants
  4 – Long-Term Asian Immigrants
  5 – 2nd Generation Asian Canadians
  6 – 3rd generation Asian Canadians
  7 – European Canadians

Degree of Exposure to North American Culture

Notes:

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Content Analysis of:

- magazine ads
- news broadcasts
- personals ads
- children’s books
- bumper stickers
- TV commercials
- news articles, headlines
- well-being books
- popular music lyrics
- posters

...reveal that themes of disjoint agency are prevalent in middle class European American contexts

Great Minds Think Independent

We are the Alliance of Independent Schools—leading the way in a dynamic new vision of psychology for the 21st century. At the forefront of educational theory and practice, we are pioneering creative methods for an ever-broadening range of psychology applications.

Stanford Center for Professional Development • 46

Notes:
Notes:
시골 장에서 작별 길리먹음
대지고기 많이 그렇게만 분별이 많습니 다.
한생 생생포크도 곧라 오래해 보세요.
생생포크는 압도적 관리로 확실급 돈육만
취급, 판매 신선도에서 확실히
만을 수 있습니다.
 solidity 많은 냉장육
생생포크

Notes:
Notes:
Themes Common in American Magazines
(Kim & Markus, 1999)

Proportion of Ads Using Themes (%)

- **Americans**
- **Koreans**

Themes:
- Rebel
- Choice
- Freedom
- Uniqueness

Notes:
Themes Common in Korean Magazines
(Kim & Markus, 1999)

<table>
<thead>
<tr>
<th>Themes</th>
<th>Americans</th>
<th>Koreans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respect for Collective Values</td>
<td>90%</td>
<td>50%</td>
</tr>
<tr>
<td>Harmony with Group</td>
<td>40%</td>
<td>30%</td>
</tr>
<tr>
<td>Following a Trend</td>
<td>20%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Notes:
Choice

- Choice is the very signature of being a good disjoint agent; it carries with it everything good -- freedom, individuality, self-expression, control
- Those who choose are happier, healthier, perform better, produce more
We give your kids more than toys.
We give them choices.

Notes:
“Choice. No woman should be without one.”

Notes:

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“AARP members don’t make compromises. They make choices.”
We're the Foundation for Health Choice
...The Freedom to Heal and be Healed

The Foundation for Health Choice

Choice, Information, Safety and Redress

We'll defend your children's freedoms!
Your personal freedom!
Your professional freedom!

Notes:

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What Does School Choice Mean?

The term “school choice” means giving parents the power and opportunity to choose the school their child will attend.

School choice means better educational opportunity, because it uses the dynamics of consumer opportunity and provider competition to drive service quality.
Study

1 + 4 Condition

or

Notes:
Preference for Uniqueness Varies with Context
(Kim & Markus, 1999; Markus, Savani & Snibbe, 2004)

<table>
<thead>
<tr>
<th></th>
<th>Minority</th>
<th>Majority</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>29%</td>
<td>71%</td>
</tr>
<tr>
<td>East Asia</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>Singapore</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>India</td>
<td>52%</td>
<td>48%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>49%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Notes:

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### Consequences of Usurped Choice

**In Free Choice condition participants**
- choose a pen
- test the pen
- evaluate the pen

**In Usurped Choice condition participants**
- choose a pen
- test the pen
- have their pen taken away by the experimenter
- receive a different pen from the experimenter
- test the new pen
- evaluate the new pen

Snibbe, Savani, & Markus (2005)
Unique Pen Choice: International Airport
(Kim & Markus, 1999)

- Minority Pen
- Majority Pen

Proportion of Respondents

East Asian | European American

Notes:
Sample Anagrams

G R T I E

Notes:
Anagram Completions
(Iyengar & Lepper, 1999)

# Anagrams Completed Correctly

- Personal Choice
- Experimenter Choice
- Mom Choice

European American vs. Asian American

Notes:
Why crack the cultural-cognitive code?

To have a better grasp of behavior that is organized by different models of agency

To appreciate the ways in which behavior depends on the social context

To inform theorists and practitioners who currently draw solely on the disjoint model of agency

To recognize, value and incorporate different way of being
Chapter 4:

Transplanting and Transforming Management Systems in an Unfamiliar Institutional Contest

Mary Yoko Brannen
American cowboy

Notes:

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Japanese cowboy

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How do new institutional CONTEXTs affect knowledge transfer?

Issue: Uncertainty around “fit.”
Evolution of meaning of firm offerings within new institutional environments

- Product
- Capability
- Process
- Best practice

Notes:
Institutional context and culture

Culture is learned H.E.L.P.

Habits
Expectations
Language
Perspective

Notes:
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Four industries: full range of institutional conditions

- Walt Disney (theme parks)
  - Tokyo Disneyland
  - Disneyland Paris
- NSK Corporation (auto)
  - Largest Japanese bearing manufacturer
  - Second largest worldwide
- Alza/Ciba-Geigy (pharma)
  - Swiss/SV failed alliance
- Spansion (semiconductors)
  - Advanced Micro Devices/ Fujitsu IJV
  - Flash memory technology

Notes:
Soft, hard, and knowledge-based

- Disney
  - People-dependent, soft technology
- Ball bearings
  - Stand-alone, hard technology
- Biotech
  - Scientific knowledge-based, products and systems, entrepreneurial R&D
- Flash memory
  - Knowledge-based, fast-paced, quick-to-market, global joint manufacturing
### Characteristics of firm offerings

<table>
<thead>
<tr>
<th>Organizational context</th>
<th>Knowledge base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree to which technologies and processes are people-dependent and rely on other organizational systems</td>
<td>Know-how associated with implementing and operating technology</td>
</tr>
<tr>
<td>CONTEXT-FREE: self-contained, stand-alone, autonomous</td>
<td>EXPLICIT: objective, codified, rational</td>
</tr>
<tr>
<td>CONTEXT-BOUND: people-dependent, interdependent, system-embedded.</td>
<td>IMPLICIT: subjective, taken-for-granted, tacit, socialized knowledge</td>
</tr>
</tbody>
</table>

Notes:

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NSK ball bearings

Implicit knowledge base

Production tools
- Production charts
- Visual controls
- MRP system
- Flexible assembly

Explicit knowledge base
- Engineering expertise
- Machine operation expertise
- Maintenance procedures
- Quality procedures
- Workplace organization

High recontextualization

Context-free
- Heat treat
- Grinding

Low recontextualization
- Machining
- Automated material handling

Context-bound

Physical equipment

Notes:

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Key dimensions of recontextualization

Implicit knowledge base

Context-free

Explicit knowledge base

Context-bound

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Bridging contexts: knowledge-sharing approaches

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Alliance knowledge sharing effort congruence check (e.g., Ciba Geigy/Alza)

<table>
<thead>
<tr>
<th>Implicit</th>
<th>Context-bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>New vision</td>
<td>Products in the pipeline</td>
</tr>
<tr>
<td>Culture</td>
<td>How to bring products to market</td>
</tr>
<tr>
<td>Entrepreneurial spirit</td>
<td></td>
</tr>
<tr>
<td>Creativity</td>
<td></td>
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<tr>
<td>R&amp;D process knowledge</td>
<td></td>
</tr>
<tr>
<td>Cross-functional collaborative ability</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Experimental learning</th>
<th>Network-to-network learning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting &amp; finance</td>
<td></td>
</tr>
<tr>
<td>Research results (products)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Explicit</th>
<th>Context-free</th>
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<tr>
<td>$$$$$</td>
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Notes:

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Cultural hybrid

- People who are experienced in moving from one cultural frame of reference to another
- Learned another H.E.L.P. system
- Acquired bridging skills
CHAPTER 5:

INSTITUTIONAL COSTS, EMBEDDEDNESS, AND STRATEGIES FOR NEW INSTITUTIONAL CONTEXTS

Ryan J. Orr
Institutional Costs, Embeddedness, and Strategies for New Institutional Contexts

Five questions

❖ What are ICs?
❖ How do ICs arise?
❖ Can ICs be predicted with risk analysis?
❖ What is embeddedness?
❖ What strategies do firms adopt to cope?

Notes:
### Institutional theory

- The theory of socially constructed determinants of human behavior
- Institutions:
  - Human-devised cognitive-cultural, normative, and regulative elements that enable, guide, and constrain social behavior (Scott ‘95)
  - Matrix of sanctions and incentives that influence human behavior (North ‘90)

<table>
<thead>
<tr>
<th>Regulative</th>
<th>Rules, laws, governance systems, property rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normative</td>
<td>Values, expectations, conventions, roles, taboos, practices, protocols</td>
</tr>
<tr>
<td>Cognitive-cultural</td>
<td>Mental models, categories, identities, schemata, beliefs, scripts, routines</td>
</tr>
</tbody>
</table>

Notes:

- [Blank lines for notes]

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1. What are ICs?

Five vignettes from interviews with global project managers

- U.S. investor → Vietnam
  - No legal system, exclusive MOU not honored → $300k+, 1 yr top execs

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  - No insurers, “Design Institute” → delay, $100k in costs, confusion and relational strain

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- **U.K. firm → Sri Lanka**
  - No standard-sized bricks → delay, costs of shipping bricks
1. What are ICs? A simple definition

- ICs are the **unforeseen costs** that arise when an entrant lacks familiarity with host-country institutions.
- Each case involves several distinguishing attributes:
  - Global project as context
  - Foreign entrant firm
  - Local host entity
  - Transaction/relational/interface
  - Differing institutions
1. What are ICs? One further conceptualization

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1. What are ICs? One further conceptualization

- Coordination costs
- Direct costs
- $, ¥, €, ...


* Uncertainty, interdependence, and time pressure

Notes:

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1. What are ICs? One further conceptualization

- CRGP: 2003+: global projects
  - Conflict among values, cultural norms, and work practices of project participants

  - Uncertainty, interdependence, and time pressure

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2. How do ICs arise? A generalized process model

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2. How do ICs arise? A generalized process model

Regulative Normative Cog.-Cultural

Entrant

△R
△N
△CC

Regulative Normative Cog.-Cultural

Host entity

Notes:

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2. How do ICs arise? A generalized process model

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2. How do ICs arise? A generalized process model

Institutional exceptions
Misjudgments, misunderstandings, conflicts

Notes:
2. How do ICs arise? A generalized process model

![Diagram showing the relationship between institutional costs and ICs]

Institutional exceptions
Misjudgments, misunderstandings, conflicts

ICs
Time costs, money costs, relation damage, reputation damage

Notes:

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2. How do ICs arise? A more detailed process model

Institutional exceptions unfold according to a typical process:

**PHASES**
- Ignorance & deviant action
- Sensemaking & local knowledge search
- Cost/benefit & response

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- Sanctions
- Extortion
- Opportunity cost

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- Flight tickets
- Consultant fees
- Project delay
- Executive time

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- Time/$$ execute
- Write-off sunk $$

**Notes:**

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3. Can ICs be predicted a priori?

Risk consultants

Control Risks Group
Pegasus Consulting, Inc.

Risk software

PERTMASTER
Project Risk Software

PALISADE

The @RISK Results Window gives you countless graphing and reporting options!

Notes:

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3. Can ICs be predicted a priori?

- Human-devised institutional systems are:
  - Wholly unique, product of human imagination, thus infinite possibilities
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Risk analysis relies on expert assessment of probabilities and consequences, but...
- Known knowns, known unknowns, unknown unknowns (Howard)
- Emergent uncertainty
- Without recent/relevant country experience, very difficult to model risks

A priori risk analysis has limits and is extremely difficult

Notes:
Food for thought: group discussion

Can you think of some examples of the kinds of institutional exceptions that your firm has faced?

What were the money, time, reputational, and relational costs?

Did these incidents follow the typical phases of ignorance, sensemaking, response??

Notes:

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- Did these incidents follow the typical phases of ignorance, sensemaking, response?

Does your firm have businesses where institutional exceptions are more or less common?
- Outside of your firm, are certain businesses more or less prone to institutional exceptions? If so, why? Exceptions?
5. What is embeddedness?

“The quick dip” versus “growing local roots”
4. What is embeddedness?

Definition, influences, and hypotheses

**Embeddedness** is the total number of relations that an entrant has with local entities.

- Embeddedness is influenced both by:
  - Characteristics of the project (handsets versus network roll-outs)
  - Strategic management decisions (self-perform versus outsource)
- The greater an entrant’s embeddedness, the greater its:
  - Level of interaction, negotiation, coordination with locals
  - Level of need for local institutional knowledge
  - Likelihood of incurring ICs should they lack an appropriate level of local institutional knowledge

Notes:

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MANAGING GLOBAL INITIATIVES: STRATEGY AND EXECUTION

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4. What is embeddedness?

Examples of differing levels of embeddedness

<table>
<thead>
<tr>
<th>Type of Relation</th>
<th>Systems Contractors(^a)</th>
<th>Developers(^b)</th>
<th>Project Consultants(^a)</th>
<th>General Contractors(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal Regulatory Relations</td>
<td>4</td>
<td>14</td>
<td>17</td>
<td>16.75</td>
</tr>
<tr>
<td>Formal Market Relations</td>
<td>36</td>
<td>64</td>
<td>78</td>
<td>1123</td>
</tr>
<tr>
<td>Informal Community Relations</td>
<td>0</td>
<td>10</td>
<td>22</td>
<td>12</td>
</tr>
<tr>
<td>Informal Project Relations</td>
<td>12</td>
<td>2</td>
<td>166</td>
<td>20.75</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>90</td>
<td>283</td>
<td>1172.5</td>
</tr>
</tbody>
</table>

\(^a\) N = 4; \(^b\) N = 5

A more complete measure would also take into account frequency and intensity of coordination across each interface.

Notes:

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### 4. What is embeddedness?

**Examples of differing levels of embeddedness**

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<tbody>
<tr>
<td>Formal Regulatory Relations</td>
<td>2</td>
<td>12</td>
<td>17</td>
<td>19.28</td>
</tr>
<tr>
<td>Formal Market Relations</td>
<td>30</td>
<td>56</td>
<td>18</td>
<td>19.28</td>
</tr>
<tr>
<td>Informal Community Relations</td>
<td>1</td>
<td>10</td>
<td>22</td>
<td>12</td>
</tr>
<tr>
<td>Informal Project Relations</td>
<td>15</td>
<td>10</td>
<td>15</td>
<td>20.13</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>90</td>
<td>262</td>
<td>177.96</td>
</tr>
</tbody>
</table>

*A more complete measure would also take into account frequency and intensity of coordination across each interface*

**Notes:**

- No specific notes mentioned.
### 5. How do firms cope?

*Three theoretically distinct internationalization strategies*

<table>
<thead>
<tr>
<th>FIRM TYPE</th>
<th>GENERAL STRATEGY</th>
<th>TACTICAL VARIANT</th>
</tr>
</thead>
<tbody>
<tr>
<td>General contractors 1,200+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developers 90 Systems contractors 50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engineering consultants ~280</td>
<td></td>
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</tr>
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</table>

Notes:
### 5. How do firms cope?

Three theoretically distinct internationalization strategies

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<td>Increase supply of local knowledge</td>
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**Notes:**

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**Managing Global Initiatives: Strategy and Execution**

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<td></td>
<td></td>
</tr>
<tr>
<td>Developers 90</td>
<td>Decrease demand for local knowledge</td>
<td>Dev: Outsource. SC: Offshore—prefab, ship, assemble</td>
</tr>
<tr>
<td>Systems contractors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td></td>
<td></td>
</tr>
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</tr>
<tr>
<td>Engineering consultants</td>
<td>Reduce cost of a local knowledge deficit</td>
<td>Don’t assume any risk</td>
</tr>
<tr>
<td>~280</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:

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5. Pacing strategy

*If in it for the long haul: Get embedded, but not too quickly!!*

◆ A paradox:

◆ **On the one hand**, it is necessary to get embedded in order to build and operate a local telecom network; **on the other hand**, becoming too embedded too quickly without adequate localization leads to a host of ICs
5. Pacing strategy

*If in it for the long haul: Get embedded, but not too quickly!!*

- A paradox:
  - **On the one hand**, it is necessary to get embedded in order to build and operate a local telecom network; **on the other hand**, becoming too embedded too quickly without adequate localization leads to a host of ICs
  - What did 360networks do **WRONG**?

---

**Notes:**

---
5. Pacing strategy

If in it for the long haul: Get embedded, but not too quickly!!

- A paradox:
  - On the one hand, it is necessary to get embedded in order to build and operate a local telecom network; on the other hand, becoming too embedded too quickly without adequate localization leads to a host of ICs.
  - How could 360networks have done better?
  - Pacing strategy: Get embedded, but not too quickly!!

Notes:

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Five answers

✦ What are ICs?
   ✦ Unexpected costs that arise from unfamiliar institutions

✦ How do ICs arise?
   ✦ Institutional exceptions: ignorance, sensemaking, response

✦ Can ICs be predicted with risk analysis?
   ✦ Extremely difficult

✦ What is embeddedness?
   ✦ The level of exposure to local institutions via local relations.

✦ What strategies do firms adopt to cope?
   ✦ (1) Increase supply of local knowledge (2) Decrease demand for local knowledge (3) Reduce severity of a local knowledge deficit (4) Pacing

Notes:

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Exercise

Assessing embeddedness

When you enter a new market, how quickly do you get embedded? How many direct relations do you take on in the first year in each of the following categories?

- **Customer** (buyers of your product)
- **Market** (subcontractors, vendors, suppliers)
- **Government** (building inspectors, customs agents, ministry of commerce)
- **Community** (shopkeepers association, school board, labor union)

How does your level of embeddedness in the local institutional context change in each of these categories over the life cycle of your business?
Thank you!

Ryan J. Orr, rjorr@stanford.edu

Executive Director
Research on Global Projects

Collaboratory for
Stanford University
Chapter 6:

Matching Institutional Context, Strategy, and Structure

Raymond E. Levitt
The winds and currents of alignment: Internal vs. external

Notes:
Outline

- Two-level strategic fit—an alignment challenge!
  - Strategy
    - Internal alignment
    - External alignment
  - Culture
    - Internal alignment
    - External alignment
  - Structure
    - Internal alignment
    - External alignment
  - Modeling and simulating cross-cultural project teams
    - Background
    - Early results

Notes:
Geoffrey Moore’s four “value disciplines”

- Cost leadership
  - Operational excellence
    - Superior execution as measured by productivity and, ultimately, lower price

- Differentiation (three types)
  - Product leadership
    - Differentiate through superior design and engineering yielding higher performance—demand higher price
  - Customer intimacy
    - Differentiate through superior matching of customer expectation with offer fulfillment—demand higher price
  - Disruptive innovation
    - Think outside the box; “imagineer”; create new paradigms, new standards; demand higher price

The category maturity life cycle

Indefinitely elastic middle period

Market size

Technology adoption life cycle

Category life cycle

Time

Fault line!
End of life

Notes:

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Level 1 Strategy: Innovation zones over life cycle

Customer intimacy zone

Category renewal zone

Product leadership zone

Operational excellence zone

Notes:

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Outline

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Notes:

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Align strategy with host country context (RATS)
How does local context affect strategy?

- Value disciplines for entry into specific markets
  - Operational excellence?
    - Access to scarce resources (petroleum, minerals, lumber, …)
    - Access to low-cost unskilled labor; skilled labor
    - Access to “disciplined” workforce for high quality
  - Product leadership—build on local strengths?
    - Wireless telephony technology in Finland
    - High-end insurance services in UK
  - Customer intimacy?
    - Learn local tastes in attractive foreign markets
  - Disruptive innovation?
    - Skype® emerged in Estonia! Why there?
    - Other examples?

Notes:

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Lab 1: Strategic rationale for your “global project”

✶ Pick a global initiative that one of your group members is currently engaged in, or is considering undertaking.
✶ What is the organization’s business reason for engaging in this global project?
✶ Which value discipline is the global project attempting to leverage to develop strategic advantage?

Notes:
Level 1 Strategy: Innovation zones over life cycle

Customer intimacy zone

Category renewal zone

Product leadership zone

Operational excellence zone

Notes:

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Outline

❖ Two-level strategic fit—an alignment challenge!
  ❖ Strategy
    ❖ Internal alignment
    ❖ External alignment
  ❖ Culture
    ❖ Internal alignment
    ❖ External alignment
  ❖ Structure
    ❖ Internal alignment
    ❖ External alignment
  ❖ Modeling and simulating cross-cultural project teams
    ❖ Background
    ❖ Early results

Notes:

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### The four archetypal organizational cultures (review)

<table>
<thead>
<tr>
<th></th>
<th>Competence</th>
<th>Control</th>
<th>Collaboration</th>
<th>Cultivation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cherishes</td>
<td>Achievement</td>
<td>Order and security</td>
<td>Affiliation</td>
<td>Self-actualiza-</td>
</tr>
<tr>
<td>Celebrates</td>
<td>Top performers</td>
<td>Making the plan</td>
<td>Teamwork</td>
<td>Creativity</td>
</tr>
<tr>
<td>Prioritizes</td>
<td>The work</td>
<td>The system</td>
<td>The people</td>
<td>The idea</td>
</tr>
<tr>
<td>Leads by</td>
<td>Expertise</td>
<td>Authority</td>
<td>Process</td>
<td>Charisma</td>
</tr>
<tr>
<td>Organizes as</td>
<td>Work projects</td>
<td>Hierarchy</td>
<td>Persistent teams</td>
<td>Little as possible</td>
</tr>
<tr>
<td>Recruits for</td>
<td>Competitiveness</td>
<td>Loyalty</td>
<td>Trustworthiness</td>
<td>Brilliance</td>
</tr>
</tbody>
</table>

An organization’s “culture egg”
Lab 2: Draw your organization’s culture egg

Notes:
### Aligning strategic value disciplines with culture

<table>
<thead>
<tr>
<th>Volume operations/cost leadership</th>
<th>Complex systems/differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Focus</strong></td>
<td></td>
</tr>
<tr>
<td>Process efficiency</td>
<td>Product leadership</td>
</tr>
<tr>
<td>Customer intimacy</td>
<td>Disruptive innovation</td>
</tr>
<tr>
<td><strong>Orientation to time</strong></td>
<td></td>
</tr>
<tr>
<td>Internal timing (rhythm)</td>
<td>Offer quality</td>
</tr>
<tr>
<td>Customer response time</td>
<td>Categorical differentiation</td>
</tr>
<tr>
<td><strong>Key metric</strong></td>
<td></td>
</tr>
<tr>
<td>Number of misses</td>
<td>Competitive response time</td>
</tr>
<tr>
<td>Customer re-purchase</td>
<td>Time to adoption</td>
</tr>
<tr>
<td><strong>Culture fit</strong></td>
<td></td>
</tr>
<tr>
<td>Control culture</td>
<td>Collaboration culture</td>
</tr>
<tr>
<td>Collaboration culture</td>
<td>Competence culture</td>
</tr>
<tr>
<td>Competence culture</td>
<td>Cultivation culture</td>
</tr>
<tr>
<td><strong>Organizational leadership from</strong></td>
<td></td>
</tr>
<tr>
<td>Operations, finance</td>
<td>Marketing, customer support</td>
</tr>
<tr>
<td>Sales, engineering</td>
<td>R&amp;D</td>
</tr>
</tbody>
</table>


Notes:

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Internal alignment of strategy with culture

Collaboration Culture

Customer Intimacy

Disruptive Innovation

Cultivation Culture

Operational Excellence

Product Leadership

Control Culture

Competence Culture

Notes:
Lab 3: Assessing internal strategy-culture alignment

• For the global initiative that one of your group members is currently engaged in, or is considering undertaking…

• How well does her/his organization’s culture align with the organization’s strategic value discipline for this global project?

Notes:

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Outline

- **Two-level strategic fit—an alignment challenge!**
  - Strategy
    - Internal alignment
    - External alignment
  - Culture
    - Internal alignment
    - **External alignment**
  - Structure
    - Internal alignment
    - External alignment
- **Modeling and simulating cross-cultural project teams**
  - Background
  - Early results

Notes:

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________________________________________________________________________
Align organization’s culture with local values

Host country values

Culture

Nature

Structure

Strategy

Notes:
What defines the host country context for global projects?

- Three pillars of institutions (Scott)*
  - Cognitive-cultural institutions
  - Professional and industry norms
  - Rules and laws

Geert Hofstede’s national value dimensions

- Power Distance
- Uncertainty Avoidance
- Individualism/Collectivism
- Masculinity/Femininity
- Time Horizon

For specific country values, go to: www.geert-hofstede.com/hofstede_dimensions.php

Notes:
Align your organization’s culture with local values

Low                High

Masculinity

Uncertainty avoidance

Low                High

Sweden

Cultivation

Ireland

Collaboration

USA

Competence

Portugal

Control

Japan

Notes:

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Lab 4. Assessing external cultural alignment

For the global initiative that one of your group members is currently engaged in, or is considering undertaking…

- How well does her/his organization’s culture align with the host country’s values?
- Consult Hofstede national value tables (handout) to position host country on chart.

Notes:
Outline

❖ Two-level strategic fit—an alignment challenge!
   ❖ Strategy
      ❖ Internal alignment
      ❖ External alignment
   ❖ Culture
      ❖ Internal alignment
      ❖ External alignment
   ❖ Structure
      ❖ Internal alignment
      ❖ External alignment
   ❖ Modeling and simulating cross-cultural project teams
      ❖ Background
      ❖ Early results

Notes:
Organization structure: five archetypes

Workers with unique skills create customized solutions

Disciplines/skill areas

Products/services
1. The simple structure ("Skunk Works")

"Coordination takes place in one head"

Disciplines/skill areas: Generalists

Notes:
2. Functional silos ("bureaucracy")

Notes:

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3. Product-based structure ("divisionalized")

Matching Institutional Context, Strategy, and Structure
4. Matrix emphasizing functional direction ("weak")

Notes:

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5. Matrix emphasizing project dimension ("strong")

Products
1
2

Disciplines/skill areas
A  B  C  D

Notes:

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Bureaucracy aligns with Control culture

Collaboration

Control

Cultivation

Competence

Notes:

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Matching Institutional Context, Strategy, and Structure

Weak matrix aligns with Competence culture

Collaboration

Control

Cultivation

Competence

Weak matrix

Notes:
Simple structure* aligns with Cultivation culture

* Recreated in mature organizations as “skunk works”/“tiger team”

Notes:

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Strong matrix aligns with Collaboration culture

Collaboration  Control

Cultivation  Competence

Notes:

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Wrap-up: Three-way internal alignment

Strong matrix

Collaboration Culture

Customer Intimacy

Operational Excellence

Disruptive Innovation

Cultivation Culture

Bureaucracy

Control Culture

Product Leadership

Competence Culture

Simple structure/
“tiger team”

Weak matrix

Notes:
Why three-way internal alignment is challenging

- Alignment of strategy, structure, and culture is very difficult to maintain!
- An organization can relatively quickly and easily realign its structure to fit a new strategy
- Culture has much more inertia—it takes years to change culture in a large organization!
- So culture will always tend to lag strategy and structure in dynamic times

Notes:
**Outline**

- **Two-level strategic fit—an alignment challenge!**
  - Strategy
    - Internal alignment
    - External alignment
  - Culture
    - Internal alignment
    - External alignment
  - **Structure**
    - Internal alignment
    - **External alignment**
  - Modeling and simulating cross-cultural project teams
    - Background
    - Early results

**Notes:**

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_________________________________________________________________
Align structure with host country values and practices

Notes:

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Relate strategy and structure to local context (tentative)

1. Preferred configuration
2. Preferred coordination mechanism
3. Key part of organization

Low

Adhocracy
Mutual adjustment
Support staff

High

Preferred coordination
mechanism
Support staff

Simple structure
Direct supervision
Strategic alignment

Customer intimacy

GREAT BRITAIN
USA

Product leadership

GERMANY
FRANCE

Disruptive innovation

China

Operational excellence

Low

Full bureaucracy
Standardization of work processes
Technostructure

High

Standardization of skills
Operating core

Power distance

Bureaucracy

Notes:

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Matching structure with mixed values and practices

Impact of Multiple Normative Systems on Organizational Performance of International Ventures

Principal Advisor
Dr. Raymond E. Levitt

Committee Members
Dr. W. Richard Scott
Dr. Richard Burton
Dr. Yan Jin
Dr. Martin Fischer

Presented by
Tamaki Horii
Stanford University
CIFE iRoom, 550bldg,
June 8th, 2005

Tamaki PhD Oral Defense – Stanford University – June 8, 2005

Notes:
CHAPTER 7:

DESIGNING THE GLOBAL ORGANIZATION

Jay R. Galbraith
The Star Model

- Different strategies = different organizations
- Organization is more than structure
- Alignment = effectiveness

© Jay R. Galbraith

Notes:

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How to organize internationally

- Level of international development
- Amount of cross-border coordination
- Activity of host governments
- International portfolio diversity

Plus...

- Size of home country
- International history
## Levels of international development

<table>
<thead>
<tr>
<th>Level</th>
<th>Role of subsidiary</th>
<th>Mode</th>
<th>Organization</th>
<th>Percentage of value added</th>
<th>Competencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Seller</td>
<td>Exports</td>
<td>National co. + sales co.’s</td>
<td>Low</td>
<td>Managing brands &amp; product development</td>
</tr>
<tr>
<td>II</td>
<td>Local partner</td>
<td>Partnerships</td>
<td>National co. + partnerships</td>
<td></td>
<td>Managing partnering</td>
</tr>
<tr>
<td>III</td>
<td>Start-up</td>
<td>Foreign operations</td>
<td>Geographic division</td>
<td></td>
<td>Transferring home country competencies</td>
</tr>
<tr>
<td>IV</td>
<td>Implementer</td>
<td>Foreign operations</td>
<td>Multi-dimensional network</td>
<td>High</td>
<td>Integrating &amp; coordinating subsidiaries</td>
</tr>
<tr>
<td>V</td>
<td>Contributor/leader</td>
<td>Foreign operations</td>
<td>Transnational</td>
<td></td>
<td>Managing distributed competencies</td>
</tr>
</tbody>
</table>

### Notes:

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Managing Global Initiatives: Strategy and Execution

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Cross-border coordination

- Level of fixed costs
- Products and markets
- Customers
- Competitors
- Knowledge transfer
- Value/transport cost

Notes:
## International strategy and structure

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>Cemex</th>
<th>Consumer Banking Nestlé</th>
<th>P&amp;G IBM Investment Banks</th>
<th>Siemens Philips</th>
<th>Korean Chaebol</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRUCTURE</td>
<td>Geography only</td>
<td>Geography dominant</td>
<td>Front/back matrix</td>
<td>Business dominant</td>
<td>Business only</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STRATEGIC FACTORS</th>
<th>Fixed costs</th>
<th>Markets</th>
<th>Products</th>
<th>Customers</th>
<th>Competitors</th>
<th>Transportability</th>
<th>Portfolio diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Medium</td>
<td>Heterogeneous</td>
<td>Heterogeneous</td>
<td>Local</td>
<td>Local/Global</td>
<td>Very Low</td>
<td>Very Low</td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Heterogeneous</td>
<td>Heterogeneous</td>
<td>Local</td>
<td>Global</td>
<td>Moderate</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Standard</td>
<td>Standard</td>
<td>Local &amp; local</td>
<td>Global &amp; local</td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Mixed</td>
<td>Standard</td>
<td>Global</td>
<td>Global</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>Mixed</td>
<td>Standard</td>
<td>Global</td>
<td>Global</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

### Notes:

- [Add notes here]
Transnationals distribute HQ activities

Hub & spoke

Peer to peer

Notes:

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Types of lateral forms

Management time and difficulty

Social capital foundation:
1. Personal networks
2. Trust
3. Shared values

Notes:

1. 
2. 
3. 
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6. 
7. 
8. 
9. 
10.
IBM structure

IBM

Functions

Legal & Intellectual Property
R&D
Supply Chain
Marketing
Human Resources
CFO

Products & Solutions

Hardware

Servers

Desks

Storage

PCs

Software

Websphere

Operating System

Database

Lotus

Systems Management

Global Services

Outsource

Systems Integration

Consulting

Education

Solutions

CRM

Business Intelligence

ERP

Services

Services EMEA

Customers & Geography

America

Financial Services

Distribution

Manufacturing

Government

Partners

EMEA

Financial Services

Distribution

Manufacturing

Government

Partners

Asia

Financial Services

Distribution

Manufacturing

Government

Partners

Front End

Notes:

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Competing with your organization—P&G

“A unique organization structure creates advantage.” (page 7, 2004 Annual Report)

Notes:
### Planning model—aligning targets and priorities

#### Market development organizations

<table>
<thead>
<tr>
<th>Shared goals: Revenue Growth P&amp;Ls</th>
<th>Shared goals: Revenue Growth P&amp;Ls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared goals: Revenue Growth P&amp;Ls</td>
<td>Shared goals: Revenue Growth P&amp;Ls</td>
</tr>
<tr>
<td>Shared goals: Revenue Growth P&amp;Ls</td>
<td>Shared goals: Revenue Growth P&amp;Ls</td>
</tr>
</tbody>
</table>

#### Global business units

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**Notes:**

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Connecting the front and back

... Integrating with existing processes and reconciling

❖ Planning and resource allocation
  ❖ Business unit plans
  ❖ Customer plans
  ❖ Reconciliation spreadsheet
❖ Solutions development
  ❖ New product development
  ❖ Portfolio development—modularization
  ❖ Solutions development
❖ Solutions fulfillment
  ❖ Explode into normal fulfillment
  ❖ Pricing
❖ Solutions delivery—assembly-disassembly of teams
  ❖ Opportunity capture
  ❖ Delivery and installation
❖ Performance management
  ❖ One company—accountability
  ❖ Learning

Notes:
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Getting there

Citi: restart 1984-1985
- Formed global accounts group: WCG
- Started with a few customers; grew it to a few hundred
- Developed hiring and training for global account managers (PAMs)
- Formed global account teams (SAMs)
- Trained hundreds in global account management
- Those who liked it stayed
- Trained top management to manage a portfolio of customers
- Developed customer-focused planning
- Developed customer P&Ls
- In 1995: customer-first strategy
- Changed structure to front-back

IBM started in 1993-1994
- Changed structure to front-back
- Redesigned global processes: CRM
- Trained and changed people
- Changed human resource system

Notes:

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“Strength and speed are useful, son, but coordination is **crucial.**”
CHAPTER 8:

CONNECTING PEOPLE, DELIVERING VALUE

John McQuary
Topics

- Fluor overview and business environment
- Knowledge management at Fluor Corporation
- Key success factors
- Highly interactive dialogue

Notes:

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Fluor overview

- One of the world’s largest publicly owned engineering, procurement, construction, and maintenance companies
- 2006 revenues of $14.1 billion
- 2006 new awards: $19.3 billion
- 2006 backlog: $21.9 billion
- 40,000 employees worldwide
- Offices in more than 25 countries
- Fluor’s safety performance record consistently makes it one of the world’s safest contractors
- Nearly 100 years of experience
Fluor Corporation

Energy & Chemicals
- Chemicals
- Downstream
- Upstream
- LNG
- ICA Fluor

Global Services
- AMECO
- Construction
- Operations & Maintenance
- Procurement

Government
- Dept. of Defense
- Dept. of Energy
- Dept. of State
- Dept. of Homeland Security
- DEL-JEN
- Environmental, Nuclear
- UK Nuclear Decommissioning Authority

Industrial & Infrastructure
- Alternative Power
- Commercial & Institutional
- Healthcare
- Life Sciences
- Manufacturing
- Microelectronics
- Mining
- Telecommunications
- Transportation
- Water

Power
- Gas-fired
- Solid Fuels
- Plant Betterment

Notes:

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Fluor worldwide projects

Upstream
Shell Oil Sands
Alberta, Canada

Manufacturing & life sciences
Abbott Bioresearch Center
Worcester, Maine

Telecom
London Underground Ltd.

Petrochemicals
Yanpet Expansion
Saudia Arabia

Transportation
Conway Bypass
South Carolina

Government
Fernald Environmental Restoration
Cincinnati, Ohio

Mining
Copper Smelter
Queensland, Australia

Notes:

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Engineering, procurement, & construction business environment

- Global project execution
- Multi-party EPC execution
- Workforce scarcity and mobility
- Supply chain integration and collaboration
- Business cycles
- Aging workforce
- Record backlog
- Rapid growth

Notes:

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Addressing the business environment

- **People**
  - Enable access to global expertise
  - Attract and retain a talented work force
  - Work sharing and collaboration
  - People development
  - Cultural sensitivities to leading a dispersed work team

- **Work processes**
  - Consistency in execution
  - Align tasks with dispersed teams
  - Different construction approaches
Addressing the business environment

◆ Leverage enabling technology
  ◆ Database-driven project execution
  ◆ More rule-based design
  ◆ Design “advisors”
  ◆ Work from anywhere—technology to support the global community
  ◆ Create an enterprise-wide, one-stop shop to connect employees regardless of location or time differences
Fluor knowledge-sharing culture

- At Fluor, the passion to build careers and knowledge is at the heart of our business.
- Fluor is creating a culture based on the sharing of knowledge across our global network of employees.
- The ideas of our employees play an important role in our culture.
Enterprise-wide knowledge management

- One vision and one solution for the enterprise
- Integrate and leverage the collective intellectual capital of all employees
  - Employees have access to all communities
  - Knowledge is shared across boundaries
- Provide optimal solutions to customers
  - Search across all communities
  - Anyone can ask a question anywhere
- Enhance skill sets of employees
- Global accessibility of knowledge
  - Requires a robust technology solution
- Intellectual property protection

**Knowledge OnLine<sup>SM</sup>**
Enterprise-wide KM statistics

*Time and again we surprise our clients with what is truly global reach*

- 43 knowledge communities
- More than 22,000 active members dispersed globally

**2006 activity:**

<table>
<thead>
<tr>
<th>Knowledge submit</th>
<th>Knowledge read</th>
<th>Knowledge download</th>
<th>Forum submit</th>
<th>Forum read</th>
</tr>
</thead>
<tbody>
<tr>
<td>15,000</td>
<td>1,700,000</td>
<td>140,000</td>
<td>12,400</td>
<td>440,000</td>
</tr>
</tbody>
</table>

Notes:

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External recognition

"Excellence in retaining today's knowledge for tomorrow's workforce"

"Excellence in using communities of practice"

"Maximizing the value of the company's enterprise intellectual capital"

"True revolutionary"

"Greatest business impact"

Notes:

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Contract Management Community Facilitates Management of Challenging Sub-contracts on Projects

Knowledge management contributed to the team's successful negotiations due to having work practices, contracting information, experts, and various learning resources readily available and accessible to them at the project site.

The team realized US$9.53MM in negotiated savings on a spend of US$97MM!
New Grad Gains Knowledge to Aid Project

*I started working for Fluor this July*

*Posted questions about a geotechnical soil report*

*Responses from Southern California, Calgary and Mexico City within two days helped me understand the soil report and foundation design requirements*

*There are always experts in Fluor willing to help you for knowledge enrichment!*

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**Notes:**

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Connecting people...delivering value

Lifesaving Support Through Knowledge OnLine

Urgent call from an employee who was on an international assignment in remote Russia

"Please the International SOS number, please we need the number immediately"

This is an off Friday, who can help me get the number immediately?

Searched Knowledge OnLine and sure enough, the International SOS card popped up first

His wife was evacuated to the hospital in Helsinki and was released several days later

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Knowledge management phases

sustained performance

knowledge management from Pilots to Production to Performance

Time

Notes:
What is a knowledge community?

Sponsorship

Mission

Membership and Leadership

Knowledge Sharing Behaviors

Processes

Content

Supporting Technology

Supporting Organization

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Community deployment workshops

KM team: Readiness assessment
Pre-meeting: Community leadership team
Meeting 1: Community kickoff
Meeting 2: Community structure
Meeting 3: Content collection concepts
Meeting 4: Priority content identification
Meeting 5: Content collection update
Meeting 6: Launch strategy
Meeting 7: Community launch

Meeting 8: Deployment to performance transition
Meeting 9: Community performance plan
Meeting 10+: Ongoing performance meetings

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Community performance system

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Sustained KM performance

- Emphasis on people
- Early success stories become daily occurrences
  - Strong community sponsorship
- KM embedded into work processes
- KM innovations leveraged across communities
- No more “KM initiative”
  - Communities self-sustaining
  - Core team continues to raise performance bar
- Successful community leadership transitions
- KM becomes part of the company culture
- Customer value recognition influences project awards

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Engaging employees

- Recruitment
- New hire orientation
- Performance expectations
  - Career tracks
  - Technical functional experts
  - Executives and officers

...By harnessing technology and building on our vast intellectual capital, Fluor is creating a culture based on the sharing of knowledge across our global network of employees...
Engaging subject-matter experts

- Communities identify their SMEs
- Individuals can highlight their skills
- Align content and forums with areas of expertise
- SMEs subscribe for automatic notification
- Embedded links to SMEs
- SME recognition
- Protégé program to develop future SMEs

Notes:
Engaging executives

- Fluor leaders gather for executive business meeting
- Active members of KM were given blue flags on their name tags, as exemplified below in picture of Alan Boeckmann, company chairman and CEO
Global functional tracks provide career guidance

- Automation
- Construction
- Contract management
- Corporate accounting
- Engineering
- Estimating
- Financial operations
- Financial planning and analysis
- Human resources
- Information technology
- O&M
- Office administration
- Pipeline engineering
- Process technology
- Project business services
- Project management
- Quality assurance
- Real estate & office services
- Risk and insurance management
- Sales

Available in the knowledge communities
New hire orientation

Project Execution Services, in partnership with Human Resources, has deployed a new series of orientation modules available through Knowledge OnLine™

- Orientation modules cover:
  - Fluor organization & culture
  - Knowledge management
  - How we operate
  - Functional introduction
  - Business lines

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KM Pacesetter peer recognition

- Pacesetting behaviors
  - Actively submits knowledge
  - Reports knowledge gaps
  - Reviews new knowledge and forum activity
  - Actively participates in community forums
  - Encourages others to demonstrate knowledge-sharing behaviors
  - Suggests and helps with improvements to the knowledge community
  - As a subject-matter expert, keeps relevant knowledge up to date and rapidly responds to forum questions
  - Leads or manages a knowledge community
  - Is a mentor to other employees
Annual Knowvember campaign

- A celebration of Fluor’s expertise and its influence in our communities
- Global success story campaign
- KM workshops

Uncover the value of knowledge creation each day

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Work process innovation

- Practice and procedure updates
- Project activity model
- Material surplus list
- Finance monthly close
- Functional orientation materials
- Communications to community membership

Notes:
Project activity model

- Identifies the major project activities (scope of work)
- Provides a visual representation of project activities by phase and discipline
- Structured alignment process supports distributed project execution
  - Project work groups
  - Client
  - Joint venture partners
- Knowledge packs support consistent project execution
Practice and procedure updates

- Goal = Update 1/3 annually
- Simplify, consolidate, and retire as appropriate
- Reduced number of practices, converted many to guidelines
- Quality audits indicate where practices and guidelines need updating

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Notes:
Quality audits

* Global functional leaders receive a copy of all their Discipline Audit Reports
* Corrective action taken when systemic issues are surfaced

Issues reviewed in network meetings, practices updated, and management informed
Knowledge community audits

- Drives accountability
- Supports community franchise expectations
- Identify community performance focus areas
- Important for leadership transitions

*Based on APQC research, Fluor is the only organization that is formally asking their technical and engineering communities to play such a functional compliance role. Fluor established this auditing role over many years of trust and acceptance of the value of their networks.*

Carla O’Dell, President, APQC
Excerpted from *Networks: Compete on Knowledge with CoPs*
Organization transformation

- Workshare
- SAP@Fluor
- Next generation
- Modularization

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Leaking Fired Heater Transfer Line

Client cost of having to flare natural gas estimated at $120,000 per day.

The plant went down—loss of revenue.

On August 3rd, I posted a discussion forum topic with an urgent response time requirement of August 6th. Within two days, I received responses from Houston, Haarlem, and New Delhi with the answers I needed.

On re-start, there were no leaks.

The client now knows about Knowledge OnLine and now asks us to inquire about issues.
Access to Diesel and Gas Oil Dehazing Alternatives Saves One Million Euro

Client design basis was an electrostatic coalescer and salt bed drier with a water-cooled chiller

Saved 1,000,000 Euro
Access to design manuals, expert responses, and past project references resulted in a recommendation to eliminate the salt bed dryer

Client very pleased
New 700,000 Euro work-order has been awarded for a similar study at another refinery

Notes:
Connecting people—delivering value: key success factors

- Align objectives with business strategy
- Employees form the core of a knowledge-based services strategy
  - Enthusiastic people
  - Active and involved leadership
  - Strong people networks
  - Knowledge-sharing behaviors ingrained in the culture
- Use technology to support the global community
  - Create an enterprise-wide one-stop shop to connect employees regardless of location or time differences

Notes:
Connecting people—delivering value: key success factors

To succeed, leaders must:

◆ Increase the capacity of teams to work smarter through collaboration
◆ Facilitate knowledge transfer and connections between people
◆ Make sure people have the expertise, tools, equipment, and training they need to do the job entrusted to them
◆ Attract, retain, and motivate knowledge workers
◆ Be aware of their responsibility for the human capital and intellectual assets entrusted to them

Performance in the future depends on it!
Chapter 9A:

Crocs: Managing the Global Supply Chain for Agility

Hau L. Lee
Crocs

Revenue

Net Profits

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Manufacturing network design

Geography of resources

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<th>Offshore</th>
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<td>In house</td>
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<td>Outsourced</td>
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Adaptive supply chain

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<th>Sourcing office</th>
<th>Country</th>
<th>Vendor</th>
<th>Operation strategy</th>
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<td>Speed/flexibility</td>
<td>Istanbul</td>
<td>Sri Lanka</td>
<td>Vendor A</td>
<td>Chase</td>
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<td>Fabrics</td>
<td>Quota relief</td>
<td>Miami</td>
<td>Mexico</td>
<td>Vendor B</td>
<td>VMI</td>
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<td>Leather</td>
<td>Best cost</td>
<td>Singapore</td>
<td>Dubai</td>
<td>Vendor C</td>
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<td>Wovens</td>
<td>Best innovation</td>
<td>Hong Kong</td>
<td>China</td>
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<td>Joint development</td>
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<td>Shoes</td>
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<td>New Delhi</td>
<td>Italy</td>
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Gap           Banana Republic        Old Navy
MTS versus DTO

Efficiency

yarns → dyeing → knitting → sweaters

Flexibility

knitting → dyeing

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Dual response: risk-based deployment

**Variable factory**
Tuned for variable production—highly flexible, but at a premium price.

**Stable factory**
Tuned for stable production—ultra-low cost, but inflexible.

Notes:

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Managing Global Initiatives: Strategy and Execution

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## Personalities of resources

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<th>Characteristics</th>
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<td>Production cost</td>
<td>High</td>
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<td>Responsiveness to market</td>
<td>High</td>
<td>Low</td>
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<tr>
<td>Engineering support</td>
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<td>Low</td>
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- **Variable volume, innovative products**
- **Stable volume, functional products**

### Notes:

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MANAGING GLOBAL INITIATIVES: STRATEGY AND EXECUTION

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Dual response at Benetton

High volumes

- DTO
- MTS

Low volumes

- DTO
- MTS

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## Examples of dual response

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<td>Major manufacturing sites in China</td>
<td>Smaller sites in the United States</td>
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<td>Solectron</td>
<td>Asia for low-mix, high-volume products</td>
<td>Milpitas for high-mix, low-volume products</td>
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<td>Plastic supply for Peripheral Mfg</td>
<td>Central supplier with least cost</td>
<td>Local supplier near manufacturing sites</td>
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<td>POSCO Steel Mfg</td>
<td>Satellite site for high volume, low mix</td>
<td>Mother site for low volume, high mix</td>
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<td>Long-term固定合同</td>
<td>Spot markets</td>
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<td>China for stable styles</td>
<td>Hong Kong for risky styles</td>
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Cost and time tradeoff

Contract Electronics Labor costs (US$)

Average Lead Times (Days)

Note: “Quick Response Countries” referS to Turkey, Morocco, and Mexico
Source: Li & Fung May 2002, Lehman Brothers

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### Dual response supply chains

<table>
<thead>
<tr>
<th></th>
<th>Type A mfg base</th>
<th>Type B mfg base</th>
<th>New product lead time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inditex</td>
<td>Spain</td>
<td>China</td>
<td>2-3 weeks</td>
</tr>
<tr>
<td>Mango</td>
<td>Spain, Morocco</td>
<td>China</td>
<td>4 weeks</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>Turkey</td>
<td>China, Bangladesh</td>
<td>3-4 weeks</td>
</tr>
<tr>
<td>Gap</td>
<td>Central America</td>
<td>China</td>
<td>weeks</td>
</tr>
</tbody>
</table>

Trick is: How to coordinate dual response by volumes, products, and markets?

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**Notes:**

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MANAGING GLOBAL INITIATIVES: STRATEGY AND EXECUTION

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## Dual response strategies

<table>
<thead>
<tr>
<th></th>
<th>Cost-efficient source</th>
<th>Flexible source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume-based</td>
<td>Stable volume</td>
<td>Variable volume</td>
</tr>
<tr>
<td>Product-based</td>
<td>Stable products</td>
<td>Risky products</td>
</tr>
<tr>
<td>Time-based</td>
<td>Mature phase</td>
<td>Ramp up &amp; EOL</td>
</tr>
<tr>
<td>Process-based</td>
<td>Core engine</td>
<td>Postponement</td>
</tr>
</tbody>
</table>

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Summary

<Tuple>
Use supply chain innovations to create agility in an industry with legacy characteristics.

One-size-fits-all strategy very risky: use right supply chain strategy for the right product, market, time, and product life cycle.

Right supply chain design can help support continuing growth of a company.
</Tuple>
Chapter 9B:

Creating Value from the Global Supply Chain

Hau L. Lee
### Value-creating evolutions

<table>
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<th>Values</th>
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</table>

Notes:

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### Similar evolutions

<table>
<thead>
<tr>
<th>Process excellence</th>
<th>Third-party logistics or EMS providers</th>
<th>Internet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale &amp; customization</td>
<td>More effective operations</td>
<td>Internet-based transactions</td>
</tr>
<tr>
<td>Business transformation</td>
<td>Scale economies &amp; customized services</td>
<td>Auctions and secondary markets</td>
</tr>
<tr>
<td></td>
<td>4PL, restructuring, coordination, new services</td>
<td>Intelligent coordination &amp; collaboration, new business models</td>
</tr>
</tbody>
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### Value-creating service evolutions

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<td>Service differentiation for extended market</td>
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<tr>
<td>Value-creating extended service offerings</td>
<td>New business models, new revenues, customer intimacy</td>
<td></td>
</tr>
</tbody>
</table>

### Notes:
- [Write your notes here.]
- [Additional notes can be added here.]
- [Include any relevant comments or observations here.]
Transformation in cement

- World’s No. 3 cement manufacturer
- Compounded annual sales growth of 22%, EBITDA growth of 21%, in 1987-2002
- Cycle time of one week from limestone to cement

Avg operating profit margin (%) of Top 3 in world

<table>
<thead>
<tr>
<th>Year (1999-2003)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. 1: Lafarge</td>
</tr>
<tr>
<td>No. 2: Holcim</td>
</tr>
<tr>
<td>No. 3: CEMEX</td>
</tr>
</tbody>
</table>

Notes:

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Agile supply chain

- Process standardization, online delivery commits
- Optimized transport unit and loading point
- Real-time visibility of order status
- Connectivity at the delivery point
- Integration with production and suppliers

Supply chain partners integration

<table>
<thead>
<tr>
<th>Product</th>
<th>SKUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cement</td>
<td>25</td>
</tr>
<tr>
<td>Cement + Multiproducts</td>
<td>800</td>
</tr>
<tr>
<td>Cement + Multiproducts + Arkio</td>
<td>25,000</td>
</tr>
<tr>
<td>CEMEX Future distribution Network</td>
<td>&gt; 50,000</td>
</tr>
</tbody>
</table>

Notes:
DSO for ready-made cement

- DSO = dynamic synchronization of operations
- Computers and GPS device on trucks for real-time data on traffic, inventory
- Centrally controlled dynamic truck routing and re-routing
- With DSO, on time rate at 98% and fleet size reduced by 35%

<table>
<thead>
<tr>
<th>Time from mixing to pouring</th>
<th>Delivery time window by CEMEX (before DSO)</th>
<th>Delivery time window by CEMEX (after DSO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>30</td>
<td>60</td>
</tr>
</tbody>
</table>

Notes:

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World-class POSCO


Ranked Number 1 in steel (1999-2003)


“Most Competitive Steel Company” (2002-04)

“No. 6, The Best Asian Performers” (2005)

Notes:

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Integrated steel manufacturing

Iron ore → Blast furnace (remove oxygen & Impurities) → Crude (pig) iron → Residual carbon removal, other alloys added

Liquid steel

Casting → Slab ingots → Reheating ingots → Rolling

Rolled wires, plates, pipes

- Continuous casting to save energy
- Factory layout to cut cycle time from days to hours
- Real-time production control
- Innovative FINEX process
- Source of national pride

Notes:

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World’s most admired company in steel, *Fortune* 2003

<table>
<thead>
<tr>
<th></th>
<th>Sales ($B)</th>
<th>Profit (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arcelor</td>
<td>40.57</td>
<td>13</td>
</tr>
<tr>
<td>Mittal</td>
<td>28.13</td>
<td>12</td>
</tr>
<tr>
<td>JFE</td>
<td>24.37</td>
<td>12</td>
</tr>
<tr>
<td>NSC</td>
<td>22.93</td>
<td>9</td>
</tr>
<tr>
<td>POSCO</td>
<td>21.42</td>
<td>18</td>
</tr>
</tbody>
</table>

NYSE (Feb 04 to Jan 07)

**Notes:**

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Number of signatures for typical export transaction

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Signatures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Congo, Dem.Rep.</td>
<td>42</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>40</td>
</tr>
<tr>
<td>Nigeria</td>
<td>39</td>
</tr>
<tr>
<td>Mongolia</td>
<td>21</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>17</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>15</td>
</tr>
<tr>
<td>Senegal</td>
<td>8</td>
</tr>
<tr>
<td>Colombia</td>
<td>7</td>
</tr>
<tr>
<td>China</td>
<td>7</td>
</tr>
<tr>
<td>Venezuela</td>
<td>6</td>
</tr>
<tr>
<td>United States</td>
<td>5</td>
</tr>
<tr>
<td>Italy</td>
<td>5</td>
</tr>
<tr>
<td>Ireland</td>
<td>5</td>
</tr>
<tr>
<td>Korea</td>
<td>3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3</td>
</tr>
<tr>
<td>France</td>
<td>3</td>
</tr>
<tr>
<td>Finland</td>
<td>3</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: World Bank Global Logistics Indicators Survey, 2005

Notes:
Trade transactions processing time and GDP

Source: World Bank Global Logistics Indicators Survey, 2005
Supply chain problems in China

❖ Inefficient transportation logistics
❖ Inadequate infrastructure
❖ Fragmented market for providers
❖ High cost and unreliable service
❖ Extremely complex zones and customs structure
❖ Technological Development Zone, National Free Trade Zone, National Hi-Tech Industrial Development Zone, Taiwanese Investment Zone, National Export Processing Zone, National Border and Economic Cooperation Zone
❖ Complex customs clearance procedures
Future logistics cost outlook

Logistics cost as percentage of nominal GDP

- CAGR 1997-2010: China: at -3.7%; U.S. at -1.0%
- Infrastructure investment in China from 1997-2002 was at €1,000 bn, and at > €2,000 bn (estimate) from 2003-2008

Source: Morgan Stanley; China Traffic Statistical Yearbook 2003

Notes:
Inbound flow at Solectron Suzhou

Air inbound

Shanghai air/sea ports

Materials inbound

Sea inbound

SLR Suzhou

Daily trucking

SIP customs

Materials inbound

• Shipments are shipped through Shanghai air/sea port
• Bonded transfer to SIP customs
• Customs clearance at SIP customs

• All raw material can be imported through e-PTL as bonded material
• Shipments delivered to SLRSZ by trucks
• Virtual Hong Kong

Source: Wesley Chen, Solectron, 2004

Notes:
“Crisis Bared One’s Weakness, Other’s Strength”
*Wall Street Journal, January 29, 2001*

March 17, 2000, lightning-induced fire at Philips’ radio-frequency chips factory in Albuquerque, New Mexico
Two responses, two outcomes

ERICSSON NOKIA

- Preparedness and readiness
- Tracking and monitoring
- Management visibility
- Design flexibility
- Supply flexibility
- Performance management

Ericsson pulls phone plug
January 26, 2001: 9:33 a.m. ET

Swedish mobile phone maker to quit handset production; cuts sales forecast

LONDON (CNNfn) - Ericsson, the world’s leading maker of cellular networks, said it will quit mobile phone production and cut its sales growth forecast for 2001.

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## Value-creating service evolutions

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**Notes:**

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Lucent, Tres Cantos challenge

- Potential contract worth $300M for Saudi Arabia in 1998
- Exceptional lead time requirements due to Y2K, while Lucent’s standard practice was completely build-to-order with lead time at 23-25 weeks
- Tres Cantos—only plant qualified to build customized products for Saudi Arabia—did not have enough capacity for the Saudi contract

Notes:

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Basic network element (BNE)

BTS with BNE
- Cabinets
- Fan unit
- Circuit packs
- Cables
- System test process
- Mfg documents

BTO for Deltas
- Fuse unit
- Backplane unit
- Custom (δ) cables
- δ circuit packs

95% of value!

80% reduction in lead time!

Notes:
Successful win with Saudi

- Saudi contract won
- Multiple sites set up and qualified to produce BNEs
- Organization change (new or changed job functions) needed
- Saudi project completed on schedule

Global BNE sourcing

Notes:

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Fashion on demand

- Sales growth at 20% per year since 1990
- Net profit margin at 10%
- NPI once a week, 12K new products per year
- 23-30 days of final design to sales cycle

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Inditex performance

Notes:

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Quick testing

- More than 30 models created per day
- Highly risky (about 25%) models selected to be tested in selected stores
- Unsuccessful designs whisked off shelves after a week; no style lasts more than a month
- 70% of product range at stores changes every two weeks
Design process

Creative design ➔ Model preparation ➔ Final design

Raw material preparation ➔ Market response ➔ Mfg

Scanners scouting fashion shows to create sketches

Library of potential designs

Constrained designs (5-8 per day in season)

Notes:

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Production postponement

% of material commitment six months before season

% of production at start of season

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### Value-creating service evolutions

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</table>
The Collaboration Foundry

- World’s largest foundry (contract semiconductor fabrication manufacturer)
- Emphasizes customer relationship as “First and Last Look”
- Invests in E-SCM to help internal and customers’ supply chain process
- eFoundry
  - Design collaboration
  - Engineering collaboration
  - Logistics collaboration

E-SCM Architecture
Service-oriented mindset

1987  1997  2000

TSMC solution

Manufacturing focus
- Capacity leadership
- Production excellence

Technology focus
- Schedule ahead of ITRS
- Complete soc portfolio
- World-class quality

Service focus
- Customer-centric total solution
- Web-based design engineering and Logistic service
- Comprehensive design service
- Integrated backend service

Notes:

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CyberShuttle™

Iterative design verification and improvement process

- Sharing common mask set with different chips
- Diamond lane treatment
- Great cost and time savings for customers
- Helps customers’ NPI
- Win for both TSMC and customers

Notes:
Netafim

- An irrigation dripper producer aiming at:
  - Preserving water—one of the world’s most precious resources
  - Increasing global food production to bring relief to many less privileged
  - Supporting universal efforts to improve the quality of the environment and the beauty of the planet

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Notes:

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Netafim

- Largest low-volume irrigation company in the world
- $400 million sales in 2006
- Total employees: 2,100
- Business in 112 countries in all continents
- 35 subsidiaries
- 14 manufacturing plants
- Netafim drip lines totaled 12 billion meters
Netafim Afghanistan corporate car

Notes:

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Crop management technology

Radio

GSM

EC/pH Control

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Supply chain evolution

Manufacturing efficiency to be “best drip irrigation equipment company”

Agility to mass customize equipment in expanded but diverse market

Solution provider—“More yield with less water”

Revenues (millions $)

Notes:

1. [Detailed notes on supply chain evolution and its impact on revenue growth from 1996 to 2006.]

2. [Discussion on the transition from efficiency to customization and the benefits of a solution provider model.]
Rio Tinto Iron Ore

World’s second largest iron ore producer; based in Western Australia; 2006 sales of $6.9B, with $2.2 B net profit
RTIO’s traditional competencies

- Infrastructure
  - New mine development
  - Mine to port rail
  - Port capacity
  - Processing (crushing) capacity

- Planning and scheduling
  - Planning for optimal blending
  - Optimal scheduling of transportation and loading

- Quality control
  - Consistently right quality to customers
  - High-quality iron ore

- Long-term customer relationships

Notes:
Growth of spot markets

Potential entry of suppliers with less efficient & sub-quality mines

Rapid rise of demand with increased uncertainties

Emergence of China

New customers demanding fast response

Customers with less sophistication & scale—desiring delivery directly to blast furnaces

Fragmented, undisciplined customers who do not observe industry benchmark prices

Notes:

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New China strategies

- Transportation capability
  - Move from FOB to CPR
  - Inland transportation in China
  - Multi-mode transportation
- Lead-time competition
  - Regional distribution centers
  - Stockpiling for fast response and flexibility for product blending
- Play in spot market
  - Hedging for price increases
  - Reach to new customers
Electric arc furnace with HLsmelt

Iron ore → Coal → Coils → High-quality final products → Casting

Scrap → EAF → Molten steel

Notes:

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## Hlsmelt advantage

| Greater flexibility | • Wider range of raw materials  
|                     | • Flexible output and operation |
| Low capital costs   | • No coke ovens, sinter plants,  
|                     | blending yards  
|                     | • Known ancillary equipment |
| Low operating costs | • Utilizes lower cost raw materials  
|                     | (non-coking coal and iron ore with  
|                     | high phosphorous content are OK) |
| Low environmental emissions | • No dioxins, furans, phenols or tars  
|                           | • Reduced CO₂, SO₂ and nox  
|                           | • Can utilize steel-plant wastes |
| High-quality product | • Impurities report to the slag—not  
|                      | the metal |

### Notes:

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Hismelt Kwinana Plant

Potential new offerings

✦ More Hismelt mills through JVs
✦ Vertical integration—moving into the steel industry
✦ Licensing Hismelt technology to steel industry at large

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</table>

**Notes:**

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1. Discuss the importance of maintaining customer satisfaction in the global supply chain.
2. Explain how service differentiation can be achieved through extended market strategies.
3. Highlight the impact of new business models on revenue generation.
4. Explore the role of value-creating extended service offerings in enhancing customer intimacy.
5. Analyze the integration of efficient supply chains with personalized service offerings.
6. Examine case studies of companies successfully implementing these strategies.
7. Discuss the challenges and opportunities in managing global evolutions.
8. Consider the implications for supply chain management in the future.
9. Evaluate the effectiveness of different strategies in enhancing business performance.
10. Reflect on the convergence of process excellence with scale and customization.

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Summary

- Global supply chain excellence can be the driver to business growth and market value creation.
- Process excellence is the foundation.
- Look for **business value-creating** transformations, in addition to leveraging scale for customization and maintaining process excellence in global supply chains.

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CHAPTER 10:

GLOBAL SUPPLY CHAINS AT NOKIA SIEMENS NETWORK

Dennis Lorenzin
Storyline

- Nokia Siemens Networks in brief
- Traditional supply chain challenge
- Integrated Project Management®
- Evolution to Service Value Chain
- Wrap-up
Nokia Siemens Networks—some data

- Started operations on April 1, 2007
- Worldwide presence and local footprint in 150 countries
- $n_2$ player in telecom industry based on 2006 revenues
- > 1 billion people connected through our switches
- Top line: 1/3 APAC, 1/3 Europe, 1/3 split among MEA, CHN, LAT, NAM
- ~ 60,000 employees
- 600 customers

Notes:
Worldwide presence and regional focus

North America
€ 25Bn, #6

West & South Europe
€ 22Bn, #2

North East
€ 7Bn, #1

China
€ 9Bn, #3

Latin America
€ 7Bn, #1

Middle East & Africa
€ 8Bn, #1

APAC
€ 19Bn, #2

* Communications infrastructure market size 2006
** Nokia Siemens Networks Market position based on 2006 combined market positions of Nokia and Siemens (own estimate)

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Market vision—“Year 2015: the world connected”

Applications pre-dominantly in Internet

5 Bn people connected

Multitude of business models

Broadband everywhere

100-fold traffic increase

Notes:
Storyline

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Traditional supply chain challenge

Every four minutes, a site activity is completed by NSN teams

- In one of 600 customers’ networks
- In one of 150 countries, most of them in emerging markets
- Combining NSN and third-party products in hundreds of different configurations
- Supported by a network of 2,000+ suppliers
- Responding to site info/configuration changes within hours of final delivery
Activity features → impact to supply chain

- Different supply chains involved
  - NSN products, services, and software
  - Third-party products
  - Site materials
  - Service subcontractors
  - Own resources
- “Own technology” ranges between 90% and 10% of total site value; rest is tied to commodity services and materials

- Vendors must focus on simplification, as complexity hits customers’ OPEX
- Value is built dynamically in different positions within the chain

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Market features → impact to supply chain

- Volumes increase tens of percentage points annually on flattening market value
- Volume volatility in each market is increasing
- Customers expect professional project management capability, delivery efficiency being just one of its dimensions

- Speed, scalability, and flexibility are fundamental prerequisites for competing
- Value is transferred to customers via project interface

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What supply chain do we need?

Ultimately, customers buy this!

Reliable   Cheap
Scalable   Fast
Flexible   Transparent

Global supply   Local supply

Products   People

Global Supply Chains at Nokia Siemens Network
Integrated Project Management® is a combination of processes & tools enabling a seamless interaction of all these elements into a transparent platform managed from the customer interface.

Aiming at a customer-driven supply chain ...

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Storyline

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Notes:
IPM in a nutshell

Reserve capacity
Factories
Regional capacity
Hub
Supply products
IPM® Suite
Service suppliers
Supply local materials
Deploy
PM
Trigger delivery
Communicate forecast
Issue order
Accept activity

Customer

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IPM platform—some data

- Currently in use in 180 projects, enabling transactions for 60% of NSN site implementation activities
- Supports activities enabling 40% of NSN top-line
- Handles roughly 2 million page loads per month, 70% of those from external stakeholders
- Available online to all project stakeholders
- IPM Suite is the largest document management system in NSN
  - System contains today 1 million site documents, 500k project documents, and 250k automatically generated reports

Notes:

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MANAGING GLOBAL INITIATIVES: STRATEGY AND EXECUTION

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IPM® benefits

- Bridging project highly “local” requirements and business “global” scale advantage
- Fast deployment in a new project environment
- Seamless integration with product supply chain transactional backbone
- Demand/supply transparency enabled for all project stakeholders
- Overall project IT infrastructure cost reduced
- Quality assurance supported across project portfolio
Storyline

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- Wrap-up
Competitive environment

Telecom services

IT & consulting services

Pure service

Product and service

Service as an enabler

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Global Supply Chains at Nokia Siemens Network
What market are we in?

- Product commoditization is dominant; perceived value is increasingly “beyond” technology
- Telecom vendors’ market is experiencing a major shift from products to services
  - Customers focusing on mainstream business, delegating more tasks to vendors
  - Blurring boundaries between traditional telecom and IP-driven end-user applications
- Services market is attractive
  - Higher growth and potential for sustainable profitability
  - Higher level of customer intimacy leading to potential for additional product sales

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Services portfolio in Nokia Siemens Networks

Network Implementation
Network installation services including turnkey services for fixed, mobile, and IP technologies

Care
Hardware and software maintenance services around the world, 24 hours a day, for optimized network performance

Consulting & Systems Integration
Supports operators in addressing business challenges and improving business performance

Managed Services
Managing day-to-day operations of customer networks; providing hosting solutions for service life-cycle management

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Different delivery models are required

Pure service delivery
- Consulting
- Operations
- Maintenance

IPM®

Pure goods delivery
- Project
- Product

Customers
How to combine them?

Service supply chain

Plan & design

Build

Operate & maintain

Product supply chain

Suppliers

Customer

NSN infrastructure IT/processes

Notes:
Evolution to a service-led supply chain

**Services value chain**: Customer view to execution

- **Service supply chain**
  - Services integration portal ("services IT suite")
  - Service-led customers
- **Product supply chain**
  - Transactional ERP system (SAP)
  - Product-led customers

**Suppliers**
- Plan & design
- OSS & others
- Build
- IPM suite
- Operate & maintain
- OSS Care tool

**Notes:**

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Enabling capabilities for SVC

- Standard, modular “service product” portfolio
  - Facilitating customer sales item and suppliers’ cost items alignment
  - Improving financial transparency and enabling total cost management

- Contract and service-level agreement management system
  - Tightening scope and claim management in project operations
  - Improving profitability management

- Service supply chain support platform
  - Workforce management supported by remote/automated tools
  - Local material supply chain and site infrastructure/installed base management

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Notes:
Global supply chains at NSN

- Nokia Siemens Networks is a major player in today’s telecom industry
- It leverages on the best assets from the two parent companies → former Nokia IPM® has been selected to manage traditional supply chain from customer interface
- The challenge for the whole industry is to exploit the increasing value shift towards services
- NSN has a strong position in services delivery and is building a worldwide service led delivery model
- Mastering the service supply chain might translate into a big competitive advantage in the future telecom industry