**CHAPTER 14 COMPETITIVE ADVANTAGE**

**VOCABULARY**

1. **competitive advantage** the factors that give a company a clear performance differential over its rivals; *competitive edge (avantage concurrentiel, compétitif)*
2. **global markets** areas around the world in which goods and services of one country are traded to people of other countries(marché mondial, global)
3. **multinationals** large corporations headquartered in one particular country with operations and subsidiaries in several other countries; *multinational enterprises, multinational corporations(multinationale)*
4. **returns** income generated by an investment, expressed usually as a percentage of the amount invested; *yields(rendements, recettes)*
5. **assets** resources that a company owns or is owed and which can be converted into cash; *business assets (actifs, biens commerciaux)*
6. **intangibles** non-physical resources a company owns or is owed, some of which are legally protected; *intangible assets (actifs, biens incorporels)*
7. **product designs** plans or drawings showing how a product is made (design d’objets)
8. **management systems** frameworks of policies, procedures and processes designed to support managers’ work and to improve organizational decision making in areas which include product quality, client relationships, environment performance, and occupational health and safety (systems de gestion)
9. **company cultures** values and behaviours that contribute to the unique social and

psychological environment of an organization; *corporate culture, organizational culture (cultures d’entreprise)*

1. **open-market transactions** when prices are determined by the market forces of supply and demand (transactions sur le marché libre)
2. **local players** companies operating within the boundaries of a country or of a limited area within a country (acteurs locaux)
3. **outsourced** contracted or sub-contracted to other firms in order to free up human and financial resources, time and facilities for other activities (sous-traité)
4. **off-shored** relocated by the same company to another country, which is usually situated in another continent and in which labour costs are markedly lower (à l’étranger)
5. **source** to obtain materials, goods or services required by companies to operate their

businesses

1. **components** identifiable finished products intended to be included as part of larger finished, packaged, and labelled items (composants)
2. **modular designs** plans or drawings showing how prefabricated, self-contained, standard units or *modules* can be combined with other different but compatible ones in an assembly (conception modulaire)
3. **value chains** series of inter-linked activities that create and build value, from the design stage to the marketing of a product, contributing to an organization’s overall profitability; *supply chains*; *logistics networks (chaînes de valeurs)*
4. **Inc.** abbreviation standing for incorporated, placed after the name of a company in the US, to show that it is a separate entity from shareholders who cannot be held liable for any fiscal obligations
5. **reference designs** technical plans or drawings used as models for other companies to copy (modèles, concepts de reference)

**20) manufactured** produced by industrial processes and usually in large quantities(fabriqué)

21) **component suppliers** companies producing and providing parts to assemblers (fournisseurs de composants)

22) **inputs** resources such as people, raw materials, energy, information, or finance that are put into a system to obtain a desired output (entrée, apport, contribution)

**23) globalization (2)** worldwide dissemination of a phenomenon or a trend (mondialisation)

24) **talent** particularly skilled employees able to perform specific tasks

25) **expatriates** citizens of a country living in another one for business purposes

26) **knowledge** sum of information which is entrenched in the memory of individuals and which is used by organizations as a factor of production (connaissance)

27) **capabilities** the competences of an individual or an organization required to get something done(capacités)

28) **product management** the organization and coordination of activities required to get a

product or set of products to the market and the support needed throughout the product life cycle (gestion de produit)

29) **know-how** expert skill, information or knowledge of the methods or techniques of doing

something technical or practical (savoir-faire)

**30) offshore mergers and acquisitions** strategic alliances companies make abroad by

combining with or buying others in order to increase their grip on the market they trade in (fusions et acquisitions àl’étranger)

**31) takeovers** situations in which one firm buys a controlling interest in another through the

purchase of its shares; *acquisitions (rachat, prise de contrôle)*

**32) market share** volume of sales of all brands or products competing in the same market that is captured by one particular company, brand or product, usually expressed as a percentage (part de marché)

**33) entities** businesses that have a legal and identifiable existence separate from their owners

**34) brands** unique designs, signs, symbols, words, or a combination of these, employed in creating images that identify products and differentiate them from the competition; *brand names (marques)*

**35) innovation** process by which an idea or invention is brought onto the market

**36) local integration** the fact for multinationals to be embedded in local distribution, supply,

talent and regulatory networks as well as in the broader society (intégration locale)

**37) lifestyle** the way individuals, families or households and societies live and cope with their

social environment on a day-to-day basis (mode de vie)

**38) adaptation** the process of tailoring company products or services to suit local conditions

**39) globalization (1)** the process of worldwide economic integration, *global integration*

**40) senior executives** high-ranking managers holding responsibility in business organizations

for making top-level management decisions (cadres sup)

**41) local insider** person or organization from a particular area which they know so well (expert du milieu local)

**42) global strategies** plans developed by an organization to target growth and meet profit

objectives on a worldwide scale (strategies mondiales)

**TEXT**

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

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

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

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

emerging countries who have returned home after graduating from the world’s best universities.

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

In sum, multinationals are no longer the only entities that can act as efficient conduits for

transferring assets and knowledge around the globe. Companies based in emerging markets can access and acquire brands, product modules, technologies and talent from increasingly efficient global markets and use these assets to fuel innovation and bolster their competitiveness in their home markets.

**A New Multinational Mission**

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

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

local insider.

Capturing the huge benefits of becoming locally integrated will require both country and

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

Excerpt from: José F.P. Santos and Peter J. Williamson, *The New Mission for Multinationals,*

MIT Sloan Management Review, Summer 2015.

**Exercise 1: Comprehension: True / False** Circle the correct choice and justify your answer

1. Multinationals enjoyed superiority over local companies in global markets for many years. T / F Line 5: In competing with local players, multinationals therefore had a competitive advantage.
2. Multinationals earned good returns by sourcing assets, especially intangibles through open-market transactions. T / F Lines 1-2 For many decades, multinationals were able to earn good returns by acting as efficient global conduits for assets that were difficult to transfer, including intangibles such as product designs

3. To cut costs and maintain their lead, multinationals relocated and sub-contracted their highly skilled activities. T / F Line 7: It’s the lower value activities: This meant the lower-value activities were outsourced and often off-shored to emerging economies

4. The outsourcing and off-shoring of some activities by multinationals had the undesired effect of creating value chains that enabled local companies to start making products that were comparable to theirs. T / F Lines 10-12 The outsourcing drive also necessitated more modular designs. The result is that once-closed value chains have been opened up, enabling local players to source ‘plug-and-play’ modules that can be combined to create products very similar and sometimes superior to those of foreign multinationals.

5. Xiaomi Inc. is an example of a successful local player which has performed better than foreign multinationals in a global market. T / F Lines 13-15 Modularization and outsourcing allowed Xiaomi to produce a line of sleek and feature-packed smartphones that became number one in the Chinese market after only five years in business, with a 13.7% share in the fourth quarter of 2014, outpacing both Apple and Samsung

6. The globalization of talents has contributed to the strengthening of multinational advantage in global markets. T / F Lines 20 + 22-24: the increasing globalization of the talent and business services markets. ..................... But as the global talent pool becomes more fluid, successful local companies in emerging markets employ dozens, sometimes hundreds, of foreign experts to fill gaps in their knowledge and capabilities = Talented workers work for local companies now.

7. To start innovating and compete favourably with multinationals, local companies are using the services of experienced expatriates, global consultants and graduate returnees. T / F Lines 28-29: Moreover, there is now a large contingent of top-tier students from

emerging countries who have returned home after graduating from the world’s best universities.

8. Local companies are buying businesses abroad that enable them to get hold of the intangibles they need to catch up on multinationals. T / F Lines 32-34: some of these acquisitions are aimed at accessing knowledge that can be brought back home and used to close the gap with multinationals (as opposed to expanding market share abroad).

9. Adapting their products and services to local conditions is what multinationals have to do to regain their leadership in global markets. T / F Lines 42- 43 some of these acquisitions are aimed at accessing knowledge that can be brought back home and used to close the gap with multinationals (as opposed to expanding market share abroad).

10. Multinationals need to change if they are to restore their competitive advantage. T / F They need to make a choice, which doesn’t necessarily mean change: Lines 46-47: To restore their edge, senior executives working for multinationals must make a choice: Either build on their foreignness or integrate locally to create new layers of advantage.

**VOCABULARY: EXERCISE 2:**

1. **Use** the list of definitions above **to select the appropriate term** to fit each sentence

1. Multinationals should encourage initiatives from their local units instead of pushing them

from the headquarters in order to regain COMPETITIVE ADVANTAGE

2. The pieces of computer hardware and software as well as the servers a company owns are

the company’s digital ASSETS

3. Google and Apple have different COMPANY CULTURES even though both multinationals are American.

4. Multinationals are losing ground to LOCAL PLAYERS in global markets across a broad range of industries.

5. Car manufacturing companies like Porsche and BMW have large networks of COMPONENT SUPPLIERS that enable them to meet their production deadlines.

6. To enhance their CAPABILITIES, local companies now recruit the talents that only multinationals could afford before.

7. Many top local companies increase their MARKET SHARE by integrating with their local environments and societies to co-create value.

8. Coca-Cola competes in global markets with other soft drink BRANDS

9. When a multinational is locally integrated, it becomes a LOCAL INSIDER of a particular local environment.

10. Multinationals need to change their GLOBAL STRATEGIES if they wish to win back their superiority.

1. **Find** abbreviations, words or expressions in the text that mean the following

1. organizations used to pass information or scientific knowledge to other people or companies in the world = GLOBAL CONDUITS

2. the passing on of assets from one company to another= TRANSFERS

3.labour-intensive = LOWER-VALUE ACTIVITIES

4. ready-to-be assembled units = PLUG AND PLAY MODULES

5. incorporated business = INC.

6. a relevant illustration of what is being discussed = A CASE IN POINT

7. a type of product = A LINE

8. period of three months in a tax year = QUARTER

9. rival global companies = MULTINATIONAL COMPETITORS

10. local market leaders= LOCAL CHAMPIONS

**GRAMMAR**

**Exercise 3: The suffixes ‘**ness’ and ‘ity’: **Complete** the following sentences with nouns ending in –*ness* or *–ity* using the adjectives below:

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

1. Market leaders strive for greater COMPETITIVENESS to stay at the top.

2. Apple and Samsung are both manufacturers of smart phones but that is where the SIMILARITY ends.

3. The SUPERIORITY of Android to other mobile operating systems is debatable.

4. FOREIGNESS helps luxury brands such as Porsche or Louis Vuitton to do well in global markets.

5. The SLEEKNESS of Xiaomi’s smartphones gave the company an edge over other global players in China.

6. The value of an item on the market depends on its RARITY/RARENESS and desirability.

7. Knowledge gaps are being bridged between local and multinational companies due to the

FLUIDITY of talents in global markets.

8. The AVAILABILITY of cheap labour in emerging economies encourages multinationals to relocate lower-value activities there.

9. A striking feature of global markets is their LARGENESS

10. The DISTINCTIVENESS of a business entity lies in its capacity to offer products or services that are different from the competition.

EXERCISE 4 ***Assignment***

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

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