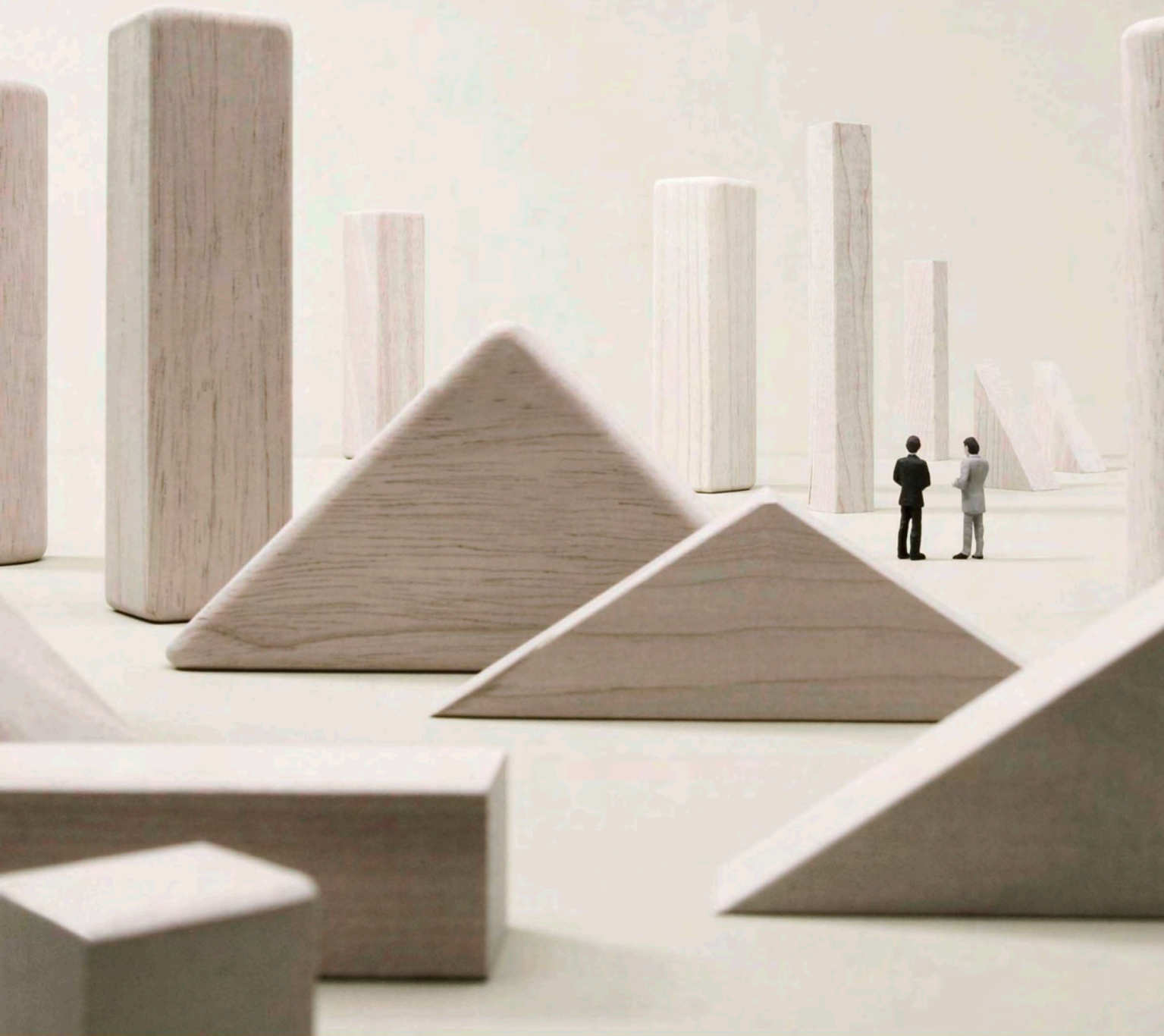


**Arab World
Edition**

Strategic Management

Concepts and Cases

Fred R. David Abbas Ali Abdulrahman Al-Aali



About the Authors



Dr. Fred R. David received a BS degree in mathematics and an MBA from Wake Forest University before being employed as a bank manager with United Carolina Bank. He received a PhD in Business Administration from the University of South Carolina, where he majored in management. Currently the TranSouth Professor of Strategic Management at Francis Marion University in Florence, South Carolina, Dr. David has also taught at Auburn University, Mississippi State University, East Carolina University, the University of South Carolina, and the University of North Carolina at Pembroke. He is the author of 152 referred publications, including 40 journal articles and 55 proceedings publications. David has articles published in such journals as *Academy of Management Review*, *Academy of Management Executive*, *Journal of Applied Psychology*, *Long Range Planning*, and *Advanced Management Journal*. He is also the sole author of the U.S. editions of two mainstream strategic-management textbooks: this text, *Strategic Management: Concepts and Cases*, and *Strategic Management Concepts*. Both texts have been on a two-year revision cycle since 1986, when the first edition was published.



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Company	Stock Symbol	Headquarters	Web Address	No. of Employees	2010 Revenues
Moderna Textiles	Private	Cairo, Egypt	www.newmoderna-eg.com	200	N/A
Nike, Inc.	NKE (NYSE)	Beaverton, OR, United States	www.nike.com	34,400	19.83B
PepsiCo	PEP (NYSE)	Purchase, NY, United States	www.pepsico.com	294,000	57.84B
Kraft Foods	KFT (NYSE)	Northfield, IL, United States	www.kraft.com	127,000	49.21B
Johnson & Johnson	JNJ (NYSE)	New Brunswick, NJ, United States	www.jnj.com	114,000	61.59B
Merck & Company	MRK (NYSE)	Whitehouse Station, NJ, United States	www.merck.com	94,000	45.99B
Elsewedy Cables	Private	Cairo, Egypt	www.elsewedy.com	10,000	1.693B (2009)
Saudi Steel Pipe Co.	SSP (SSE)	Dammam, Saudi Arabia	www.sspipe.com	449	158.207M (2009)
Gulf Upstream Mfg Co.	Private	Kuwait City, Kuwait	N/A	N/A	N/A
Kuwait Petroleum Co.	Government	Kuwait City, Kuwait	www.kpc.com.kw	N/A	N/A
Azza Fahmy Jewelry	Private	Cairo, Egypt	www.azzafahmy.com	180	N/A
Ford Motor Company	F (NYSE)	Dearborn, MI, United States	www.ford.com	164,000	128.95B
Jordan Telecom Group (Orange)	JTEL (ASE)	Amman, Jordan	www.jordantelecomgroup.jo	2,291	565.301M (2009)
Yahoo! Inc.	YHOO (NASDAQ)	Sunnyvale, CA, United States	www.yahoo.com	13,600	6.32B
Savola Group Company	SAVOLA (SSE)	Jeddah, Saudi Arabia	www.savola.com	16,267	4.778B (2009)
Walmart	WMT (NYSE)	Bentonville, AR, United States	www.walmartstores.com	2,000,000	421.85B
Casper and Gambini's	Private	El Metn, Lebanon	www.casperandgambinis.com	N/A	N/A
McDonalds	MCD (NYSE)	Oak Brook, IL, United States	www.mcdonalds.com	400,000	24.07B
Starbucks	SBUX (NASDAQ)	Seattle, WA, United States	www.starbucks.com	137,000	10.94B
Prime Group	PRMH (CASE)	Giza, Egypt	www.primegroup.org	300	10.042M (2009)
Sharjah Islamic Bank	SIB (ADSE)	Sharjah, United Arab Emirates	www.sib.ae	412	240.349M (2009)
Emirates Airline	Government	Dubai, United Arab Emirates	www.emirates.com	28,686	11.566M
Walt Disney	DIS (NYSE)	Burbank, CA, United States	www.disney.go.com	149,000	39.04B
King Saud University (KSU)	Government	Riyadh, Saudi Arabia	www.ksu.edu.sa	18,000	1.957B

Note: Data sourced from Yahoo Finance (<http://finance.yahoo.com>), Zawya (www.zawya.com), Gulf Base (www.gulfbase.com), and company websites and publications. N/A indicates data not available.

Cases Description Matrix

Company	1	2	3	4	5	6	7	8	9	10	11	12
Moderna Textiles	Y	N	Y	N	N	N	Y	N	N	N	N	N
Nike, Inc.	Y	N	Y	Y	N	N	Y	Y	Y	N	Y	Y
PepsiCo	Y	Y	Y	Y	N	N	Y	Y	Y	N	Y	Y
Kraft Foods	Y	Y	Y	N	N	N	Y	Y	Y	N	N	Y
Johnson & Johnson	Y	Y	Y	Y	N	N	Y	Y	Y	N	N	Y
Merck & Company	Y	Y	Y	Y	N	N	Y	Y	Y	N	N	Y
Elsewedy Cables	Y	N	N	N	N	N	Y	N	N	N	N	Y
Saudi Steel Pipe Co.	Y	N	N	Y	N	N	N	Y	N	N	N	Y
Gulf Upstream Mfg Co.	N	N	N	N	N	N	Y	N	N	N	N	N
Kuwait Petroleum Co.	N	N	Y	Y	N	N	N	Y	N	N	N	Y
Azza Fahmy Jewelry	N	Y	Y	N	N	N	N	Y	N	N	N	N
Ford Motor Company	Y	Y	Y	Y	N	N	Y	Y	N	Y	Y	Y
Jordan Telecom Group (Orange)	Y	Y	N	N	N	N	N	Y	N	N	N	Y
Yahoo! Inc.	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	N	Y
Savola Group Company	Y	Y	Y	Y	Y	N	N	Y	Y	N	N	N
Walmart	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N	Y
Casper and Gambini's	Y	Y	N	Y	N	N	N	N	N	N	N	N
McDonalds	Y	Y	Y	N	N	N	Y	Y	Y	N	N	Y
Starbucks	N	N	Y	N	N	N	Y	Y	Y	N	Y	Y
Prime Group	Y	Y	N	N	N	N	Y	N	N	N	N	Y
Sharjah Islamic Bank	Y	N	Y	Y	N	N	N	Y	N	N	N	N
Emirate Airlines	Y	Y	Y	Y	N	N	Y	Y	Y	N	N	Y
Walt Disney	Y	Y	Y	Y	Y	N	Y	Y	Y	N	N	Y
King Saud University (KSU)	Y	N	N	Y	N	N	Y	Y	N	N	N	N

1. Year-end 2010 financial statements included?
2. Is organizational chart included?
3. Does company do business outside the Arab world?
4. Is a vision or mission statement included?
5. E-commerce issues included?
6. Natural environment issues included?
7. Strategy formulation emphasis?
8. Strategy implementation included?
9. By-segment financial data included?
10. Firm has declining revenues?
11. Firm has declining net income?
12. Discussion of competitors is provided?

Foreword

I am very pleased to see the Arab World Edition of *Strategic Management: Concepts and Cases*. The text was first published for the North America region and has been enthusiastically adopted by hundreds of universities in the region and in other parts of the world. This great Arab edition demonstrates that this strategic management textbook, in its scope and depth, effectively meets the demand of educators for a book that offers a systematic approach for developing strategic plans in various cultural and changing settings. Indeed, the text offers the most coherent treatment of strategic concepts and issues without overlooking contemporary applications and evolving business conditions.

The Arab region has experienced dramatic economic growth and the thriving of Arab business organizations, which have become vital players in the global marketplace. Likewise, the region has become a competing arena for increasing numbers of multinational corporations (MNCs). These MNCs seek to position themselves strategically in this dynamic part of the world. This is why the Arab edition is more needed than ever. While maintaining the essence of the North America Edition, this Arab World version provides students with concepts, approaches, and examples relevant to the Arab culture and its business environment. Professors Ali and Al-Aali have done an outstanding job in systematically addressing strategic issues pertaining to the Arab world and in bringing to future Arab business leaders the most popular strategic management text in the world. I hope Arab educators and students alike find this edition useful for furthering familiarity with formulating and executing strategy. I am thrilled to see this edition available for Arab students and hope that they embrace it enthusiastically.

Fred R. David

Preface

In this first Arab World Edition of *Strategic Management: Concepts and Cases*, we have attempted to bring to students across the Arab world the most current and relevant materials in business strategy. The textbook has been one of the most widely adopted books by colleges and universities in North America and is among the most popular textbooks with strategy educators. It is written in a language that students can easily grasp and it provides them with applications/practitioner materials.

This Arab World Edition not only integrates concepts and views that are covered in various business fields but also offers students necessary insights and tools to make sound and informed decisions when joining business, government, and nonprofit organizations. In fact, the materials covered and the scope of the text will give future business and government leaders the necessary knowledge and skills to tackle existing and emerging organizational problems with needed flexibility and confidence. This will make it easier for future leaders to examine various options and to select the most appropriate alternatives that optimally serve their organizations and ensure their growth.

Both Arab educators and students have become increasingly aware of the nature and scope of challenges that Arab organizations face in conducting their businesses in a dynamic world. Indeed, the impact of regional and global developments on organizations is no longer an issue that must be left to chance. This is what makes this edition important and essential for business students as they try to navigate a number of avenues to master events around them and make sense of such events in the context of their businesses.

Therefore, in this edition, our aim is to make it possible for students to construct, in an objective way, a framework to analyze changes, be they internal or external to organizations, develop strategic perspectives and plans, and articulate what has to be done to improve organizational performance. To achieve this objective, we have provided practical examples, theoretical perspectives, and insights into the roots of recent changes engulfing the Arab region.

What's New in the Arab World Edition

While *Strategic Management* has been a popular textbook among educators in North America, introducing it to Arab students has represented a genuine challenge. Not only have we built on its original strengths, but we have incorporated issues that are relevant to Arab business and culture and upgraded areas where we felt improvement was needed. Each chapter has gone through thorough adaptation and addition reflecting the nature of Arab organizations and their priorities. Some have gone through serious evaluation and changes to mirror the reality of Arab organizations and to underscore the peculiarities of the Arab business landscape and culture. The special new features which have been added are:

- Some Notable Quotes from the region. These quotes are aimed at focusing attention on particular subjects which are integral for strategic formulation and execution.
- Regional Perspectives boxes appear in some chapters. These are offered to highlight certain important issues.
- Global Perspectives boxes are either revisited or are new additions. These perspectives seek to sensitize students to issues which are global in nature but have implications for contemporary business conduct.
- Cases from the region. These cases are written by scholars who work in the region and are familiar with the business operations of certain Arab-based companies. Some cases concerning global companies from the North American edition were maintained.
- New Cohesion Case on SABIC. SABIC is an Arab-based global organization which has been a pioneer in adopting sound organizational practices and has experienced rapid expansion across the globe.
- New chapters on competing globally and on leadership and culture have been added. These two chapters are needed as the strategic management arena has gone through

rapid expansion due to globalization and the influence of culture and leaders on the formulation and execution of strategy.

- Hundreds of examples about Arab organizations. These are provided throughout the text to make a point, validate a particular approach, or underscore deficiency or strength in strategic practices.
- Photographs from the region and elsewhere to illustrate certain concepts or highlight events.
- Visit the Net. This provides access to specific literature or events pertaining to an issue discussed in the text.
- An English/Arabic glossary to enable students to familiarize themselves with certain terms in strategic management.

Instructor's Resource Center

At the Instructor Resource Center, available via www.pearsoned.co.uk/awe/david, instructors can access a variety of print, digital, and presentation resources available with this text in a downloadable format. There are instructions for registration. These are simple and give instructors immediate access to needed resources. Once instructors are registered, they can easily download materials deemed essential for their lectures. Furthermore, instructors can always contact Pearson representatives to clarify some issues.

The following supplements are available for download to adopting instructors:

- Instructor's Manual
- TestGen (test-generating program)
- PowerPoint Slides.

MyManagementLab

MyManagementLab is a powerful online tool that combines assessment, reporting, and personalized study to help both students and instructors succeed. MyManagementLab gives students the opportunity to test themselves on key concepts and skills, track their own progress through the course, and use the personalized study plan activities: all to help achieve success in the classroom. MyManagementLab is designed to save instructors time by providing quality feedback and ongoing individualized assessment for students, as well as an easy-to-use method for organizing and adapting course materials, including assignable homework. Now you'll have the time to get your students excited about management. You can access MyManagementLab at www.pearsoned.co.uk/awe/david.

We sincerely hope you enjoy this Arab World Edition.

Abbas J. Ali
Abdulrahman Al-Aali

Acknowledgments

Preparing the Arab World Edition of *Strategic Management* was a demanding task which required, in addition to many months of work, intensive communication with scholars in the region and extensive reflection on received feedback. We acknowledge the superior job undertaken by Professor Fred David in putting together the North American edition, and his endless efforts to provide students and instructors alike with a strategy textbook that fulfils the needs of students in a rapidly changing world. We appreciate the work and cooperation of various individuals who have been instrumental in sensitizing us to many issues that needed to be included in the text, so that the students' curiosity could be effectively met and their imagination intellectually challenged. In particular, we appreciate the feedback from the following reviewers for their comments which were vital in revising an earlier draft of the text:

Prof. Mohamed Zain bin Mohamed, Qatar University, Qatar
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Several scholars have authored or co-authored cases in this edition. We thank them for furnishing cases which are essential for understanding strategic management in the Arab region and complex challenges that Arab organizations face. These individuals are listed below:

Salem S. Alqahtani, King Saud University
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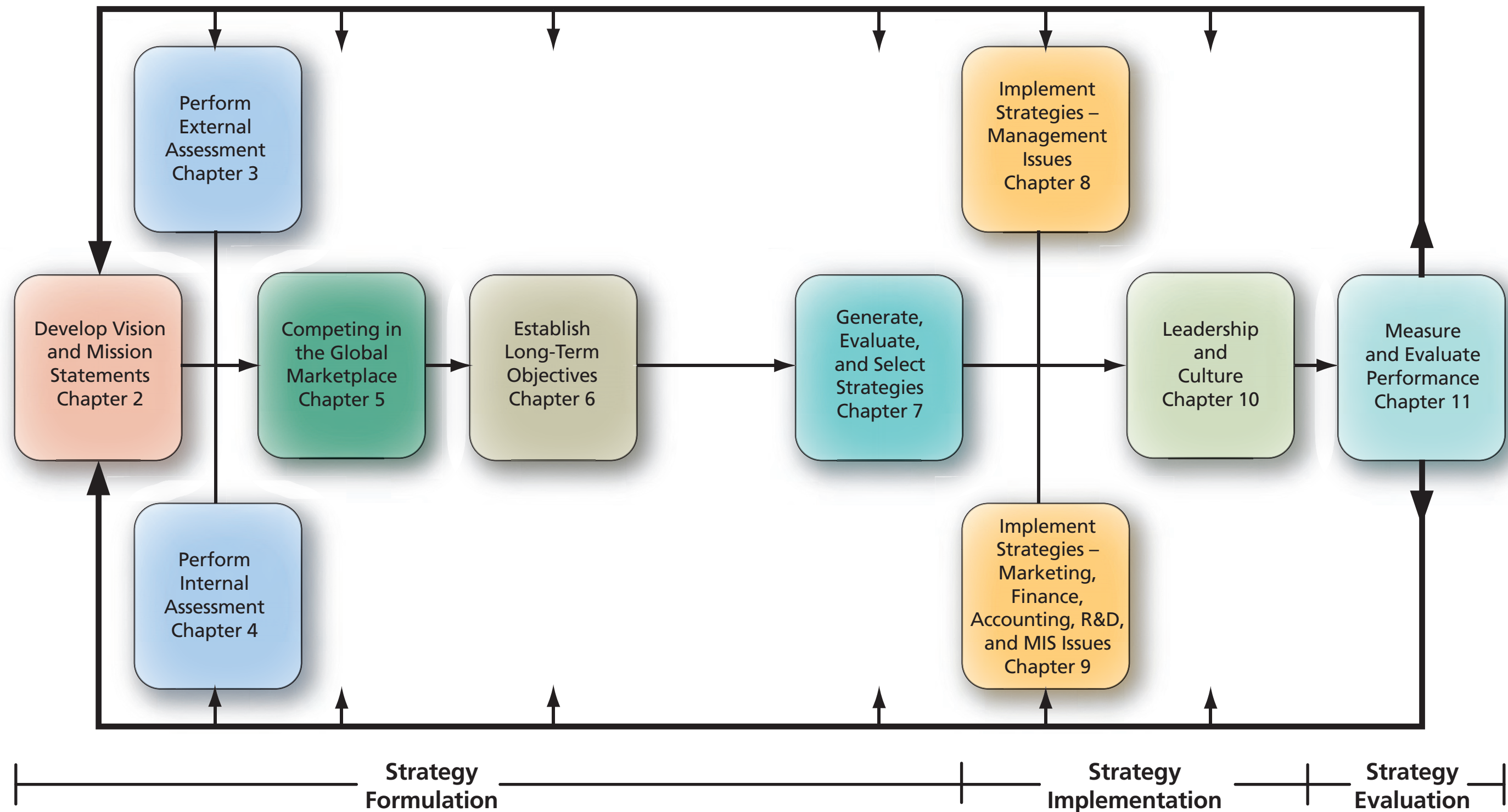
We would like to thank Dr. Helen Bailie for editing the early draft of this manuscript and providing useful comments. Sarah Wightman, Development Editor, and Rasheed Roussan, Acquisitions Editor, at Pearson Education, have worked with us since the early stages of preparation. We thank them for their enthusiasm, cooperation, and encouragement. Indeed,

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Finally, we recognize our colleagues and friends at various Arab universities and colleges who teach strategic management. They are the ones who are in direct contact with students, the future leaders in the Arab world, and are the ones in positions to improve business education and the field of strategic management in particular. We thank them and their students, in advance, for any input and suggestions. Their feedback will enable us to upgrade the quality of materials and continually improve this text.

Abbas J. Ali
Abdulrahman Al-Aali

A Comprehensive Strategic- Management Model



**USED WIDELY AMONG BUSINESSES
AND ACADEMIA WORLDWIDE**

**USED TO INTEGRATE AND ORGANIZE
ALL CHAPTERS IN THIS TEXT**

5

Competing in the Global Marketplace

'notable quotes'

Disperse through the land, and seek of the bounty of God.

THE HOLY QUR'AN (62:10)

No one eats better food than the one who eats out of the work of his hand.

ARAB SAYING

In movement there is gain.

ARAB SAYING

Whatever misfortune happens to you is because of the things your hands have wrought.

THE HOLY QUR'AN (42:30)

The one who is ahead of you by one step is ahead of you the whole way.

ARAB SAYING

There's no resting place for an enterprise in a competitive economy.

ALFRED P. SLOAN, JR.

A journey of a thousand miles begins with a single step.

CHINESE SAYING



chapter objectives

After studying this chapter, you should be able to do the following:

1. Explain why companies go abroad.
2. Differentiate between internationalization and globalization.
3. Identify four strategic orientations and their relevance to global expansion.
4. Discuss differences among countries.
5. Identify important factors, business or otherwise, which must be considered before selecting an entry strategy.
6. Discuss market entry strategies.
7. Discuss organizational goals for entering international markets and how to compete in the global marketplace.
8. Discuss how to have a framework for approaching global strategy.
9. Discuss how to manage expansion effectively.

chapter exercises

Strategic Management in Practice 5A
SABIC and the Far East

Strategic Management in Practice 5B
Aramco's Market Entry Strategies

Strategic Management in Practice 5C
Mapping the Global Geographic Location for Alshaya Retail

Strategic Management in Practice 5D
Developing a Market Entry Strategy for a Medium-Sized Company

Strategic Management in Practice 5E
Citadel Capital's Expansion Strategy

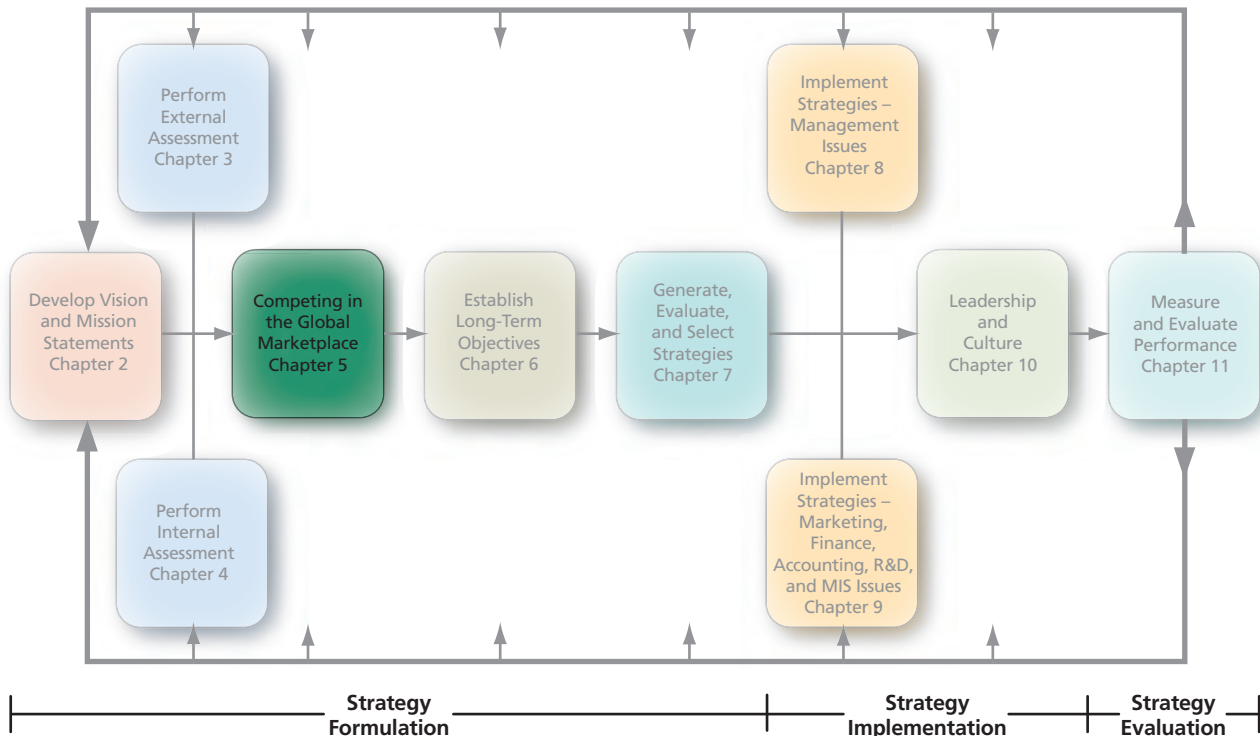
In competing globally, firms face complex and challenging factors. These must be identified, clarified, and considered when developing corporate strategies. In the last twenty years, Arab-based companies have begun venturing abroad aggressively. Prior to that, Arab firms involved in the global marketplace were primarily limited to specific sectors such as energy, petrochemicals, and trade. However, this has changed as governments in various parts of the Arab world have relaxed market regulations and accelerated privatization of state-owned companies. These developments have enabled Arab investors and executives to look for opportunities overseas and engage actively in the global markets.¹

As illustrated in **Figure 5-1**, global considerations are an integral part of the strategic process. In recent years, Arab executives have considered international and global business involvement to be a strategic choice essential for growth and development. From Morocco to Oman, executives have set their eyes on expanding beyond domestic and regional markets. There are various reasons for Arab executives to expand abroad. These are:²

1. To expand markets, especially for companies in countries where a domestic market is small (e.g. Lebanon, Kuwait, Tunisia). Market expansion allows companies to realize an economy of scale and or other advantages (e.g. utilizing extra liquidity and available capital). For example, the Kharafi Group took advantage of opening construction opportunities in the region after 1956 and by the late 1980s had gradually expanded its operations into Africa and East Asia.
2. To seize opportunities, especially for companies in the Gulf region where they have access to capital or a greater amount of liquidity. This fact, combined with limited opportunities in the domestic market, has motivated these companies to seek markets in various parts of the world. For example, Amiantit, a Saudi Arabian firm specializing in pipe systems, has several plants globally, along with extensive sales and service networks in more than 70 countries around the world, including Germany, France, Argentina, Norway, South Africa, and Mexico.
3. To obtain advanced technology and access **talent** globally. Increasing competition and the willingness of many Arab executives to have a significant presence in

FIGURE 5-1

A Comprehensive Strategic-Management Model



Source: Adapted from Fred R. David, "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40.

the world market have induced many companies to expand overseas through **joint ventures** or other forms of alliance. The SKAB Group, for example, has a strategic association with leading global corporations (e.g. GE Plastics, AT&T, Boeing Industrial Technology Group Corporation (BITG), etc.) to maintain a competitive edge. Likewise, in its quest to be a leader in semiconductor technology, Advanced Technology Investment Company of Abu Dhabi acquired Singapore's Chartered Semiconductor Manufacturing in 2009.

4. To capitalize on core competencies. The CTI group, a Jordan-based firm, operates in several countries including the United States and Malaysia and has offices in many other countries like Greece and the Philippines, in addition to many other Arab countries.
5. To have access to lower-cost materials and or cheap labor. For example, Planet Food World, a Saudi-based company, has invested heavily in agricultural products, mainly industrial farms, in Turkey. Other Gulf companies have done the same in Pakistan, India, and some African countries.
6. To reduce risk by spreading investments over several sectors and in various countries. This is especially true for large family-owned businesses. These businesses invest in real estate, retailing, tourism, manufacturing and so on in several countries, thereby reducing their exposure to downfalls in a specific area. Take, for example, Alghanim Industries. It is a multibillion dollar conglomerate with more than 30 businesses and operates in more than 40 countries.
7. To compete effectively. Major Arab companies recognize that to be global players they must sustain their competitiveness and meet their competitors on different fronts, including well-guarded areas. This is especially true for energy companies, petrochemicals, and financial services. Aramco, Qatar Petrochemicals, and the National Bank of Kuwait, among others, have established a presence in attractive markets in emerging economies and the western world.

Internationalization and Globalization

It is important to note that Arab companies vary in their commitment to international expansion and activities. In the early years, especially after World War I and up to the early 1970s, Arab business people, with the exception of a few firms, served as representatives of, and/or distributors for major multinational corporations (MNCs). This was true for the automobile industry and major manufacturers of household items. The primary aim of these firms was to meet local demand for western products and services. Domestic markets were growing and the focus was initially on seizing emerging national business opportunities. As businesses accumulated wealth and their owners/executives gained experience far beyond what was needed for domestic markets, they begin to look for overseas opportunities. Generally, two strategic focal points for expansion have emerged: **internationalization** and **globalization**.

The internationalization strategy is limited to expansion to a few countries with no interest in operating globally (e.g. Kallas Company, www.kallasco.com; Cartier Saada, www.cartiersaada.com). The commitment is narrow in both scope and depth. In contrast, the globalization focus considers the global market as the platform for action. Activities and involvement are determined by opportunities and unlike in the case of internationalization are not dictated by cultural and geographic proximity or by familiarity with a specific market (e.g. Kingdom Holding Company, www.kingdom.com.sa; Dubai World, www.dubaiworld.ae/).

Both approaches have been essential in enabling Arab businesses to leave their mark on the world economy and to pave the way for emerging Arab firms to navigate world markets. Having said this, it is possible to recognize two general trends. The first is that the Arab Gulf states, along with Egypt and Morocco, are, by virtue of their wealth, size, or geography, more inclined than others toward a global focus. Not all companies, however, are expected to be global in their activities, as various factors, including management orientation and experience, play a role in shaping involvement in the world markets. The second trend is that companies from Syria, Jordan, Lebanon, Algeria, and Tunisia have, in recent years, generally focused on nearby markets, especially the Gulf and Iraqi markets.

Global Expansion and Orientations

VISIT THE NET

Excellent reflection on globalization. (<http://globaledge.msu.edu/resourcedesk/gbr/gbr1-1.pdf>)

As Arab companies expand beyond domestic markets they are confronted with various issues ranging from culture to politics and economics. As in any company, Arab executives have to face these issues and act appropriately. It should be kept in mind that the methods of tackling these problems are a product of various factors, including their beliefs about how to manage foreign operations. Literature concerned with how to respond or tackle foreign activities and manage problems inherent in doing business in a foreign country provides four strategic orientations: **ethnocentric**, **polycentric**, **regiocentric**, and **geocentric**.³

Executives who subscribe to **ethnocentric** orientations tend to project the beliefs and values of the parent company on its subsidiaries and offices abroad. In contrast, when the executives are driven by **polycentric** orientations, then they consider the culture of the host country (a country where the subsidiary is located) as appropriate to guide the operation and decision making. In the context of **regiocentric** orientations, managers find it useful to let the general beliefs and values prevailing in a particular region guide the operations there. Subsidiaries in a particular region are encouraged to coordinate their activities. Under **geocentric** orientations, executives are guided by the best practice globally and tend to prefer an integrated approach to managing operations.

There has not yet been research showing which managing orientations are most common for Arab companies operating abroad. However, it is safe to suggest that Arab executives, due to the diversity of their workforce and their consultation tendencies, are likely to give relative autonomy to their subsidiaries and therefore approach each issue differently depending on the input they receive from their subordinates and on their own perceptions of reality in each host country. In today's business, executives have ample access to information provided by various international, regional, and domestic institutions on the nature of the business environment and culture in each country. In fact, UN agencies, the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO) provide detailed and relevant information about conditions in many countries. Information from these institutions, along with information offered by a country's Ministry of International Trade or Ministry of Planning or Commerce, enable managers to formulate a general opinion of countries where they have or plan to have operations. This, however, should not be a substitute for feedback and information received from subsidiary managers in foreign countries. Both should be utilized along with information provided by consultants or research centers.

A useful source of information is *The World Factbook*, published by the CIA (www.cia.gov/library/publications/the-world-factbook/index.html). This publication includes information related to the history, people, government, economy, geography, communications, transportation, military, and transnational issues of 266 world entities. Likewise, the World Bank (www.worldbank.org) has several publications (*Global Economic Prospects*, *World Development Report*, and *Global Development Finance*) each year. The IMF (www.imf.org) publishes a useful annual report, *Global Economic Outlook*, which contains rich and relevant information. Harvard University and Columbia University, among others, publish specific and timely business and economic information. Columbia (www.vcc.columbia.edu) provides information about emerging economies and the foreign direct investment (FDI) – investment in plant and/or property in foreign countries – free of charge. All these sources can help Arab managers in their strategic planning for global expansion.

While familiarity with general and economic conditions of the target country or region is important for conducting business, Arab executives should monitor global trends. A 2006 study conducted by global consultancy firm, McKinsey & Company indicated that companies that are able to understand the way trends filter down into their own industries, sub-industries, and geographic markets can shift their portfolios and successfully cope with and take advantage of future trends as they emerge.⁴ The study specifies 10 global trends:

1. Growing numbers of consumers in emerging economies
2. Shift of economic activity between and within regions (e.g. to Asia or within the EU)
3. Greater ease of obtaining and developing knowledge
4. Increasingly global labor and talent markets
5. Increasing constraints in supply or usage of natural resources
6. Increasing communication/interaction in business and social realms

7. Shifting industry structures
8. Application of scientific techniques and approaches to business management
9. More social backlash against business
10. Growth of public sector

These trends have far-reaching implications for businesses which seek to stay ahead of their competitors. Two of these trends, the increasing influence of emerging economies in the global marketplace and interaction in business and social realms, should be integrated in strategic planning. Since more Arab businesses traditionally invest in Europe and the United States, investing in emerging economies may bring two immediate benefits: diversification of portfolios, thereby reducing risk, and access to natural resources and untapped markets, thus ensuring steady growth.

Differences Among Countries

Regardless of which country a company chooses to operate in, its executives must understand that differences do exist and must be approached with an open mind. These include cultural, demographic, economic, and technological differences. From Brazil to Japan, and from Spain to China, cultural differences are apparent not only in religious beliefs but also in dress, eating habits, personal interaction, and regard for time and work. The United States, for example, is a primarily individualistic culture which is influenced by its Puritan roots. These roots exalt self-realization, hard work, and, more importantly, liberty. These roots also have to do with Americans' tendency to 'fly to extremes.' According to George Walden, "America's Puritan origins do much to explain why it is the maddening and exhilarating, ancient and modern, progressive and conservative, sophisticated and simplistic, creative and destructive country it is."⁵ In the United States, there is a tendency to divide problems into several issues and deal with them separately. China, on the other hand, is mostly a collectivist society and is driven by what Ohmae calls a "Center of Universe" mentality.⁶ This provides them with the confidence to look at things from new perspectives and to find the underlying causes and connections. Thus, in approaching any problem, the Chinese, like Arabs, look at the whole issue, then address sub-issues after an understanding is agreed upon. Other cultures display various beliefs and values which make business practices vary accordingly.⁷

Demographically, while some countries such as Eastern and Western Europe have experienced an acute shortage in youth population, the Arab world has a high ratio of youth (see **Table 5-1**). North America has the highest percentage of middle age groups, about 67 percent. On the other hand, European countries have the highest proportion of older citizens.

In terms of economic and technological development, the World Bank classifies countries into low-income, middle-income, and high-income countries. The IMF divides the world into two major groups: advanced economies and emerging and developing economies. **Table 5-2** shows that even though the United States's share of the world's population is 4.6 percent, its share of the world's GDP was 20.5 percent in 2009. Furthermore, the table indicates that there are seven major advanced economies whose share of total GDP is 41 percent. The share of the world's GDP of emerging and developing economies (149 countries) is only 46.1 percent. Furthermore, the share of the world's GDP for the Middle East and North Africa, and sub-Saharan Africa is 5 and 2.4 percent respectively. The share of the United States in world exports of goods and services is 9.9 percent, while that of sub-Saharan Africa (44 countries)

TABLE 5-1 Percentage of Age Groups by Region

Age Group (years)	Asia (Excluding Middle East)	Eastern Europe	Western Europe	North America	Latin America and Caribbean	Middle East	North Africa	Sub-Saharan Africa
10–14	8.5	5.3	5.3	6.5	9.3	10.3	9.4	12.3
15–24	17.8	13.4	11.5	19.7	17.9	18.9	19.4	20.3
25–59	46.6	50.9	48.7	67.1	44.3	41.6	43.4	32.3
60–99	10.6	20.2	24.2	13.2	9.9	6.6	7.7	4.7

Source: Based on U.S. Census Bureau, *International Statistics*, 2010.

TABLE 5-2 Classification of Economic Groups and their Percentage Shares in GDP, Exports, and Population, 2009

		GDP		Exports of Goods and Services		Population	
		Number of Countries	Advanced Economies	World	Advanced Economies	World	Advanced Economies
Advanced Economies	33	100.0	53.9	100.0	65.9	100.0	15
United States		38	20.5	15.0	9.9	30.4	4.6
Euro Area	16	28.2	15.2	43.7	28.8	32.3	4.8
Germany		7.5	4.0	13.0	8.6	8.1	1.2
France		5.6	3.0	6.0	4.0	6.2	0.9
Italy		4.7	2.5	4.9	3.2	5.9	0.9
Spain		3.6	2.0	3.4	2.2	4.5	0.7
Japan		11.1	6.0	6.5	4.3	12.6	1.9
United Kingdom		5.8	3.1	5.9	3.9	6.1	0.9
Canada		3.4	1.8	3.7	2.4	3.3	0.5
Other Advanced Economies	13	13.5	7.3	25.3	16.7	15.3	2.3
Major Advanced Economies	7	76.1	41.0	55.0	36.3	72.6	10.9
Newly Industrialized Asian Economies	4	6.9	3.7	13.8	9.1	8.3	1.2
		Emerging and Developing Economies	World	Emerging and Developing Economies	World	Emerging and Developing Economies	World
Emerging and Developing Economies	149	100.0	46.1	100.0	34.1	100.0	85.0
Regional Groups							
Central and Eastern Europe	14	7.5	3.5	10.8	3.7	3.1	2.6
Commonwealth of Independent States	13	9.3	4.3	9.9	3.4	4.9	4.2
Russia		6.6	3.0	6.4	2.2	2.5	2.1
Developing Asia	26	48.9	22.5	42.4	14.4	61.8	52.5
China		27.2	12.5	24.8	8.5	23.3	19.8
India		11.0	5.1	4.6	1.6	21.0	17.8
Excluding China and India	24	10.7	5.0	13.0	4.4	17.5	14.9
Middle East and North Africa	20	10.7	5.0	16.9	5.8	7.0	6.0
Sub-Saharan Africa	44	5.1	2.4	5.1	1.8	13.4	11.4
Excluding Nigeria and South Africa	42	2.6	1.2	2.8	1.0	9.9	8.4
Western Hemisphere	32	18.4	8.5	14.9	5.1	9.8	8.3
Brazil		6.2	2.9	3.4	1.2	3.3	2.8
Mexico		4.5	2.1	4.6	1.6	1.9	1.6

Source: Based on *World Economic Outlook 2009* (Washington, DC: International Monetary Fund, 2010).

is just 1.8 percent. Notice that the share of developing Asia (comprising 26 countries) in the world **export** of goods and services is 14.4 percent; it is 4.4 percent without China and India. The latter's shares of the world's population are 19.8 and 17.8 respectively. This makes them the largest markets, in terms of population, and the most attractive markets in the years to come.

Economic growth in China and India, along with other emerging economies, especially Russia and Brazil, is expected to fuel world economic growth. The IMF reported that shifting balances of power, economic importance, and geopolitical strategies necessitate that the G7, representing seven advanced economies, becomes the G20.⁸ This is because Brazil, Russia, India, and China (BRIC) are increasingly leaving their marks on global events. The IMF noted that BRIC, with 40 percent of the world's population spread out over three continents, already accounts for 25 percent of global GDP. Indeed, BRIC has become instrumental in the growth of the world economy. The presence of a sizable

domestic market, industrial and technological diversification exceeding normal expectations, huge investments in infrastructure, and prudent handling of the liberalization of their own financial systems, especially during and after the Asian financial crisis in 1997–1998, are all hallmarks of BRIC's importance and these countries' rising roles on the global stage.

The growth of other emerging and developing economies was impressive as economically advanced countries struggled with the 2008 financial crisis. These countries have a younger population and have increasingly become the recipients of foreign direct investment. This, combined with improving infrastructure and educational systems, will contribute to further economic and technological growth, thereby increasing their share in the global GDP and contributing to the economic recovery of the advanced economies. For example, the *Wall Street Journal* reported that Japan's proximity to Asia's fast-growing economies and the strong presence of Japanese companies in the region was instrumental in pulling Japan out of its recent economic troubles.⁹ Exports to China, Vietnam, India, and other nations have increased and China, in 2009, became the no. 1 destination for Japan's exports, replacing the United States.

One sign of the increasing importance of emerging economies is their capacity to be attractive investment opportunities for global retailers. For example, the Global Retail Development Index 2009, produced by management consulting firm A.T. Kearney, showed the most attractive 30 emerging countries for retail investment (see **Table 5-3**). The index is

TABLE 5-3 Top 20 Emerging Markets: Global Retail Development Index 2009

2009 Rank	Country	Region	Country Risk (25%)	Market Attractiveness (25%)	Market Saturation (25%)	Time Pressure (25%)	GRDI Score	Change in Rank Compared to 2008
1	India	Asia	54	34	86	97	68	+1
2	Russia	Eastern Europe	31	58	51	100	60	+1
3	China	Asia	62	42	47	74	56	+1
4	UAE	MENA	89	66	50	21	56	+16
5	Saudi Arabia	MENA	70	46	68	39	56	+2
6	Vietnam	Asia	34	16	74	97	55	-5
7	Chile	Latin America	77	58	51	33	55	+1
8	Brazil	Latin America	52	60	68	31	53	+1
9	Slovenia	Eastern Europe	100	64	12	33	52	+14
10	Malaysia	Asia	65	47	48	45	51	+3
11	Algeria	MENA	17	24	93	70	51	+1
12	Mexico	Latin America	61	56	49	38	51	-1
13	Latvia	Eastern Europe	58	67	42	33	50	+8
14	Tunisia	MENA	55	37	82	24	49	+4
15	Egypt	MENA	43	25	91	38	49	-10
16	Lithuania	Eastern Europe	68	64	29	37	49	+14
17	Ukraine	Eastern Europe	30	33	46	87	49	0
18	Peru	Latin America	40	33	81	40	48	-4
19	Morocco	MENA	47	27	77	41	48	-13

Note: GRDI, Global Retail Development Index; MENA, Middle East and North Africa.

Source: Based on A. T. Kearney's *Global Retail Development Index*, www.atkearney.com, 2009.

based on a set of several variables including economic and political risks, retail saturation levels, retail marketing attractiveness, and the differences between GDP growth and retail growth. Judging from the top 20 in the index, it appears that many Arab states (e.g. UAE, Saudi Arabia, Algeria, Tunisia, Egypt, and Morocco) have joined the ranks of the major emerging market countries (e.g. China, India, Russia, Mexico). These players, despite differences in their state of economic development and growth, offer MNCs lucrative market opportunities almost similar to those found in the U.S., Western Europe, and Japan. While the market of ranked Arab countries is not as large as that of China and India, it represents a growing and for the time being comparatively low-risk opportunity.

As cultural and economic differences always exist among countries (despite the march toward world economic integration), Arab executives have to develop surveillance and alert systems. There is a need to be familiar with fluctuations in financial conditions, exchange rates, and national sentiments. These are dynamic and their impact on business operations can be direct and devastating. Both the 1997 financial crisis which took place in Thailand, and the 2008 crisis which initially took place in the United States and spread to the rest of the world, have had an adverse impact on many companies and left them captive to changing market conditions. However, executives should be familiar with political aspects of foreign countries. Some political systems are business-friendly and others are not. Furthermore, it is to the advantage of Arab executives to know not only the nature of the political systems in countries where their companies operate but also to acquire and nurture political and diplomatic skills. These are considered political capital, the benefits of which are unlimited. In Latin America and Africa, personal skills and political cunning may have immediate benefits and ease economic difficulties. Even in advanced countries, nationalistic sentiments can either block Arab businesses from entering a market or create unnecessary difficulties. For example, faced with a negative public campaign and a threat of legislative action by the U.S. Congress, Dubai Ports World decided, in March 2006, to drop out of a deal to manage some terminal operations at six of America's busiest ports.

Selecting Strategic Markets

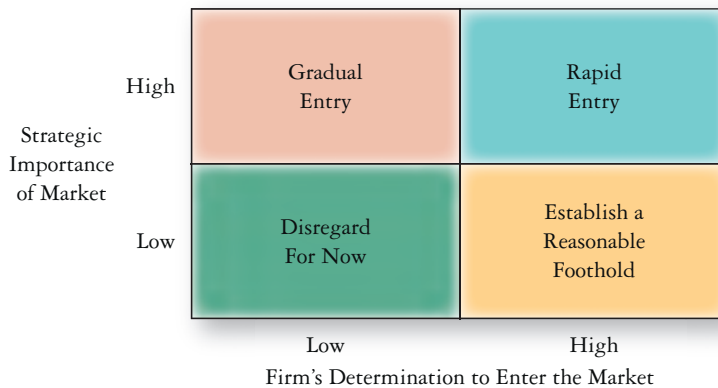
In a world where global presence has become essential, Arab firms have no choice but to position themselves strategically. In doing so, there are a variety of options to choose from. There are hundreds of markets, but which markets they should focus on is a strategic decision that should top the list of senior executives' priorities. This strategic decision should not be left to chance or random action. Trial and error can be costly and, in this era of globalization, competition is not forgiving. Those companies which make mistakes may find it difficult to recover.

Gupta and Govindarajan suggested that companies should engage in "*directed opportunism*" or opportunism led by a systematic and logical framework.¹⁰ The authors argued that two factors influence a company in determining which markets to enter: the strategic importance of the market, and the firm's ability to exploit the market. The first factor, the degree of importance, is an essential one and encompasses elements such as current and future size and learning opportunities. The current market size should not be confused with per capita GDP or the current population size. For example, Somalia, in terms of geography and population, is much larger than Kuwait. The latter, however, offers more opportunities to various companies at this time than Somalia. Political stability and economic potential should be considered, and other considerations, like population and the population growth rate, along with the potential of the market to grow and the population's chance to have prosperity, should not be overlooked. The learning opportunity is characteristically linked to the sophistication and the demands of customers. Customers who are demanding and sophisticated usually stimulate competition for improving quality, and thus innovativeness and flexibility.

The second factor, ability to exploit the market, may be inadequate for many Arab companies. With the exception of petrochemical and energy-related firms, most Arab companies are either new to competing globally or probably have an overwhelming majority of

FIGURE 5-2

A Framework for Choice of Markets



talent resources who are not nationals, especially in the Gulf Cooperation Council (GCC) states. These firms lack a **competitive advantage** to positioning themselves strategically and outflanking competitors. Their best option, therefore, is to establish an adequate place in foreign markets and gradually make their presence noticeable. That is, what is important at this stage is not to aggressively exploit the foreign market. Rather, it is the ability to take the initiative to navigate overseas markets. The will to navigate is a strategic capital and is the outcome of the interplay of utilizing resource capability and skills, and the confidence of CEOs to take 'reasonable' risk. **Figure 5-2** represents a framework that combines the two factors: 'strategic importance of the market' and the will to enter or 'navigate' the foreign market.

Depending on these two factors, four choices are generally available for companies considering entering a foreign market. The upper-right quadrant in **Figure 5-2** represents an ideal situation where the market is important and the company has the will to enter it. The company should seize the opportunity immediately. In a situation where the company has the confidence and the will to enter the market but the market is currently not attractive (lower-right quadrant), the company may make the decision to enter the market. This permits the company to establish a foothold with the hope that conditions will be much better in the future. In contrast, in the upper-left quadrant the market is attractive but the company lacks the resource capability to optimally compete. Under these conditions, executives may opt to utilize a 'phased approach' and in the process the company may seek to build its capabilities and sharpen its competitive edge. The last quadrant, lower left, depicts a situation where the market is not only unimportant, but the company lacks the needed resources and the will to enter. For the time being, the executives are better off postponing any decisions regarding entering the market.

Of course, companies' conditions might change and actions will vary accordingly. Firms may find it imperative to rethink their approaches. Furthermore, when companies have multiproduct or multiple business units, the market might be attractive for a particular product or business but not for others. Thus, a company in this context may have various options for the same market.

Market Entry Strategies

Market entry strategies differ across industries and target markets. In addition, what mode should be selected is influenced by conditions specific to the firm, such as executives' orientations and experience, resource availability, type of product or service, product lifecycle, market share, and competitive pressures. Likewise, action taken by competitors and host country policies often plays a role in deliberating whether to select a particular approach to enter foreign markets. The entry modes can be divided into three categories: exporting,

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REGIONAL PERSPECTIVE

Arab Investors Join Latin America's Real-Estate Fiesta

Guatemala City isn't a popular choice among international property investors scouting for locations to build a signature office tower. For all its attributes – a booming population, proximity to the United States, and pro-business laws – the largest city in Central America is known more for crime and corruption than real-estate opportunities. Yet, in its busy commercial area, construction has begun on a downsized replica of one of the Middle East's most iconic modern structures, Dubai's sail-shaped Burj Al Arab Hotel. The 16-story office building won't match the luxury of the Arabian Gulf's only seven-star hotel. But in an urban center dominated by aging, monolithic office buildings and hotels, the tower is sure to bring some style to Guatemala City's skyline.

During the recent global economic downturn, construction projects were cancelled across the world. The UAE was particularly hard hit, leaving more than US\$360 million of construction projects either on hold or cancelled. Guatemala City's Dubai Center is not suffering the same troubles as its namesake, despite the fact that the building's investors are all Arab. From an idea that took hold during a visit by a delegation of Arab executives to Guatemala City five years ago, an investment group from the UAE, Inversiones Sazitasa, is bankrolling the project with an initial investment of US\$20 million.

And Guatemala City isn't the only Latin American country enjoying the attention of Arab real-estate investors. For example, Colombia's beautiful but under-developed Caribbean coast is the site of the latest effort by Royal Group, a UAE-based conglomerate of 60 companies. Royal Group's expansion in Colombia began in 2009 with the development of Vision Cedar Bogotá, a five-star, 200-room hotel, two bars, and a restaurant in the country's capital. The project is due to be completed next year.

For many Arab businesses, these undertakings mark a major departure from previous investment strategies. "If you go back to 2005, Gulf investors would have laughed if you suggested Latin America," says Daniel Melhem, president of the Gulf Latin America Leaders Council (GLLC), an economic development advisory organization, and a principal of Argentina-based real estate firm Knightsbridge Partners. "It wasn't on the map for them. They were making plenty of money in the United States." That's changed today. "Fast forward to 2010, you have daily flights [to Latin America] from the Middle East, and regular visits by heads of state," he adds. "In the next 18 months, we're going to see a number of significant deals here."



Brazil as a Prime Target

Spurring Arab investor interest is Brazil, the emerging-market darling that's Latin America's largest economy. While other countries continue to fret about the slow speed of their recoveries, Brazil's central bank announced in June that it expects the country's economy to grow 7.3 percent this year, the biggest economic expansion in 24 years. Much of that growth will be export-driven, with both old and new trading partners. The Arab Brazilian Chamber of Commerce predicts trade between Brazil and the Middle East will reach roughly US\$6.6 billion in 2010, a year-on-year increase of 33 percent.

Brazil's growth is hard for Arab real-estate investors to ignore, states Angela Martins, international director of Banco ABC Brasil, which is controlled by the Arab Banking Corporation. "During the [financial] crisis, Arab investment was affected, so we did not see many [property] deals being concluded," she says. That dry spell should end "now that Brazil is booming, and the Gulf Cooperation Council is emerging from the Dubai turmoil."

A sign of the changing times is the US\$100 million purchase in April by Elysian International, a UAE-based property developer, of a sprawling development in Rio de Janeiro, which includes villas, apartments, and a five-star hotel. "We have been keeping our eye on Brazil as an emerging market for some years now," Masood Naseeb, Elysian's founder and CEO, said in a press statement. Citing Brazil's robust economy, growing per-capita wealth, and popularity as a tourist destination – especially since winning the bid to host the 2014 World Cup and the 2016 Olympic Games – Naseeb added that he expected "a 1,000% to 7,000% appreciation of land [prices] in the region, particularly in the coastal areas."

"There are companies looking to invest heavily in real estate, while also setting up [their own] offices in São Paulo and Rio de Janeiro," states Melhem of the GLLC.

There are already a variety of multinationals with locations in the cities, including U.S. computer chipmaker Intel, German carmaker Volkswagen, Indian IT firm Wipro, and U.S. hotelier Marriott International. Another will be joining them, thanks to the ... agreement between Kuwait and Brazil to establish a joint investment company, likely to be based in São Paulo's financial hub.

Deepening Economic Ties

A steady stream of trade and commerce delegations from the Middle East have also been visiting the rest of Latin America. But Middle Eastern investors haven't turned their backs on Europe and the United States, the two regions traditionally favored most by Arab property investments. The Qatar Investment Authority recently bought a number of London landmarks, including a large portion of Canary Wharf, luxury retailer Harrods, and the Savoy Hotel.

Yet enthusiasm for those markets is waning. Amid the recent financial woes befalling U.S. and European real estate, some Arab investors have suffered embarrassing losses. That includes Dubai's Istithmar World's foreclosure sale of the New York Union Square hotel for US\$2 million, which the firm had bought for US\$282 million in 2006.

Experts also say that the global investment environment is working increasingly in Latin America's favor. For example, the capitalization rate (a percentage relating the value of an income-producing property to its future income) on an office building in the United States was around 10 percent on average in 2001, but has since fallen to less than 5 percent in many markets, according to the *Wall Street Journal*. Meanwhile, investors are seeing 9 percent cap rates in Brazil and Colombia, and 13 percent in Argentina, Melhem says.

Extract from *Arabic Knowledge@Wharton*, "Arab Investors Join Latin America's Real Estate Fiesta" (August 10, 2010). www.wharton.universia.net/index.cfm?fa=printArticle&ID=1938&language=english.

contractual approaches (licensing, franchising, **management contract**, **contract manufacturing**, and turnkey operations), and investment (equity participation, joint venture, and **wholly-owned subsidiaries**, among others).

Export

This is the oldest and possibly the least risky approach to foreign market expansion. Traditionally, Arab businesses have flourished through export/import activities. Modern Arab firms in the early twentieth century, especially from Syria and Lebanon, were pioneers in this type of business.¹¹ In the last three decades, many Arab firms have utilized this option as an ideal way to enter international markets and accumulate experience abroad

(for example, A.I.T.A. of Morocco, which exports canned fish to some European countries, and Syrian-based SBACO, which exports vegetable oil to Japan and Italy, among others).

There are several advantages to export. It is easy to carry out without investing scarce resources, it is low-cost and low-risk, and the company has full ownership of profits. Nevertheless, when exporting, the company will not develop adequate familiarity with the customers or culture of the foreign market, and the nature of its economic conditions. Furthermore, distributors often care about their own interests and the company may experience difficulties in arranging suitable distribution channels.

Licensing

This type of agreement represents a producer giving the rights of their intellectual property for a license, in return for royalties. The agreement specifies royalties (based on either profit or sales), duration, type (e.g. exclusive), rights of the licensors and licensee, rights to improve technology process, and other details. **Licensing** is common in manufacturing, especially where brand is important. It has the advantage of being an easy method by which to expand overseas. It is valuable when government restrictions make it difficult for the company to enter a particular market, it avoids the need to invest large amounts of capital in a market that is not tested or where current demand is not yet that attractive, it is not that risky, and there is prospect for technological improvement. There are some risks involved; for instance, the licensee can become a competitor, the market may turn out to be large and attractive and therefore the licensor may be in a disadvantaged position in terms of revenue, or the licensor may not have control of operations, thereby compromising on quality.

Franchising

It is similar to licensing except it is common in the service sector, especially fast food, hotels, and retailing. This type of agreement involves a firm (franchiser) granting the right to another entity (franchisee) to run its business in a specified manner and provide assistance during the contract duration. For example, McDonalds or Hilton might supply a local businessman in Cairo with its intangible property and operational knowledge in line with conditions and clauses in a binding agreement. This type of agreement has increased steadily in the Arab world since governments in the region have embarked on liberalization programs. Pizza Hut, Starbucks, Carrefour, and Holiday Inn, among others, have given the rights for Arab businesses and individuals to establish franchisees. The franchisers receive compensation or royalties for their intangible property and assistance. Unlike licensing, **franchising** gives the franchiser more say in how the business should operate. Furthermore, franchising requires ongoing supervision by the franchiser of operations, and for the franchiser to offer assistance, including training and advertising. Franchising has similar advantages and disadvantages to licensing operations.

Management contract

This type of business involves a contractual agreement where a company agrees to provide management service and expertise to another company for a determined period. This particular agreement is most common when a firm is known for its expertise in managing a business in a particular field and the receiving firm either lacks the resources or the needed skills to run the business efficiently. Some universities in the Arab world and other institutions may contract a service company to manage their hotel or IT businesses. In 2006, Abu Dhabi granted Bechtel the responsibility for management and coordination of the master planning, design, and construction of the Khalifa Port and Industrial Zone.

There are certain advantages to management contracts. Chief among them are the abilities of a company to seize opportunities overseas by selling its special skills and expertise and generating considerable profit without investing huge capital abroad. Furthermore, the company gains overseas exposure and expertise. However, as the supplier of the service, the company may expose its personnel to risk, especially during periods of political turmoil or backlash. In addition, during the course of the contract, the company contributes to developing and cultivating the skills of the host country employees and thus it may create a local competitor.

Contract manufacturing

This is an alternative to licensing and may be considered a way to test the market before committing to a greater investment. This option involves a company contracting a manufacturer in the host market to produce its entire product or a part of the product. This option gives the company the opportunity to reduce its foreign investment and in the process enables it to have control over its product. For example, in March 2010 the Egypt-based Eastern Company, a cigarette manufacturer, signed a contract with Jordan's Tag Company to produce, market, and distribute Eastern's products in Jordan.

Turnkey operations

This usually represents a huge project involving a large investment and is often done for the developing nation's government. A **turnkey operation** is when a company constructs an entire project (e.g. a dam, a highway, a chemical plant) for the host country organization. For example, in 2009, ABB, the leading power and automation technology group, was awarded a turnkey contract to design, supply, install, and commission three 110 kilovolt substations that will serve the growing power needs of the Mecca region of Saudi Arabia.

The supplying company assumes the whole responsibility for designing, building, and testing the operation of the project for an agreed amount. The latter usually is paid in pre-determined installments. Once the project is completed, the contractor will turn over the responsibility to the client. Turnkey operations are common in the Arab world. In 2005, UNESCO reported that, "In the past three decades, the Arab world has spent US\$1,000 billion on turnkey projects, more than 20 times the amount spent within the Marshall Plan to rebuild Europe after the Second World War."¹²

This type of operation enables the client to have access to hard-to-get skills and technology. The contractor or provider capitalizes on its core competency and establishes a network with influential people in the host country. But in cases like petrochemical projects, the providers may create a competitor.

Joint venture

This option is a popular one among companies and is common in national and international markets. A joint venture is an independent entity which is created and owned by two or more companies to achieve mutual objectives. In the global marketplace, joint ventures are established for various reasons: gaining access to new technology or resources, ease in entering a foreign market, gaining knowledge of foreign markets, reducing risk, complying with government regulations, achieving a competitive position, and overcoming certain deficiencies. Joint ventures can be formed among private companies and a government agency, between private companies, or between government organizations. Two recent, enormous joint ventures in the Arab world were the Jubail refinery, a US\$9.6 billion joint venture between Aramco and France's Total, and Qatalum, a US\$5.6 billion smelter joint venture between Qatar and Norway's Norsk Hydro.

Joint ventures, however, have their own disadvantages, especially when partners do not share the same goals or direction for the venture. Likewise, the power structure, especially in so-called 50/50 joint ventures, can lead to conflicts and slow decision making. One remedy for this is for one partner to have a majority vote: more than 50 percent ownership. Joint ventures with governments are likely to lead to conflicting priorities and can end up as inefficient operations.

Wholly-owned subsidiaries

This type of venture is 100 percent owned and controlled by a company, and allows the company to have full control of its operations. There are two ways to establish a subsidiary: constructing a completely new entity (Qatari Diar in 2009 established Diar Dushanbe in Tajikistan) or buying existing facilities (Dubai Ports World in 2006 bought the British shipping and logistic firm, Peninsular and Oriental Steam Navigation Company).

This option has several advantages as it permits the parent company to have full control of operations and profits, coordinate activities among subsidiaries, and have close knowledge of

the economic and other conditions in the host market. Nevertheless, it exposes the parent company to a more risky situation and needs a greater amount of investment than previous options.

As indicated above, the decision to enter foreign markets by one or more of these strategies is influenced by numerous factors. It should be noted that companies will utilize different modes and, depending on the situation, can use multiple modes simultaneously. However, the more sophisticated the involvement in the international market, the more cultural difficulties will be faced by companies. This dictates that companies should have the resources and the necessary skills to manage any difficulties as their international involvements become increasingly complex.

Competing in the Global Marketplace

Trade openness and the liberalization process, along with increasing numbers of MNCs from the non-western world, have changed the nature of competition in the world market. That is, the international market is no longer dominated by western corporations. Most of the new entrants, especially from emerging economies, have their own game plans. Nevertheless, almost all MNCs, in their attempt to sustain or capture new markets, compete not only on quality and price but also on customer service. Therefore, the global marketplace has increasingly become a level playing field. The ultimate aim is to win customers using the appropriate strategies. In the global marketplace, strategy is a vital instrument for competitively positioning a company. This is because a globalized market strategy is an integrated, comprehensive plan of major activities that permits a firm to effectively and coherently achieve goals on a global scale without obstructing its abilities to meet national or regional challenges. Strategy translates a company's capabilities and commitment into general directions and actions necessary to enhance responsiveness, speed, and flexibility in dealing with ever-changing consumer needs.¹³

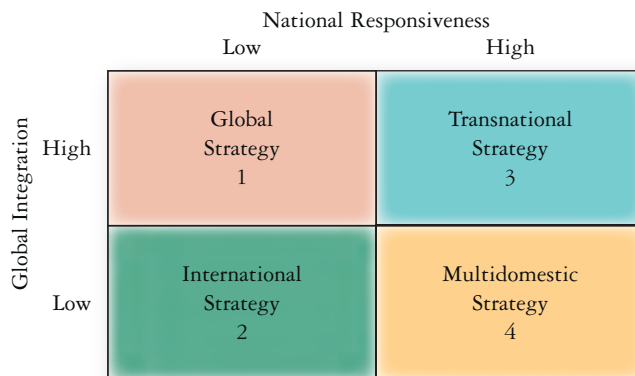
Executives, however, always have to confront the question, "what is our strategy?" Unlike Levitt, who conceptualized strategy in the global market as the delivery of products that are globally identical with respect to design, function, and even fashion, executives and scholars have challenged such claims and found his predication of convergence in taste across the globe impractical and impossible to generalize.¹⁴ Toshifumi Sukuki, President and CEO of Ito-Yokato Co., states that, "Retailing is perhaps one of the best examples of a truly domestic industry. Consumer tastes and price levels vary widely from country to country and concepts of customer service may differ according to cultural factors."¹⁵ Commonly, there are two types of global strategic approaches: multidomestic and global. **Multidomestic strategy** is a strategic approach where the parent company allows its subsidiaries to decide how to compete in and adapt to conditions in each domestic market. For example, a subsidiary in Algeria may pursue a different strategy than one in Oman. **Global strategy** is when a firm utilizes its entire worldwide systems of production and market positions against competition. In this context, the company is driven by efficiency and thus assumes similarities in demand for its products and produces and markets them in a similar manner.

Other researchers suggest a wider range of strategies for competing globally. For example, Bartlett and Ghoshal divide strategies for competing in the world market into international, multidomestic, global, and **transnational** (see **Figure 5-3**).¹⁶ Companies are influenced by two primary factors in deciding what strategy should be chosen: global integration and national responsiveness. The first underscores the need for efficiencies and realizing economies of scale. As companies operate globally, they utilize their production capacity and achieve lower production costs. Furthermore, geographic coordination of activities and centralization of vital functions in the value-added chain enable companies to reduce overall cost, especially in production and marketing areas.

National responsiveness underscores the need to understand differences in consumer tastes across markets and adapt to standards and regulations imposed by different countries. Meeting national differences in demand and taste when operating globally manifests two aspects: an acknowledgment that countries are different in their tastes and demands and that the firm is willing to accommodate such differences. These two elements suggest that firms, in their quest to be responsive, will have dispersed activities and that some functions will have to be decentralized. This may increase overall cost but more likely lead to flexible response and better adaptation to changing conditions across countries and regions.

FIGURE 5-3

Global Integration versus National Responsiveness



Source: adapted from Fred Luthans and Jonathan Doh, *International Management*, 7th ed. (New York: McGraw-Hill, 2009).

As shown in **Figure 5-3**, for companies in quadrant 1, the need for integration is high and the awareness of differences among countries is low. This strategy is primarily based on price and competition. In quadrant 2, companies pursue what is termed **international strategy**, characterized by high standardization of product and services. Therefore firms are not interested in being responsive to peculiarities in any country. Also, companies do not seek to coordinate their dispersed activities. In contrast, in quadrant 3, companies purposefully seek to be responsive to cultural needs of a country or region and simultaneously have a global platform in production. The latter contributes to lowering production costs while investing in marketing to meet different needs and environmental conditions. In quadrant 4 an emphasis is placed on local adaptation without regard to the benefit of economies of scale.

Global Integration Strategy

By entering the global marketplace Arab executives have no choice but to position their companies in a strategic place. However, most Arab firms lack global brands. The problem is further complicated by small domestic markets (except in Egypt), a lack of acute domestic competition, and a lack of innovation. For Arab firms to compete globally, they need to create the conditions for building what Porter calls the ‘home base’: a unique critical mass of skill, expertise, suppliers, and local institutions that make certain locations the innovation centers.¹⁷ Porter argues that the scale of a firm used to be important but this is no longer the case in a globalized market. He suggests that, increasingly, the scale of the cluster – the network, the infrastructure – is vital for competing.

In the Arab world the existence of such a cluster, for different businesses, is still a work in progress. Recently, Saudi Arabia took the initiative of establishing several knowledge cities across the country. Other Arab countries have embarked on similar projects, although they are much smaller in terms of investment. Until such clusters are operational, Arab companies should cultivate core competencies to sharpen their competitive capabilities abroad. That is, increasingly Arab firms have built strong domestic and regional bases (e.g. Almarai in Saudi Arabia, Nahas Enterprises Group in Syria, Rebab Company SA Limited in Morocco). These companies should take the initiative to expand their markets while aggressively refining their capabilities to compete globally, enhancing their integration and coordination skills.

The pressure of competition, be it domestic, regional, or international, and the inspiration to be a competitive player, should induce companies to rethink their integration strategies. Nevertheless there are structural and competitive factors which determine global integration strategies.¹⁸ The structural variables include economies of scale, differences in comparative advantages across nations, and standardized market demands across countries. The competitive forces relate primarily to competitive actions of industry players. These authors found that even though the effects of each of these two sets of factors on global

integration strategies vary considerably from one industry to another, there is a positive relationship between the global integration of business activities and performance.

Achieving superior performance relative to competitors requires establishing and sustaining a competitive position over rivals, including domestic firms. However, can companies create and maintain a competitive position? There are various factors which lead to this situation. Take, for example, the National Bank of Kuwait. It was the first domestic bank in the country and through its leveraging on liquidity, skilled managers, and networking the bank has realized, for decades, a competitive position in the domestic and regional market. This might be the same with other well-established Arab companies like SABIC, Ezz Steel, Group Ona, and Zain. These companies have benefited from their expertise in the domestic market and have projected their successes domestically to international markets.

Can other Arab firms project their domestic experience to overseas markets? Is this experience a liability or asset when Arab firms venture abroad? In its studies of GCC companies, McKinsey & Company suggested that these companies relying solely on “their experience in lucrative home markets ... would ultimately doom their expansion strategies.”¹⁹ This is because the “advantages that drive margins at home – high-income customer pools, cheap labor, and low energy costs – can’t be transferred to external markets. ... [These companies] will need to become more efficient abroad to be profitable there.”

A global strategy is more than simply leveraging the benefits of the firm’s country of origin.²⁰ It is also leveraging the firm’s specific resources and capabilities globally. This is the responsibility of the strategic team, especially the senior executives who have to see that the company focuses on effective utilization of resources. This is a difficult task but companies, by and large, “have not had to develop these capabilities in their home markets.”²¹ Companies operating abroad have certain options to sharpen their skills and achieve competitive advantage: first, they have to identify their key strategic objectives and second, they must agree on the tools for achieving goals.²² Generally, there are three types of goals (see also **Table 5-4**):

1. ***Achieving efficiency in current activities.*** Overall efficiency of the firm is viewed as the ratio of the value of its outputs to the costs of all its inputs. By maximizing this ratio, the firm realizes the surplus resources are essential for ensuring its own future. Companies inspired to reach this stage usually undertake two activities. First, they differentiate their products to enhance the exchange value of their outputs and search for low-cost factors to minimize the costs of their inputs. Second, they enhance the efficiency of their throughput processes by achieving higher-scale economies or finding more efficient production processes.
2. ***Managing the risks that companies assume in their conduct and searching to achieve a competitive edge.*** Generally, companies face four types of risks in the global marketplace. These are **macroeconomic risks** (e.g. cataclysmic events such as wars, natural calamities, movements in wage rates, interest rates, exchange rates, commodity prices); **political or policy risks** arising from the actions of national governments;

TABLE 5-4 Global Strategy: An Organizing Framework

Strategic Objectives	National Differences	Sources of Competitive Advantage	
		Scale Economics	Scope Economics
Achieving Efficiency in Current Operations	Benefiting from differences in factor costs: wages and cost of capital	Expanding and exploiting potential scale economies in each activity	Sharing of investments and costs across products, markets, and businesses
Managing Risks	Managing different kinds of risk arising from market or policy-induced changes in comparative advantages of different countries	Balancing scale with strategic and operational flexibility	Portfolio diversification of risks and creation of options and side-bets
Innovation Learning and Adaptation	Learning from societal differences in organizational processes and systems	Benefiting from experience: cost reduction and innovation	Shared learning across organizational components in different products, markets, or businesses

Source: Sumantra Ghoshal, “Global Strategy: An Organizing Framework,” *Strategic Management Journal* 8, no. 5 (September–October 1987): 428.

competitive risks arising from the uncertainties of rivals' responses to their own strategies; and, finally, **resource risks** resulting from the risk that the adopted strategy will require resources that companies do not have, cannot acquire, or cannot spare.

3. ***Developing internal learning capabilities so as to be able to innovate and adapt to future changes.*** Firms must consider learning as an explicit objective and must create mechanisms and systems for such learning to take place. This capacity to learn and be imaginative is primarily related to organizational culture irrespective of whether the key competencies reside in the center (centralized) or in a diversity of resources and competencies (decentralized). The learning and innovative spirit must be nurtured.

Competitive advantage is achieved by embarking on strategic actions that aim to optimize the performance of these three goals. The mechanisms for achieving competitive advantage are:

1. ***National differences.*** A company should exploit the differences in input and output markets among the many countries in which it operates. Ghoshal argued that, from a managerial perspective, it is more appropriate to take a broader view of societal comparative advantages to include "all the relative advantages conferred on a society by the quality, quantity and configuration of its material, human and institutional resources."²³
2. ***Scale economies.*** Traditionally, the focus of economies of scale is the benefit realized from increasing the size of the plant or the volume of units, thereby reducing the unit production cost. However, economies of scale can allow a corporation to accumulate learning, and this leads to progressive cost reduction as the firm moves down its learning curve. Furthermore, corporations can utilize the concept of the value-added chain to disaggregate analysis of scale benefits in different value-creating activities.
3. ***Economies of scope.*** The concept of economies of scope is based on the assumption that the cost of the joint production of two or more products can be less than the cost of producing them separately. Ghoshal identified three components of economies of scope. The first is the ability of a company to share investments and costs across the same or different value chains, which competitors, not possessing such internal and external diversity, cannot. Second are shared external relations with customers, suppliers, distributors, governments, and other institutions. And finally, shared knowledge of two or more technologies allows a company to capitalize on them to create new products.

Executives' strategic task of managing operations globally is to use all three sources of competitive advantage to optimize efficiency, risk, and learning simultaneously in a worldwide business. The key to a successful global strategy is to manage the interactions between these different goals and means.

Framework for Approaching Global Integration

Companies are endowed with various and different capabilities and resources and when they operate overseas they are confronted with complex factors and demands. The presence of these factors and the intensity of demands differ across countries and regions. This makes it imperative for companies to be prudent in choosing what strategy to pursue. Executives must select strategies that optimally serve the goals of their organizations. Often companies find opportunities for value creation in exploiting, instead of making efforts to adjust to, the differences they encounter in foreign markets. There are three types of global strategies available to firms: adaptation, aggregation, and arbitrage (see **Table 5-5**). These are defined below:²⁴

- ***Adaptation*** seeks to boost revenues and market share by maximizing the company's local importance. For example, a firm may establish local units in each national market that performs well in carrying out all the steps in the supply chain.
- ***Aggregation*** attempts to achieve economies of scale by creating regional or sometimes global operations. In this 'purely' global strategy, the firm standardizes its products and services and brings together the development and production processes.
- ***Arbitrage*** is the recognition of and capitalization on differences between national or regional markets, often by locating separate parts of the supply chain in different areas.

TABLE 5-5 Global Strategy: An Organizing Framework

	Adaptation	Aggregation	Arbitrage
<i>Competition</i> Why should we globalize at all?	To achieve local relevance through national focus while exploiting some economies of scale	To achieve scale and scope economies through international standardization	To achieve absolute economies through international specialization
<i>Configuration</i> Where should we locate operations overseas?	Mainly in foreign countries that are similar to the home base, to limit the effects of cultural, administrative, geographic, and economic distance		In a more diverse set of countries, to exploit some elements of distance
<i>Coordination</i> How should we connect international operations?	By country, with emphasis on achieving local presence within borders	By business, region, or customer, with emphasis on horizontal relationships for cross-border economies of scale	By function, with emphasis on vertical relationships, even across organizational boundaries
<i>Controls</i> What types of extremes should we watch for?	Excessive variety or complexity	Excessive standardization, with emphasis on scale	Narrowing spreads
<i>Change Blockers</i> Whom should we watch out for internally?	Entrenched country chiefs	All-powerful unit, regional, or account heads	Heads of key functions
<i>Corporate Diplomacy</i> How should we approach corporate diplomacy?	Address issues of concern, but proceed with discretion, given the emphasis on cultivating local presence	Avoid the appearance of homogenization or hegemony (especially for U.S. companies); be sensitive to any backlash	Address the exploitation or displacement of suppliers, channels, or intermediaries, which are potentially most prone to political disruption
<i>Corporate Strategy</i> What strategic levers do we have?	Scope selection Variation Decentralization Partitioning Modularization Flexibility Partnership recombination Innovation	Regions and other country groupings Product or business Function Platform Competence Client industry	Cultural (country-of-origin effects) Administrative (taxes, regulations, security) Geographic (distance, climate differences) Economic (differences in prices, resources, knowledge)

Source: Based on Ghemawat, Pankaj. "Managing Differences: the Central Challenge of Global Strategy," *Harvard Business Review* 85, no. 3 (March 2007): 58–68.

As the information in **Table 5-5** shows, executives can develop a general idea of where their respective organization may find it useful to use a particular strategy or a combination of the three strategies to take advantage of situations in each market. SABIC or CTI group, for example, may attempt to use the aggregation strategy. This is because of the nature of their products and the relative similarities of demand across nations. On the other hand, Orascom Telecom may utilize the adaptation strategy in its expansion. Before a company pursues any strategy, it should take note of the following:

1. Make sure the new elements of a strategy are a good fit for the organization. Elements which are not aligned with what the organization is doing in other activities or areas should be given careful attention.
2. A company that employs more than one strategy should be creative in applying integration mechanisms, especially in matching people to opportunities.
3. Consider externalizing integration. That is, not all integration which is supposed to add values across the border should be done within the organization. The organization may outsource some function or establish joint ventures with other companies to advance manufacturing or product development.

4. Know when not to integrate. That is, some integration may not be adequate, e.g. flexibility may not be achieved. Keeping apart the diverse activities housed within the organization could be a better approach than keeping them together.²⁵

Managing Expansion Effectively

The expansion of Arab companies into the global market constitutes an opportunity for growth and learning. Such expansion is imperative not only because most of the domestic markets are small, but also because competing globally sharpens their skills and allows them to gain access to talent while diversifying their portfolios. The expansion, of course, creates a challenge to prevailing management practices and is, more importantly, a test of whether or not Arab companies can successfully ride into the future with confidence and maturity. There are few very large Arab firms operating globally. Only SABIC appeared on the Fortune 500 list for 2009. However, 53 Arab firms made *Forbes's* list of Global 2000 for 2009. Most of these are in banking and are concentrated in the GCC area (see **Table 5-6**).

There are, however, hundreds of additional Arab corporations that have a global presence and are active in the international market (e.g. the Kharifi Group, the Zamil Group, Ezz Steel, Group Ona, etc.). In the not too distant future, more Arab corporations will expand

TABLE 5-6 Arab Corporations in Global 2000 by Industry

Telecommunication companies	Rank
Saudi Telecommunications (Saudi Arabia)	261
Emirates Telecommunications (UAE)	371
Zain Group (Kuwait)	445
Qatar Telecom (Qatar)	736
Orascom Telecom (Egypt)	986
Mobily (Saudi Arabia)	987
Telecom Egypt (Egypt)	1424
MobiNil (Egypt)	1841
Banking	Rank
Al Rajhi Bank (Saudi Arabia)	467
Samba Financial Group (Saudi Arabia)	585
QNB (Qatar)	605
Natl Bank of Kuwait (Kuwait)	629
Riyad Bank (Saudi Arabia)	664
Emirates NBD (UAE)	746
Arab Bank (Jordan)	767
Banque Saudi Fransi (Saudi Arabia)	776
Saudi British Bank (Saudi Arabia)	777
National Bank of Abu Dhabi (UAE)	770
First Gulf Bank (UAE)	803
Kuwait Finance House (Kuwait)	813
Arab National Bank (Saudi Arabia)	831
Attijariwafa Bank (Morocco)	888
Commercial Bank Qatar (Qatar)	1285
Commercial Bank Kuwait (Kuwait)	1295
Dubai Islamic Bank (UAE)	1347
Bank Audi (Lebanon)	1365
Qatar Islamic Bank (Qatar)	1384
Union National Bank (UAE)	1405
Blom Bank (Lebanon)	1421

(continued)

TABLE 5-6 Arab Corporations in Global 2000–continued

Banking	Rank
BMCE-Banque Marocaine (Morocco)	1619
Doha Bank (Qatar)	1635
Commercial International Bank (Egypt)	1646
Abu Dhabi Commercial Bank (UAE)	1650
Bank Muscat (Oman)	1792
Commercial Bank Dubai (UAE)	1929
Diversified Financials	Rank
Kingdom Holding (Saudi Arabia)	1363
Aldar Properties (UAE)	1480
Dar Al Arkan (Saudi Arabia)	1575
Emaar Properties (UAE)	1608
Kuwait Investment Projects (Kuwait)	1813
Chemicals	Rank
Saudi Basic Industries (Saudi Arabia)	110
Industries of Qatar (Qatar)	898
Saudi Arabian Fertilizers (Saudi Arabia)	1272
Saudi Kayan Petrochemical (Saudi Arabia)	1686
Arab Potash (Jordan)	1699
Other	Rank
Saudi Electricity (Saudi Arabia)	561
Orascom Construction Inds (Egypt)	942
DP World (UAE)	1007
Petro Rabigh (Saudi Arabia)	1059
Agility (Kuwait)	1337
Savola Group (Saudi Arabia)	1513
TAQA (UAE)	1514
Almarai (Saudi Arabia)	1686

their markets into Asia, Africa, Europe, and other regions. These corporations have to rethink their roles globally and embark on strategic initiatives to seize global opportunities. These companies, along with others, have to undertake the following in order to build sound foundations, expand market share, and best face the global challenge:²⁶

1. **Design and implement effective governance models.** There is a need for **governance** mechanisms where authorities are clearly identified and a structure is in place, and where accountability and the delegation process are normalized and sanctioned. Also, there must be articulated processes for managing acquired assets. The management of the post-merger or acquisition of units abroad must be given equal attention to that of pre-merger activities and process. Likewise, two critical issues must be given priority: succession and identification of change agents. Both are vital. While the first eases power transformation and smoothes operations, the second makes change possible and practical.
2. **Rethink the existing portfolio.** Because of the availability of capital and opportunities, especially in the oil-producing countries, Arab executives have embarked on diversified investment strategies in a short period of time. As access to opportunities becomes highly competitive, capital costs increase, and management has less time to focus on important business activities, there is a need to get rid of unessential activities, especially businesses which are not related to core competences and are the source of weak or unprofitable performance.
3. **Create performance-based meritocracies to attract and advance the best talent.** Because of the rush to expand and the presence of ample opportunities, talent has

not been given deserved attention. However, as competition at home increasingly becomes intense and competition overseas is not forgiven, talent acquisition and cultivation must top the list of priorities. Transparency in recruitment and promotion anchored on written performance-oriented systems are needed to achieve superior performance and build the foundation for productive and creative organization.

4. **Apply rigorous discipline to evaluating new investment.** In a domestic market where the economy is experiencing growth, tolerance of excessive spending along with investing in unattractive ventures is often permitted. This might not be the case when the economy is in recession. In this case, executives must be cautious. Often, executives tend to cut expenditure and avoid undertaking major projects. Investing in a global market where competition is intense, and growth is anything but sure, means that alternatives must be carefully assessed before a decision can be made. That is, there must be clear guidelines for investing in new ventures, and priorities must be placed on compatibility with existing resources and management skills.
5. **Build management capabilities.** As firms grow and expand, requirements for managing operations demand independent professional judgment and outlook. Recruiting talented individuals with social, global, and technical expertise has become an imperative, not only to grow but also to ensure the continuity of the business in the future. The global pool for talent is limited and this situates talent as the most critical factor for realizing competitive advantage.
6. **Separate business and family activities.** Saddi et al.²⁷ argued that there is a blurring of family and firm roles and operations which “reduces transparency, making it difficult to measure the real profitability of the business. At the same time, it increases the potential for areas of conflict among family members.” The authors suggested that Arab businesses must differentiate between family and firm activities by creating a family office to handle issues related to family-specific activities, establishing foundations to manage philanthropic affairs, and creating a separate financing arm to support family members’ own business ventures.
7. **Empower employees.** Empower employees to make decisions and emphasize serving the interest of the community wherever the company operates. Projecting the image of being responsible social and economic actors enhances their position in the community and creates social and political capital.

Arab corporations should learn from other Arab corporations that have ventured abroad earlier. Likewise, they should study the strategic approaches of their counterparts from emerging countries (e.g. Turkish, Indian, Malaysian, Indonesian, Brazilian, South African, etc.). These companies have in recent years achieved remarkable success in the global market and accumulated rich experience. The core point, however, is that those Arab corporations in their quest to compete in the world market have developed distinct capabilities and skills.

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Conclusion

This chapter presents an overview of the nature of global competition and operation. In recent years, options available for firms to enter world markets have become numerous. Depending on resources and other factors, firms can either select one or a few options, or simultaneously use several options. In addition, MNCs have become major actors in international markets. Western MNCs, while still dominating the international scene, increasingly face challenges posited by MNCs from emerging economies.

Strategies for successful penetration of the global marketplace take time to shape. Nevertheless, competitive corporations remain those which leverage their resources and capabilities in either capturing new markets or sustaining existing ones. These companies are alert to emerging opportunities and trends and always attempt to be ahead of competitors by shaping the game of market competition. The fact that global market conditions differ from those prevailing in the national market necessitates that senior executives give priority to devising strategies that place their companies in a competitive position. In this chapter, specific options for entering international markets and

strategies to nurture competitive advantage are discussed. Specific corporate and business strategies for competing will be covered in the chapters that follow.

In the last few decades, Arab corporations have ventured abroad and some of them have positioned themselves competitively, especially in the banking and petrochemical industries. These companies, along with many others, may find lucrative niches and emerging opportunities in different parts of the world. The challenge they face, however, is on how to take advantage of these opportunities in effective ways. For example, in its study of GCC telecommunication expansion abroad, McKinsey & Company²⁸ observed:

Deep pockets and a superior ability to manage regional risk have prompted telecommunications companies from the Gulf Cooperation Council (GCC) states...to launch aggressive expansion strategies, such as investing in African and Asian countries while most Western companies have hesitated. In some markets, these efforts are starting to pay off as potential growth turns into real revenues. But to build on this initial success, GCC telcos must enter a new phase and become masters of execution.... In addition to being careful not to overpay for acquisitions and wireless licenses as the appetite for growth rises, such companies must implement effective governance models to control their new multinational operations, master cost reduction strategies, and create performance-based meritocracies.... For many GCC telcos, these will be new skills, but they will be crucial for any company that hopes to thrive in the new territories.

Many Arab corporations have acquired foreign businesses in various parts of the world. Two major challenges should be overcome: overpaying for the acquired firms and dealing with existing managers and staff. Minimizing the occurrence of the first comes with experience and maturity. In acquiring foreign firms, Arab executives, however, should avoid making hasty decisions. That is, buying should be done after careful and objective analysis of the current market value and attractiveness of the venture. The acquired firms must meet at least two conditions: that opportunities for synergy and strategy fit with the rest of the business, and that the venture be a vital investment opportunity. In managing the acquired firm, Arab executives should articulate their vision for the venture and there must be a management team that is on board and functioning according to the environment of the host country. Integrating the new talent and involving them in the decision-making process will motivate them and make them feel they are appreciated.

Expansion overseas is a challenge. More importantly it is an opportunity to learn and grow. The opening opportunities, whether they are in Asia, Africa, or North America, should be considered, evaluated, and seized. Having foresight is an asset and acting on it in the global marketplace manifests prudence and leadership.

Key Terms and Concepts

Competitive Advantage (p. 149)

Competitive Risks (p. 157)

Contract Manufacturing (p. 151)

Contractual Approaches (p. 151)

Ethnocentric (p. 144)

Export (p. 146)

Franchising (p. 152)

Geocentric (p. 144)

Global Strategy (p. 154)

Globalization (p. 143)

Governance (p. 160)

International Strategy (p. 155)

Internationalization (p. 143)

Joint Venture (p. 143)

Licensing (p. 152)

Macroeconomic Risks (p. 156)
Management Contract (p. 151)
Multidomestic Strategy (p. 154)
Political or Policy Risks (p. 156)
Polycentric (p. 144)
Regiocentric (p. 144)
Resource Risks (p. 157)
Scale Economies (p. 157)
Scope Economies (p. 157)
Talent (p. 142)
Transnational Strategy (p. 155)
Turnkey Operation (p. 153)
Wholly-Owned Subsidiaries (p. 151)

Issues for Review and Discussion

1. Why do companies go global?
2. Do you think there are differences between internationalization and globalization? Why or why not?
3. Specify market entry strategies; which ones are commonly used by Arab corporations?
4. Do you agree that cultural and economic differences are disappearing? Are familiarities with differences, if any, essential for strategic planning?
5. Relative to joint ventures, what are the advantages of wholly-owned subsidiaries?
6. Is it important for Arab countries to contract major turnkey projects to foreign MNCs?
7. Explain the meaning of *directed opportunism*.
8. Discuss the two dimensions of *directed opportunism*.
9. Explain why cultural factors should be an important consideration in analyzing and choosing among alternative modes of market entry.
10. Why do you think that the global marketplace is increasingly becoming a level playing field?
11. Can Arab corporations project their domestic experience to overseas markets?
12. How does a global strategy differ from a multidomestic one?
13. List the limitations of global strategy.
14. What are the three major goals for major corporations? What are the tools needed to achieve these goals?
15. List some examples of macroeconomic risks. Can corporations control them?
16. Give four examples of policy risks.
17. Name the Arab company which appeared on the Fortune 500 list in 2009.
18. Which Arab country has the most corporations on *Forbes's* Global 2000 list? Why?
19. How can companies build management capabilities?
20. What are scope economies? How do they differ from scale economies?

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• STRATEGIC MANAGEMENT IN PRACTICE**SABIC****Strategic Management in Practice 5A****SABIC and the Far East**

The Far East is one of the most dynamic regions in the world, both socially and economically. While Japan and China are among the most important economic players, other countries like Vietnam, Thailand, South Korea, and Indonesia are also vital players. Recently, SABIC has intensified its activities in some countries in the region, specifically China and Japan. Other countries may offer ample opportunities for SABIC.

Purpose

SABIC is one of the most prominent Arab corporations, with a long history in foreign operation and foreign presence. The company is one of the world's leading manufacturers of chemicals, fertilizers, plastics, and metals (see Cohesion Case, p. 32). The way in which SABIC capitalizes on opportunities abroad and expands globally has strategic significance for emerging and established Arab corporations.

Instructions

- Step 1** Print a map of Asia.
- Step 2** Prepare a table with the GDP and population for each country in the Far East.
- Step 3** Gather information on SABIC competitors and their presence in the Far East.
- Step 4** List in prioritized order the countries that you think that SABIC should enter or where SABIC should reinforce its presence.
- Step 5** Based on your understanding of SABIC's capabilities and the opportunities in each country, determine what market strategy or strategies SABIC should utilize for each market and give justifications.

Strategic Management in Practice 5B

Aramco's Market Entry Strategies

Go to Aramco's website (www.saudiaramco.com) and search for information regarding the company's international operations. Does Aramco have mostly wholly-owned subsidiaries or joint ventures?

Purpose

Aramco is a prominent Arab corporation with a long history of foreign operation. The company is a world oil giant which competes and cooperates with major MNCs. How Aramco entered the foreign market is important and gives useful insight for other Arab corporations in the energy sector and other related industries.

Instructions

The class divide into groups, with each group having four to five students. Independently, each group should list the international subsidiaries and affiliates of Aramco. Each group should then determine where subsidiaries and affiliates are located. After that, the group should write a brief on whether Aramco has mostly wholly-owned subsidiaries or joint ventures. Also, the group should reflect on the geographic distribution of subsidiaries and affiliates and consider the reasons for such locations (e.g. large market, access to world-class distribution facilities, etc.).

Strategic Management in Practice 5C

Mapping the Global Geographic Location for Alshaya Retail

Purpose

Alshaya Retail (www.alshaya.com) is a major player across a variety of sectors, initially in Kuwait and Saudi Arabia and more recently throughout the Middle East, Turkey, Cyprus, Russia, Poland, the Czech Republic, and Slovakia. It operates more than 55 international retail concepts. These include many of the world's leading fashion and footwear, casual dining, health and beauty, pharmaceutical, optics, home furnishings, and office supplies brands. All are situated in premier retail locations.

Alshaya Retail has partnerships with, and is a franchisee of, major international names. The company has been successfully bringing top retail concepts to local malls and high streets.

Instructions

- Step 1** Join with two other people in class and develop a list of regions where the company operates; identify the type of business and number of locations in each region.
- Step 2** Draw a diagram to show your grouping to the class. Compare your results with other team's matrices.
- Step 3** Should Alshaya follow an internationalization or a globalization strategy? Explain and defend your answer.

Strategic Management in Practice 5D

Developing a Market Entry Strategy for a Medium-Sized Company

Purpose

Since 1948, Cartier Saada, a Moroccan-based company, has been in the business of processing preserved fruits and vegetables. It relies primarily on distributors in a few countries to get its products to market. Its distributors are in Canada, Germany, France, and

Belgium. The company takes pride in its quality products and efficient operation. It is a public company and is listed on the Casablanca Stock Exchange (www.cartiersaada.com/en/home_en.htm).

Instructions

- Step 1** Join with three or four students in class and discuss whether Cartier Saada should entertain other entry strategies besides exporting.
- Step 2** List your options according to your preferences.
- Step 3** Compare your list with other students' matrices. Discuss any major differences.

Strategic Management in Practice 5E

Citadel Capital's Expansion Strategy

Citadel Capital is a private equity firm, established in 2003 in Cairo and becoming operational in 2004. Today, it is the country's largest homegrown equity organization. To date, Citadel Capital has raised 18 Opportunity-Specific Funds (OSFs), which control platform companies in 15 industries with investments worth more than US\$8.3 billion. The company pursues investments in the Middle East and Africa and primarily in industries which are energy- and labor-intensive.

Purpose

Citadel Capital is a successful private equity firm. Why and how has the company built an impressive performance record? Does regional focus contribute to its success?

Instructions

- Step 1** Go to the company's website (www.citadelcapital.com).
- Step 2** The class should be divided into several teams, each with about five students.
- Step 3** Examine the company's strategy and current investments.
- Step 4** Write a short report focusing on the reasons behind its remarkable success. Should the company venture beyond the Middle East and Africa?
- Step 5** Present your findings to the class.

COHESION CASE

SABIC

Saudi Basic Industries Corporation

www.sabic.com

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Introduction

Vision - is to be the preferred world leader in chemicals.

Mission - is to responsibly provide quality products and services through innovation, learning and operational excellence while sustaining maximum value for our stakeholders.

Over the last three decades, Saudi Basic Industries Corporation (SABIC), located in Riyadh, Saudi Arabia, has grown to be one of the 10 largest petrochemical companies in the world. In 2009, the company's net income was SR9 billion, sales revenue was SR103 billion, and total assets were worth SR297 billion. SABIC operates in 213 sites located in 40 countries. It employs 33,000 people.

SABIC is a publicly-owned company and listed on Tadawul, the Saudi Arabian Stock Exchange. The Saudi Arabian government holds 70 percent of the shares and the rest are owned by private investors based in Saudi Arabia and other Gulf Cooperation Council (GCC) countries. The company is among the world's market leaders in the production of polyethylene, polypropylene and advanced thermoplastics, glycols, methanol, and fertilizers and one of the largest producers of steel in the Middle East.

History of SABIC

SABIC was founded in 1976 when the Saudi Arabian government decided to use the hydrocarbon gases associated with its oil production as the primary feedstock (the raw material required for some industrial processes) for production of chemicals, polymers, and fertilizers. The founding of SABIC transformed the small fishing villages of Jubail on the Arabian Gulf and Yanbu on the Red Sea into modern industrial cities.

By 1982, most of SABIC's group of companies were formed and were under construction, as the cities themselves, as well as their ports and airports, neared completion. That year marked another important moment in Saudi industrial history, when the country's ambitious Master Gas System was brought online. The first of SABIC's businesses to begin actual production was HADEED, which began producing steel products in 1982. In 1983, SABIC opened its new headquarters in Riyadh, and launched two new subsidiaries: SABIC Marketing and SABIC Services. The company booked its first export shipment that year, sending 33,000 metric tons of chemical (methanol) from its AR-RAZI affiliate to Japan.

In due course, it established and commissioned 19 industrial complexes in Jubail and Yanbu and acquired plants in the Netherlands, Germany, the United Kingdom, and the United States. It acquired a U.S.-based chemical company called GE Plastics in 2007 and reorganized it as SABIC Innovative Plastics by adding the acquired company into its 38 new manufacturing and compounding facilities in its operations. SABIC Innovative Plastics diversified SABIC into specialty and high-performance engineered thermoplastics to add value and enhance the company's offerings to the industry. It has contributed up to six percent of globally traded petrochemical products in a given period of time upon manufacturing chemicals, fertilizers, plastics, and metals.

SABIC went public in 1984, although the Saudi government maintained a 70 percent stake in the company, and its shareholder base was restricted to Saudi and other citizens in the GCC countries only. The newly public company began its first marketing efforts, launching the Ladene brand of linear low-density polyethylene products. When its first shipments

began in 1985, the company already boasted some five percent of total world production. The company's arrival during a global slump in the petrochemicals market proved an advantage with access to Saudi Arabia's huge gas reserves, SABIC was able to enter the market with some of the lowest feedstock costs in the industry. Indeed, SABIC's arrival forced a shift among the industry's previous major players, many of which moved farther downstream in petrochemicals production, while others exited a number of markets entirely. At the same time, the company's Gulf location placed it close to both European and, especially, fast-growing Asian markets.

SABIC's production was 6.5 million metric tons in 1985. Five years later production rose to 13 million tons; by 2003 production had risen to 42 million metric tons; it reached 56 million metric tons in 2008 and it is planning to raise its production to over 130 million tons by 2020 through various strategies such as local expansions, acquisitions, and joint ventures.

Internal Issues

Corporate Structure and Current Strength of SABIC

As the number, size, and diversity of divisions in an organization increase, controlling and evaluating divisional operations become increasingly difficult for managers as strategists. The span of control becomes very large at top levels of the firm. More importantly, in multidivisional organizations, a Strategic Business Unit (SBU) structure can greatly facilitate strategy implementation efforts. Generally speaking, the SBU structure groups similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the chief executive officer (CEO). This change in structure can facilitate strategy implementation by improving coordination between similar divisions and channeling accountability to distinct business units.

As shown in **Exhibit 1**, SABIC functions by using an SBU model organizational structure consisting of six SBUs, namely (1) Chemicals, (2) Polymers, (3) Performance Chemicals, (4) Metals, (5) Fertilizers, and (6) Innovative Plastics; there are also two supporting divisions called (1) Manufacturing, and (2) Technology and Innovation. SABIC has benefitted immensely from the SBU type of organizational structure.

The vision of SABIC is to be the preferred world leader in chemicals. The mission is to responsibly provide quality products and services through innovation, learning, and operational excellence while sustaining maximum value for its stakeholders. The current strength of the company was demonstrated when SABIC turned in a very creditable performance with production up by four percent and sales quantities up by five percent against a backdrop of worldwide economic turbulence. Although profitability was severely affected by a dramatic weakening of prices due to the world economic downturn, overall 2009 performance was remarkably strong and testifies to the abilities of its global workforce to perform under pressure. The success represents a powerful vindication of the strategy that SABIC has pursued consistently and resolutely over recent years and also the strong leadership of the organization.

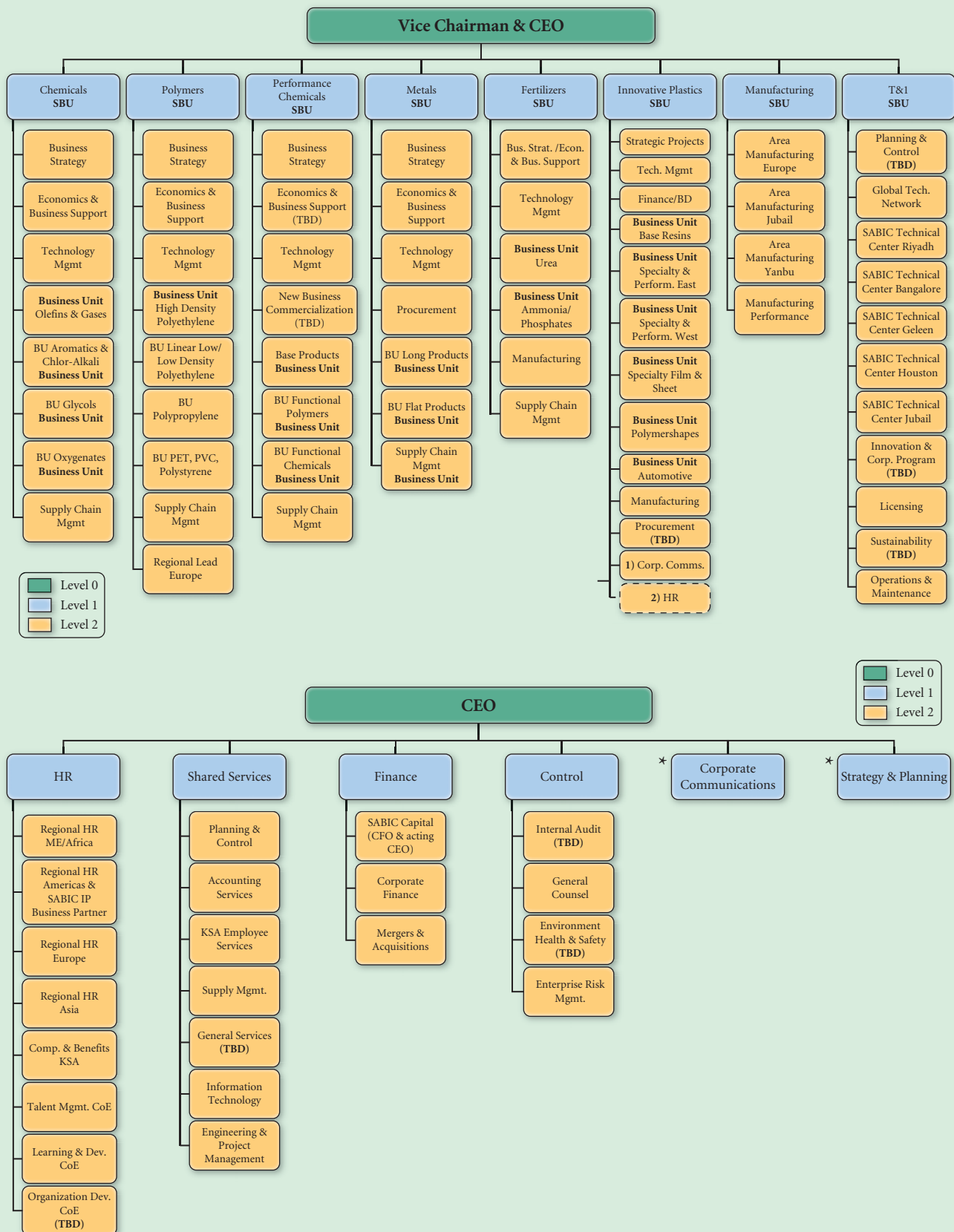
SABIC has acquired operating units carefully and effectively, to build capabilities and maintain strong geographical presence, steadily developing into a global leader, and has displayed persistent in improving its business processes. The company has invested in new plant and distribution facilities, to exploit growing demand more effectively, and has invested in its people, in the belief that their talents and their dedication are key factors to its future. SABIC has set a clear and far-reaching ambition: to become the world's preferred leader in chemicals. To achieve success on such a scale SABIC requires a large commitment of capital, expertise, and sheer hard work.

In recent years the company has underscored its renewed commitment to innovation as the key to a larger and more prosperous future. The recent innovations of SABIC strive to make the world a cleaner, safer, and a more sustainable place. In a review of its innovation activities over the years, it appears that its innovations go beyond development of materials to encompass a full-blown culture of innovation that constantly looks at the ways it interacts with its communities, the ways it relates to its environment, and its interactions with its key stakeholders, its people, its shareholders, and its customers and suppliers. Innovation is nowhere more apparent and well demonstrated than in the '1 SABIC Initiative.'

Fortune 500

SABIC is ranked 293 globally in terms of sales in 2009 as listed by *Fortune* Global 500 which ranks the world's largest corporations in terms of revenue. It is the only Arab company on the list.

Source: <http://money.cnn.com/magazines/fortune/fortune500/2010/>

EXHIBIT 1 Corporate Structure of SABIC

Source: Obtained from Company.

EXHIBIT 2 1 SABIC Initiative

With 1 SABIC, we are combining the talents of our 33,000 employees worldwide into one, integrated global organization that will work together to drive SABIC towards our 2020 vision to become the preferred world leader in chemicals.



Source: Obtained from Company.

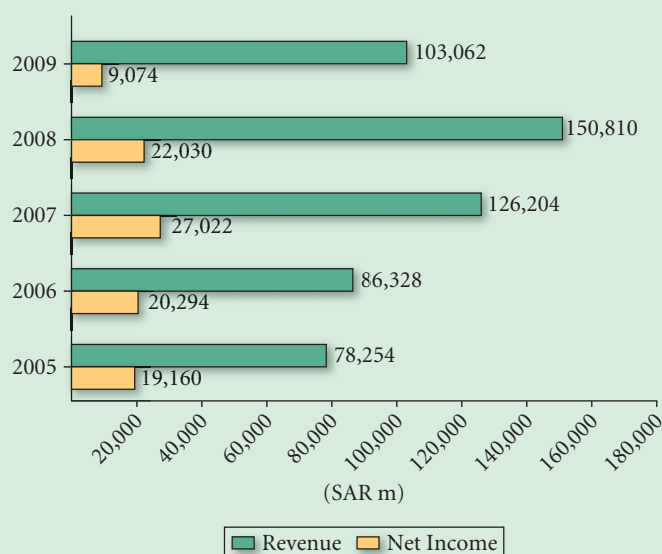
As shown in **Exhibit 2**, the 1 SABIC Initiative is combining the talents of its 33,000 employees worldwide into one, integrated global organization that will work together to drive SABIC towards its 2020 vision to become the preferred world leader in chemicals. Along these lines, the company has launched a structural reorganization of its enterprise into a single, unified global entity and EMDAD, its project to improve every aspect of its supply chain.

The company has stated a commitment to doing everything better in the name of efficiency, in the name of sustainability, and in the name of the kind of commercial performance that alone will enable it to achieve its longstanding ambition to be the preferred world leader in chemicals. SABIC is determined to be an outward-looking enterprise that has the ability to be exceptionally responsive to global requirements, the capacity to deliver on customer demands for innovative solutions and cost-competitive products anywhere in the world. The 1 SABIC Initiative has instigated five program imperatives to implement its strategies namely (1) One SABIC; (2) Differentiation is the key to success; (3) Functional Excellence within and across SBUs; (4) Strategic Corporate Center; and (5) Adaptable, flexible build up; and these imperatives are clearly explained in **Exhibit 2**. Its new 1 SABIC Initiative is designed to meet customer requirements with strong-than-ever global buying power and process improvements made possible by the further integration of its global functions.

Financial Position of the Company

As shown in **Exhibit 3**, up to 2008, SABIC achieved commendable results through the commitment and capabilities of its people around the world. In 2009, SABIC, like many competitors, experienced a decline in operations and profitability due to the global financial crisis. Revenues and profits declined sharply. However, the petrochemical industry is upbeat about medium-term improvement in demand and financial results. **Exhibits 3–9** detail SABIC's financial position. Historically, SABIC's historical net profit was higher than global petrochemical industry profitability.

The company's operating margin reduced from 28.71 percent in the year 2005 to 18.25 percent in 2009. This might be because of the economic slowdown and the low margin of the industry. This 18.25 percent in 2009 was still above the Chemicals – Diversified sector average of 7.81 percent which represents top companies within the specified sector, as per publications from Global Data (www.globalmarketsandcompanies.com). This indicates that the company is in a better position in terms of efficient cost management and a strong pricing strategy.

EXHIBIT 3 Performance (2005–2009)

Source: Data from www.globalmarketsandcompanies.com.

EXHIBIT 4 SABIC Consolidated Income Statement (Year Ending 31 December, 2009, SR 000)

Particulars	2009	2008	2007	2006	2005
Sales	103,061,800	150,809,596	126,204,404	86,327,862	78,253,536
Cost Of Sales	74,441,849	105,046,315	78,254,228	51,415,477	45,169,206
Gross Profit	28,619,951	45,763,281	47,950,176	34,912,385	33,084,330
Selling, General & Administrative Expenses	8,634,207	9,171,992	6,903,653	4,026,26 5	3,914,352
Impairment Of Goodwill	1,181,250	0	0	0	0
Income From Main Operations	18,804,494	36,591,289	41,046,523	30,886,120	29,169,978
Investment & Other Incomes	1,496,265	4,544,649	4,230,235	4,544,649	4,544,649
Financing Charges	3,025,508	3,800,927	2,869,168	1,567,042	1,397,257
Loss Arising From A Legal Case	0	0	0	0	0
Income Before Minority Interests & Zakat	17,275,251	37,335,011	42,407,590	33,863,727	32,317,370
Minority Interests In The Net Income Of Subsidiaries	7,301,529	13,905,168	13,585,318	10,527,505	9,100,464
Net Income Before Zakat	9,973,722	23,429,843	28,822,272	23,336,222	23,216,906
Zakat	900,000	1,400,000	1,800,000	1,050,000	750,000
Net Income For The Year	9,073,722	22,029,843	27,022,272	22,286,222	22,466,906
Earnings Per Share			10.81	8.12	47.89

EXHIBIT 4 SABIC Consolidated Income Statement (Year Ending 31 December, 2009, SR 000)—continued

Particulars	2009	2008	2007	2006	2005
Attributable To Income					
From Main & Continuing Operations	6.34	12.57	0.00	0.00	0.00
Attributable To Net Income For The Year	3.03	7.34	0.00	0.00	0.00

Source: SABIC Financial Reports, www.sabic.com.

EXHIBIT 5 SABIC Consolidated Balance Sheet (Year Ending 31 December, 2009, SR 000)

Particulars	2009	2008	2007	2006	2005
Assets					
<i>Current Assets</i>					
Cash & Cash Equivalents	56,377,434	51,027,586	46,055,575	41,227,735	28,172,569
Accounts Receivables	20,533,768	16,104,204	25,977,943	16,475,589	14,520,648
Inventories	23,769,990	24,359,750	22,305,959	13,658,245	10,642,446
Prepayments & Other Current Assets	5,782,492	3,963,434	5,148,288	2,612,872	2,945,182
Total Current Assets	106,463,684	95,454,974	99,487,765	73,974,441	56,280,845
<i>Non-Current Assets</i>					
Investments	8,298,741	8,695,833	5,427,127	3,531,839	5,898,098
Property, Plant & Equipments - Net	157,539,066	141,440,177	123,113,574	79,970,622	66,096,734
Intangible Assets	21,901,313	22,979,090	22,964,004	5,094,003	5,335,038
Other Non-Current Assets	2,658,498	3,189,915	5,254,811	4,017,915	3,339,765
Total Non-Current Assets	190,397,618	176,305,015	156,759,516	92,614,379	80,669,635
Total Assets	296,861,302	271,759,989	256,247,281	166,588,820	136,950,480
Liabilities					
<i>Current Liabilities</i>					
Accounts Payable	13,382,450	8,261,246	14,965,392	11,065,422	7,781,718
Accrued Liabilities & Other Payables	12,268,388	11,864,382	12,071,352	8,529,868	7,461,439
Short-Term Bank Borrowings	939,774	1,235,542	1,399,188	607,622	351,695
Current Portion Of Long-Term Debt	5,537,199	3,053,274	3,272,036	5,521,174	6,352,264
Zakat Payable	1,720,962	2,165,563	0	0	0
Total Current Liabilities	33,848,773	26,580,007	31,707,968	25,724,086	21,947,116
Non-Current Liabilities					
Long-Term Debt	100,537,782	88,367,462	75,437,595	33,611,628	23,017,180
Employees' Service Benefits Payable	7,044,485	7,339,816	6,811,312	0	0

(continued)

EXHIBIT 5 SABIC Consolidated Balance Sheet (Year Ending 31 December, 2009, SR 000)—continued

Particulars	2009	2008	2007	2006	2005
Other Non-Current Liabilities	2,800,062	2,831,091	7,794,134	6,762,869	6,764,647
Total Non-Current Liabilities	110,382,329	98,538,369	90,043,041	40,374,497	29,781,827
Total Liabilities	144,231,102	125,118,376	121,751,009	66,098,583	51,728,943
Equity					
Shareholders' Equity					
Share Capital	30,000,000	30,000,000	25,000,000	25,000,000	20,000,000
Statutory Reserve	15,000,000	14,702,984	12,500,000	11,445,362	9,415,968
Research & Technology Reserve	0	0	1,291,691	1,291,691	1,291,691
General Reserve	54,478,089	43,652,631	28,894,705	20,631,558	17,589,241
Retained Earnings	8,776,707	14,576,859	23,467,635	14,514,548	14,043,717
Total Shareholders' Equity	108,254,796	102,932,474	91,154,031	72,883,159	62,340,617
Minority Interests	44,375,404	43,709,139	43,342,241	27,607,078	22,880,920
Total Equity	152,630,200	146,641,613	134,496,272	100,490,237	85,221,537
Total Liabilities & Equity	296,861,302	271,759,989	256,247,281	166,588,820	136,950,480

Source: SABIC Financial Reports, www.sabic.com.

EXHIBIT 6 SABIC Consolidated Statement of Cash Flow (Year Ending 31 December, 2009, SR 000)

Particulars	2009	2008	2007	2006	2005
Operating Activities					
Income Before Zakat	9,973,722	23,429,843	28,822,272	23,336,222	23,216,906
Adjustments For:					
Depreciation & Amortization	10,772,512	10,051,999	7,606,010	6,119,236	6,530,723
Share In Earnings Of Associated Companies, Net	-229,501	-1,124,589	-910,356	-196,974	-526,168
Minority Interests In The Net Income Of Subsidiaries	7,301,529	13,905,168	13,585,318	10,527,505	9,100,464
Changes In Operating Assets & Liabilities					
Accounts Receivable & Prepayment, Net	-6,248,623	10,054,874	-4,542,514	-1,622,631	-968,480
Inventories	589,761	-2,053,791	-1,147,664	-3,015,799	-10,642,446
Accounts Payable, Accrued Expenses & Other Payables	5,523,918	-6,967,062	2,944,193	4,065,404	-889,327

EXHIBIT 6 SABIC Consolidated Statement of Cash Flow (Year Ending 31 December, 2009, SR 000)–continued

Particulars	2009	2008	2007	2006	2005
Other Non Current Liabilities	–326,360	56,331	4,254,230	–1,778	1,797,940
Zakat Paid	–1,344,601	–1,122,928	–2,001,951	–813,028	–331,019
Net Cash From Operating Activities	26,012,357	46,229,845	48,609,538	38,398,157	27,288,593
Investing Activities					
Purchase Of Property, Plant & Equipment, Net	–23,987,968	–26,595,512	–30,859,807	–18,752,640	–7,599,562
Acquisition Of Subsidiary	0	0	–43,231,890	0	0
Investments, Net	723,741	–1,550,367	–20,635	2,563,233	–2,681,959
Intangible Assets, Net	–1,155,398	–1,136,307	–272,498	–644,554	183,315
Other Non Current Assets, Net	–215,988	–524,423	–1,246,557	–1,033,045	–528,443
Net Cash Used In Investing Activities	–24,635,613	–29,806,609	–75,631,387	–17,867,006	–10,626,649
Financing Activities					
Long-Term Debt, Net	14,654,245	12,711,104	39,423,079	9,763,358	–3,973,596
Short-Term Bank Facilities, Net	–295,769	–163,646	791,566	255,927	–131,834
Dividends Paid	–3,750,108	–10,281,634	–8,796,105	–9,701,643	–7,421,564
Minority Interests, Net	–6,635,264	–13,538,269	2,102,120	–5,801,347	–6,054,915
Net Cash (Used In) From Financing Activities	3,973,104	–11,272,445	33,520,660	–5,483,705	–17,581,909
Increase In Cash & Cash Equivalents	5,349,848	5,150,791	6,498,811	15,047,446	–919,965
Cash & Cash Equivalents At The Beginning Of The Year	51,027,586	45,876,795	39,377,984	24,330,538	16,095,879
Cash & Cash Equivalents At The End Of The Year	56,377,434	51,027,586	45,876,795	39,377,984	15,175,914

Source: SABIC Financial Reports, www.sabic.com.

The company's current ratio increased to 3.15 at the end of 2009 from 2.56 at the end of 2005. This 3.15 in 2009 was still above the Chemicals–Diversified sector average of 2.33. This indicates that the company is in a strong financial position and is more capable of meeting its short-term obligations than other companies in the sector. The strong liquidity is due to the an increase of cash and cash equivalents to SR56,377.43 million at the end of 2009 from SR51,027.59 million at the end of 2008.

EXHIBIT 7 SABIC Segment Financial Information (Year Ending 31 December, 2009, SR 000)

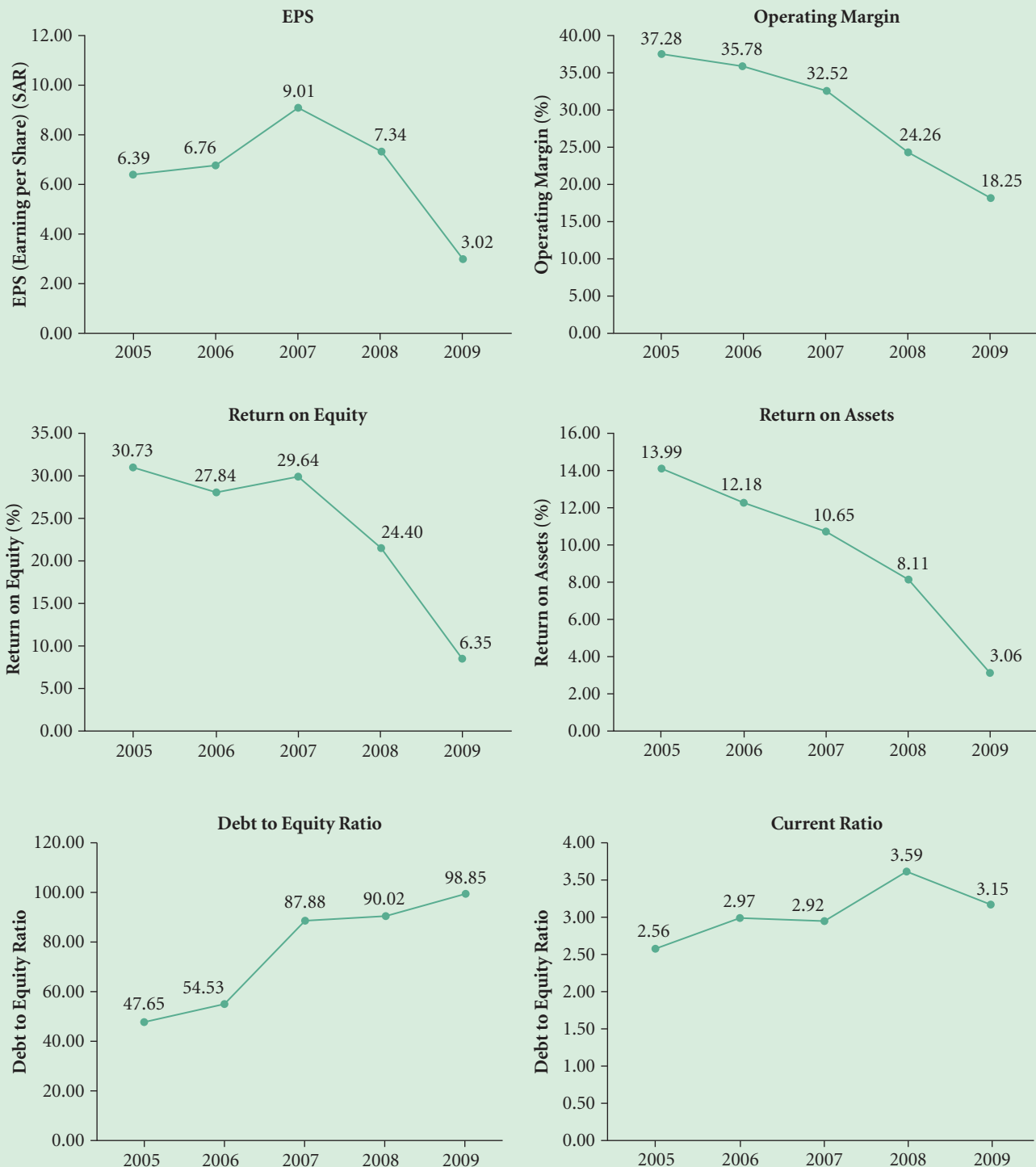
	Chemicals	Fertilizers	Metals	Corporate	Consolidation Adjustments and Eliminations	Total
Year 2009						
Sales	111,932,553	5,100,767	10,312,071	6,139,003	(30,422,594)	103,061,800
Gross Profit	19,607,558	2,556,662	2,437,456	2,996,144	1,022,131	28,619,951
Net Income	7,822,795	2,576,281	1,800,137	9,578,409	(12,703,900)	9,073,722
Total Assets	233,317,077	12,899,921	20,565,049	157,900,394	(127,821,139)	296,861,302
Total Liabilities	153,599,396	2,400,660	4,405,895	47,090,887	(63,265,736)	144,231,102
Year 2008						
Sales	166,410,287	8,954,194	14,950,975	6,834,081	(46,339,941)	150,809,596
Gross Profit	31,813,893	6,273,407	5,761,838	3,368,429	44,083	47,261,650
Net Income	20,711,972	6,066,191	5,019,068	22,686,978	(32,454,366)	22,029,843
Total Assets	213,257,116	14,748,420	21,093,629	142,467,990	(119,807,166)	271,759,989
Total Liabilities	128,995,501	2,504,029	4,934,613	37,402,992	(48,718,759)	125,118,376
Year 2007						
Sales	141,191,715	6,425,380	10,700,868	5,994,080	(38,107,639)	126,204,404
Gross Profit	36,966,787	3,644,353	3,331,588	3,237,873	769,575	47,950,176
Net Income	30,661,200	3,524,857	2,702,694	27,809,216	(37,675,695)	27,022,272
Total Assets	209,520,680	11,741,890	17,827,898	133,421,323	(118,780,710)	253,731,081
Total Liabilities	120,511,673	2,735,188	5,687,950	40,695,757	(50,395,759)	119,234,809
Year 2006						
Sales	74,066,639	-	7,611,579	4,649,644	-	86,327,862
Gross Profit	31,843,849	-	1,975,616	1,408,557	-	35,228,022
Net Income	17,247,124	-	1,725,077	1,321,741	-	20,293,942
Total Assets	106,616,223	-	16,205,783	43,766,814	-	166,588,820
Total Liabilities	32,280,078	-	6,267,450	27,551,055	-	66,098,583
Year 2005						
Sales	66,638,178	-	7,193,152	4,422,206	-	78,253,536
Gross Profit	28,816,673	-	2,282,748	1,984,909	-	33,084,330
Net Income	14,757,787	-	1,874,290	2,527,608	-	19,159,685
Total Assets	86,951,135	-	14,475,961	35,523,384	-	136,950,480
Total Liabilities	27,309,785	-	5,287,933	19,131,225	-	51,728,943

Notes:

- For years 2005 and 2006, Chemicals include both the Petrochemicals and Fertilizers figures.
- The chemicals segment includes basic chemicals, intermediates, polymers, and specialty chemicals.
- The fertilizers segment consists of fertilizer products.
- The metals segment consists of steel products.
- The corporate segment includes the corporate operations, Technology and innovation centers, the investment activities and SABIC Industrial Investments Company (SIIC).

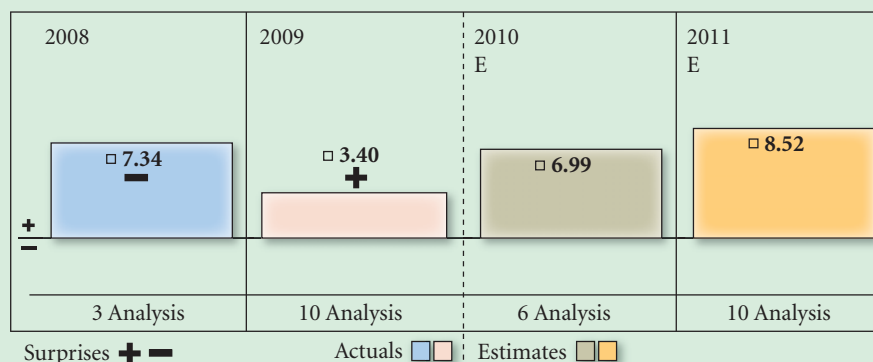
Source: SABIC Financial Reports, www.sabic.com.

One of the weaknesses that SABIC has faced is its sales growth in comparison to the industry average. Its compounded annual growth rate for revenues was 7.13 percent during the period 2005–2009. This was below the Chemicals–Diversified sector average of 15.03 percent. A comparison of this lower compounded annual growth rate for SABIC with its industry implied that the company performed below the sector's average growth and lost market share over those four years.

EXHIBIT 8 Financial Ratios (Year Ending 31 December, 2009, 1 SR, %)**Saudi Basic Industries Corporation, Ratio Charts**

Source: Data from www.globalmarketsandcompanies.com.

During 2009 the company experienced a steep decline across its profitability ratios and indicators. The return on equity was 8.4 percent, from 21.4 percent during the previous year, 2008. The said ratio for the Chemicals–Diversified sector average was 12.2 percent (50 percent more than SABIC). As return on equity is the result of profit margin, total asset turnover, and the

EXHIBIT 9 SABIC Earnings Per Share (EPS) Estimates (Year Ending 31 December, 2009, 1 SR)

Source: <http://invseting.businessweek.com/research/stocks/earnings/earning.asp?ticker=SABIC:AB>.

equity multiplier, it indicated that SABIC was not in a position to use shareholders' money effectively, unlike the other players in the sector. The company also experienced significant decline in other profitability ratios, such as return on capital employed, from 14.92 percent in 2008 to 7.15 percent in 2009. Similarly other ratios like return on asset, return on fixed assets, and return on working capital also declined in 2009 compared to its previous year. The interim ratios of SABIC during the first and second quarter of 2010, however, improved compared to the corresponding quarters in the previous year.

SABIC reported an increase in its gross operating profit of SR11.85 billion for the second quarter of 2010, compared with the gross operating profit of SR6.22 billion in the same quarter in 2009. The same for the six months ended June 2010 was SR24.05 billion, compared to SR9.84 billion for the same period in 2009. The net income for the six months ended June 30, 2010 amounted to SR10.45 billion compared to the net income of SR0.83 billion for the same period in the preceding year, which was an increase of 1159 percent.

The income from operation for the six months ended June 30, 2010 was SR18.84 billion compared to SR4.46 billion for the same period in the preceding year, an increase of 322 percent.

SABIC has announced a vision statement, according to which it aims to generate 20 percent of its revenue through specialty chemicals by 2020. As at 2010, the company generated around 14 percent of revenue in this way. SABIC strongly believes that the Innovative Plastic SBU, which was bought from GE Plastics in 2007 at a value of over US\$11 billion, will help to achieve this target.

Environment, Health, Safety, and Security

SABIC's commitment to environment, health, safety, and security is articulated and disseminated to employees and manifested in strong policies and management support at all levels, and with comprehensive systems and programs. SABIC plants worldwide are designed, built, operated, and managed to ensure they meet best industry practices and standards on environment, health, safety, and security. Being a responsible employer and a dependable partner in the community, SABIC applies environment, health, safety, and security best practices in all its operations. It maintains a strong environmental program and regularly conducts audits to check for compliance and to ensure that its operations do not affect its neighbors. SABIC takes new initiatives every year to improve efficiency, conserve energy, reduce waste, and minimize the use of natural resources.

Corporate Social Responsibility

SABIC considers corporate social responsibility to be a fundamental aspect of its operations. Its commitment to clear and open business practices based on strong ethical principles is a matter of record. SABIC has played an active corporate social responsibility role in the Gulf region and in other countries. The SABIC's 2009 Annual Report confirmed that the following were its corporate social responsibility undertakings during the year, including (1) the establishment of several educational chairs at several universities in Saudi Arabia; (2) the sponsorship of

number of educational and cultural initiatives in Saudi Arabia such as diabetes awareness, recycling and waste management seminars, safety-, health-, and environment-awareness seminars, Arab Environment Day, and blood donation campaigns; (3) pledging US\$15 million to a Saudi national program to combat drugs; (4) donating US\$8 million to alleviate the sufferings of people affected by the floods in Jeddah city and another US\$8 million to provide shelter for people displaced in Jizan area in the country; (5) orchestrating donations by SABIC employees to the Disabled Children's Association in Saudi Arabia; (6) providing training opportunities to students at various training centers of SABIC; and (7) being involved in several corporate social responsibility projects in other countries where SABIC has operations, such as the Netherlands, the United Kingdom, Germany, and the United States.

Technology and Innovation at SABIC

To cope with the needs of various SBUs in SABIC and in recognition of innovation's key role in driving rapid growth, boosting market share, and enhancing corporate positioning, the technology unit's name was lately changed to Technology and Innovation (T&I). T&I as a single, unified global organization, fully aligned with all the SBUs' research and development plans, and equipped to help them fulfill SABIC customers' needs. Technology departments were created within SBUs, and all SABIC Technology Centers linked up via a virtual network. T&I began establishing a portfolio for corporate projects aligned with the company's strategy, along with a separate initiative focusing on sustainability, with its own project portfolio. The T&I division works closely with all the SBUs of SABIC to help improve the manufacturing processes and develop new technologies. In 2008, SABIC filed 500 new applications all over the world, bringing the total number of proprietary patent applications to 5,756 and the number granted to 7,173. According to *Bloomberg Businessweek*, SABIC's Research & Development expenses reached SR529.5 million in 2009, which is an increase of two-thirds over the 2006 level of SR315.6 million.

Business Segments

This section provides an overview and performance of the six SBUs in SABIC. The company has four reportable segments, namely, chemicals, fertilizers, metals, and corporate (see **Exhibit 7**). The chemical segment of the company accounted for 83.9 percent of the total revenue during fiscal year 2009. The contributions by the other three segments, namely fertilizers, metals, and corporate, were 3.8, 7.7, and 4.6 percent, respectively. The sales growth of chemicals during 2005–2009 was 21.72 percent, fertilizers had a negative growth of 1.22 percent, metals grew at 13.77 percent, and corporate sales grew at 9.48 percent. The overall sales growth of the four segments taken together during 2005–2009 was 10.78 percent.

SBU 1: Chemicals

Chemicals is the largest single SBU of SABIC and accounts for more than 60 percent of the company's production. In 2009, it achieved production of 37.5 million metric tons. The products of the Chemicals unit are produced from hydrocarbon feedstocks including methane, ethane, propane, butane, and light naphtha. These chemicals constitute the most basic building blocks of a wide range of other chemicals, plastics, and advanced materials, ultimately enabling the manufacture of a vast range of industrial and consumer goods. The production growth of chemicals during 2005–2009 was 18.51 percent, which was above its industry average.

SBU 2: Polymers

SABIC is a major producer of the two most important polymers, namely polyethylene (PE) and polypropylene (PP). In a year whose tone was largely set by the world economic downturn, a number of initiatives were undertaken to widen the customer base, improve productivity and reliability, increase total production – particularly in China and the wider Asia-Pacific region – and improve distribution capabilities and resources. Around 8.7 million metric tons of products were delivered worldwide during the year, an eight percent increase over 2008. There was a 5.9 percent growth in the production and sale of polymers during the five years 2005–2009.

During 2009, the Polymers SBU also set a new record of over 1 million metric tons for PP sold from Saudi assets and increased the PE business in the local and regional market, with local sales up from 40,000 to 135,000 metric tons and exports up from 12,000 to 91,000 metric tons. The Polymers SBU also has increased direct and e-commerce sales and also increased its market share in North and South America; and in Central and Eastern Europe. SABIC recently

Petrochemicals Value Chain

Raw Materials and Feedstock

Natural gas, methane, ethane, propane, butane, naphtha, crude oil

Basic Petrochemicals

Ethylene, propylene, butadiene, benzene, toluene, xylene, ammonia

Intermediates and Derivatives

MTBE, methanol, vinyl chloride monomer, monoethylene glycol, polyethylene, polypropylene

Diverse End Market

Plastics, coolant, cosmetics, pharmaceuticals, packaging, fibers, paper, textiles, tires and rubbers, detergents, fertilizers

integrated its Asia-Pacific offices in Beijing, Seoul, Taipei, and Tokyo with those of SABIC Innovative Plastics. The SABIC Hong Kong office also merged with the Shenzhen office and moved to larger premises to accommodate the increased workforce.

SBU 3: Performance Chemicals

The Performance Chemicals SBU is leading the diversification of the SABIC product portfolio toward value-adding functional chemicals and polymers. Over the coming years, Performance Chemicals is expected to introduce more than 40 new performance products and serve new customers in growing industries ranging from personal care, construction, and automotive and alternative energy to aviation. By 2020, Performance Chemicals is forecast to account for close to 10 percent of SABIC revenues. In recent years, SABIC Performance Chemicals has achieved several major milestones, which are significant not only to SABIC, but also to the development of new industries in Saudi Arabia. Three distinct business units have been created within the SBU to develop marketing, sales, and product management capabilities for the innovative product portfolio which flowed from last year's study that identified strategic products. These business units were designed and implemented using the 1 SABIC Initiative to ensure they align with the SABIC 2020 corporate vision, as well as achieving a smooth transition from the change acceleration process. SABIC believes that investments bring new partners. The successful signing of a series of agreements will bring new products and new capabilities to the country.

SBU 4: Metals

The Metals SBU oversees the running of the wholly-owned Saudi Iron and Steel Company (HADEED) and runs other metal-manufacturing companies such as the Aluminum Bahrain (ALBA) joint venture and the Gulf Aluminum Rolling Mill Company (GARMCO) in Bahrain. HADEED is the region's leading steel producer, manufacturing both long and flat steel products. Long steel is used in girders and wire rods, mostly in the construction industry; flat steel forms panels, used to make oil drums, car parts, and household appliances. HADEED sells to customers in more than 30 countries around the world. It plays a particularly crucial role in the Gulf, where it provides the raw materials for many other companies across a wide range of industries, and is central to the development and construction of basic infrastructure throughout the Middle East.

In 2009, production, particularly in flat product, was hit by the global economic crisis, mostly in the first quarter, continuing a trend set in the final quarter of 2008 and a combination of high inventory and restricted demand led to a number of temporary plant stoppages. By the second quarter demand and production began to pick up, and by year end production was at 4.776 million metric tons. HADEED exceeded its target of 4.885 million metric tons by 5.5 percent, achieving total sales of 5.153 million metric tons, probably aided by prices lower than those prevailing in 2008. Lately, HADEED signed an agreement with Italian company Danieli for the construction of a steel plant and a production line for long products in Jubail, Saudi Arabia. The new plant, scheduled to start up in the second half of 2012, will have an annual production capacity of 1 million metric tons of steel billets, bringing HADEED's total production capacity to 6 million metric tons, 4 million being long products. The Metal SBU has experienced a growth rate of 6.6 percent in its production during the five-year period of 2005–2009. As portrayed in **Exhibit 7**, the Metal SBU has reported 13.77 percent growth of sales and 17.57 percent growth in its net income during the same five-year period.

SBU 5: Fertilizers

The Fertilizers SBU makes urea, ammonia, phosphate, and liquid fertilizers at three manufacturing affiliates: the Saudi Arabian Fertilizers Company (SAFCO), the Al-Jubail Fertilizer Company (AL-BAYRONI), and the National Chemical Fertilizer Company (IBN AL-BAYTAR). SABIC has steadily built up its fertilizers capability and is now one of the industry's global leaders, particularly in nitrogen. SABIC production supplies nearly all of Saudi Arabia's urea and most of its phosphate and ammonia, and has become a leading supplier to the Far East, Africa, Australasia, and North America.

Success has been built over the years through alertness and adaptability to customers' needs, the supply of a wide range of high-quality products, and efficient and responsive distribution backed by excellent customer service. The news during recent years has been largely dominated by the impact of the global financial crisis, which had a notable effect on prices, and demand in some regions. However, SABIC saw moderate improvement and

recovery in its fertilizers business in 2009 and was successful in meeting the growing demand in Asia. Shortfalls in some countries also constrained global availability of supply somewhat, thereby improving global prices.

This SBU is also now the world's single biggest exporter of granular urea. Significant worldwide urea capacity hit the market and the company faced stronger competition in some strategic markets in 2010. SABIC urea has strong presence in key markets such as South Africa, Southeast Asia, North America, and the Indian subcontinent. Recently SABIC has focused on strengthening the foundation for future growth by building and maintaining strong customer relationships and working to increase market share in all regions. As shown in **Exhibit 7**, the Fertilizers SBU reported growth of 5.7 percent in its production during the five-year period of 2005–2009.

SBU 6: Innovative Plastics

The Innovative Plastics SBU is a multibillion dollar SBU with more than 9,000 employees and operations in over 35 countries. It continues to lead the plastics industry through close collaboration with customers, substantial investment in new polymer technologies, applications development on a global scale, innovative process technologies, and environmentally responsible solutions in almost every area of modern life, from automotive, aviation, and electronics to construction, alternative energy, and health care. The extensive product portfolio includes thermoplastic resins, specialty compounds, film and sheet products, and coatings. Many automotive makers including Renault and Hyundai are benefiting from Innovative Plastics' design innovation since it helps to reduce the weight of their vehicles while maintaining the highest possible performance. In 2009, Innovative Plastics brought new technology solutions in consumer safety, total cost of ownership, and weight reduction to the aviation industry. Moreover, Innovative Plastics continues to demonstrate materials leadership in the medical-device market with a comprehensive healthcare product policy for its 50 high-performing healthcare materials, all designed to help healthcare manufacturers meet regulatory compliance in their applications. Its healthcare product policy is contributing to ever faster industry and regulatory approvals and successful commercialization of a range of medical devices.

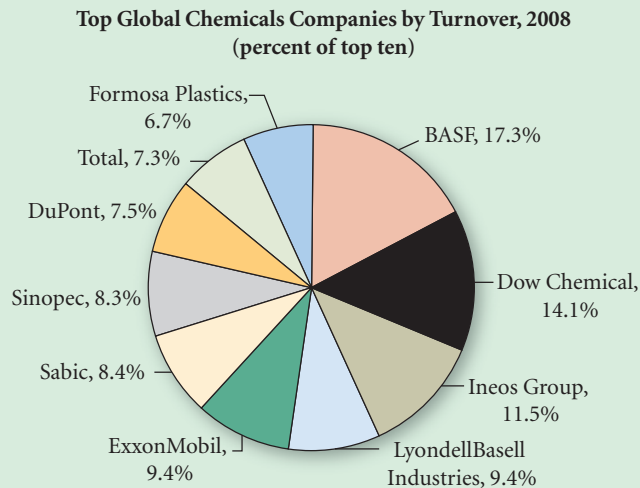
This SBU made a number of strategic investments in recent years in its production capacity to meet increasing demand for its products around the world. The SBU also marked a remarkable growth in the Asia-Pacific region, as it expanded with new capacity investments in both China and India. Components molded from SABIC materials have received four honors at the 2009 Society of Plastics Engineers' Automotive Innovation Awards ceremony. This SBU reported a decline in its production in the year 2009 in comparison with its previous year. It started its operation in 2008 after the acquisition of GE's innovative plastics division and reported a negative growth of 22.33 percent in 2009 compared with its previous year financial performance. The reason for this may be the global economic downturn.

The Principal Competitors of SABIC

The petrochemical industry and market is dominated by a few major global competitors. Hence, the competition tends to be keen, especially in areas where the market is mature. As shown in **Exhibit 10**, the top global chemical companies are Sumitomo Chemical Company, Shell Chemicals, BASF AG, Bayer AG, Dow Chemical Co., Chevron Phillips Chemical Company, E.I. du Pont de Nemours & Company, Exxon Mobil Chemical Company, and Mitsubishi Chemical Corporation. A report by SAMBA (SAMBA Financial Group, 2009) stated that SABIC commands sixth place with 8.4 percent of the sales out of the 10 ranked global companies.

Here is a brief overview of some of SABIC's competitors:

- BASF is the world's leading chemical company. It is a German company with 2009 sales of €50.7 billion and income before special items of approximately €4.9 billion. Its portfolio comprises chemicals (sales of €7.5 billion), plastics (€7.1 billion), performance products (€9.4 billion), functional solutions (€7.1 billion), agricultural solutions (€3.6 billion), and oil and gas (€11.4 billion).
- Dow is a diversified company with business in specialty chemicals, advanced materials, agrosiences, and plastics businesses. It operates in 160 countries and in 2009 had annual

EXHIBIT 10 Top Global Chemicals Companies by Turnover

Source Fortune 500

Source: SAMBA Report Series, Saudi Petrochemicals Sector: Current Situation & Future Prospects, August 2009.

sales of US\$45 billion and employed approximately 52,000 people worldwide. The company's more than 5,000 products are manufactured at 214 sites in 37 countries across the globe.

- INEOS is a young U.K. company. It has grown through a series of related acquisitions to become a leading chemical company with sales of around US\$28.4 billion. It is a global manufacturer of petrochemicals, specialty chemicals, and oil products. It comprises 15 businesses. Its production network spans 60 manufacturing facilities in 13 countries throughout the world.
- LyondellBasell is the world's third largest independent chemical company with annual revenues of US\$30.8 billion and more than 14,000 employees worldwide. It produces commodity petrochemicals. It is a Dutch company and listed on the New York Stock Exchange.
- Exxon Mobil is the world's largest publicly traded international oil and gas company with revenue of US\$329 billion in 2009. It is engaged in the exploration, production, transportation, and sale of crude oil and natural gas. It also manufactures commodity petrochemicals, including olefins, aromatics, polyethylene, and polypropylene plastics, and other specialty products. It operates in the United States, Canada, Europe, Africa, the Asia-Pacific region, the Middle East, Russia and the Caspian region, and South America.

Conclusion

In 2010, SABIC stated that it is committed to building ever closer relationships with its customers around the world, and invests continuously in developing distribution, research, and manufacturing facilities worldwide. Well established in the Middle East, Europe, and the Americas, SABIC is rapidly developing its presence in the fast-growing Asia-Pacific region, with offices now in Beijing, Shanghai, Shenzhen, Hong Kong, Taipei, Tokyo, Seoul, Manila, Jakarta, Singapore, and Ho Chi Minh City. Over the last few years SABIC has significantly enhanced its production capacity, product portfolio, and market presence through strategically targeted acquisitions with the right products for the right growth markets.

Some analysts are concerned with SABIC's declining market share and deteriorating profitability ratios. However, others do not see this as happening soon, since it has a strong operating margin and a diversified product portfolio. The company may be positioned for any economic upturn. Prospects look good for growth worldwide, even though it is not uniformly robust. Prospects for the Gulf region remain high, with a growing population and growing needs for products that use SABIC's basic commodities, ranging from fibers to construction materials. Prospects for North America, another very important market, are moving forward.

Any improvement in key sectors such as construction and auto manufacture, however, which traditionally buy products in very large quantities, will dramatically improve the earnings picture. Conditions elsewhere, in Europe and Australasia, vary from country to country. The distribution facilities in which it has invested – particularly in India and China, as well as in the tiger economies of Southeast Asia – will give the company increased access to these energetic and large-population economies. Such facilities will also help the organization exploit fully its increasing investment in localized production facilities in the future.

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Appendix 1 SABIC – Brief History

Year	Area	Event
2009	Contracts/agreements	The company signed a Memorandum of Understanding (MOU) with Saudi International Petrochemical Co. (SPICHEM) for setting up new projects in Jubail.
2009	Contracts/agreements	Mitsubishi Rayon Co. signed a joint venture agreement with the company, to establish a Saudi Arabia-based company.
2009	Contracts/agreements	The company's subsidiary, Saudi Iron and Steel Company (HADEED), signed an agreement with Danieli for the construction of a steel plant and a production line for galvanizing long products in Jubail, Saudi Arabia.
2009	Corporate changes/expansions	The company, along with its 50 percent subsidiary, Ibn Sina Company signed an agreement with Silanese Company for the establishment of a factory for its subsidiary.
2008	Contracts/agreements	The company signed an agreement with Exxon Mobil Chemical for a new elastomers project in Saudi Arabia.
2008	Corporate changes/expansions	SABIC established a new wholly owned company, SABIC Capital in The Netherlands.
2008	Corporate changes/expansions	The company signed an agreement by and between its affiliates SAFCO and HADEED to set up a facility for flat steel products.
2008	Contracts/agreements	Sino Saudi Aramco Company, a wholly owned subsidiary of Saudi Aramco, entered into a mutual cooperation agreement with SABIC Shenzhen Trading Company, a SABIC subsidiary in China for marketing the Polyolefin products of its refining and petrochemicals joint venture in China.
2007	Acquisitions/mergers/takeovers	The company acquired Huntsman's U.K. base chemicals and polymers business.
2007	Acquisitions/mergers/takeovers	SABIC acquired GE Plastics, a global supplier of plastic resins, for US\$11.6 billion.
2006	Contracts/agreements	The company entered into a joint venture agreement with Baser Petrokemya with 70:30 partnership agreements.
2005	Contracts/agreements	The company entered into an agreement with Technip and Toyo Engineering Corporation to increase its production.
2003	Contracts/agreements	The company signed an agreement with Sud-Chemie for the acquisition of Scientific Design.
2002	Acquisitions/mergers/takeovers	The company acquired Dutch group DSM's petrochemicals business and incorporated SABIC Europe in 2002.
2000	Corporate changes/expansions	The company expanded its capacity to 10 million metric tons.
2000	Contracts/agreements	The company signed a joint venture agreement with Japan's New Energy and Industrial Technology Development Organization.
1976	Incorporation/establishment	Saudi Basic Industries Corporation was incorporated in 1976.

Source: Data from www.globalmarketsandcompanies.com.

Note: An earlier version of this case is accepted for publication in the *International Journal of Commerce and Management* (2011), an Emerald Publication.

• STRATEGIC MANAGEMENT IN PRACTICE

SABIC



Strategic Management in Practice 1A

Getting Familiar with Strategy Terms

Purpose

The purpose of this exercise is to get you familiar with the strategy terms introduced and defined in Chapter 1.

Instructions

- Step 1** Go to www.sabic.com, SABIC's website. Locate the latest annual report posted by the company. Read the current vision and mission of the company to see the appropriateness of those statements. Rewrite those statements if you feel there is room for improvement.
- Step 2** Use the Cohesion Case and SABIC's latest annual report to list at least three major strengths, weaknesses, opportunities, and threats (SWOT) for SABIC.
- Step 3** Analyze the SWOT factors from the strategic planning point of view as SABIC would strive to take advantage of strengths, improve upon weaknesses, capitalize on the opportunities, and avoid threats.
- Step 4** Arrange to have a group discussion in your class and compare your SWOT factors to those developed by your classmates. Have a consensus on the list of factors being identified in the class.

Strategic Management in Practice 1B

Understanding Competitive Advantage

Purpose

The purpose of this exercise is to familiarize you with the term 'competitive advantage' as defined in Chapter 1.

Instructions

- Step 1** Read the definition of the term 'competitive advantage' given in the chapter.
- Step 2** Use the Cohesion Case and go to www.sabic.com, SABIC's website, to identify the unique factors of SABIC that can be considered part of its 'competitive advantage.'

Strategic Management in Practice 1C**Strategic Planning at a Local Company****Purpose**

The activity aims to provide you with practical knowledge about how organizations in your own community are conducting strategic planning.

Instructions

- Step 1** Identify a local organization of interest to you by looking at the business directory for your area.
- Step 2** Communicate with one of the key senior management personnel (preferably a person who is involved in the strategic planning of the organization) to find answers to the following questions:
- Does the organization have written vision and mission statements?
 - If so, what are the processes and who are the stakeholders involved in developing those statements?
 - Does the organization conduct strategic planning?
 - If so, what are the benefits of such strategic planning?
- Step 3** Discuss the findings in your class.

Strategic Management in Practice 1D**Getting Familiar with Strategic Management Club Online****Purpose**

This exercise is to get you familiar with the Strategic Management Club Online (SMCO), which offers many benefits for the strategy student. The SMCO site also offers templates for conducting case analysis in this course.

Instructions

- Step 1** Go to www.strategyclub.com. Review the various sections of this site.
- Step 2** Select a section of the SMCO site that you feel will be most useful to you. Write a one-page summary of that section and describe why you feel it will benefit you most.

22 Emirates Airline — 2010

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www.emirates.com

In 2009, several major airline businesses across the globe were faced with disastrous situations leading to bankruptcies, and shrinkages in networks and service levels. Overall industry-wide losses reached US\$9.4 billion in that year alone. Skyrocketing oil prices, a long global recession, falling demand, fierce price-cutting, collapsing yields (revenue per mile), and shattered consumer confidence contracted and confronted airlines worldwide during this time. Although Emirates, also known as Emirates Airline, faced the same challenges as other airlines, it achieved remarkably well against the prevailing industry norm of increasing contraction.

In the year ended March 31, 2010, Emirates carried 27.5 million passengers, an increase of 4.7 million over the previous year, and handled 1.6 million tons of cargo, which represents an increase in volume of 12.2 percent on the previous year. The company publicly declared a net profit of US\$964 million, achieved through leveraging the brand equity built up over the years. Yet Sheikh Ahmed bin Saeed Al-Maktoum, Emirates' chairman and chief executive, described the last financial year as the airline's "toughest."¹

Currently, there are 5.72 million loyal customers using Emirates services under the Skyward frequent-flyer program. As the fleet-expansion program of Emirates remained on track, it continued to take delivery of new aircraft, invest in the brand, and support and expand its network. Emirates also recently deployed the Airbus 380, the world's largest passenger aircraft, in its network, which has captured the imagination of air passengers everywhere.

Based in Dubai in the UAE, Emirates is the fastest-growing and largest airline in the Middle East and the most profitable airline business in the world. The company also operates three of the world's 10 longest non-stop flights, from Dubai to the U.S. cities of Los Angeles, San Francisco, and Houston. With more than 400 awards for excellence worldwide, Emirates is one of two key units in the Emirates Group. The other is Dnata, one of the largest travel organizations in the Middle East, with over 8,000 employees handling passenger, cargo, ramp, and technical services for numerous airlines at Dubai International Airport. The airline unit provides commercial air transportation including passenger, cargo, and postal carriage services. Emirates is wholly owned by the government of Dubai, but the airline is run on a commercial basis and receives no financial support or protection from the government. This case study focuses only on the airline business unit of the Emirates Group, referred to here as 'Emirates' or 'Emirates Airline.'



History

In 1974 the rulers of the UAE established a joint flag carrier called Gulf Air with a few Gulf Cooperation Council (GCC) countries. However, a tense relationship between Gulf Air and the Dubai government existed ever since its inception. The Dubai government refused to agree on Gulf Air's demands to abandon its open-skies policy. In reaction, Gulf Air reduced frequencies and capacities to and from Dubai by more than two-thirds between 1984 and 1985, without advance notice to the Dubai government authorities. Since other foreign carriers operating to Dubai proved unable or unwilling to fill the gap, Dubai's

then ruler, Sheik Maktoum bin Rashid Al-Maktoum, convened a team of experts to devise an emergency plan to set up a home carrier for Dubai. The group's recommendation was accepted by the ruler, but he imposed two conditions: The new airline should meet the highest quality standards and there would be no additional capital injections from the government other than the agreed start-up capital of US\$10 million. Emirates was incorporated, with limited liability, by an Emiri Decree issued by the ruler on June 26, 1985 and is wholly owned by the Investment Corporation of Dubai, a government of Dubai entity. On October 25, 1985 Emirates' first flight crossed the skies of the UAE.

Emirates Airline, despite suffering the impact of the 9/11 attacks on New York, which really made the aviation industry tremble at the dawn of the new millennium, and the strong influences of other external factors, has declared a steady annual growth rate and has never reported a loss since its formation in 1985.

Vision and Values

A strong and stable leadership team, ambitious yet calculated decision-making, and ground-breaking ideas all contribute to the creation of great companies. Of course, these have played a major part in the development and growth of Emirates and it is believed that the business ethics and customer focus are the foundation on which the success has been built. Strong brand awareness achieved, for example, through sponsorship of sports and games, caring for employees and stakeholders, as well as the environment and the communities Emirates serve, have played a huge part in its past and will continue to signify its future.

The Organizational Chart of Emirates

*Middle East Economic Digest*² noted that Emirates, like most state-owned enterprises in the region, maintains a narrow ownership structure. The airline's president, Tim Clark, who oversees the entire aviation business, reports to the executive vice-chairman of the entire Group, Maurice Flanagan. Clark is also in charge of the central carrier operation: the freight business, Emirates SkyCargo, the frequent-flyer business, Skywards, airport services, and the growing hotel and holidays business.

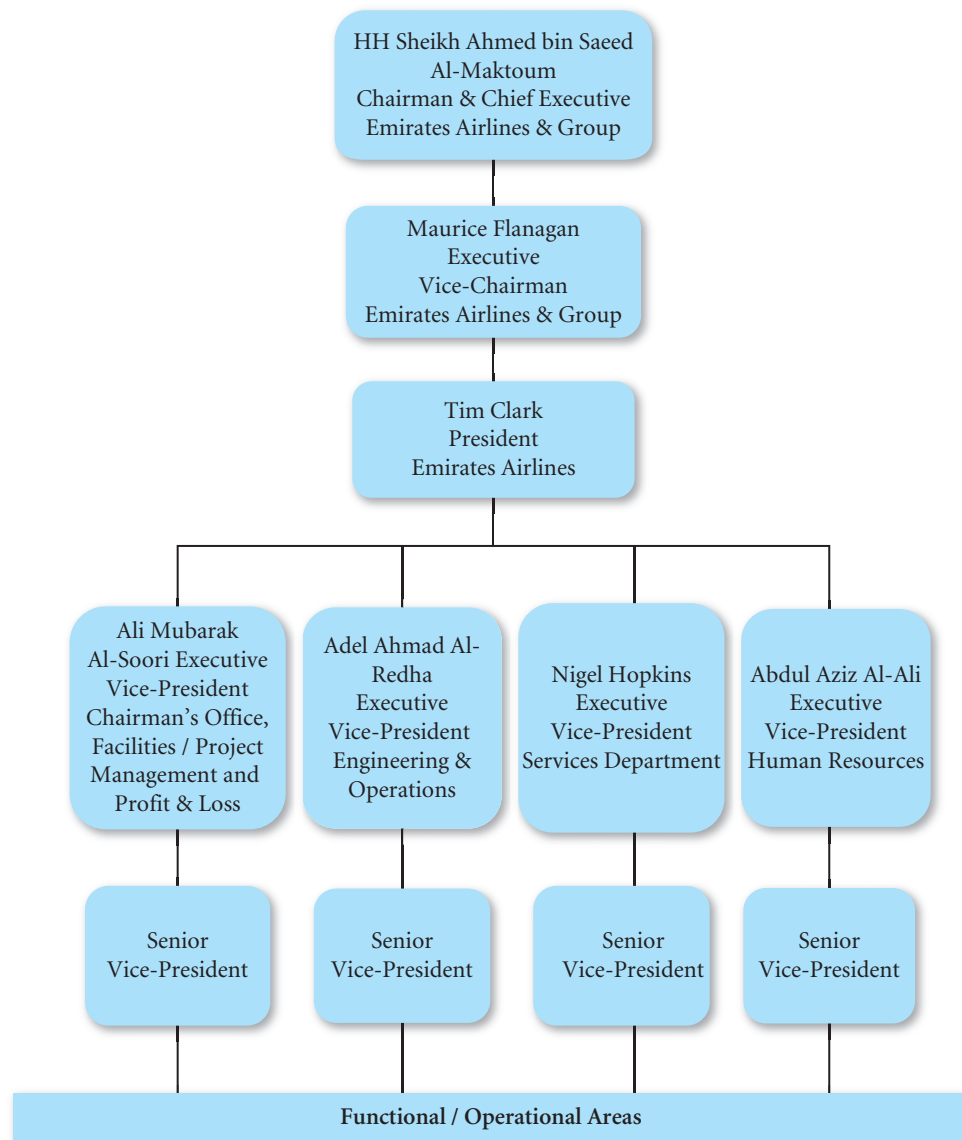
The unique organizational structure of Emirates Group, having a flat hierarchy, has been a great help for growth and development and is considered a major strength for Emirate Airlines. This structure allows for clear communication and rapid decision-making at a senior level.

Scope of Operations and Uniqueness of Emirates

The city of Dubai is located at a centerpoint on the world map, connecting the east and west. Consequently, the airline is capable of tapping resources from both sides. Since the heavily populated and fastest-growing economies of the world, namely China and India, are at closer reach for Emirates, the scope of operations to these countries and the region has substantially increased lately. In general, the Asian continent is witnessing an economic boom and the airline has really benefited from this opportunity.

In 2010, Emirates operated over 2,400 passenger flights per week to 105 cities in 62 countries across six continents. It employs over 28,000 employees including 13,000 cabin crew members of more than 120 nationalities capable of conversing in 60 different languages. Emirates is renowned for pioneering new ideas and leading market trends, often in contrast to the conventional industry view; several notable services including personal entertainment systems in all seats, private first-class suites, use of mobile phones on board, and the introduction of SmartLanding and SmartRunway safety solutions.

Emirates' success is primarily because of the ambitious strategy formulated by the ruling family of Al-Maktoum: to transform Dubai into a regional hub of trade and tourism in the Arab world. Emirates' formula for success is mainly based on its innovative and creative ideas, to seize opportunities and solve problems as they arise. Emirates believes in doing things that seem right and leaving things that functionally don't quite fit. Since the big picture of an organization is made out of small details, Emirates is focusing on details instead of holistically looking at the big picture. In other words, the success of Emirates has

EXHIBIT 1 The Organizational Chart of Emirates

emerged from a nontraditional management approach rather than relying on the industry's conventional business acumen. Emirates' success is the outcome of a hard-to-emulate mix of excellent geographic location and outstanding management, supported by an ambitious and visionary master plan. This success can be directly linked to the success of the city of Dubai as well. As the city has grown, with the best in everything from fine dining and nightlife to world-class boutiques and overflowing malls, it has become an international oasis attracting entrepreneurs, adventurers, and pleasure-seekers, and the opportunity for Emirates to grow as the flag carrier of Dubai has evolved with the overwhelming market demand.

In 2004, Emirates changed its slogan to Fly Emirates. In 2008, Emirates launched a slogan mainly revolving around their route network of 100 destinations in 59+ countries across six continents: Keep Discovering and Fly Emirates. Most recently Emirates launched a campaign to promote Dubai as a destination using the slogan Fly Emirates and Meet Dubai.

Emirates Fleet

Since 1995 Emirates has operated an all wide-body fleet, and in the past ten years it has placed some of the largest aircraft orders ever in the aviation industry. Emirates' fleet is one of the youngest in the skies with an average age of 69 months compared with an industry average of 190 months as of March 2010. In 2010, there were more than 140 aircraft in the fleet, with different carrying capacities for the carriage of both passengers and cargo, and worth US\$60 billion. The airline takes delivery of new aircraft at an average of one aircraft per month. It operates the world's largest A380 and B777 fleets and it has become the single most important customer for the Boeing and Airbus aircraft manufacturers. Emirates operates a mixed fleet of Airbus and Boeing wide-body aircraft and is one of only nine airlines to operate an all wide-body aircraft fleet. The centerpiece of the airline's fleet is the Boeing 777. Emirates has also placed orders for 90 Airbus A380s, with 12 having been delivered and put into service already. The introduction of A380 has helped to ease airport congestion, which is an opportunity for Emirates to build on its on-time departure record. Emirates has won numerous awards and is an industry bellwether for aircraft purchases, buying over 130 aircraft in 2007 alone.

The introduction of A380 aircraft into its fleet has generated great excitement. The A380, with the best cabin in the sky, offers unparalleled comfort for all, resulting in a higher load factor, a higher market share, and higher profit margins for Emirates. Emirates has planned to phase out 68 older wide-body aircraft – A330-200s, A340-300/500s, and B777 Classics – in 2011. Emirates plans to have over 320 aircraft by 2018 and some reports suggest that the airline will have more than 400 aircraft in its fleet by 2020.

Safety Record of Emirates

Emirates flights are very safe, excepting a few incidents. One incident occurred on April 9, 2004, when an Emirates night flight to Dubai took off from Johannesburg. It was the first time both pilots had flown the A340 craft. The 'reduced flexible thrust' technique was used for takeoff; on the call to rotate, the pilot pulled back on the stick, but the

EXHIBIT 2 Fleet of Emirates

Aircraft Type	In Operation	Of Which On Operating Lease	Of Which On Finance Lease	Of Which Owned By Emirates	Change From March 31, 2009	On Firm Order	Additional Options
A330-200	29	27	2				
A340-300	8	8					
A340-500	10	8	2				
A350-900 /1000 XWB						70	50
A380-800	8	2	6		+4	50	
B777-200	3	2		1			
B777-200ER	6		1	5			
B777-200LR	10	4	6				
B777-300	12	12					
B777-300ER	52	34	18		+10	19	
Total in Passenger Operation	138	97	35	6	+14	139	50
B777-200LRF	2	2			+1	2	
B747-400F	2	2					
B747-8F						5	
Total in Cargo Operation	4	4			+1	7	

Source: Emirates Group, *Annual Report, 2009–2010*.

plane did not become airborne and the pilot had to release the stick to avoid a tail-strike. The plane came off the end of the runway and travelled about 200 meters before finally becoming airborne. The result was three blown tires, which were impossible to retract. The aircraft made a ‘fuel dump,’ then returned to ground, where the brakes failed; the plane came to a stop just before the end of the 4.42 kilometer runway. It was later revealed that the pilot had received ambiguous instructions about the rotation technique during his transition training.

Another incident occurred on March 20, 2009, when an Emirates Airbus A340-500 with 225 passengers on board made an emergency landing in Melbourne, Australia, after suffering a tail-strike takeoff. The jet experienced at least one, but possibly more tail-strikes, during its takeoff roll, and was heavily damaged. An Australian Transport Safety Bureau report suggested that the incorrect aircraft weight was entered when take-off power was being calculated, and that this may have been a contributing factor in the incident. There were no injuries among passengers or crew.

Service Quality in Emirates

In 2010, a comprehensive survey was conducted among frequent flyers of seven major airlines that operate longer-haul flights out of the UAE, namely Air France, British Airways, Emirates, Etihad Airways, Qatar Airways, Swiss Air, and Virgin Atlantic Airways, to measure the level of service quality in terms of customer experience from flight booking all the way through to check-in, baggage drop, boarding, plane conditions, in-flight services such as food and beverages, entertainment, and shopping, right through to disembarkation and final baggage claim. The survey results indicated that Emirates had outperformed its rivals and was ranked at the top in the list as the best service provider.³

Moreover, Emirates has received more than 400 international awards in recognition of its continuous efforts in providing unsurpassed world-class customer service, using advanced technology and offering excellent in-flight comfort for its passengers. At the same time, there are sources indicating inconsistencies in service quality in some flight segments, which is a weakness for Emirates.

Cathay Pacific’s CEO Tony Tyler said that he believed Gulf carriers would take at least a ‘generation’ to catch up with the levels of in-flight service offered by the Hong Kong-based carrier. Maurice Flanagan, founding managing director of Emirates and current executive vice-chairman, responded to this by saying, “We are ahead of Cathay. There is no way in which Cathay is ahead. It is nonsense.... We are totally different from Etihad, totally different from Qatar Airways and totally different from Gulf Air. What’s he talking about?”⁴ However, Flanagan was not specific on how Emirates is different from its rivals.

Financial Analysis

The business climate at the commencement of the financial year 2009–2010 was pessimistic but gradually turned to cautious optimism during the course of the third quarter, with results boosted by an extremely strong performance in the second half of the financial year. Transport revenue, which was down 15.4 percent in the first half over the same period in the previous year, recovered sharply on the back of strong revenues, improved yields, and higher load factors.

Segment-Based Financial Information of Emirates

Emirates monitors the operating results of its business units to make decisions regarding resource allocation and performance assessment. The four main activities of Emirates are: (1) commercial air transportation; (2) wholesale and retail of consumer goods; (3) in-flight and institutional catering; and (4) hotel operations. The main reportable segment is the airline business. Other operations under the subsidiary units don’t meet the quantitative thresholds for reportable segments under International Financial Reporting Standards (IFRS), so they are categorized as ‘all other segments’ in **Exhibit 5**.



Business Class of the Airbus 380 travelling from Dubai to Sydney in June 2009.

The airline's performance and segment revenue is measured in a manner consistent with the consolidated income statement, with the exception of national revenues from staff leave passage and duty travel. They are included in total segment revenue under airline segment, but adjusted against operating costs, and the adjustment is presented in reconciliation. Segment assets include inter-segment loans and receivables, which are eliminated on consolidation. This consolidation adjustment is represented in reconciliation.

Revenue from airline operations between the airline's home country, the UAE, and overseas locations are attributed to the geographical area of the particular overseas point. Revenue from other segments is based on the geographical area in which the sales or services are provided. The major revenue-earning asset is Emirates' fleet of aircraft; all the aircraft are registered in the UAE.

EXHIBIT 3 Emirates Consolidated Income Statement (Year Ending March 31, 2010)

	2010	2009
	(in AED, millions)	
Revenue	42,477	42,459
Other Operating Expenses	978	807
Operating Cost	-39,890	-40,988
Operating Profit	3,565	2,278
Other Gains and Losses	48	-1,572
Finance Income	330	431
Finance Cost	-355	-535
Share of Results in Associated Companies and Joint Ventures	77	63
Profit Before Income Tax	3,665	665
Income Tax (Expenses) Credit	-50	85
Profit For The Year	3,615	750
Profit Attributable To Minority Interest	77	64
Profit Attributable To Emirates' Owner	3,538	686

Source: Emirates Group, *Annual Report, 2009–2010*.

EXHIBIT 4 Emirates Consolidated Balance Sheet (Year Ending March 31, 2010)

Assets	2010	2009
(in AED, millions)		
Non-Current Assets		
Property, Plant & Equipments	33,753	29,086
Intangible Assets	927	923
Investments in Associated Companies and Joint Ventures	461	441
Advance Lease Rentals	233	192
Available-For-Sale Financial Assets	—	113
Loans and Other Receivables	1,432	1,039
Derivate Financial Instruments	64	125
Sub-Total	36,870	31,919
Current Assets		
Inventories	1,084	1,053
Trade and Other Receivables	7,008	7,109
Held-To-Maturity Financial Assets	—	200
Derivate Financial Instruments	74	—
Short-Term Bank Deposits	1,176	2,619
Cash and Cash Equivalents	9,335	4,549
Sub-Total	18,677	15,530
Total Assets	55,547	47,449
Equities and Liabilities		
Capital and Reserve		
Capital	801	801
Retained Earning	16,794	14,812
Other Reserve	−321	−201
Attributable To Emirates' Owner	17,274	15,412
Minority Interest	201	159
Total Equity	17,475	15,571
Non Current Liabilities		
Borrowing and Lease Liabilities	16,753	15140
Provisions	364	367
Deferred Revenue	1,483	1,178
Deferred Credits	460	492
Deferred Income Tax Liability	4	13
Trade and Other Payables	21	25
Derivate Financial Instruments	467	538
Sub-Total	19,552	17,753
Current Liabilities		
Trade and Other Payables	15,475	12,530
Income Tax Liabilities	19	23
Borrowing and Lease Liabilities	2,852	1,372
Deferred Credits	162	169
Derivate Financial Instruments	12	31
Sub-Total	18,520	14125
Total Liabilities	38,072	31,878
Total Equity and Liabilities	55,547	47,449

Source: Emirates Group, Annual Report, 2009–2010.

EXHIBIT 5 Emirates Segment Information (Year Ending March 31, 2010)

	Airline	All Other Segments	Reconciliation	Total
	(in AED, millions)			
Total Segment Revenue	40,815	2,522	-116	43,221
Inter-Segment Revenue	—	744	—	744
Revenue From External Customers	40,815	1,778	-116	42,477
Segment Profit	3,313	302	—	3,615
Finance Income	323	7	—	330
Finance Costs	-340	-15	—	-355
Income Tax Expenses	-49	-1	—	-50
Depreciation and Amortization	-2,811	-151	—	-2,962
Share Of Results In Associated Companies and Joint Ventures	—	77	—	77
Impairment Of Available-For-Sale Investments	—	-109	—	-109
Segment Assets	51,107	5,094	-654	55,547
Investments in Associated Companies and Joint Ventures	—	461	—	461
Additions to Property, Plant, and Equipment	7,213	768	—	7,981
Additions to Intangible Assets	70	2	—	72
Additions to Advance Lease Rentals	93	—	—	93

Source: Emirates Group, *Annual Report, 2009–2010*.

EXHIBIT 6 Emirates Airline Geographical Information: Revenue from External Customers (Year Ending March 31, 2010)

External Customers	2010	2009
	(in AED, millions)	
Europe	11,612	12,185
Americas	4,003	3,702
East Asia and Australasia	11,843	12,097
West Asia and India Ocean	5,322	4,938
Africa	4,756	4,695
Gulf, Middle East, and Iran	4,941	4,842
	42,477	42,459

Source: Emirates Group, *Annual Report, 2009–2010*.

EXHIBIT 7 Emirates Airline Consolidated Statement of Cash Flows (Year Ending March 31, 2010)

Assets	2010	2009
	(in AED, millions)	
Operating Activities	3,665	665
Profit Before Income Tax		
Adjustments For:	2,962	2,211
Depreciation and Amortization	25	104
Finance Costs, net	-258	-14
Profit on Sale of Property, Plant, and Equipment	—	144

EXHIBIT 7 Emirates Airline Consolidated Statement of Cash Flows
(Year Ending March 31, 2010)–continued

Assets	2010	2009
	(in AED, millions)	
Loss on Sale of Available-for-Sale Investments	–77	–63
Share of Results in Associated Companies and Joint Ventures	14	7
Net Provision for Impairment of Trade Receivables	109	73
Impairment of Available-for-Sale Financial Assets	301	236
Provision for Employee Benefits	–48	1,572
Change in Fair Value of Derivate Financial Instruments at Fair Value Through Profit or Loss	–299	295
Net Movement on Derivative Financial Instruments	–304	–315
Employee Benefit Payments	–63	–61
Income Tax Paid	–32	–301
Change in Inventories	–316	415
Change in Receivables and Advance Lease Rentals	2649	48
Change in Payables, Deferred Credits, and Deferred Revenue	8,328	5,016
Net Cash Generated from Operating Activities		
Investing Activities	883	117
Proceeds from Sale of Property, Plant, and Equipment	–72	–82
Additions to Intangible Assets	–3,416	–5,573
Additions to Property, Plant, and Equipment	–18	–71
Investments in Associated Companies and Joint Ventures		–52
Acquisition of Subsidiary	—	–1
Disposal of Minority Interest	—	1,837
Proceeds from Sale of Available-for-Sale Investments	1,443	5,026
Movements in Short Term Bank Deposits	200	216
Net Movement in Held-to-Maturity Financial Assets	308	379
Interest Income	95	100
Dividends from Associated Companies and Joint Ventures	–577	1,896
Net Cash (used in)/Generated From Investing Activities		
Financing Activities	–122	–383
Net Loan Repayment	–319	–273
Aircraft Financing Costs	–103	–295
Other Finance Charges	–1,447	–1,161
Net Leases Liabilities	–956	–2,913
Dividend Paid	–35	–60
Dividend Paid to Minority Shareholder	–2,982	–5,085
Net Cash used in Financing Activities		
	4,769	1,827
Net Increase in Cash and Cash Equivalents		
	4,547	2,715
Cash and Cash Equivalents at Beginning of Year	6	5
Effects of Exchange Rate Changes	9,322	4,547
Cash and Cash Equivalents at End of Year		

Source: Emirates Group, *Annual Report, 2009–2010*.

Providing information on non-current assets (other than financial instruments and deferred tax assets) by geographical areas is not considered meaningful, because the fleet is deployed widely across the airlines route network. Furthermore, no single external customer contributes 10 percent or more of Emirates' revenues.

Human Resources Strength

The workforce at Emirates increased to a total of 28,686 in 2010. The employee categories and the corresponding numbers are given in **Exhibit 8**.

The vice-chairman of Emirates, Mr Flanagan, considers high labor costs for pilots and other employees as an impediment to the growth of any airline. He cited the situation at employee-owned United Airlines, where pilots received 40 percent raises in a four-year contract in 2000. This triggered a rise in labor costs across the industry. "That is simply not sustainable," said Flanagan, who noted that the high salaries in American commercial aviation also translate into larger pension costs: two problems that Emirates does not share. Emirates has lower human resource costs compared to the industry. This is partially due to attracting workers from nearby low-wage nations.⁵

External Audit

The external audit focuses on identifying and evaluating trends and events beyond the control of Emirates. The external audit reveals key opportunities and threats confronting Emirates so that the management can formulate appropriate strategies to take advantage of the opportunities and avoid or reduce the impact of threats.

Competition

The national airline of the UAE, Etihad Airways, and the regional airline companies such as Qatar Airways, Oman Air, Gulf Air, as well as some of the airline companies in Europe and in Australasia, are the major competitors of Emirates. Rival global airlines such as Air France-KLM, British Airways, Lufthansa, and Qantas perceive Emirates' as a major threat because it enables travelers to bypass traditional airline hubs such as London Heathrow, Paris Charles de Gaulle, and Frankfurt Airports during flights to and from Europe/North America and Asia/Australia, using Dubai instead. These airlines also find it difficult to deal with the growing threat Emirates poses to their businesses because of the much higher cost base in their nations. At the same time, the competitors' aggressive strategies to grow their home markets, especially the growth strategies of Etihad Airways and Qatar Airways, are of major concern for Emirates.

All these carriers are so concerned about the detrimental effects of Emirates' growth on their future ability to compete on a level playing field that they have resorted to openly accusing Emirates of receiving hidden state subsidies and of maintaining much closer relationships with Dubai's airport and civil aviation authorities, which are also wholly state-owned entities and have the same government owner.

In addition, they have also accused Emirates of taking unfair advantage of its government shareholders' sovereign borrower status. They claim that this masks the true

EXHIBIT 8 Human Resources Strength of Emirates

UAE	2009–2010	2008–2009
Cabin Crew	10,785	10,324
Flight Deck Crew	2,237	2,141
Engineering	1,904	1,849
Other	9,084	9,379
Sub-Total	24,010	23,693
Overseas Stations	4,676	4,344
Total Emirates	28,686	28,037

Source: Emirates Group, *Annual Report, 2009–2010*.

financial performance of Emirates and reduces its borrowing costs below market rates. In May 2010, Emirates executives refuted claims that the carrier does not pay taxes and receives substantial financial assistance from the Dubai government. They claimed that the airline received US\$80 million cash in kind since the start of the airline twenty-five years ago and this was substantially lower than what other national carriers have received. Executive Vice-Chairman Maurice Flanagan claimed that Emirates incurred social costs of around US\$600 million in 2009 and this included municipal taxes to the city of Dubai.⁶ The airline also paid a dividend of AED956 million (US\$260 million) in 2010, compared to AED2.9 billion (US\$793 million) in 2009 and each year the government has received at least US\$100 million in dividends.

PESTLE Analysis of Emirates

A PESTLE analysis focuses on external analysis and gives an overview of the different macroenvironmental factors that the company has to take into consideration. A PESTLE analysis has been completed here for Emirates. It is a useful strategic tool for understanding market growth or decline, business position, potential, and direction for operations.

Political Forces

Emirates has been fortunate in the first decade of this century, as the political scenario of the region has been quite favorable for the airline. Most of the countries in the Asian continent signed agreements among themselves and with several countries in the Asia-Pacific, Europe, and the United States to facilitate better political cooperation and trade opportunities between countries, including for the growth of the aviation sector. These agreements have opened several doors for Emirates and have provided ready-made markets to expand its network. The major strengths of Emirates are the support of the government of Dubai, which ensures infrastructure developments to meet the growth of Dubai and Emirates; the low charges and fees levied at Dubai airport; the open-skies policy which provides equal opportunities for all air carriers; the low-taxation policy of the government on companies and businesses, which boosts trade and commerce in Dubai; and the easy and generous immigration laws of the Dubai government, which enable organizations to secure entry visas and work permits for foreign workers to fulfill their labor requirements. On the other side of the coin, political instability in the Middle East region may be a hindrance for the further growth of Emirates.

Economic Forces

The Arab states, in particular the UAE, have been growing their economies at a rapid pace. GCC countries in particular are increasingly becoming more sophisticated in all aspects. These economies are growing at a substantial rate, consequently affecting the overall level of disposable income of households at an increased level of per-capita income and therefore the affordability of air transportation. The Dubai government is negotiating with several governments for better economic cooperation and free-trade agreements and this is expected to boost the growth of trade and commerce in Dubai, as well the growth of Emirates. Almost 3.5 billion people are living within an eight-hour flight of Dubai; this huge population generates an ever-growing demand for air travel in the region. Market demand, customer choices, and travel behavior are changing rapidly. Besides, the regional governments are streamlining their economic policies so as to suit the growth of the airline industry. This is one of the reasons why Emirates has seen a phenomenal growth over the past few years.

Social Forces

A well-designed strategic management system could fall short if the necessary attention is not given to personnel affairs in an organization. Personnel issues are adversely affecting airline businesses globally. Employees are becoming increasingly aware of their potential and most of them are demanding more. Emirates operates in a region where there is an abundance of human capital, albeit a 'multicultural workforce.' Most of these

workers rarely demand a higher level of compensation. When comparing the scenario of the UAE with other countries, such as the United States and the United Kingdom, there is a significant difference in labor costs. Most of the organizations in the UAE are using only 10 percent of their operating expenses to pay their employees and so does Emirates, whereas businesses in the latter countries use up to forty percent for the same purpose. Consequently, the airline has benefited extensively and made good profits on these grounds.

Many airline businesses are increasingly recruiting different types of employees in order to meet their needs. For example, an airline company may operate different types of aircraft and equipment, such as regional jets, four-engine planes, wide-bodied and narrow-bodied aircraft, and so on. The difference in maneuvering these aircraft and equipment is managed by employing a specially trained and highly skilled workforce such as qualified pilots, engineers, and technicians. These employees belong to different unions and they may require special attention by the human resource department. Pay scales may also be difficult to maintain if some of these workers operate in stable economies. Although no trade unions are legally permitted in the UAE, Emirates has also been affected by the problems posed by highly skilled employees, but not to a large extent. Emirates has not bought too many varieties of aircraft. Consequently, there is room for the organization to grow without spending much on human resources.

Technological Forces

In response to the technology boom in the past two decades, Emirates has been using technology extensively in its day-to-day operations. Since Emirates' worldwide reach and diverse customer base require a global technology platform, it has invested more resources to localize each individual market. Emirates has control over a single global system that is deployed in 14 languages and supports payment in 42 currencies. Additionally, Emirates maintains segment inventory with the use of technology by geographic region and traveler type to optimize product and service offers for the individual preferences of each market.

Legal Forces

In the past, most governments within the Asia continent and in the Asia-Pacific region have operated a paternal government policy, feeling that they had to protect airlines against external factors. Recent changes in the economic policies of these governments have allowed airline businesses to compete more openly; to have their own economic model in order to sustain their competitive advantage without worrying much about government hindrances; and to operate more freely with fewer legal impediments in the region. All of this has lately resulted in positive growth for Emirates.

Environmental Forces

Organizations have obligations to formulate and implement strategies from an environmental perspective. An increasing number of firms are implementing tougher environmental regulations, as they make economic sense. Emirates is one of the prime organizations that preserves and conserves natural resources and controls pollution in the region. Emirates has organized several environmental projects in the past twenty years.

Strategy

The most important operational (corporate) strategy of Emirates is to be a high-quality provider. Since Emirates is much concerned with the safety of the passengers, it aims to have 120 Airbus A380s in its fleet when new airport space is available; it is working with Boeing on the next generation of 777 jets and is interested in its replacement. The target implies a future Emirates order for 30 of the world's largest airliners, worth US\$10 billion at list prices, at an unspecified date. If the airline went ahead with its growth plans it would have an A380 fleet worth over US\$40 billion.

One of the other operational (corporate) strategies of Emirates is to be the first to introduce new products. Evidently, this strategic approach has been successful, with the introduction of several aspects as first in the industry. Emirates is renowned for pioneering new ideas; for example, Emirates became the first airline in the world to introduce a personal entertainment system on a commercial aircraft after introducing the world's first seat-back screens in 1992. Emirates has won the award for best in-flight entertainment from Skytrax for the entertainment system every year since the system's inception in 2003. At present, almost 70 percent of the fleet has the in-flight entertainment and by 2011 the entire Emirates fleet is set to have the system.

Emirates has also implemented another operational strategy (corporate) by striving to be the best provider of customer service. It provides the best ground services through early and easy check-in, waiting lounges, and chauffeur-driven airport transfers in selected cities in the region. Another operational strategy of Emirates is to become highly automated. The introduction of the SmartLanding and SmartRunway safety solutions, auto check-in, and automated simulations in the cabin crew training programs are good examples of the implementation of this strategy. Emirates adopts an alternative strategy called related diversification. It has diversified into related industries and sectors, including aircraft ground handling, aviation engineering, air catering, and tour operator operations. It has over six subsidiaries, while its parent company – Emirates Group – has over 50.

The Future

Emirates is one of Dubai's crown jewels and enjoys a strong reputation. However, it may emerge as a potential pawn in the city-state's scramble for financial stability. Analysts fear that it might get caught in the Dubai debt crisis, which may force the carrier to moderate its expansion and could hurt aircraft manufacturers like Boeing and Airbus, as it has placed orders worth US\$55 billion with them. Also, its own future growth might be at question. These and other issues are on the minds of senior executives as they rethink their strategic approaches and ponder the global economic downturn.

Acknowledgment

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Glossary

Acquisition | إستحواذ

When one organization purchases another

Advantage | ميزة

Any condition or state that enables a company to have a favorable position relative to its competitors or strengthens its success in the marketplace

Aggressive Quadrant | مصفوفة المركز الاستراتيجي وتقييم العمل

The upper-right quadrant of the SPACE Matrix, indicating that the organization is in an excellent position to use its internal strengths to take advantage of external opportunities, overcome internal weaknesses, and avoid external threats

Annual Objectives | الأهداف السنوية

Yearly targets a company seeks to achieve in line with its long-term objectives

Assessing Strategy–Culture Fit | تقييم إنسجام الإستراتيجية والثقافة

Establishing the compatibility of a company's culture and its strategy

Attractiveness Scores (AS) | درجات الجاذبية

Scores determined by examining each key external or internal factor in the QSPM, one at a time, and asking the question "Does this factor affect the choice of strategies being made?"

Auditing | المراجعة

A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria, and communicating the results to interested users

Avoidance | التجنب

An approach by which a conflict is ignored in hopes that it will resolve itself, or in which the conflicting individuals (or groups) are physically separated

Backward Integration | التكامل الخلفي

A strategy of seeking ownership or increased control of a firm's suppliers

Balanced Scorecard | بطاقة الأداء المتوازن

A process that allows firms to evaluate strategies from four perspectives: financial performance, customer knowledge, internal business processes, and learning and growth

Bankruptcy | الإفلاس

When a firm has been declared insolvent, so may avoid major debt obligations and void union contracts

Benchmarking | المقارنة بالممارسات الأفضل

Comparing a firm against the best firms in the industry on a wide variety of performance-related criteria

Board of Directors | مجلس الإدارة

A team representing stockholders, which is in charge of overseeing senior managers' activities, approving major strategic plans and policies, and protecting shareholders' interests

Boston Consulting Group (BCG) Matrix |

مصفوفة مجموعة بوسطن الإستشارية

A portfolio matrix which graphically portrays differences among company divisions in terms of relative market share position and industry growth rate

Business Ethics | أخلاقيات الأعمال

Principles of conduct within organizations that guide decision making and behavior

Business Portfolio | محفظة الأعمال

Autonomous divisions (or profit centers) of an organization make up the business portfolio

Business-Processing Outsourcing (BPO) |

الاستعانة بمصادر خارجية في سلسلة الأعمال

A rapidly growing new business that involves companies taking over the functional operations, such as human resources, information systems, payroll, accounting, customer service, and even marketing of other firms

Cash Budget | الموازنة النقدية

An estimation of cash inflows and outflows for a specific period of time

Cash Cows |

مولدوا الدخل أي الشركات الواقعة في مربع منتجو النقدية في مصفوفة بوسطن (أو البقرة الحلوب).
المتنبئون لفكرة أو منتج أو مشروع ويدافعون عنها بحماس.

Businesses with a high relative market share position, competing in a low-growth industry

CEO Succession | خلافة الرؤساء التنفيذيين

A plan for instating the next CEO of the company

Champions | الأبطال

The individuals most strongly identified with the idea or product and whose futures are linked to its success

Change-Resistant | مقاومة التغيير

An organizational culture that is less adaptive, characterized by skepticism about the benefits of introducing new business processes, entering new markets, introducing new products, or using new technologies

Chief Information Officer (CIO) | الرئيس التنفيذي لقطاع المعلومات

Works together with the Chief Technology Officer to ensure that information needed to formulate, implement, and evaluate strategies is available where and when it is needed. Manages the overall external-audit process

Chief Technology Officer (CTO) | الرئيس التنفيذي لقطاع التقنية

Works together with the Chief Information Officer to ensure that information needed to formulate, implement, and evaluate strategies is available where and when it is needed. Focuses on technical issues such as data acquisition, data processing, decision-support systems, and software and hardware acquisition

Code of Business Ethics | قواعد السلوك والممارسة المهنية في الأعمال

A formal set of guidelines for employees and managers to help them carry out their activities in accordance with organizational norms and values

Coherence | استراتيجيات الترابط

Refers to the need for strategists to examine *sets of trends*, as well as individual trends

Combination Strategy | إستراتيجية الجمع

A combination of two or more strategies

Competitive Advantage | الميزة التنافسية

Any advantage that places a firm in a better position in the market, relative to its rivals

Competitive Analysis | تحليل تنافسي

Identifying competitors and evaluating their strategies to determine their strengths and weaknesses relative to one's own product or service

Competitive Intelligence (CI) | الرصد (الاستخبارات) التنافسي

The process of monitoring the competitive environment and analyzing the findings in the context of internal issues, for the purpose of decision support

Competitive Profile Matrix (CPM) |

مصفوفة الخصائص التنافسية، أو مصفوفة اللحة التنافسية المختصرة

Identifies a firm's major competitors and its particular strengths and weaknesses in relation to a sample firm's strategic position

Competitive Quadrant |

مصفوفة الهيكل التنافسي أو مصفوفة الوضع التنافسي

The lower-right quadrant of the SPACE Matrix, indicating that the firm should implement competitive strategies

Competitive Risks | مخاطر تنافسية

Risks associated with uncertainty about rivals' responses to their own strategies

Concern for Employees | إهتمام بالموظفين

A mission statement component that addresses the company's perception of employees as a valuable asset of the firm

Concern for Public Image | الإهتمام بالسمعة.

A mission statement component that addresses the firm's responsiveness to social, community, and environmental concerns

Concern for Survival, Growth, and Profitability |

الاهتمام بالبقاء والنمو والربحية

A mission statement component that addresses the firm's commitment to growth and financial soundness

Conflict | الصراع/النزاع

A disagreement between two or more parties on one or more issues

Confrontation | المواجهة

An approach exemplified by exchanging members of conflicting parties so that each can gain an appreciation of the other's point of view or holding a meeting at which conflicting parties present their views and work through their differences

Conservative Quadrant |

مربع الإستراتيجية المحافظة (في مصفوفة "الفضاء")

The upper-left quadrant of the SPACE Matrix, indicating that the organization should stay close to its basic competencies and not take excessive risks

Consistency | إتساق، تجانس

Refers to the need for strategists to assess whether goals and policies agree across the organization

Contingency Plans | خطط طوارئ

Planned methods for dealing with unfavorable and favorable events before they occur

Contract Manufacturing | عقود التصنيع

Involves a company contracting a manufacturer in the host market to produce its entire product or a part of the product

Contractual Approaches | النهج التعاقدية

Market entry approaches including licensing, franchising, management contract, contract manufacturing, and turnkey operations

Cooperative Arrangements | التحالفات التعاونية

Various forms of partnership between organizations, including R&D partnerships, cross-distribution agreements, cross-licensing agreements, cross-manufacturing agreements, and joint-bidding consortia

Corporate Agility | قدرة الشركة على التكيف مع المتغيرات

An organization's ability to adapt successfully to changing circumstances

Cost Leadership | إستراتيجية القيادة في مجال التكاليف

A strategy emphasizing the production of standardized products at a very low per-unit cost for consumers who are price-sensitive

Creed Statement | بيان عقيدة الشركة

An enduring statement of purpose that distinguishes one business from other similar firms (also *mission statement*)

Cultural Products | منتجات متعلقة بالثقافة

Elements of a culture, including values, beliefs, rites, rituals, ceremonies, myths, stories, legends, sagas, language, metaphors, symbols, heroes, and heroines

Culture | الثقافة

The set of shared values, beliefs, attitudes, customs, norms, personalities, heroes, and heroines that describe a firm

Customers | العملاء

A mission statement component that defines the firm's customers

Decentralized Structure | هيكل لا مركزي

It is a form of structure where the decision making authority is defused and is primarily in the hands of those who are responsible and familiar with the operation

Decision Stage | مرحلة القرار

Involves the Quantitative Strategic Planning Matrix (QSPM), which uses information from the input stage to objectively evaluate feasible alternative strategies identified in the matching stage

Defensive Quadrant | مربع الإستراتيجية الدفاعية (في مصفوفة "الفضاء")

The lower-left quadrant of the SPACE Matrix, indicating that the firm should focus on rectifying internal weaknesses and avoiding external threats

Defusion | تعظيم نقاط التشابه بين الأطراف المتنازعة وتصغير الاختلافات

An approach that plays down differences between conflicting parties while accentuating similarities and common interests, seeks compromise, resorts to majority rule, appeals to a higher authority, or redesigns present positions

Delayering | مفهوم "تقليل الطبقات الإدارية"، وهو من طرق إعادة الهيكلة

Reducing the size of the firm in terms of number of employees, number of divisions or units, and/or number of hierarchical levels in the firm's organizational structure, in order to improve both efficiency and effectiveness (also *restructuring*, *downsizing*, *rightsizing*)

Differentiation | التمييز

A strategy aimed at producing products and services considered unique across the industry and directed at consumers who are relatively price-insensitive

Directional Vector | المتجهات

A line drawn from the origin of the SPACE Matrix through the new intersection point, revealing the type of strategies recommended for the organization: aggressive, competitive, defensive, or conservative

Director of Competitive Analysis | مدير التحليل التنافسي

Business role responsible for planning, collecting data, analyzing data, facilitating the process of gathering and analyzing data, disseminating intelligence on a timely basis, researching special issues, and recognizing what information is important and who needs to know

Distinctive Competencies | الكفاءات المتميزة

Strengths that cannot be easily matched or imitated by competitors

Diversification Strategies | إستراتيجيات التنوع

Acquiring a business in related or unrelated areas (e.g., market, product, technology) to take advantage of a company's existing competencies or to seize lucrative investment opportunities

Divestiture | التخلص من الإستثمار

Selling a division or part of an organization

Divisional Structure by Geographic Area, Product, Customer, or Process | هيكل الأقسام حسب المناطق الجغرافية أو المنتجات أو العمليات

Organizational structure which groups activities by location, product, service, customer or process; functional activities are performed both centrally and in each separate division (also *decentralized structure*)

Dogs | الشركات الواقعة في مربع "الكلاب" في مصفوفة بوسطن
Businesses with a low relative market share position, competing in a slow- or no-market-growth industry

Downsizing | مفهوم "التقليص" وهو من طرق إعادة الهيكلة
Primarily refers to cutting the number of employees in a company for the purpose of making it more efficient or embarking on a cost-cutting program

Educative Change Strategy | إستراتيجية التغيير التثقيفية
Presents information to convince people of the need for change

Employee Stock-Ownership Plans (ESOPs) | سياسة مشاركة الموظفين في ملكية الشركة
A tax-qualified, defined-contribution, employee-benefit plan whereby employees purchase stock of the company through borrowed money or cash contributions

Empowerment | تمكين الموظف
The act of strengthening employees' sense of worthiness by encouraging them to participate in decision making and to exercise initiative and imagination, and rewarding them for doing so

Environmental Scanning | الرصد (المتابعة) لبيئة الأعمال
The process of monitoring, analyzing and assessing economic, political, legal, social and technological conditions and trends

Environmental Stability (ES) | الإستقرار البيئي
Conditions in the environment by which change and fluctuation do not deviate that much from the norm, and therefore are not a real threat to company operations

Establishing Annual Objectives | تحديد الأهداف السنوية
The process of identifying and agreeing on goals and objectives, at various levels at the company, for the next year

Ethnocentric | التمرکز (الإنحياز) العرقي
A strategic orientation by which the beliefs and values of the parent company are projected on its subsidiaries and offices abroad

Evolving Role of the CEO | التطور والتغيير في أدوار الرئيس التنفيذي.
The changing expectations of how CEOs should manage and represent their companies

Executives, Orientations | التوجهات الإدارية العليا
A set of beliefs and outlooks that influence executives' thinking and actions.

Export | تصدير
The selling and sending out of goods or services to other countries

External Audit | المراجعة الخارجية
Identifies and evaluates trends and events beyond the control of a single firm to reveal key opportunities and threats, so that managers can formulate strategies to take advantage of the opportunities and avoid or reduce the impact of threats

External Factor Evaluation (EFE) Matrix | مصفوفة تقييم العوامل الخارجية
Allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information

External Forces | القوى الخارجية
Forces outside a firm's control, which exercise significant influence on the direction and the operation of a firm

External Opportunities | الفرص الخارجية
Economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit an organization in the future

External Threats | التهديدات الخارجية
Economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly harm an organization in the future

Feasibility | جدوى
Refers to the need for strategists to assess whether the company is able to adopt the strategy within its physical, human, and financial resources

Financial Budget | الميزانية المالية
A document that details how funds will be obtained and spent for a specified period of time

Financial Ratio Analysis | تحليل النسب المالية
Exemplifies the complexity of relationships among the functional areas of business

Financial Strength (FS) | القوة المالية
An internal dimension on the SPACE Matrix, referring to a company's financial performance

First-Mover Advantages | ميزات المتحرك الأول
The benefits a firm may achieve by entering a new market or developing a new product or service prior to rival firms

Focus | التركيز
A strategy by which products and services are produced to fulfill the needs of small groups of consumers

Force Change Strategy | إستراتيجية التغيير الإجبارية
Involves giving orders for the change and enforcing those orders

Forward Integration | التكامل الأمامي
Gaining ownership or increased control over distributors or retailers

Franchising | الامتياز
An agreement by which a firm (franchiser) grants the right to another entity (franchisee) to run its business in a specified manner and provide assistance during the contract duration

Friendly Merger | اندماج ودي بين شركتين
A merger or acquisition that is desired by both parties

Functional Structure | هيكل وظيفي
Organizational structure which groups tasks and activities by business function

Future Shock | الصدمة المستقبلية
Occurs when the nature, types, and speed of changes overpower an individual's or organization's ability and capacity to adapt

Generic Strategies | إستراتيجيات عامة
A general idea or approach on how to compete in the marketplace. Companies may utilize one or a combination of cost leadership, differentiation, and focus strategies to position themselves in the market

Geocentric | التمرکز العالمي (غير إنحيازي)
A strategic orientation guided by global best practices, preferring an integrated approach to managing operations

Glass Ceiling | السقف الزجاجي (مثلا توقف التقدم الوظيفي)
The invisible barrier in many firms that bars women and minorities from top-level management positions

Global Strategy | إستراتيجية عالمية
When a firm utilizes its entire worldwide systems of production and market positions against competition

Globalization | العولمة
A strategy which considers the global market as the platform for action

Governance | حوكمة (حاكمة) الشركات

The act of oversight, direction and guidance over a company's management

Grand Strategy Matrix | مصفوفة "الإستراتيجية العظمى"

A matrix based on two evaluative dimensions: competitive position and market (industry) growth

Halo Error | خطأ الهالة (مثلا الميل نحو الإعتماد القوي على معيار واحد)

The tendency to put too much weight on a single factor

Horizontal Consistency of Objectives |

تناسق أفقي لأهداف الشركة، أي وجود تناغم بين أهداف مثلا التصنيع والتسويق
Annual objectives should be consistent across organizational departments and divisions, forming a network of supportive aims

Horizontal Integration | التكامل الأفقي

A strategy that seeks to acquire similar firms at the same stage of production-marketing operation for the purpose of controlling a large segment of the market

Host Country | الدولة المضيفة

Any foreign country where a firm has operations, or in which it has foreign direct investment

Hostile Takeover | إستحواذ عدائي

A merger or acquisition that is not desired by both parties (see *takeover*)

Industrial Organization (I/O) |

منظور الهيكل الصناعي الذي يرى أن العوامل الخارجية أهم من العوامل الداخلية لتحقيق الميزة التنافسية

How the market or the industry is structured, especially in terms of the competition, rivalry, and domination which affects the behavior of the firm

Industry Analysis | تحليل الصناعة

Examines external forces and industry variables as a basis for getting and keeping competitive advantage

Industry Strength (IS) | قوة الصناعة

An external dimension on the SPACE Matrix, referring to the state of the industry in which a firm operates

Information Technology (IT) | تقنية المعلومات

The use of systems (especially computers and telecommunications) for storing, retrieving, and sending information

Innovation | إستراتيجية الابتكار

A strategy by which completely new products are created

Input Stage | مرحلة المدخلات

Summarizes the basic input information needed to formulate strategies

Insular, Inwardly Focused | ضيق الأفق، يركز على تفكيره فقط.

An organizational culture in which managers and senior personnel have faith only in their ability to come up with solutions and new ideas

Integration Strategies | الإستراتيجيات التكاملية

Those strategies which are used by a firm to achieve efficiency and competitive advantage

Intensive Strategies | الإستراتيجيات المكثفة

Strategies requiring intensive efforts if a firm's competitive position with existing products is to improve

Internal Analysis | التحليل الداخلي

A tool to identify and assess firm's strengths and weakness; it allows managers to focus on internal capabilities and deficiencies, and thus take a realistic view in their planning process

Internal Factor Evaluation (IFE) Matrix |

مصفوفة تقييم العوامل الداخلية

A strategy-formulation tool summarizing and evaluating the major strengths and weaknesses in the functional areas of a business, and providing a basis for identifying and evaluating relationships among those areas

Internal Strengths | القوى الداخلية

Resource capabilities relative to competitors

Internal Weaknesses | الضعف الداخلي

Certain deficiencies that prevent a firm from seizing opportunities in the market

Internal-External (IE) Matrix | مصفوفة العوامل الداخلية/الخارجية

A portfolio matrix which analyzes internal and external business factors, positioning an organization's various divisions in a nine-cell display

International Firms | منشآت دولية

Organizations that conduct business operations across national borders (also called *multinational corporations*)

International Strategy | إستراتيجيات دولية

A strategy characterized by high standardization of product and services. Firms are not interested in being responsive to peculiarities in any country, and do not seek to coordinate their dispersed activities

Internationalization | التدويل

A strategy which limits expansion to a few countries with no interest in operating globally

Internet | الإنترنت

A global computer network providing a variety of information and communication facilities, consisting of interconnected networks using standardized communication protocols

Intuition | حدس

The ability to understand something instinctively, without the need for conscious reasoning; may be based on past experiences, judgment, and feelings

ISO 14000/14001 |

معايير تحدد إطارا لمراقبة نظام الإدارة البيئية التي يمكن على أساسها اعتماد الشركة من قبل طرف ثالث

A family of voluntary standards concerning the extent to which a firm minimizes harmful effects on the environment caused by its activities and continually monitors and improves its own environmental performance

Joint Venture | مشروع مشترك

An independent entity which is created and owned by two or more companies to achieve mutual objectives

Just-in-Time (JIT) | إستراتيجية في الوقت المناسب لإدارة المخزون

A logistic system which focuses on reducing inventories by working closely with suppliers, so materials reach a production process as they are needed

Leadership | القيادة

The ability to articulate vision, organize and deploy resources, and sustain productive involvement and inspirational performance

Learning from the Partner | التعلم من الشريك

When a company enters into a cooperative agreement with a competitor, in order to acquire new skills and learn from the competitor

Leveraged Buyout | شراء شركة عن طريق التمويل الخارجي

Taking over of another company using a large amount of borrowed money. The acquiring firm often uses the assets of the acquired firm as collateral for the loans, along with its assets. In this way, the acquiring firm can make acquisitions without committing a huge amount of capital

Licensing | الترخيص

An agreement whereby a licensor a licensee the right to produce its product, or use its production process or trademark, in return for an agreed-on royalty fee

Linear Regression | تحليل الإنحدار الخطي

The assumption that the future will be just like the past

Liquidation | تصفية

Selling all of a company's assets, in parts, for their tangible worth

Long-Range Planning | تخطيط طويل الأجل

Any plan that specifies target goals for five years or more with adequate use of present knowledge

Long-Term Objectives | أهداف طويلة الأجل

Specific results that an organization seeks to achieve in pursuing its basic mission, over a period of more than one year

Macroeconomic Risks | مخاطر الإقتصاد الكلي

Fluctuations that influence economic welfare, or which constitute targets for economic policy, such as wars, natural calamities, movements in wage rates, interest rates, exchange rates, and commodity prices

Management by Wandering Around | الإدارة بالتجوال (الإدارة بالبركة)

Involves hands-on, direct participation by the managers in the work-related affairs of employees, in contrast to rigid and distant management

Management Contract | عقود الإدارة

Involves a contractual agreement where a company agrees to provide management service and expertise to another company for a determined period

Management Information System (MIS) | نظم المعلومات الإدارية

A computerized information-processing system designed to support the activities of company or organizational management

Managing Culture-Strategy Relationships |

إدارة علاقة الثقافة بالإستراتيجية

A set of policies and actions taken by executives to align strategy with organizational culture to ensure high performance.

Market Commonality | القواسم المشتركة بالسوق مع المنافسين

The number and significance of markets that a firm competes in with rivals

Market Development | تطوير السوق

A strategy that involves introducing present products or services into new geographic areas

Market Penetration | اختراق السوق

A strategy that seeks to increase market share for present products or services in present markets through greater marketing efforts

Market Segmentation | تجزئة السوق

The subdividing of a market into distinct subsets of customers according to needs and buying habits

Marketing Mix Variables | متغيرات المزيج التسويقي

Product, place, promotion, and price

Markets | الأسواق

A mission statement component that defines where, geographically, the firm competes

Matching | مطابقة

Matching external and internal critical success factors to generate alternative strategies

Matching Stage | مرحلة المطابقة

Focuses upon generating feasible alternative strategies by aligning key external and internal factors

Matrix Structure | هيكل المصفوفة

Organizational structure that coordinates efforts across functions and projects, which depends on both vertical and horizontal flows of authority and communication

Measuring Organizational Performance | قياس الأداء التنظيمي

Involves comparing expected results to actual results, investigating deviations from plans, evaluating individual performance, and examining progress being made toward meeting stated objectives

Merger | اندماج بين شركتين

When two organizations of about equal size unite to form one enterprise

Mission Statement | رسالة الشركة

An enduring statement of purpose that distinguishes one business from other similar firms

Mission Statement Components | مكونات رسالة الشركة

Elements comprising a mission statement

Multidomestic Strategy | إستراتيجية العمل في أكثر من قطر

A strategic approach where the parent company allows its subsidiaries to decide how to compete in and adapt to conditions in each domestic market

Multinational Corporations | الشركات المتعددة الجنسيات

Organizations that conduct business operations across national borders (also called *international firms*)

Opportunities | الفرص

Favorable events that, if seized by the company, often contribute to its growth and competitiveness

Organizational Culture | الثقافة التنظيمية

The shared values and beliefs across an organization

Outstanding Shares Method |

طريقة الأسهم المصدرة لحساب القيمة العادلة للسهم

A method by which the market determine a business's worth. The number of shares outstanding is multiplied by the market price per share and a premium is added. The premium is a per-share dollar amount that a person or firm is willing to pay to control (acquire) the other company

Parent Company | الشركة الأم

A company which has investments or subsidiaries abroad

Per Share/Earnings Before Interest and Taxes (EPS/EBIT analysis) |

تحليل العوائد للسهم قبل دفع الفوائد والضرائب

Widely used technique for determining whether debt, stock, or a combination of debt and stock is the best alternative for raising capital to implement strategies. This technique involves an examination of the impact that debt versus stock financing has on EPS under various assumptions as to EBIT

Philosophy | فلسفة الشركة

A mission statement component that defines the firm's basic beliefs, values, aspirations, and ethical priorities

Policy | سياسات

Specific guidelines, methods, procedures, rules, forms, and administrative practices established to support and encourage work toward stated goals

Political or Policy Risks | المخاطر السياسية

Risks arising from the actions of national governments

Politicized Culture | ثقافة مسببة

An organizational culture in which political infighting and conflicting priorities among senior members of the organization create a climate that is not conducive to smooth operations

Polycentric | التمركز المتعدد (أي الذي يعترف باختلاف الثقافة عن الأخرى)

A strategic orientation by which the culture of the host country (a country where the subsidiary is located) guides operations and decision making

Porter's Five-Forces Model | نموذج بورتر للقوى الخمس

A model of competitive analysis a widely used for developing strategies in many industries

Price-Earnings Ratio Method | طريقة نسبة السعر إلى الكسب (الربح)

A method by which the market determine a business's worth. The market price of the firm's common stock is divided by the annual EPS and this number is multiplied by the firm's average net income for the past five years

Product Development | تطوير المنتج

A strategy that seeks increased sales by improving or modifying present products or services

Product Positioning | الموقع التنافسي للمنتج

Determining how a firm's products or services compare to competitors' regarding dimensions most important to success in the industry

Products or Services | المنتجات أو الخدمات

A mission statement component that defines the firm's major products or services

Projected Financial Statement Analysis | تحليل القوائم المالية التقديرية

A central strategy-implementation technique that allows an organization to examine the expected results of various actions and approaches

Quantitative Strategic Planning Matrix (QSPM) |

"مصفوفة التخطيط الإستراتيجي الكمي" لتحديد جاذبية البدائل الإستراتيجية
An analytical technique designed to determine the relative attractiveness of feasible alternative actions

Question Marks | الشركات الواقعة في مربع "علامات الاستفهام" في مصفوفة بوسطن

Businesses that have a low relative market share position, yet compete in a high-growth industry

Rational Change Strategy | إستراتيجية التغيير الرشيدة

Attempts to convince individuals that the change is to their personal advantage (also *self-interest change strategy*)

Reengineering | إعادة الهندسة (الهيكلية)

Reconfiguring or redesigning work, jobs, and processes for the purpose of improving cost, quality, service, and speed

Regiocentric | المتمركز الإقليمي

A strategic orientation by which managers find it useful to let the general beliefs and values prevailing in a particular region guide the operations there

Related Diversification | سياسات التنوع ذات العلاقة

A strategy a firm utilizes to acquire other businesses which have similar markets, products, or technology, in order to improve its competitive position

Relative Market Share Position | موقع الحصة السوقية النسبية

The ratio of a division's own market share (or revenues) in a particular industry to the market share (or revenues) held by the largest rival firm in that industry

Research and Development (R&D) | الأبحاث والتطوير

The process of developing new products and improving old products in a way that will allow effective strategy implementation

Resistance to Change | مقاومة التغيير

Occurs in organizations in the form of sabotaging production machines, absenteeism, filing unfounded grievances, and an unwillingness to cooperate

Resource Allocation | تخصيص الموارد

The allocation of financial, physical, human, and technological resources throughout the organization, according to priorities established by annual objectives.

Resource Risks | مخاطر الموارد

The risk that the adopted strategy will require resources that companies do not have, cannot acquire, or cannot spare

Resource Similarity | تشابه الموارد

The extent to which the type and amount of a firm's internal resources are comparable to a rival

Resource-Based View (RBV) |

منظور الموارد الذي يرى أن الموارد الداخلية أهم من العوامل الخارجية لتحقيق الميزة التنافسية

An approach to competitive advantage, which contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage

Restructuring | إعادة الهيكلة

Reducing the size of the firm in terms of number of employees, number of divisions or units, and/or number of hierarchical levels in the firm's organizational structure, in order to improve both efficiency and effectiveness (also *downsizing*, *rightsizing*, *delaying*)

Retrenchment | التقليل أي تخفيض النفقات

When an organization regroups through cost and asset reduction to reverse declining sales and profits

Reviewing the Underlying Bases of an Organization's Strategy |

مراجعة أسس إستراتيجية المنظمة

Involves developing a revised External Factor Evaluation (EFE) Matrix and Internal Factor Evaluation (IFE) Matrix

Revised EFE Matrix | مصفوفة تقييم العوامل الخارجية المعدلة

Indicates how effective a firm's strategies have been in response to key opportunities and threats

Revised IFE Matrix | مصفوفة تقييم العوامل الداخلية المعدلة

Focuses on changes in the organization's management, marketing, finance/accounting, production/operations, research and development (R&D), and management information systems' strengths and weaknesses

Rightsizing | مفهوم "الحجم المناسب" وهو من طرق إعادة الهيكلة

Reducing the size of the firm in terms of number of employees, number of divisions or units, and/or number of hierarchical levels in the firm's organizational structure, in order to improve both efficiency and effectiveness (also *restructuring*, *downsizing*, *delaying*)

Scale Economies | إقتصاديات الحجم الكبير

The benefit realized from increasing the size of the plant or the volume of units, thereby reducing the unit production cost

Scope Economies | إقتصاديات النطاق (للمنتجات أو على مستوى المنشأة)

The assumption that the cost of the joint production of two or more products can be less than the cost of producing them separately

Self-Concept | مفهوم الذات في رسالة المنظمة

A mission statement component that defines the firm's distinctive competence or major competitive advantage

Self-Interest Change Strategy | إستراتيجية التغيير ذات المصلحة

Attempts to convince individuals that the change is to their personal advantage (also *rational change strategy*)

Six Sigma | ستة سيجما تسعى لتحسين جودة مخرجات العملية الإنتاجية

A quality-boosting process improvement technique that entails training several key persons in the firm in techniques to monitor, measure, and improve processes and eliminate defects.

SO Strategies | إستراتيجية القوى-الفرص

Use a firm's internal strengths to take advantage of external opportunities

Social Policy | سياسات إجتماعية

A policy outlining only what the organization owes its various stakeholders, and also what responsibilities the firm has to consumers, environmentalists, minorities, communities, and other groups

ST Strategies | إستراتيجية القوى-التهديدات

Use a firm's strengths to avoid or reduce the impact of external threats

Stakeholders | أصحاب المصلحة

The individuals and groups of individuals who have a special stake or claim on the company

Stars | الشركات الواقعة في مربع "النجوم" في مصفوفة بوسطن

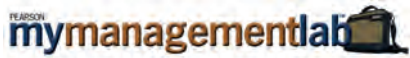
Businesses with a high relative market share and a high industry growth rate

Strategic Business Unit (SBU) Structure |

هيكل وحدات الأعمال الإستراتيجية

Organizational structure which places similar divisions into strategic business units and delegates authority and responsibility for each unit to a senior executive who reports directly to the CEO

This edition of David's *Strategic Management: Concepts and Cases* has been specially adapted for students of the Arab world looking to gain a regional perspective on strategic management. Every chapter of this edition has been tailored to integrate Arab business examples and Arab cultural insights, alongside case studies from international companies. With brand new data and analysis gathered from throughout the Arab region, this text is essential reading for any student seeking to better understand the unique features of strategic management in the Arab world.



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