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EXECUTIVE EDUCATION

Are retailer brands a competitive threat for brands globally?

BY ANDRÉS CUNEO | pg. 02

Competition, analysts and markets

BY PETYA PLATIKANOVA | pg. 04

Does investing abroad improve firm performance?

BY XAVIER MENDOZA | pg. 08

Why firms are unable to think about future generations

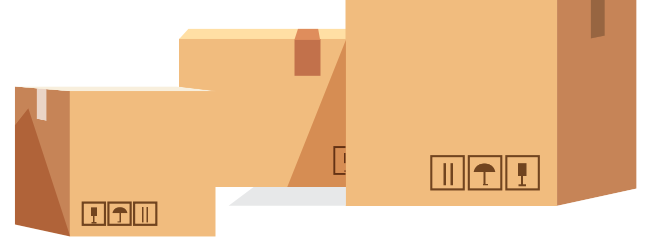
BY DANIEL ARENAS | pg. 06

How can leaders embrace change effectively?

BY JAAP BOONSTRA | pg. 10

I

Are retailer brands a competitive threat for brands globally?



The numbers speak for themselves: retailer brands have experienced impressive growth in Europe over the past few decades and are present in more than 90% of consumer packaged goods.

Andrés Cuneo EMBA Professor
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2016 Monthly EMBA
Course: Marketing Management

Andrés Cuneo is an Associate Professor of Marketing at ESADE Business School, where he teaches Marketing Strategy, Marketing Management and Brand Strategy in the MBA, MSc and Executive Education. A winner of ESADE's teaching awards, Andrés pursues research interests related to brands: why brands matter for companies and consumers. Currently, his primary stream of research focuses on the development of private label brands across categories and countries and the impact they have on the competitive dynamics between manufacturers and retailers. His research has been published in leading academic journals.

A key question to answer is whether retailer brands will grow at the same pace all over the world, challenging brand manufacturers' market share globally. A recent study published in the *Journal of International Marketing* addresses this question and concludes that retailer brands' growth will vary across countries depending on market structures.

The international development of retailer brands has been the cornerstone of many retailers' growth strategies for challenging the position of manufacturer brands. "It is of critical importance that brand manufacturers assess the threat of retailer brands by having a very good understanding of market attractiveness in terms of the potential threat of retailer brands," says leading researcher Andrés Cuneo, Associate Professor of Marketing at ESADE.

"Our research sheds light on how market-structure factors influence the growth of retailer brands in different countries. The findings can help manufacturers' brand managers to better predict whether specific countries are fertile ground for retailer brands or, on the contrary, they are bastions for brand manufacturers to protect their market shares."

Using panel data provided by *Euromonitor International*, researchers examined company data for a 10-year period across a sample of 46 countries in North, Central and South America; Western and Eastern Europe; the Middle East; and Australasia. The report analyzed manufacturing brands in four macro categories, including home care, packaged foods, tissue and hygiene, and pet care.

Risk perception

"In many markets, retailer brands are considered risky alternatives because consumers perceive them to be inferior in quality compared to manufacturer brands," says Prof. Cuneo. "The likelihood that consumers will choose a retailer brand increases when they perceive that the risk is lower."

To reduce this perception of risk, global supermarket and hypermarket chains such as Carrefour, Tesco and Walmart have abandoned value propositions based on "pure price" and are adopting more sophisticated ones that target a wider range of consumers who are searching for lower risk and value alternatives.

Retail distribution structure

Why do retailer brands become major players in some countries but have a hard time gaining momentum in others?

In the study, researchers looked at three key market structure factors that have a direct effect on the success of private label brands: retail distribution structure, type of retailer and logistic structure. These factors play a crucial role in promoting or inhibiting the ability of retailers to develop retailer brands.

"The findings show that the retail distribution structure has the largest effect on determining the success of private label brands across countries," explains Prof. Cuneo. "The research proves that the more highly developed a country's retail distribution structure is – i.e., supermarkets, hypermarkets and discounters – the higher the retailer brand share will be."

Logistics and global retailers

The second factor influencing the success of retailer brands is a country's logistic structure – that is, the quality of the country's trade facilities and the logistic performance it offers companies in terms of shipping and transporting products across the country.

"When logistic structures are underdeveloped, they constitute a barrier for retailers to access suppliers and stores in a timely and efficient manner," says Prof. Cuneo. "Our findings confirm that the more highly developed a country's logistic structure is, the higher the chances of success."

A third factor influencing the success of retailer brands is the presence of global retailers in the country. The report reveals that the number of retailers present in a market also influences the success of a retailer brand's expansion. "We have observed that global discounters play an important role in the growth of retailer brands: the higher the number of global retailers in a country, the greater the impact on sales," says Prof. Cuneo.

II

Competition, analysts and markets

Need advice on where and when to invest?

Advisory services are provided by financial (or securities) analysts, among others. Financial analysts collect and analyze different sources of financial information and help investors decide where and when to invest by analyzing past management decisions and generating expectations about future developments.

Petya Platikanova **EMBA Professor**
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2016 Monthly EMBA
Course: Financial Analysis

Petya Platikanova is Associate Professor in the Department of Economics, Finance and Accounting at ESADE. She is interested in how creditors and financial analysts perceive corporate reporting and tax policy. Her research has been published in leading academic and professional journals, such as *Review of Accounting Studies, Journal of Banking and Finance, European Accounting Review* and *Financial Analysts Journal*, among others. She serves on the Editorial Board of the *Financial Analysts Journal*, which focuses on investment management (CFA Institute Publication).

Financial analysts without a magic ball

To provide investment advice and issue stock recommendations, financial analysts compile and interpret information from various sources, primarily related to a firm's market position and financial performance. In her latest work, Petya Platikanova and her co-author Marco Mattei *(Review of Accounting Studies, forthcoming)* examine how product market competition affects analysts' forecasts. Investment recommendations are high-quality when financial analysts accurately forecast future developments in product markets and their impact on firm performance (usually proxied by earnings per share).

Petya and her co-author find that analysts' forecasts are less accurate when firms face greater competitive pressure. "Competitive pressure makes future performance less certain; furthermore, it adversely affects the quality of the financial information," says Prof. Platikanova. "As a result, financial analysts are unable to accurately forecast how firms facing greater product market competition will perform, thus producing less accurate expectations, i.e., earnings-per-share forecasts."

How does product market competition affect financial analysts?

Intense competition leads to more dynamic product markets and increases the uncertainty of market outcomes for each player. As a result, competitive threats present a challenge for financial analysts in forecasting earnings.

Petya and her co-author suggest that more competitive markets also adversely affect the quality of information used by investors. "We argue that typically used measures of competition (such as industry concentration) are imperfect and use a text-based measure of competitive pressure (product fluidity)."

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Collecting and processing of information is important for all business decisions, including capital allocation on financial markets. Information can make corporate projects real by attracting financial support for investment in new facilities, technology and human capital. Information can also enable some market participants to make gains at the expense of others who receive and use information with a time lag.

Their analysis shows that firms facing competitive pressure are likely to:

- Contain management assumptions, which are more difficult to foresee (i.e., accruals quality is lower);
- Request that sensitive (proprietary) information to be withheld by the securities authorities (i.e., Securities and Exchange Commission);
- Stop revealing management expectations about future developments and financial results to other parties in the form of management guidance;
- Hide the identity of their major clients.

As a consequence, financial analysts may not only have diverging opinions about future market developments in the presence of intense product competition; furthermore, they may also have less and noisier information to base their forecasts on.

How can this research help managers and investors?

MANAGERS

Managers facing greater competition often prefer to withhold information because of concerns that “competitors can copy our strategic moves, thus erasing our competitive advantage”. Keeping competitors in the dark however has important implications. When less and noisier information is provided, financial analysts are likely to issue less precise forecasts. As a consequence, financing projects may become more difficult and/or more expensive.

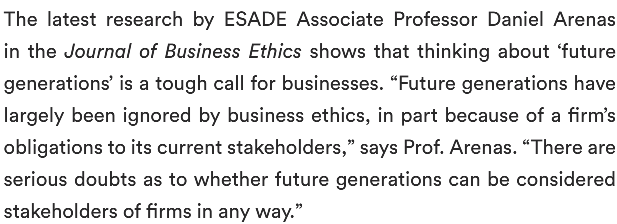
INVESTORS

Firms operating in more competitive markets will have, on average, less precise and more diverging forecasts issued by financial analysts. Before following a piece of investment advice or an analyst’s recommendation, it would be beneficial to consider product market dynamics. If a firm’s product market is more competitive, further analysis is required in order to determine whose forecasts are more precise (for instance, close investigation of analysts’ ranking position and their accuracy in the past).

III

Why firms are unable to think about future generations

But should focus on the next ones instead to save the planet



Humans are destroying the planet – it is a scientifically-documented fact. What will the future be like in 50 or 100 years from now? Will the Earth be sustainable for future generations? Firms play a crucial role in making the world a more sustainable place (or destroying it).

Daniel Arenas EMBA Professor

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2016 Monthly EMBA

Course: Corporate Responsibility

Daniel Arenas is Associate Professor of the Department of Social Sciences at ESADE Business School, where he is also the Head of Research of the Institute for Social Innovation. He teaches courses on Sociology, Business Ethics and Corporate Social Responsibility. His research interests focus in the area of business ethics and corporate social responsibility, and has published also in the fields of political theory and aesthetics.

The latest research by ESADE Associate Professor Daniel Arenas in the *Journal of Business Ethics* shows that thinking about 'future generations' is a tough call for businesses. "Future generations have largely been ignored by business ethics, in part because of a firm's obligations to its current stakeholders," says Prof. Arenas. "There are serious doubts as to whether future generations can be considered stakeholders of firms in any way."

So, if firms need immediate results to create shareholder value, how can businesses take a more ethically responsible approach to the future? "We argue that businesses need to stop thinking about the vague concept of 'future generations' and focus on the most immediate next generations instead," says Prof. Arenas.

When businesses think about 'future generations' without specifying whether it is 3, 10 or 100 generations hence, their moral obligations dwindle. "How can one expect managers to take into account obligations for people living in the year 3415? Even those who defend obligations to future generations admit that moral motivation fades away when one thinks about remote generations."

The next generations

The article argues that when a business thinks about the next generations (that is, those that either overlap or come shortly after the present generation), the barriers to moral behavior are considerably lower and motivation grows. "The next generations can act as a better motivator to incentivize managers and firms to engage in pro-sustainability behavior," says Prof. Arenas. For instance, when managers face dilemmas on the most immediate next generations (access to clean water, clean air and so on), stakeholders will have good reasons to consider that the firm cannot easily neglect its obligations to them.

"Global climate change in particular raises questions regarding inter-generational obligations, which make the debate on businesses' responsibilities even more urgent. We argue that business ethicists can make some progress in this area by focusing on the most immediate next generations," says Prof. Arenas.

4 Potential pathways for a better future

The research proposes 4 potential pathways to help businesses raise their moral awareness and meet their obligations towards the next generations.

01. VISION ACROSS GENERATIONS

Firms that want to preserve their memory, identity and culture will be more successful if they keep in mind the next generation of employees and managers that will continue ongoing projects and sustain the organization. "Firms need to think about their future survival. Being indifferent to the future is morally reprehensible – one should attempt to leave the organization in the best possible state so that the next generation can attain the firm's goals," says Prof. Arenas. "The sense of continuity through the various cohorts in the organization is linked to a culture of responsibility."

02. MEANING AFTER QUITTING

Why should managers care about what happens to the firm when the next generation takes over? The answer is because most people are not indifferent to the actions and behaviors of others in the organizations they have worked for, even after they have left the company. In fact, firms that engage in fraudulent behavior leave former employees with a mixed feeling of having lived a lie. "As human beings have a psychological need for a meaningful life story, it is in everyone's best interest that the next generation taking over continues the projects and sustains the organization they worked for," says Prof. Arenas.

03. STAKEHOLDERS' ATTACHMENTS

Companies should not see stakeholders as important only in relation to the firm. Stakeholders are human beings who have special relationships with other people and also have a concern for their children's future. "So companies need to assume that their stakeholders would not willingly cooperate with the firm if they knew its actions would hurt their own children (and possibly grandchildren) and make it harder for them to lead a decent life."

04. INDIRECT RECIPROCITY

Why do people donate blood even when the beneficiary cannot return the favor? Just as in the case of blood donations, there is a golden rule that claims that the present generation should treat future generations as they would like to have been treated by the preceding one. Firms have benefited from institutions and individuals in the past, and from a general system of public goods, for which they cannot repay directly but for which they have an obligation to reciprocate indirectly. Providing benefits rather than harm for the next generations fosters a climate of cooperation among current employees and stakeholders, even if the returns are not immediate in the short term.

Does investing abroad improve firm performance?

The rise of micro-multinational enterprises

The days of large multinationals as the only companies able to invest abroad are over. Recent years have seen the rise of micro-multinationals, a new type of small and medium-size enterprises (SMEs) that are well equipped to exploit opportunities abroad.

Xavier Mendoza **EMBA Professor**
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2016 Monthly EMBA
Courses: General Management and Strategic Global Management

Xavier Mendoza is an Associate Professor in the Department of Strategy and General Management and Director of the Observatory of Spanish Multinational Companies (OEME), a research unit jointly promoted by ESADE, ICEX and EY. Prof. Mendoza's research studies internationalization processes in firms, strategic management of multinational companies, and the impact of FDI on development. His work has been published in journals such as *Corporate Governance, International Business Review, Journal of Business Research* and *Long Range Planning,* as well as in OEME annual reports. He received the Outstanding Paper Award for the best article published in *Corporate Governance in 2008.*

What sets these companies apart? Compared to pure exporting SMEs, micro-multinationals are more entrepreneurial, more internationalized and more actively use their organizational networks to obtain in-depth foreign market knowledge. These firms provide superior customer service and collect exceptional feedback on local market conditions that allow them to adapt and innovate.

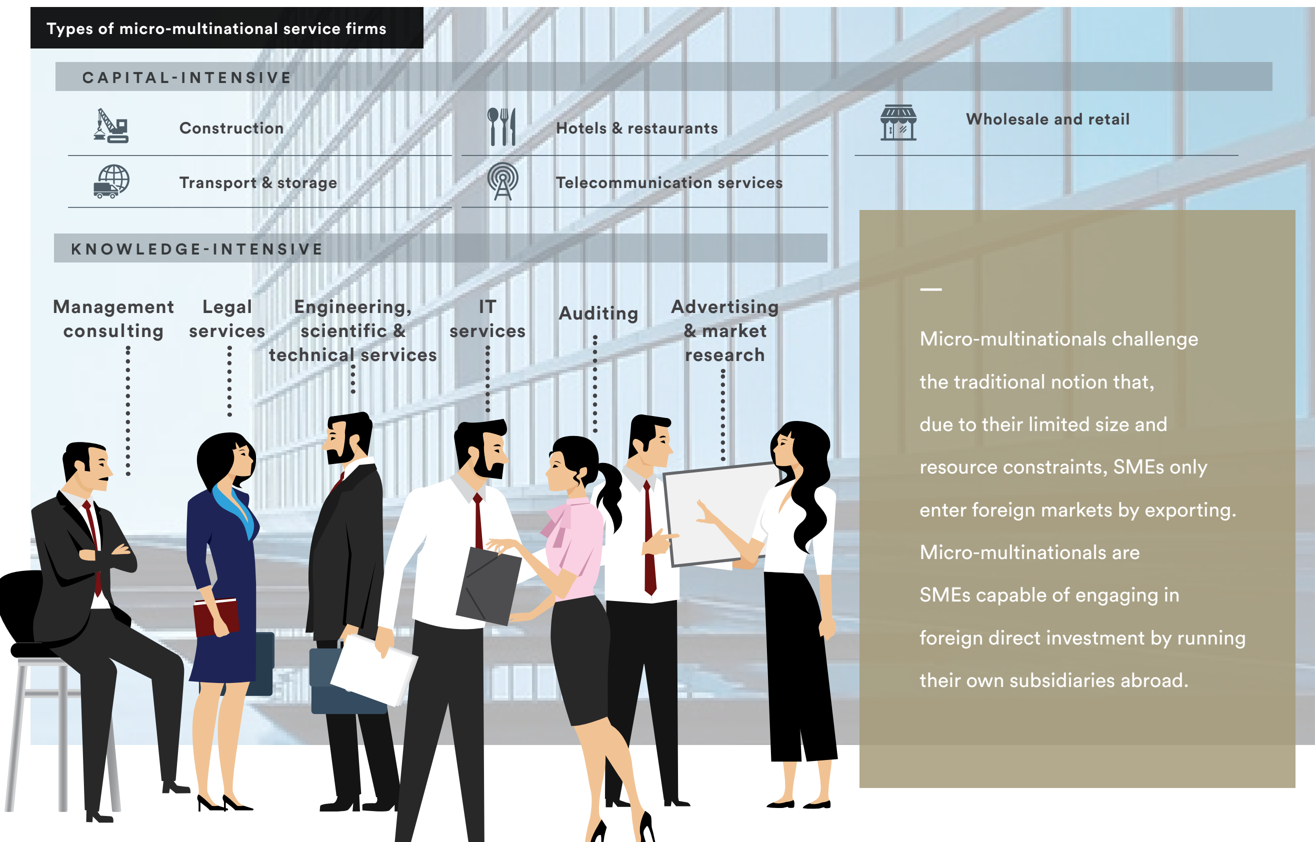
The journal *International Business Review* recently published a study conducted by ESADE PhD student Joon-ho Shin, under the supervision of Prof. Xavier Mendoza, analyzing more than 1,000 highly internationalized Spanish SMEs in the service sector operating over an 8-year period. Its goal was to find out whether establishing a direct presence in foreign markets improves firm performance.

“Due to the 2007 financial crisis, internationalization became an attractive option for growing revenues for firms of all sizes in Spain,” says Prof. Mendoza. “We chose to focus our study on SMEs because over 60% of Spanish parent companies with subsidiaries abroad are SMEs and service internationalization is less understood and more challenging compared to manufacturing internationalization.”

Firm performance

The study investigates the relationship between multinationality (measured by an index based on the number of foreign subsidiaries and countries where these are located) and firm performance (measured by ROA) and whether this relationship varies between capital-intensive and knowledge-intensive service firms.

The degree of capital intensity varies significantly across service firms. Thus, the higher the capital intensity the higher the financial burden for engaging in international expansion. Likewise, the degree of knowledge intensity also varies significantly across service firms. Knowledge-intensive services embed a higher degree of intangible or tacit knowledge and require a higher level of client interaction and local adaptation, which implies higher heterogeneity in the services



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Micro-multinationals challenge the traditional notion that, due to their limited size and resource constraints, SMEs only enter foreign markets by exporting. Micro-multinationals are SMEs capable of engaging in foreign direct investment by running their own subsidiaries abroad.

provided and higher costs in transferring critical organizational knowledge and capabilities to foreign markets.

The study confirms that these differences have important implications for firm performance. "Our research reveals that firms providing knowledge-intensive services are more likely to increase their performance in their initial stages of international expansion compared to companies providing capital-intensive services, although the picture is the opposite in more advanced stages."

Knowledge-intensive services

Why do knowledge-intensive service firms perform better in the early stages of international expansion? The authors of the study point to lower financial burden, because the value of these firms' services relies on intangible assets that are largely embedded in their human resources, and the fact that most of them pursue a client-following strategy. "Knowledge-intensive service firms face less severe costs of internationalization at the outset, which allows them to reap the benefits of internationalization faster," according to Prof. Mendoza.

This improvement in performance, however, is temporary. Knowledge-intensive services are more affected by cultural and institutional differences and are more difficult to scale. The study shows that as the level of multinationality increases, managing and controlling increasingly diverse international activities becomes more complex and may create severe pressures on a firm's key resources (people) and managerial capacity.

"Our findings suggest that knowledge-intensive service firms encounter a threshold of internationalization at relatively low levels of multinationality – in the study, this point is reached when a company is present in more than three countries or has more than four foreign subsidiaries – and that expanding beyond that point can be highly detrimental to the firm's performance."

Moreover, client-following firms may be prone to over-internationalize because their managers tend to underestimate the long-term costs of establishing foreign operations. While these firms enjoy an obvious advantage in the early phase of market entry, they might face more difficulties than expected at a later stage, seeking new local clients once the initial projects that brought them to a country have been completed.

Capital-intensive firms

Although capital-intensive service firms experience negative performance effects at the beginning of their international expansion, their performance increases as they further internationalize.

"The high initial costs associated with the liabilities of internationalization and insufficient access to economies of scale appear to be the most important hurdles these firms face when first entering foreign markets," says Prof. Mendoza.

Interestingly, most of the capital-intensive firms in the study appear to follow a strategy of market concentration as a means of overcoming these hurdles. Expanding in few foreign markets allows these firms to reach the minimum local operations scale needed to be competitive. In this way, they can deploy their limited resources more efficiently and foster the accumulation of knowledge and learning about these markets, reducing the costs associated with the liabilities of internationalization. Further, a strategy of market concentration reduces the organizational complexity of coordinating and controlling international operations. All these aspects help explain why these firms perform better at medium and high levels of multinationality without facing a threshold of internationalization.

"The high initial costs of internationalization faced by capital-intensive service firms should not discourage managers, as the net performance impact will be positive in the long run," concludes Prof. Mendoza.

V

How can leaders embrace change effectively?

Change as a playable game to succeed in dynamic organizations

Today's disruptive changes are forcing companies and leaders to rethink their methods and adapt to a new reality: The status quo is no longer an option. Businesses need to embrace change as a dynamic, ongoing process to face the future. But how can leaders embrace strategic change effectively?

Jaap Boonstra EMBA Professor
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2016 Monthly EMBA
Course: Personal & Organizational Development

Jaap Boonstra is Professor at ESADE Business School and Professor at Vienna University for economy and business. His research focuses on transformational leadership, barriers to organizational change and innovation, power dynamics in organizational change, and sustainable development of organizations. Jaap has published more than two hundred articles on technological and organizational innovation, management of organizational change, organizational learning, politics in organizations, strategic decision-making and transformational change in the service sector and public administration.

ESADE Professor Jaap Boonstra has developed a metaphor for change as a game to embrace uncertainty. This perspective helps to deal with change as an ongoing process and is proven to be effective in adapting to rapidly changing environments.

His findings in *Deusto Harvard Business Review* show how applying change as a playable game can help leaders adopt proactive strategies and transform the fear of change into valuable opportunities. "Leaders shouldn't see change as a one-time planned effort, but as a dynamic and ongoing process," says Prof. Boonstra. "Approaching change as a playable game can help to tackle business challenges more effectively."

key game strategies to embrace change

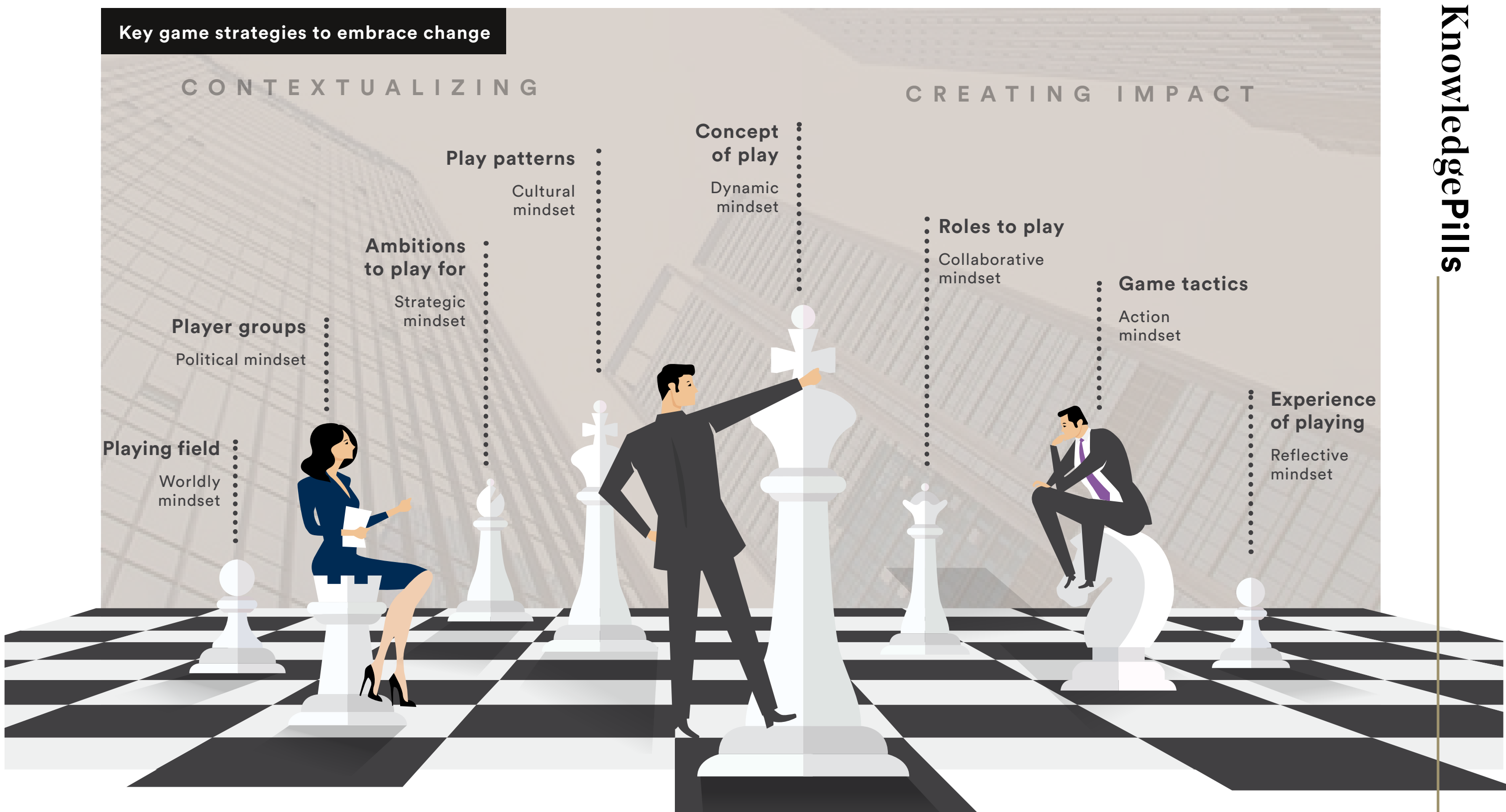
In order to embrace change effectively, Prof. Boonstra outlines 8 things leaders should follow if they are to succeed leading teams in changing environments.

01. PLAYING FIELD: WORLDLY MINDSET

Like in a game, leaders need to explore the playing field, which includes understanding the dynamics of their company, their competitors, and the uncertain environment surrounding their business. The complex reality of businesses in today's changing world demands that leaders have a global vision that takes into account multiple perspectives and viewpoints. To lead change effectively, leaders also need to embrace a down-to-earth mentality, think beyond themselves and be sensitive to what is happening on the playing field to detect new opportunities.

02. PLAYER GROUPS: POLITICAL MINDSET

The business world is also like a sports team, it has many players with different active roles in the playing field: competitors who can threaten the existing business models, politicians who can influence a company's decisions, government committees that can grant or



deny licenses, labor unions influencing a company's reputation, and so on. Leaders embracing change effectively have a global vision of the interests and positions of power of all the players on the playing field. With a political mindset they are capable of building coalitions with people who have initiative and are willing to take risks.

03. AMBITIONS TO PLAY FOR: STRATEGIC MINDSET

Strategic planning alone is no longer enough to prepare companies for the future. Businesses that have a clear vision are more likely to succeed when faced with strategic change. Leaders at the helm of change have a clear idea of what the company expects and needs. They are also transparent about what they value and what they reject at all costs. A strategic mindset helps one realize that the organization is a collective entity that achieves common purpose and builds a 'future-ready' enterprise.

04. PLAY PATTERNS: CULTURAL MINDSET

When companies face strategic and cultural changes, tension and potential conflicts become an obvious part of the game. The pioneers of change are sensitive to the values of the organization and people's social and emotional needs. Leaders with a cultural mentality know how to listen to others, they inspire, they are proactive in solving conflicts and are effective at making cultural change happen.

05. CONCEPT OF PLAY: DYNAMIC MINDSET

There is no 'one size fits all' way to change a company. Each challenge requires a combination of different game strategies. The first step is analyzing the dynamics of the playing field and defining the game goals. The second step is estimating the space and time required and the commitment of those who will be involved in the process of change. Leaders with a dynamic mindset know how to combine different strategies for change. For transformation to be successful, leaders have to deliberately pay attention to specific events to solve these challenges in a way that will ensure meeting the company's goals.

06. ROLES TO PLAY: COLLABORATIVE MINDSET

Business change cannot succeed without coalitions. Understanding the positions of power and interests of the players involved is crucial to lead change effectively. Embracing change requires all participants to have a clear vision of what is expected from them. A collaborative mindset helps realize change by bringing people together and fostering teamwork to make renewal possible. Choosing the right people at the right moment reduces uncertainty and creates supporters for change.

07. GAME TACTICS: ACTION MINDSET

Leaders who embrace change effectively take the initiative and invest their energy in things that need to be improved. How people work together and their interactions with customers are what drive change. People with an active attitude are sensitive to the playing field and are aware of the team's potential to embrace change. With an action mindset, change leaders maintain direction and guide people.

08. EXPERIENCE OF PLAYING: REFLECTIVE MINDSET

Seeing change as an ongoing game played out on an ever-shifting field is vital for meeting challenges. Leaders who excel at fostering change in companies know their strengths, their weaknesses and what moves them. They are accessible to others, accept honest comments, are not afraid of acknowledging emotions and take an active attitude towards learning. Change leaders are conscious players and have a reflective mindset which makes them aware of themselves and those around them.

Using the play-model in carrying out a process of ongoing changes helps to create meaning, make an impact on organizational change and add value to corporate purpose for customers, employees and society.

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