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International Business and Global Strategy

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Past experience

Instructor at Harvard University in Boston, US
Lecturer at Brandeis University, International Business School in Boston, US
PhD degree from Brandeis University in Boston, US
Master of Science degree from the London School of Economics
Worked for The Economist Group (a publisher of *The Economist* magazine) in London, UK
Former Director of the Master of International Business programme at the University of Auckland

Teaching experience

Currently teaching courses in international business, global strategy and international management
At Harvard, taught a course in international trade and globalisation
At Brandeis, taught a course in global economy and managing international business
Teaches at all levels including undergraduate, postgraduate, MBA and in Executive programmes

Other achievements

Cited by *Wall Street Journal* and profiled and interviewed by media and press around the world
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Preface

International businesses are increasingly the norm in countries around the globe. As companies look abroad for attractive markets and to acquire strategic resources and capabilities, they need a flexible, navigable route for ensuring that when they "go global" they also generate value. This e-book offers a simple, relevant approach to understanding global business. It answers questions such as:

- Who are the key participants in international business?
- What do they do? In what systems do they operate?
- What perspectives on global strategy should they use?
- How should they build competitiveness across borders?

Building on the author's journalistic and academic experience spanning three continents, this e-book sums up core issues in global business and offers insights into how firms can best implement global strategies. Organised around two parts, the book explains how firms can gain from globalisation.

Part I (International Business) explains what international business is and outlines the foundations of international business (actions, actors, and systems) and the international business environment.

Part II (Global Strategy) explains the distinction between a global and regional strategy, presents core global strategy frameworks and explains key perspectives and layers of global strategy.

Our research with over 200 students from over 20 countries has shown that students don't learn effectively from hard to understand irrelevant theory, and when they don't feel engaged. Thus we have created a textbook that is not only free and light as a feather but also offers:

- **relevant examples**
- **simple explanations**
- **an engaging website**

Visit our website to learn more about the e-book's features and engage in co-creating it on Facebook: www.featherlight.net

featherlight.net
Global business at your fingertips

This book features an innovative "FLEXI" approach to global business:

- **F** stands for **Focus**: showcasing a particular global trend or a featured global example
- **L** stands for **Layman's terms**: explaining key terms and concepts in plain English
- **E** stands for **E-tools**: online tools with real-time data to assure timeliness and relevance
- **X** stands for **X-factor data**: a key statistic or fact accurately documenting a global trend
- **I** stands for **Implications**: implications for business with lessons learned and action steps

Acknowledgments

I would like to thank Ben Gomes-Casseres, Gloria Ge, Dan Tisch, Jonas Puck, Jonathan Doh, Joanna Scott-Kennel and Maureen Benson-Rea for useful comments on the initial book design and contents. I also appreciate greatly assistance and feedback from Andrew Badri, Paramita Turner and Paul Rataul.

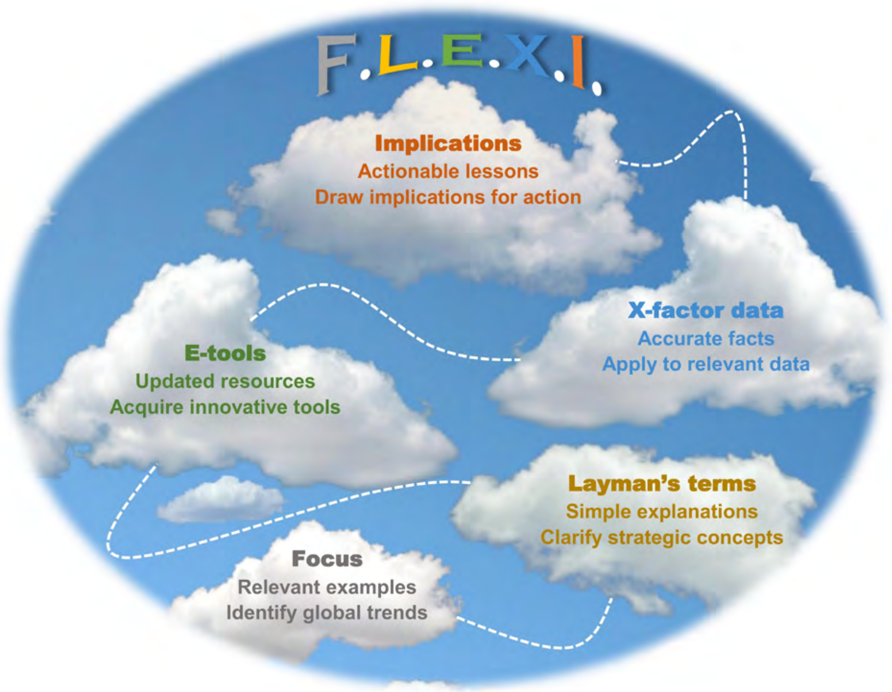
- Feedback on the content from 7 teachers from 4 continents
- Co-designed and edited by distinguished former students
- Co-created with over 200 students from over 20 countries

FLEXI route to understanding global business

While the content of this e-book will give you a lot of relevant knowledge, perhaps the most important "takeaway" from using it is to remember the underlying framework. The FLEXI framework will enable you to create value in your specific context by doing the exercises, reading the mini-cases and other content, and leveraging your knowledge to advance the next phase of your career.

Examples of each of the five key steps of the "FLEXI" route are scattered throughout the book. They are also included on the book website (www.featherlight.net) under menu tabs titled "FOCUS", "LAYMAN'S TERMS", "E-TOOLS, "X-FACTOR DATA", and "IMPLICATIONS". These tabs will make it possible for you to add comments and see the comments of others. Additional examples and videos are uploaded on the e-book's Facebook group. Get engaged in co-creating featherlight as well:

www.facebook.com/groups/featherlight



Global business mostly requires air travel. The FLEXI route can be seen as an allegory of boarding an airplane and finding the flight route to your destination. The route is not straightforward but there are certain navigational tools that can help you to land safely. The FLEXI framework and its elements are meant to become such tools on your route to understanding global business.

Introduction

This e-book provides a simple and relevant resource on international business and global strategy for undergraduate, (post)graduate and MBA students around the world. It provides concise explanations of relevant concepts, illustrated by focussed examples and implications for business. Summary boxes, online tools, exercises, mini-case studies, videos, and review questions support the learning process.

Students, teachers and practitioners will find this book helpful as a useful reference that provides a concise and up-to-date snapshot of the fields of international business and global strategy. Its electronic format allows for easy search of key terms. Examples in the book, on the website and in the Facebook group provide useful context. Exercises, quizzes and review questions add extra value.

Why should you read this book?

- International trade, investment and assets are growing faster than the world output (Fig. 1.1)
- The globalising world economy creates opportunities for those with knowledge and strategy
- Those with skills to implement global strategies will improve their job and career prospects

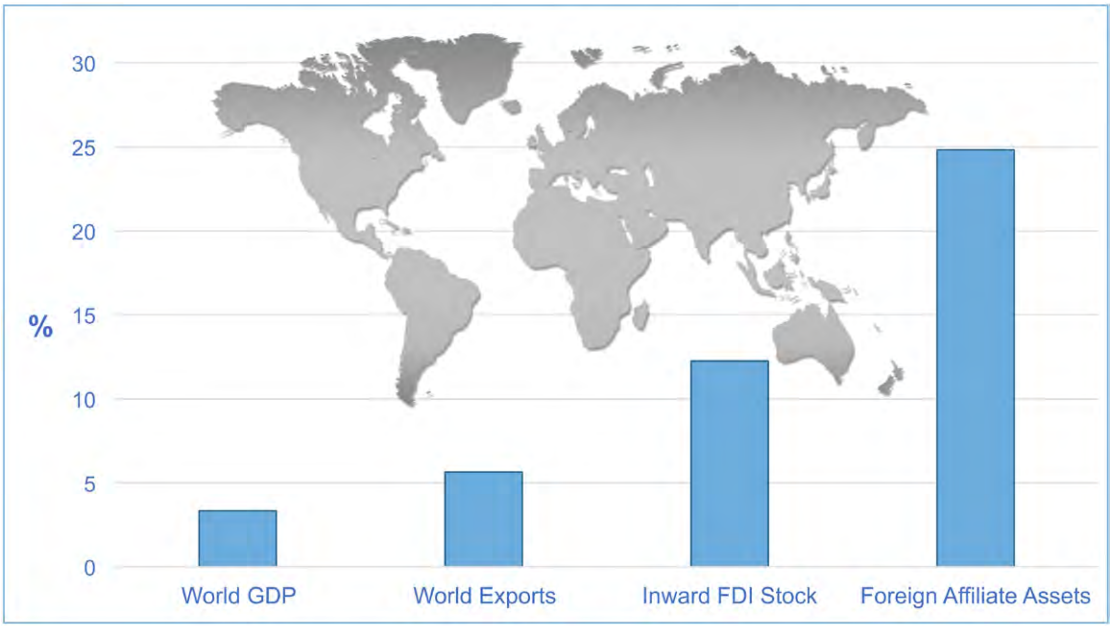


Fig 1.1 Growth of global business (adapted from the World Investment Report 2014, UNCTAD)

What does this e-book cover?

- International business (also called global business or international business management)
- Global strategy (also called international strategy or global strategic management)

Who is this e-book for?

- Undergraduate students (especially Part I on international business)
- (Post)graduate/MBA students and practitioners (especially Part II on global strategy)

What is different about this book?

- It is focussed (we feature recent examples, relevant concepts and business implications)
- It is concise (it's shorter than most other international business texts and strives for clarity)
- It is interactive (it includes e-tools, online quizzes, questions, a website and Facebook group)

Quizzes, discussion and review questions are available online:

http://xorro.featherlight.net

Part I: International Business

1 Foundations of international business

The next ten chapters examine key concepts and issues in international business.

Part I (International Business) will be followed by ten chapters on global strategy (Part II): how firms can position themselves globally and regionally, and harness benefits from globalisation.

The "International Business" chapters are organised along three key pillars:

1. International business **actions**: trading, investing and globalising
2. International business **actors**: firms, governments and institutions
3. International business **systems**: trade, currency and finance

The figure below sums up key issues and concepts covered in each of the pillars:

Fig 1.2 Actions, actors and systems in international business

Your goals for each of the ten "International Business" chapters are to learn:

Ch. 1: The definition, domains and distinguishing features of international business.
Ch. 2: The nature, history and key aspects of globalisation of markets, production and technology.
Ch. 3: The key concepts in international trade and theories explaining trade and competition.
Ch. 4: The key concepts, patterns and theories of foreign direct investment.
Ch. 5: The key firm-level participants in international business and theories of internationalisation.
Ch. 6: The role of governments in international business, including trade and investment policy.
Ch. 7: The role of intergovernmental institutions (e.g. the World Bank) in international business.
Ch. 8: The levels of economic integration and other features of the modern world trade system.
Ch. 9: The key concepts in foreign exchange and currency systems, risk analysis and management.
Ch. 10: The key players and business risks in the global monetary and financial systems.

Traditionally, an **international business** (IB) is defined as a business (or firm) that engages in international (cross-border) economic activities (Peng 2013).

International business can also refer to the action of doing business abroad. Cavusgil et al. (2015) define IB as: the performance of trade and investment activities by firms across national borders.

The "business" (or the "firm") from the international business definition has commonly been associated with the **multinational enterprise** (MNE), defined as any business that has productive activities in two or more countries (Hill 2016).

Global business is a more recent concept, defined as *business around the globe* (Peng 2014). Global business activities include both 1) international activities covered by traditional international business books and 2) domestic (non-IB) business activities, such as responses of local firms to MNE entrants.

It is important not to confuse international business with international management and international economics, although these are related disciplines and often partly covered in IB textbooks.

International management: The process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political and cultural contexts (Luthans & Doh 2012).

International economics: Consists of issues raised by the special problems of economic interaction between sovereign states. The main themes are: the gains from trade, the pattern of trade, protectionism, the balance of payments, exchange rate determination, international policy coordination, and the international capital market (Krugman & Obstfeld 2005).

LAYMAN'S TERMS: don't confuse international business (IB), international economics (IE) and international management (IM). A simple way to understand the differences between them is that while IM tends to focus on people and IE on countries as units of analysis, IB focuses on firms in relation to their international environment. While IB mostly looks at implications for firms, IM mostly looks for implications for managers and IE, implications for policy-makers.

The *Journal of International Business Studies* is the top ranked journal in the field of IB. It accepts submissions based on what it sees as the **six domains of international business**:

1) activities, strategies, structures and decision-making processes of multinational enterprises;
2) interactions between multinational enterprises and other actors, organisations, institutions etc.;
3) cross-border activities of firms (e.g., trade, finance, investment, technology transfers);
4) how the international environment affects the processes of firms;
5) international dimensions of organisational forms; and
6) cross-country comparative studies of businesses in different countries and environments.

Review questions

1. Who are the key participants in international business?
2. How would you define a multinational enterprise?
3. How is international business affecting your life and career prospects?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question001

Discussion question

Does this image better capture the main focus of international business, international economics or international management? Why?

a. International business
b. International economics
c. International management
d. All of these
e. None of these

Fig 1.3 International workplace

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question002

2 International business and globalisation

Globalisation is the close integration of countries and peoples around the world (Peng 2013). Traditionally, international business has been stressing the economic dimension of globalisation. Hill (2015, 2016) defines it as the shift toward a more integrated and interdependent world economy.

Economic globalisation: the tendency toward an international integration of goods, technology, information, labour, and capital, or the process of making this integration happen (Hill 2015).

This aspect of globalisation is related to and sometimes called **globalisation of markets**: the gradual integration and growing interdependence of national economies (Cavusgil 2015). It is slightly distinct from the term "**market globalisation**" or "the merging of historically distinct and separate national markets into one huge global marketplace" (Hill 2015, 2016).

This "marketing" understanding of globalisation originates in Theodore Lewitt's pioneering article in the Harvard Business Review, one of the most famous sources for managerially relevant but academically grounded articles on (international) business issues.[1]

From the sourcing side, economic globalisation also entails **globalisation of production**: sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of various factors of production (such as labour, energy, land and capital) (Hill 2016).

More broadly, globalisation can be defined as "the socio-economic reform process of eliminating trade, investment, cultural, information technology, and political barriers across countries, which in turn can lead to increased economic growth and geo-political integration and interdependence among nations of the world" (Gaspar et al. 2014).

Technological globalisation is a result of the rise of information technology and decreasing costs of global communication. Multinational enterprises such as Google, eBay and Facebook have played an important role in this process although they have a number of strong local/international competitors.

FOCUS: **Chinese e-commerce company Alibaba** defeated eBay on its home turf in China, but interestingly later internationalised by listing on the New York Stock Exchange in September 2014, becoming the largest initial public offering (IPO) in world history. This shows that globalisation is not a trend solely driven by US or Western MNEs. Emerging giants from emerging markets will be discussed further in Part II of the e-book. Jack Ma (pictured below), the chairman of Alibaba, was China's richest man in 2014.

Fig 2.1 Jack Ma

Phases of globalisation (a brief history of the world economy)

1st phase (1830–1880): Trade and the British Empire (ocean transport, railroads, trading companies)

2nd phase (1900–1945): The International Corporation (electricity and steel, European and US MNEs)

3rd phase (1948–1970s): End of World War II (GATT/WTO, Marshall Plan, Rise of Japan & Brands)

4th phase (1980–present): End of Cold War (Privatisation, ICTs, Rise of China & Emerging Markets)

Source: adapted from Cavusgil et al. (2015)

According to Bremmer (2014), we have entered another phase of globalisation in the aftermath of the global recession of 2008–2009. He calls this phase **guarded globalisation**, suggesting that governments of developing nations have become wary of opening more industries to multinational enterprises and they are zealously protecting local interests.

Example: India's Patent Office revoked Pfizer's patent for the cancer drug *Sutent* and granted a domestic manufacturer, *Cipla*, the right to produce a cheaper generic version.

FOCUS: Can *Cloud Atlas* explain the next phase of globalisation? *Cloud Atlas,* a German/American movie with a budget of over US $100 million, received a significant portion of its financing from China. One reason for this was to gain access to the increasingly important Chinese market, where a limited number of foreign movies are allowed every year. While the movie made a loss globally (earning around US $85 million), it was a hit in China with over US $15 million of revenues. The movie revolves around interwoven stories from six eras. The story of its actual production could provide a clue to the next phase of globalisation. It is likely to be driven by complex interactions between "Western" and Chinese/emerging market (business) actors. It will require careful consideration of both the costs and benefits of globalisation, and attention to key growth markets.

Fig 2.2 Cloud Atlas

Review questions

1. How would you define globalisation? How does it affect your life and your future?
2. Describe the key historical phases of globalisation including the most recent one.
3. Which aspect of globalisation do you consider to be the most fundamental?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question003

Discussion question

The world's richest person in 2015 was Bill Gates, founder of Microsoft, according to *Forbes* magazine. The second richest person in the world was Carlos Slim Helu (pictured) from Mexico. Which country will the world's richest person in 2025 come from? Why?

a. United States
b. China
c. India
d. Europe
e. Other

Fig 2.3 Carlos Slim Helu

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question004

3 International business and trade

The most conventional forms of international business transactions are international trade and investment. **International trade** refers to an exchange of products and services across national borders through exporting or importing (Cavusgil et al. 2015).

Export: to sell abroad (Peng 2013) or the sale of products or services to customers located abroad, from a base in the home country or a third country (Cavusgil et al. 2015).

Import (or global sourcing): to buy from abroad (Peng 2013) or the procurement of products or services from suppliers located abroad for consumption in the home country or a third country (Cavusgil et al. 2015).

Merchandise trades: tangible products that are bought and sold while **service trades** are intangible services (such as air travel or financial services) that are bought and sold (Peng 2013).

X-FACTOR DATA

Fig 3.1 International trade in services (adapted from Cavusgil et al. 2015)

Why do nations, industries and firms pursue international markets as exporters and importers? Traditional explanations of international trade have referred to **comparative advantage**, the superior features of a country – typically derived from either natural endowments or deliberate national policies – that provide it with unique benefits in global competition (Cavusgil et al. 2015).

Raymond Vernon from Harvard University developed the **international product life cycle** theory, a dynamic theory to account for changes in the patterns of trade over time. It suggests a pattern of change over time between most developed nations, other developed nations and developing nations as production shifts and the product's life cycle moves from new to maturing to standardised (Peng 2013). See the figure below for a graphical representation of his theory.

Scholars sought to explain not only why international trade was good for individual nations, but how nations could position themselves for international business success. Harvard professor **Michael Porter** made a seminal contribution in this respect in *The Competitive Advantage of Nations* (1990).

Competitive advantage is usually defined as distinctive assets or competencies of a firm – typically derived from cost, size or innovation strengths – that are difficult for competitors to replicate or imitate. According to Michael Porter, nations can have a competitive advantage as well, which depends on the collective competitive advantages of the nation's firms (Cavusgil et al. 2015).

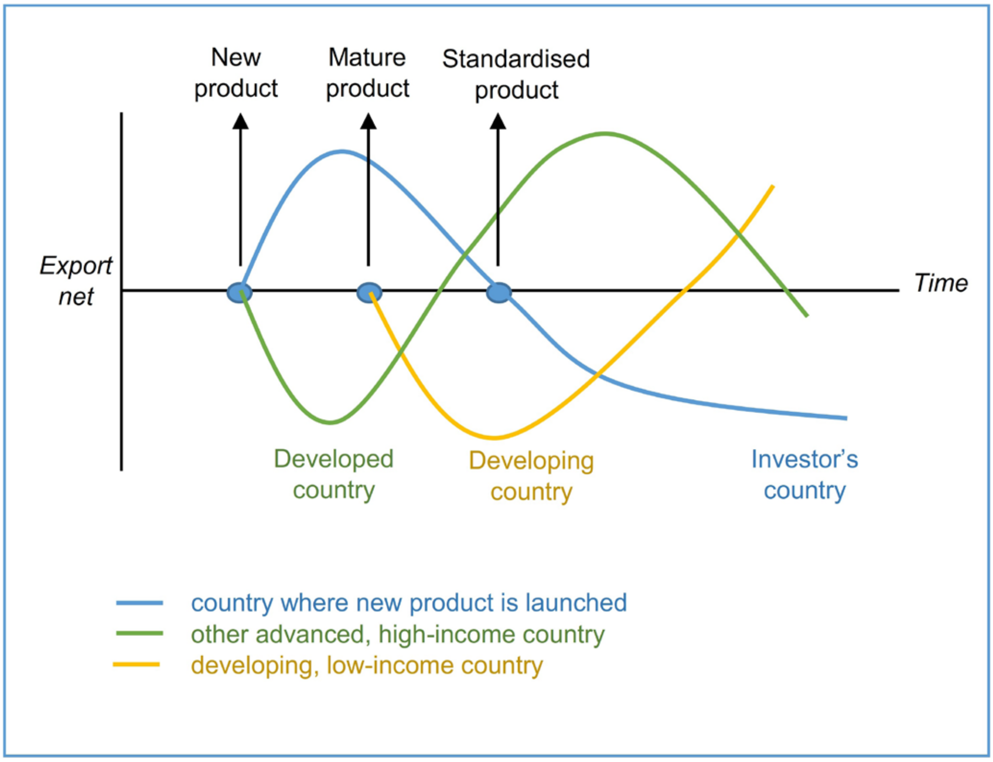


Fig 3.2 International product life cycle theory (adapted from Vernon 1966; and www.provenmodels.com)

As part of his explanation in the *Competitive Advantage of Nations* (1990), Michael Porter developed the **Diamond Model** (see the figure below). This theory focuses on why certain *industries* within a nation are competitive internationally. For example, while Japanese automobile industries are globally successful, Japanese service industries are not (Peng 2013).

Porter argues that the competitive advantage of certain industries in different nations depends on four aspects (Hill 2016):

1) **Home factor conditions**: home-grown resources and natural endowments
2) **Home demand conditions**: the nature of home demand for the industry's products
3) **Home firm strategy, structure and rivalry**: the conditions governing firm creation etc.
4) **Related and supporting industries**: the presence of internationally competitive suppliers etc.

E-tool: Key websites for **international trade statistics:**

The World Trade Organisation: www.wto.org

The Organisation for Economic Cooperation and Development: www.oecd.org

The World Bank: http://data.worldbank.org/

The International Monetary Fund: http://www.imf.org/external/data.htm

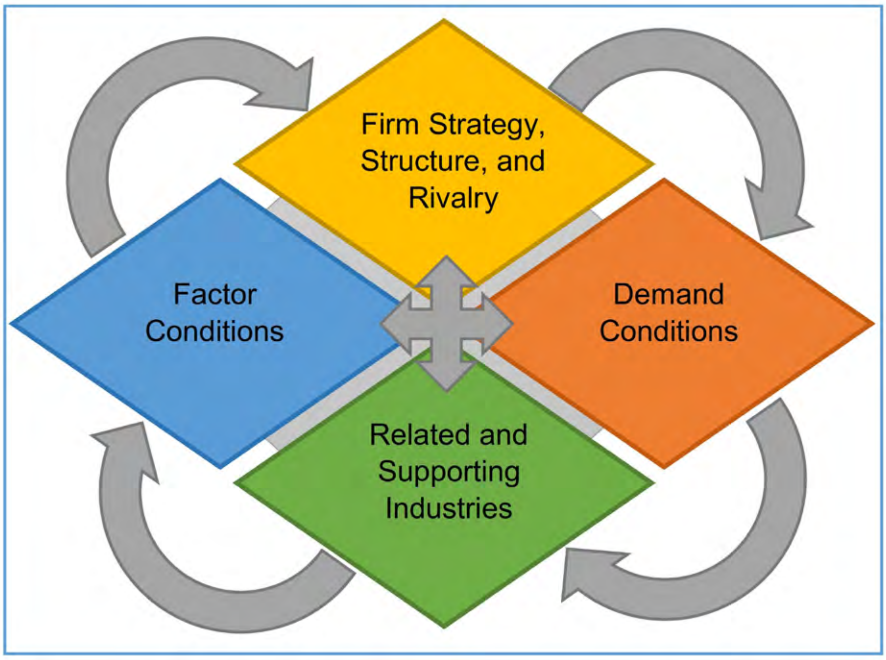


Fig 3.3 Diamond of national advantage (adapted from Porter 1990)

LAYMAN'S TERMS: comparative advantage and competitive advantage. The concept of comparative advantage is more rooted in economics and refers to a superior feature of a nation or industry. The concept of a competitive advantage is more rooted in strategic management and refers to distinctive assets or competencies of a firm. However, sometimes authors argue that nations or industries can have a competitive advantages as well (Porter 1990). The key distinction is that while comparative advantage seeks to explain patterns and gains from trade, the competitive advantage explains which firms, industries or nations will be winners in a global competition and how they can position themselves for it.

Exercise: Choose a country that is a leading exporter of a particular product or service. Outline which of these following concepts best explain why it is successful in exporting that product or service: comparative advantage, competitive advantage, international product life cycle theory, diamond model.

Exercise: Why has China surpassed Germany and US as the world's leading exporter? Use theories of international trade to provide an explanation. If they are insufficient, use your own logic and reasoning.

Exercise: Choose an industry and a country. Apply Porter's Diamond model to analyse the competitive advantages of this industry in the face of global competition. Be specific about each of the factors affecting it.

Review questions

1. Why do nations, industries and firms trade?
2. What are the key factors outlined in Porter's diamond model? Explain how they differ.
3. What are your comparative and competitive advantages in international competition?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question005

Discussion question

Tourism is one of the service industries experiencing a fast growth of international trade. China had the highest number of outbound tourists and amount of overseas spending in 2014, according to the United Nations World Tourism Organisation, and France was the most attractive country for international tourists. Which country will be the world's most attractive tourism destination in 2025? Why?

a. France
b. Italy
c. United States
d. China
e. Other

Fig 3.4 Asian tourists in Italy

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question006

4 International business and investment

International investment happens primarily in two ways: **foreign direct investment** (FDI) and foreign portfolio investment. FDI is defined as direct investment in business operations in a foreign country (Hill 2016) or investing in, controlling, and managing value-added activities in other countries (Peng 2013). Statistically, FDI is usually defined as an equity (ownership) stake of 10% or more in a foreign-based enterprise (according to the Organisation for Economic Cooperation and Development).

It is distinct from **foreign portfolio investment**, which refers to holding securities, such as stocks and bonds, of companies in countries outside one's own but does not entail the active management of these foreign assets (Peng 2013). This is essentially "foreign indirect investment".

Flow of FDI: the amount of FDI undertaken over a given time period, usually a year (Peng 2013).

Stock of FDI: the total accumulated value of foreign-owned assets at a given time (Peng 2013) or the total value of assets that MNEs own abroad via their investment activities (Cavusgil et al. 2015).

Outflows of FDI: outward flow of FDI from a country. Example: If BMW, based in Germany, builds a plant in South Africa, this would represent an outflow of FDI from Germany into South Africa.

Inflows of FDI: flow of FDI into a country. Example: If US Wal-Mart opens stores in Germany, there would be an inflow of FDI into Germany. (Note: both examples are from a German perspective.)

FDI takes on two main forms. The first is a **greenfield investment**, which involves the establishment of a new operation in a foreign country. The second involves acquiring or merging with an existing firm in a foreign country (often referred to as mergers and acquisitions or **M&A**) (Hill 2016).

X-FACTOR DATA

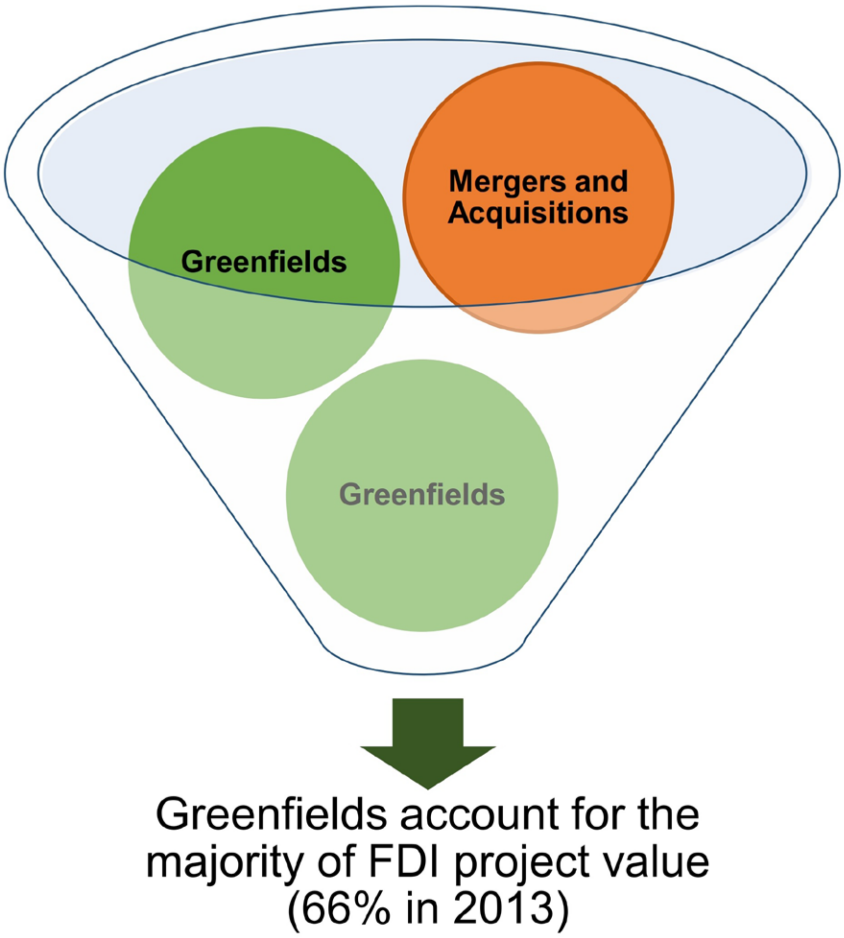


Fig 4.1 Greenfields and M&As (adapted from UNCTAD)

X-FACTOR DATA

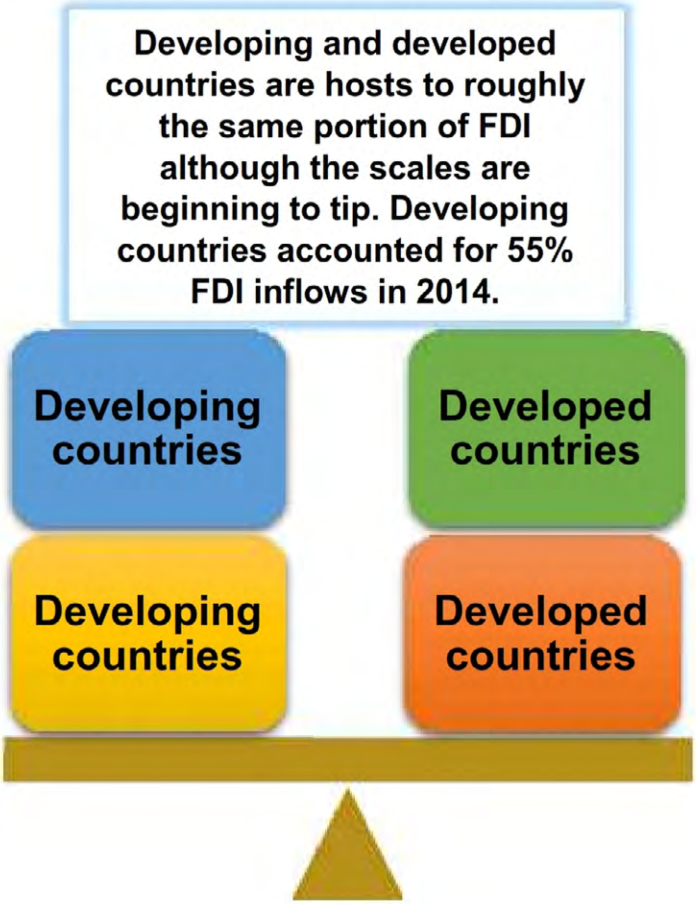


Fig 4.2 Foreign direct investment trends (adapted from UNCTAD)

Theories of foreign direct investment: FDI is such an important entry strategy that academics provide three alternative theories of how firms can use it to gain and sustain competitive advantage:

1) **Monopolistic advantage theory:** FDI is made by firms in oligopolistic (highly concentrated) industries possessing technical and other advantages over local firms (Ball et al. 2013).
2) **Internalisation theory:** to obtain a higher return on its investment, a firm will opt to transfer its superior knowledge to a foreign subsidiary, rather than sell it on the open market (Ball et al. 2013). The key aspect of the theory is that the firm acquires and retains one or more value-chain activities within the firm rather than licensing them, ensuring greater control over foreign operations (Cavusgil et al., 2015).
3) **Dunning's eclectic "OLI" paradigm:** extends the previous two models by adding "location-specific" advantages to the explanation of both the rationale for and the direction of FDI. He retains the "firm-specific" advantages element but refers to them as "Ownership" advantages, and he includes "Internalisation" advantages in his theory. It is thus also called the theory of OLI advantages.[2]

- **Ownership advantages:** possessing and leveraging certain valuable, rare, hard-to-imitate, and organisationally embedded (VRIO) firm-specific assets overseas in the context of FDI.
- **Location advantages:** advantages enjoyed by a firm that derive from the places in which it operates (Peng 2013).
- **Internalisation advantages:** advantages enjoyed by a firm that keeps activities internal (in-house), thus replacing cross-border activities with other firms (such as exporting and importing) within one firm (the MNE) located in two or more countries (Peng 2013).

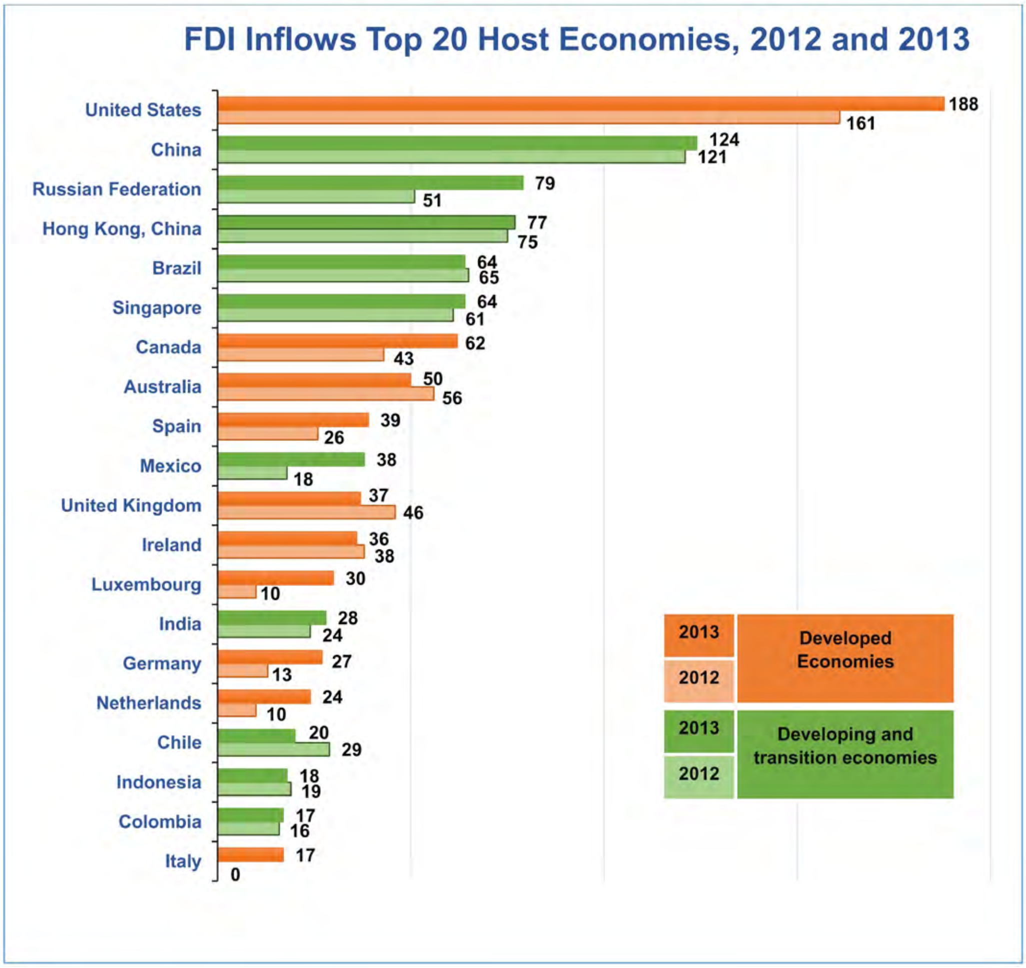


Fig 4.3 World Investment Report and FDI trends (adapted from UNCTAD)

Exercise: Check out the most recent World Investment Report via this link:

http://unctad.org/en/pages/diae/world%20investment%20report/wir-series.aspx

What were the changes in the ranking of top inward FDI recipient countries? Which were the top 5 outward FDI investors?

Review question

1. Please summarise briefly the three key alternative theories of foreign direct investment.
2. Explain the difference between greenfields and mergers and acquisitions and give examples.
3. Name and describe some recent foreign direct investments coming into your country.

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question007

Discussion question

Disney Corporation licenses its characters and sells them to other companies such as American multinational Procter and Gamble. For a fee, Procter and Gamble's products such Oral-B toothpaste sold via its subsidiary in Russia (pictured below) can have Winnie the Pooh on them. Which of the theories and concepts from this chapter are best fitted to explain Disney's action? Why?

a. Monopolistic advantage theory
b. Internalisation theory
c. Eclectic OLI paradigm
d. Greenfield investment
e. None of the theories

Fig 4.4 Oral-B products for the Russian market

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question008

5 Firms and international business

Although scholars have traditionally focused on large multinational enterprises (MNEs) as key actors in international business, there are a number of other participants. Cavusgil et al. (2015, p. 63) highlight three types of organisational participants that make international business happen:

1) **Focal firm:** The initiator of an IB transaction that conceives, designs and produces the products/services intended for consumption by customers worldwide. Focal firms include MNEs and small and medium-sized enterprises.
2) **Distribution channel intermediary:** A specialist firm that provides various logistics and marketing services for focal firms as part of their international supply chains.
3) **Facilitator:** A firm or an individual with special expertise in providing legal advice, banking, customs clearance or related support services that assists focal firms in the performance of IB transactions.

Exercise: Identify each of these three types of firms online to learn about their activities.

These three types of participants are part of what is often called the international or global **value chain** (UNCTAD 2013). A value chain is defined as a series of activities used in the production of goods and services that make a product or service more valuable (Peng 2013, p. 52).

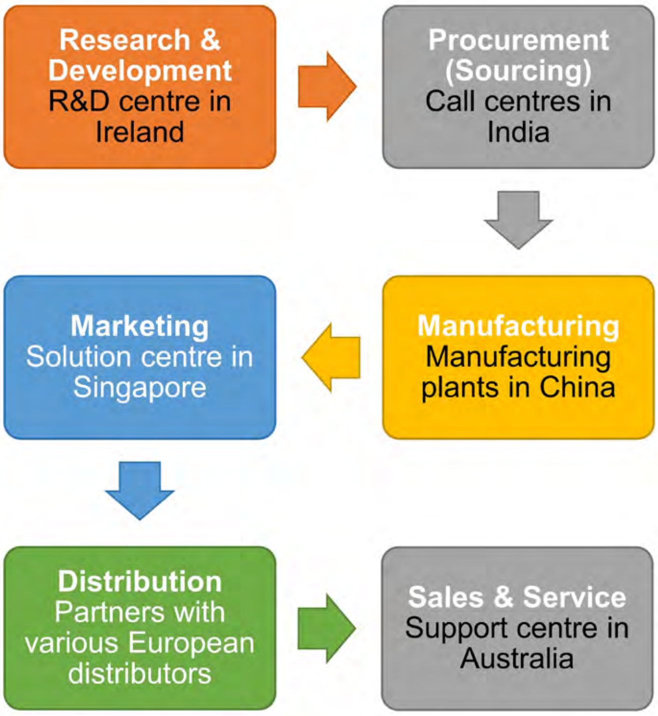


Fig 5.1 Internationalisation of a firm's value chain: an example of Dell (adapted from Cavusgil et al. 2015)

Exercise: Think of a firm and check all stages of its value chain. Recreate this figure for that firm.

Peng (2013) stresses that most textbooks and theories of international business neglect the role of the domestic firms in international business. This has also been promoted by Hennart (2009) who criticised MNE-centric theories and explained how domestic firms often actively compete and/or collaborate with foreign entrants.

Internationalisation process theory, often known as the Uppsala Model, due to its founders' affiliation with Uppsala University (Sweden), is one of the core firm-level explanations of IB activities.[3] It has traditionally been applied to MNEs, arising from analysis of Swedish multinationals. According to this model, internationalisation is a gradual process that takes place in incremental stages over a long period of time (Cavusgil et al. 2015, p. 166). Typically, internationalising firms begin with exporting and progress to FDI only later after gaining more experience (see Figure 5.2). The theory also suggests that firms first expand in geographically and culturally less distant countries.

Example: Swedish car-maker Volvo first expanded abroad via exports only, then built plants overseas.

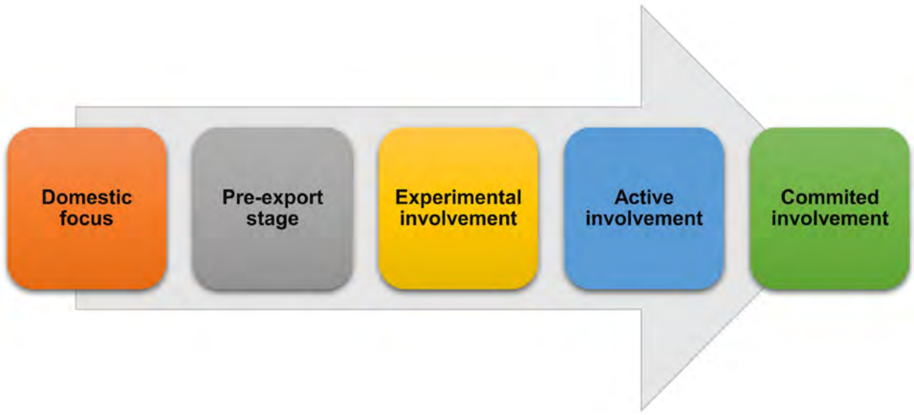


Fig 5.2 Stages in the internationalisation process of the firm
Source: adapted from Cavusgil et al. (2015), original model from Johanson and Vahlne (1977)

LAYMAN'S TERMS: internationalisation vs. internalisation. These two terms are often confused as they sound similar but the key distinction is that internationalisation refers to the process of how firms become international, while internalisation (explained in chapter 4) refers to the decision to retain or acquire control of value chain activities, such as production within the firm (internally).

Theory of International New Ventures (INVs) challenges the Uppsala model and claims that in today's globalised and technologically connected world, many firms can internationalise rapidly. An INV is defined as a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and sale of outputs in multiple countries.[4] **Born globals** are firms that internationalise in their operations from the beginning. They are similar to INVs but are often defined more stringently in terms of number of countries of operation. They learn fast and aggressively and build extensive global networks.

Example: Swiss/US Logitech had its R&D in Ireland, production in Taiwan, and customers in Japan and a number of other countries within a few years of the company's founding.

Five key concepts in international business

Liability of foreignness: the inherent disadvantage that foreign firms experience in host countries because of their non-native status (Peng 2014, p. 16). This is related to what Hymer (1976) called "additional costs of doing business abroad". The concept has been developed by Zaheer (1995) in her analysis of the performance of foreign exchange traders in New York City and Tokyo. Sethi & Judge (2009) reappraised liabilities of foreignness within an integrated perspective of the costs and benefits of doing business abroad. Nachum (2010) has contributed to the research by analysing when foreignness is an asset and when it is a liability.

Firm-specific advantages (FSAs): (also called firm-specific assets/resources/capabilities) are strengths relative to rival companies (Verbeke 2013, p. 7) that are not shared by competitors in the same environments (Peng 2014, p. 16). Multinationals were traditionally thought to need these advantages to overcome the liability of foreignness, as without them they would lose out to local competitors. Hymer (1976) argued that an MNE should possess some kind of proprietary (firm-specific) or monopolistic advantage not available to local firms. These advantages can be economies of scale, superior technology, or marketing and management knowledge. These firm-specific advantages are similar to what Dunning called "ownership advantages" under his OLI framework, and are part of a "resource-based view" of the firm.

Country-specific advantages (CSAs): strengths or benefits specific to a country that result from its competitive environment, labour force, geographic location, government policies, industrial clusters etc. (Rugman and Collinson 2012, p. 49). This term is related to and often used interchangeably with "location-specific advantages" from Dunning's OLI framework. Cavusgil et al. (2015, p. 171) refer to CSAs as a unique set of comparative advantages from which companies can derive specific benefits. Managers of most MNEs use strategies that build on interactions of CSAs and FSAs. CSAs form the basis of a global platform from which the MNE derives a "home-base" advantage in global competition (Porter 1990). The MNE builds on them to make decisions about efficient global configuration and coordination between segments of its value chain (operations, marketing, R&D, logistics).

Global integration: the coordination of a firm's value chain activities across countries to achieve worldwide efficiency, synergy and cross-fertilisation, in order to take maximum advantage of similarities between countries (Cavusgil 2015, p. 340). This framework considers both efficiency and learning as two elements of global integration. Firms that emphasise global integration make and sell products and services that are relatively standardised (uniform or with minimal adaptation) to capitalise on converging customer needs and tastes worldwide. They seek to minimise operating costs by centralising value chain activities and emphasising economies of scale (Bartlett & Ghoshal, 1989).

Local responsiveness: the need to be responsive to different customer preferences around the world (Peng 2013, p. 170) or to meet the specific needs of buyers in individual countries (Cavusgil et al. 2015). Many companies seek to respond to specific conditions in local markets, managing diverse opportunities and risks on a country-by-country basis. Being locally responsive makes local customers and governments happy but unfortunately increases costs. When firms operate internationally, they need to strike the right balance between the objectives of global integration and local responsiveness. The integration-responsiveness framework (Prahalad 1975) illustrates how to simultaneously deal with these two sets of pressures and objectives (see more on this in Part II, especially Chapter 18).

E-tool: **Global Competitiveness Report**, developed by the World Economic Forum, measures elements of countries' competitiveness and ranks countries around the world: http://www.weforum.org/reports?filter[type]=Competitiveness.

Exercise: Check your country's standing in the recent report. What are its country specific advantages?

FOCUS: Global Car Industry. Toyota tends to focus on global integration approach, e.g. its Corolla model is not adapted very much across different international markets. General Motors, on the other hand, tends to use local adaptation a lot, i.e. it has separate country brands such as Opel in Europe and Holden in Australasia. Most companies retain elements of both strategies though. For example, luxury models of Volkswagen for the Chinese market have more leg room in the back as wealthier executives tend to have drivers. However, its SUV vehicles such as Audi Q7 are assembled in one factory for global markets. In fact, cars are often customised to individual needs.

Fig 5.3 Audi

Exercise: Imagine you are looking for a job abroad. Is your foreignness an asset or a liability? Why?

Exercise: Choose an MNE and briefly scan its website. What are three of its firm-specific advantages?

Review question

1. Briefly explain the difference between firm-specific and country-specific advantages.
2. What are the key activities that constitute the value chain? How international are they?
3. What is the liability of foreignness and how does it relate to international business?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question009

Discussion question

Swedish apparel retailer H&M, founded in 1947, has opened stores in more distant countries such as Romania (pictured), Croatia, Singapore, Malaysia, Mexico and Chile only more recently. Some of its new stores were opened via franchise (such as in Morocco, Jordan, Thailand and Indonesia). Which of the firm-level explanations of international business is best suited to explain these moves? Why?

History of H&M: http://about.hm.com/en/About/facts-about-hm/people-and-history/history.html

a. Internationalisation process theory
b. Theory of international new ventures
c. Liability of foreignness
d. Global integration
e. Local responsiveness

Fig 5.4 H&M in Romania

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question010

6 Governments and international business

International businesses do not act without facing intervention from governments that regulate the international flow of trade and investment. Government intervention can take the forms of trade and investment barriers, as well as subsidies to local firms (Cavusgil et al. 2015, p. 221).

Trade barriers include **tariffs** (also known as duties), which are taxes imposed on imported products.

X-FACTOR DATA

Fig 6.1 Tariffs are falling (adapted from the World Trade Organisation and the World Bank)

Non-tariff barriers are government policies, regulations or procedures that impede trade through means other than explicit tariffs. **Quotas** (quantitative restrictions placed on imports of a specific product over a specific period of time) are a common form of this barrier. Other examples are customs procedures at checkpoints at the ports of entry in each country and **import licenses** (government authorisation granted to a firm for the import of a product).

Investment restrictions: some countries such as India and China still impose **ownership restrictions** that restrict the ability of foreign firms to invest in some industry sectors or acquire local firms. For example, such restrictions have forced Walmart to enter India in a joint venture with local Bharti.

Currency controls are restrictions on the outflow of hard currency from a country and can restrict the ability of MNEs to repatriate their profits back to their home countries. For example, in the Philippines, portfolio investors are required to hold their profits domestically for 90 days.

Local content requirements require that some specific fraction of a good be produced domestically. These became increasingly popular after the Great Recession.[5]

Video: Check the Peterson Institute for International Economics website including this video: http://www.iie.com/events/event_detail.cfm?EventID=297

Example: In the wind energy sector, the local content requirement has grown to over 50% after 2008 in China, Canada, Brazil and Spain. This sector also receives large subsidies in a number of countries.

Subsidies are government payments to producers that can take many forms including cash grants, low-interest loans, tax breaks and government equity participation in domestic firms. Agriculture tends to be one of the largest beneficiaries of subsidies in most countries. For example, the European Union has been paying out about 44 billion euros annually to domestic producers. Other sectors benefit from grants as well. For example, Chinese auto exporters receive over $1 billion annually according to US sources (Cavusgil et al. 2015).

These are examples of **protectionism**, national economic policies designed to restrict free trade and protect domestic industries from foreign competition (Cavusgil et al. 2015, p. 216).

Privatisation is the sale of state-owned enterprises to private investors (Hill & Hult 2016).

Domestic firms are not the only recipients of government subsidies. Many MNEs receive **investment incentives** to entice them to a country (notably including tax holidays).

Implications: How can firms respond to government intervention? Cavusgil (2015) suggest they:

- Research to gather knowledge and intelligence
- Choose the most appropriate entry strategies
- Take advantage of foreign trade zones (exempt from customs duties)
- Seek favourable customs classifications for exported products
- Take advantage of investment incentives and other government support
- Lobby for freer trade and investment

Example: Hong Kong's government paid $1.7 billion to Disney to build a Disneyland park there.

Exercise: Choose a firm that is facing some government intervention in IB. Which of these 6 responses would you recommend and why?

Country analysis

Companies expanding abroad often consider **country attractiveness** based on these three factors:

- **Benefits** (size of economy, likely economic growth)
- **Costs** (corruption, lack of infrastructure, legal costs)
- **Risks** (political, economic, legal and other risks)

Benefits and costs of operating abroad can be demonstrated by examining emerging markets. These are fast growing developing economies such as China, India and Nigeria. According to the latest United Nations estimate, in 2014 foreign direct investment in emerging markets accounted for 56% of all global FDI flows. This was driven by the increasing size and fast growth rate of these economies.

E-tool: check World Bank data on **GDP growth rates of countries** around the world on this website:

http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG

However, a study of 150 North American and European-based companies with annual revenues over US$ 1 billion found that, over the last five years, the average responding company faced costs of more than US$ 1 billion from transacting in emerging economies.[6] The key causes of these **costs** were regulatory violations, loss of business and fines resulting from bribery, fraud and reputational damage.

Risk assessment is a crucial part of country analysis. There are number of companies that provide information on country risk. The Economist Intelligence Unit, a subsidiary of The Economist Group, for example assesses risk across 180 countries around the world with indicators such as:

- Security
- Political stability
- Government effectiveness
- Legal and regulatory
- Macroeconomic
- Foreign trade & payments
- Financial
- Tax policy
- Labour market
- Infrastructure

For example, in its August 2015 report on global risk scenarios, the Economist Intelligence Unit highlighted these **five major risks for the world economy**:

1) "Grexit" (exit of Greece from the euro zone) is followed up by a **euro zone break-up**
2) A commodity price/investment **slump in China** lead to the emerging-market slowdown
3) Russia's **intervention in Ukraine** escalates, leading to cold war-era tensions
4) Global **monetary policy divergence** leads to extreme currency volatility
5) The rising threat of **jihadi terrorism** destabilises the global economy

Exercise: Check the Economist Intelligence Unit website at www.eiu.com or find their reports in your local library. Choose a particular country and consider the political, economic, legal and business risks within that country.

While economic, market and political risks are important and worry a large number of businesses, there is a wider array of risks that companies need to be aware of. The table below summarises the risk outlook as of 2015. Risks also vary across industries. The energy sector, for instance, worries most about political risk while for healthcare it is talent and skill shortages that matter most.

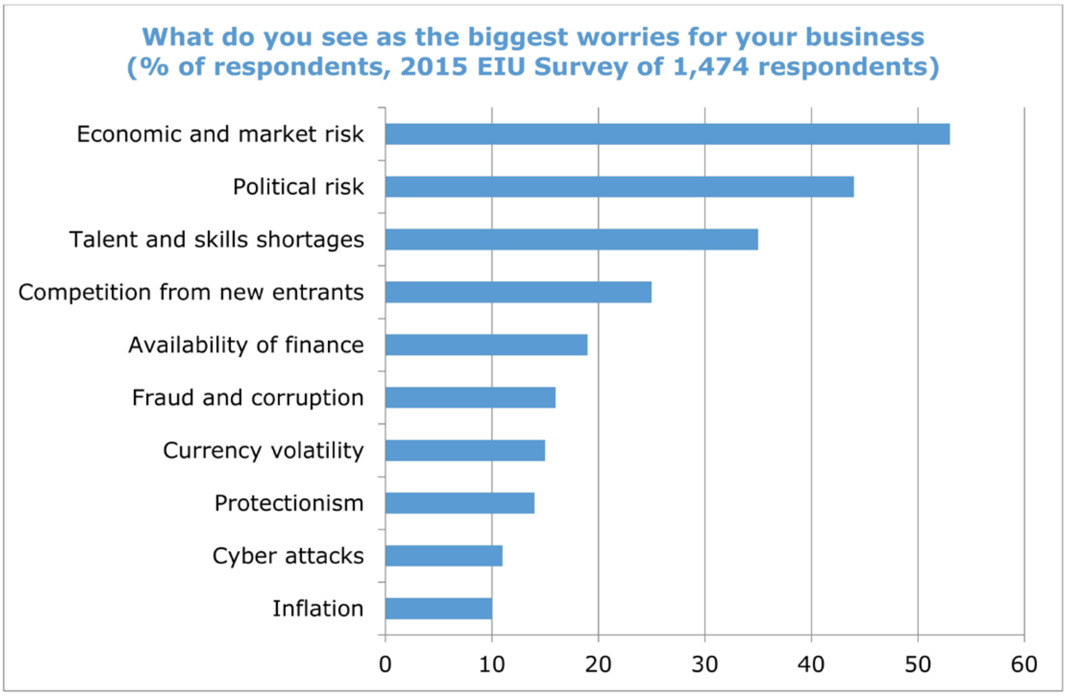


Fig 6.2 Biggest risks and worries for global businesses (adapted from EIU report "Industries in 2015")

Review questions

1. Summarise the main non-tariff barriers that international businesses may face abroad.
2. What are the reasons for and against tax incentives/holidays for large foreign investors?
3. What are the major risks for the world economy? What new risks have emerged since 2015?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question011

Discussion question

The only country in the world to experience GDP growth at double digit rates in each of the years from 2011–2014 was Turkmenistan, according to World Bank data. Research briefly its country online and think of what the potential major costs and risks of operating in this country would be. Consider the following:

a. Corruption
b. Lack of infrastructure
c. Legal costs
d. Political stability
e. Government effectiveness

Fig 6.3 Turkmenistan

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question012

7 Institutions and international business

Since the Second World War, a number of important global institutions and intergovernmental organisations have been created to promote the establishment of multinational treaties to govern the global business system. The key organisations that manage, regulate and police the system are as follows:

The **World Trade Organisation** (WTO) is a multilateral governing body empowered to regulate international trade and investment. It is primarily responsible for policing the world trading system and ensuring that nation-states adhere to the rules laid down in WTO treaties. www.wto.org

The **International Monetary Fund** (IMF) was created to maintain order in the international monetary system. The IMF is often seen as the lender of last resort to states whose economies are in turmoil and whose currencies are losing value against those of other nations. www.imf.org

The **World Bank** was set up to promote economic development. It focuses on making low-interest loans to cash-strapped governments in poor nations that wish to undertake significant infrastructure investments (such as building dams or roads). www.worldbank.org

E-tool: Check http://geo.worldbank.org for a world map of **World Bank projects**.

The **United Nations (UN)** has a goal to preserve peace and global stability through international cooperation and collective security. The UN is responsible for many international agreements that directly affect commercial relationships (Geringer et al. 2012, p. 47). www.un.org

FOCUS: **The UN's Global Compact** provides a framework for firms that are committed to aligning their operations and strategies with 10 universally accepted principles and values. This framework helps firms to trace whether their global sourcing is "sustainable". A British/Irish retailer Primark was negatively affected by suppliers using "unsustainable" practices. As a result of that, they stress their ethical approach now: https://www.primark.com/en/our-ethics

Fig 7.1 Primark

E-tool: Check https://www.unglobalcompact.org/ for the ten **Global Compact principles** and related links.

The **Organisation for Economic Cooperation and Development** (OECD), based in Paris, France, supports the economic, developmental and business goals of advanced economies. www.oecd.org

BRICS is the acronym for an association of five major emerging economies: Brazil, Russia, India, China and South Africa. These nations are pushing for an establishment of the **New Development Bank**, an alternative to the IMF. Another related initiative is the **Asian Infrastructure and Investment Bank** rolled out by China, supported by a number of developed nations as well.

The Organisation of Petroleum Exporting Countries (**OPEC**) is a powerful cartel that affects global oil prices, which in turn affects costs for businesses and prices for consumers. www.opec.org

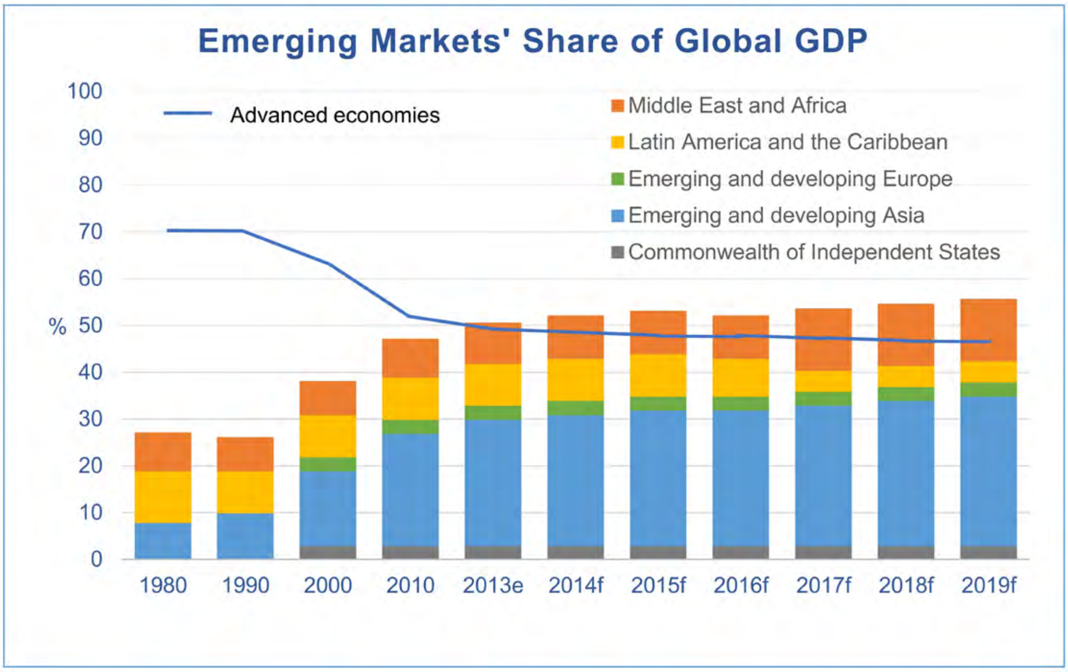


Fig 7.2 Emerging markets' share of global GDP Source: IMF World Economic Outlook April 2014, Ashmore

Exercise: Choose a multinational firm and check their website or annual report. What are the key implications of the trend towards an increased share of world GDP from emerging markets?

Exercise: Why have oil prices fallen so dramatically since 2014 and why has OPEC not succeeded in controlling them as much as they would want to? How did the plunging oil price affect businesses in your country? You can choose a specific industry or company to consider.

E-tool: ***The Economist explains*** is a blog that explains various economic issues including oil prices: http://www.economist.com/blogs/economist-explains/2014/12/economist-explains-4

The Economist magazine is a great source for clear and insightful analysis of the global economy.

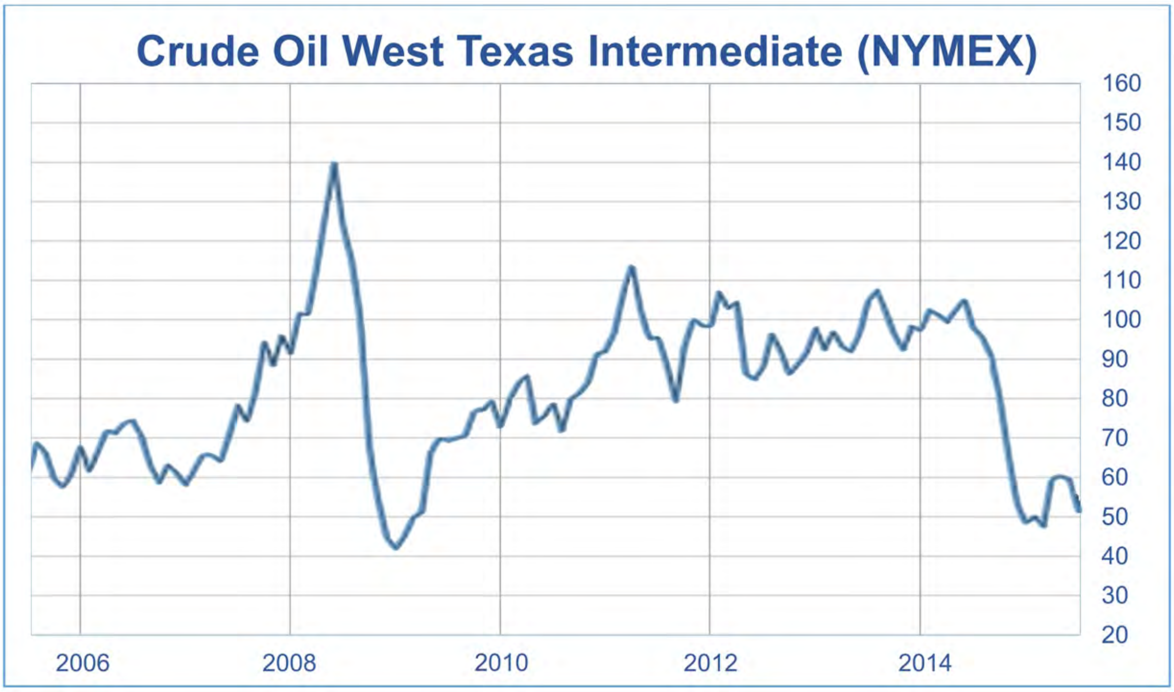


Fig 7.3 Oil (West Texas Intermediate) Price at the NYMEX, 2005–2015Source: NASDAQ

> **FOCUS**: **Trade-related intellectual property rights** (**TRIPS**) is a negotiated agreement at the WTO that has led to agreement on 20-year patents and 50-year copyrights. It is a contentious area of conflict between the OECD and developing nations, as intellectual property rights violations are endemic in several industries, with music and software piracy rampant in China and pharmaceutical patent violations widespread in India (Geringer et al. 2012, p. 52).

Fig 7.4 Pharmaceuticals

E-tool: Check https://www.wto.org/english/tratop_e/trips_e/trips_e.htm for recent **TRIPS news**.

Review questions

1. Please name and briefly describe the most important global institutions.
2. Which regions of the world have increased their share of global GDP and which have decreased?
3. What does the BRICS acronym stand for? Which other large emerging economies do you know?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question013

Discussion question

Chile (pictured), Estonia, Slovenia and Israel have joined the ranks of the OECD in 2010. Which other economies might be (are) the next members of this club of "advanced" countries? Why?

a. Lithuania
b. Latvia
c. Colombia
d. Costa Rica
e. Russia

Fig 7.5 Chile

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question014

8 The world trade system

Free trade agreement (FTA) is a formal agreement between two (bilateral) or more (multilateral) countries to reduce or eliminate tariffs, quotas and barriers to trade in products and services.

Regional economic integration is a growing economic interdependence that results when two or more countries within a geographical region form an alliance aimed at reducing barriers to trade and investment (Cavusgil et al., p. 246) and reduce tariff and non-tariff barriers (Hill et al., p. 254).

E-tool: globalEDGE: www.globaledge.msu.edu/global-resources/regional-trade-agreements

On this website, you can review over 300 current trade agreements with recent news.

Exercise: Choose one of the agreements from the globalEDGE website and access the specific resources on it. Describe the members of the agreement and give other relevant details on the agreement that might be of interest to exporters/international businesses from your country.

Several **levels of economic integration** are possible, from the least to most integrated:

Free trade area: a group of countries committed to removing all barriers to the free flow of goods and services between each other, but pursuing independent external trade policies. Examples: North American Free Trade Area (NAFTA), ASEAN, EFTA, ANZCER.

Customs union: a group of countries committed to removing all barriers to the free flow of goods and services between each other and the pursuit of a common external trade policy. Examples: MERCOSUR, Andean Community, South African Customs Union.

Exercise: Use the website above to find out what ASEAN, EFTA, ANZCER and MERCOSUR are.

Common market: a group of countries committed to removing all barriers to the free flow of goods and services and factors of production (e.g. labour, capital) between each other and the pursuit of a common external trade policy. Example: European Union pre-1992.

Economic union: the same as the common market but countries are also committed to the adoption of a common currency (monetary policy) and the harmonisation of tax rates (fiscal policy). Example: European Union post-1992.

Political union: the same as the economic union, but countries also have a central government and military. Examples: United States of America, former Union of Soviet Socialist Republics (USSR).

Exercise: Research the European Union and explain why the EU is seen as the most advanced regional integration bloc. Check out http://europa.eu/index_en.htm for the official EU website. Is the EU moving towards political union following the euro zone crisis? Check recent news on the crisis.

FOCUS: **The Trans-Pacific Partnership (TPP)** is a regional trade, regulatory and investment treaty for nations in the Asia-Pacific region. As of 2015, twelve countries have participated in negotiations on the TPP: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. With the Doha Round of multilateral trade negotiations through the WTO at an impasse, the TPP negotiations have taken centre stage as one of the most significant trade initiatives of the 21st century (Schott, Kotschwar & Muir 2013). However, a number of barriers – including agriculture, intellectual property, services, investment, and environment – have delayed its conclusion. Some activists accused the parties of secretive behaviour. An agreement on the treaty was reached in October 2015 with a compromise reached on sensitive sectors such as pharmaceuticals, automotive, dairy and rice.

Fig 8.1 Trans-Pacific Partnership

Video: Check this video on the TPP: https://www.youtube.com/watch?v=YtkZ894nMK0

Exercise: Check recent news on the progress of the TPP. Are there any new members compared to the 12 given above? Has the agreement been signed and ratified? Who stands to benefit most from the agreement? Do you agree with the protests against the agreement? Why?

Implications: Management implications of regional integration are (according to Cavusgil et al. 2015, p. 267):

- Internationalisation by firms inside the economic bloc
- Rationalisation of operations
- Mergers and acquisitions
- Regional products and marketing strategy
- Internationalisation by firms from outside the bloc

Exercise: Choose a firm that interests you. Think about how these five implications are relevant to it. Consider a specific economic bloc that is relevant to the firm.

Stage of integration	Abolitions of tariffs & quotas among members	Common external tariff and quota system	Abolition of restrictions on factor movements	Harmonisation and unification of economic policies and institutions	Unification of non-economic policies
Free trade area	Yes	No	No	No	No
Customs union	Yes	Yes	No	No	No
Common market	Yes	Yes	Yes	No	No
Economic union	Yes	Yes	Yes	Yes	No
Political union	Yes	Yes	Yes	Yes	Yes

Fig 8.2 Levels of economic integration (adapted from Gaspar et al. 2014 and Cavusgil et al. 2015)

Review questions

1. What is the difference between a free trade agreement and regional economic integration?
2. What is the Trans-Pacific Partnership? Which are the member countries of this agreement?
3. Which free trade agreements has your country recently entered into? Why?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question015

Discussion question

A number of Central and Eastern European nations such as Bulgaria (pictured) didn't use the euro currency in 2015. Which of these countries do you think will use the euro by 2025? Why?

a. Bulgaria
b. Croatia
c. Czech Republic
d. Hungary
e. Poland

Fig 8.3 Bulgaria

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question016

9 The foreign exchange system

Foreign exchange rate is the rate at which one currency is converted into another. Currencies can experience **appreciation**, the increase in the value of the currency, or **depreciation**, a loss in the value of the currency in terms of another currency.

Foreign exchange is all forms of money that are traded internationally, including foreign currencies, bank deposits, cheques and electronic transfers. The **foreign exchange market** is a market for converting the currency of one country into that of another country. **Currency risk** is the risk that changes in exchange rates will hurt the profitability of a business or deal.

Example: In January 2004, Volkswagen, Europe's largest carmaker, reported a 95% drop in 2003 fourth-quarter profits to €50 million due to a sharp appreciation of the Euro against USD.

Why did the Euro appreciate sharply in 2003? How are exchange rates determined in general? These factors affect the **supply and demand for a currency** and its exchange rate (Cavusgil et al. 2015, p. 311):

- **Economic growth** (productivity and balance of payments)
- **Interest rates** (inflation, money supply, price differences)
- **Market psychology** (investor psychology, herding behaviour)
- **Political action** (exchange rate policies, central bank action)

In general, a currency value rises with a higher demand and/or lower supply for it. Economic growth has a strong influence on the currencies. For example, rapid economic growth of several East Asian nations has stimulated a steadily increasing demand for their currencies. High interest rates also stimulate demand for a country's currency, as foreigners seek profits through higher interest-bearing investment opportunities.

Example: Australia's relatively high interest rates lead to stronger foreign investment and currency.

E-tool: Check http://www.dailyfx.com/ for **foreign exchange rates** and related news and analysis.

Exercise: The Euro has been quite volatile in the last few years. Check its rate against a currency of your choice and try to explain which of the four factors have affected the Euro's exchange rate recently.

Market psychology is another important factor, as investors tend to mimic each other's actions. Herding behaviour often occurs, as investors can sell a country's currency after they fear that others will do so as well. Example: Asian Financial Crisis of 1997–1998.

Political actions matter for currencies too. Central Bank (monetary authority) actions are crucial as these affect money supply and interest rates. Governments can also intervene, for instance, by **devaluation** to reduce the official value of its currency relative to others. Example: China is often accused of keeping the value of its currency "artificially" low.

Exercise: Why would Chinese politicians want to keep the value of their currency "artificially" low? Who in China benefits from this and who is hurt?

It is important to remember that it is very difficult to forecast exchange rates as all these factors coincide and are difficult to predict (Meese and Rogoff 1983).

FOCUS: **Central bankers' statements** are closely watched as they foreshadow foreign exchange changes. Janet Yellen, Chairman of the US Federal Reserve, and Mario Draghi, President of the European Central Bank, are two of the most watched people in international finance and business.

Fig 9.1 Mario Draghi, the President of the European Central Bank

Exercise: Check the recent financial news interpreting Draghi's and Yelen's statements and their impact on exchange rates.

E-tool: Check out press agencies www.bloomberg.com and www.reuters.com or **central bank pages** https://www.ecb.europa.eu/home/html/index.en.html and http://www.federalreserve.gov/.

Types of currency risk: managerial implications of currency fluctuations (Hill 2016, p. 303):

- **Transaction exposure** (extent to which income from transactions is affected)
- **Translation exposure** (extent to which reported consolidated profits are affected)
- **Economic exposure** (extent to which a firm's future earnings power is affected)

Currency hedging is a transaction that protects traders and investors from exposure to the fluctuations of the exchange rate. Example: Volkswagen increased the proportion of its hedged foreign currency exposure from 30% in 2003 to 70% in 2004 following the 2003 loss.

Strategic hedging is one response to the foreign exchange risk. It is the diversification of activities in a number of countries in different currency zones to offset any currency losses in one region through gains in other regions.

Review questions

1. What is the difference between devaluation and depreciation of a currency?
2. What are the main types of currency risk? Describe the three types of exposure.
3. Describe the main factors that affect the supply and demand for a currency.

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question017

Discussion question

The US dollar was the world's premier reserve currency and accounted for a majority of foreign exchange reserves in 2014, according to The Economist, with the euro accounting for about a quarter of global foreign exchange reserves. Some observers suggest that with the rise of China, the Chinese yuan may become an important reserve currency in its own right. Which of these currencies are most likely to topple the euro from its number two spot by 2025? Why?

a. The Chinese yuan
b. The Japanese yen
c. The Swiss franc
d. The British pound
e. Other

Fig 9.2 Reserve currencies

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question018

10 The global financial system

International monetary system is the institutional framework, rules and procedures by which national currencies are exchanged for one another. It has evolved from the Gold Standard (value of currencies pegged to gold) and the Bretton Woods System (exchange rates pegged to the US dollar) to the current system that comprises two main types of foreign exchange management (and their mix):

Floating exchange rate: a system under which the exchange rate is continuously adjusted depending on the laws of supply and demand.

Fixed exchange rate: a system under which the exchange rate is fixed.

Managed (dirty) float: a currency is allowed to float freely, but the government also intervenes by buying and selling the currency (if it believes that the currency is far from its fair value).

Global financial system is the collective of financial institutions that facilitate and regulate investment and capital flows worldwide, e.g. central banks, commercial banks and stock exchanges.

Key players in the monetary and financial systems are (according to Cavusgil et al. 2015):

- The firm (MNEs, SMEs, insurance firms, stockbrokers, Western Union etc.)
- National stock (equity) exchanges and bond (debt) markets
- Banks (commercial, investment, merchant, private, offshore banks etc.)
- Central banks (The Federal Reserve Bank of the US, The European Central Bank etc.)
- International Monetary Fund (IMF), World Bank, Bank for International Settlements (BIS)

The globalisation of financial flows has yielded many benefits. It has improved access to finance for companies around the world. For instance, leading companies from emerging markets can list in stock exchanges in developed countries. Example: TCS Group, Russia's credit card firm, listed in London.

However, there are also risks connected to the globalisation of finance. **Contagion** is a tendency of a financial or monetary crisis in one country to spread rapidly to others due to global financial links.

FOCUS: Global Financial Crisis (GFC) of 2008–2009: Of financial alchemists and ninjas. The GFC was a major crisis that emerged in the global financial and monetary systems. Initially it arose in the US, where investors lost confidence in the value of "securitised" home mortgages, complex financial instruments concocted by "financial alchemists" from Wall Street. While these instruments, with names such as "collateralised debt obligations", were difficult to understand, they were often simply risky: based on home loans to high-risk clients, some of whom were "NINJAs" (no income, no job or assets). They were not able to repay the loans when the housing market collapsed. While the crisis started in the US, it has spread to Europe and beyond, resulting in a global recession and the GFC.

E-tool: The IMF is producing a regular report with **economic projections for the world**. Check http://www.imf.org/external/datamapper/index.php for a data map that shows world economic growth including growth in developed vs. emerging economies. The former were battered most by the GFC, since while the developed countries' outputs fell by 3.4% in 2009, emerging economies' outputs grew by 3.1%.

Fig 10.1 Global Financial Crisis of 2008–2009

Implications: firms can respond to financial risks and opportunities through prudent financial management (Dowling et al. 2009, p. 331) such as:

- **Investment decisions** – decisions about what activities to finance
  - Example: Capital budgeting that quantifies the benefits, costs and risks of an investment
- **Financing decisions** – decisions about how to finance those activities
  - Choice between equity loan (selling shares to investors) and debt loan (bonds)
- **Money management decisions** – decisions about how to manage the firm's finances
  - Example: Minimising cash balances, reducing transaction costs, tax optimisation

Exercise: Choose an MNE and find out where its main subsidiaries or headquarters are located. Check the tax rates for each of the countries where the MNE has subsidiaries. Why is it that many non-European MNEs have subsidiaries in countries such as Ireland?

E-tool: tax rates worldwide can be found at the website of KPMG, a global consultancy: https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online.html.

Review questions

1. Briefly describe the key types of players in the global monetary and financial systems.
2. Briefly describe the main foreign exchange management systems countries use. Give examples.
3. What were the key causes of the Global Financial Crisis of 2008–2009?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question019

Discussion question

Tax rates are far from being uniform in Europe. One interesting feature is that a number of smaller countries such as Ireland (pictured) have corporate tax rates below 20%. Which of these European countries have corporate tax rates below 20% as well? What are the business implications of this?

a. Albania
b. Bosnia and Hercegovina
c. Cyprus
d. Macedonia
e. Liechtenstein

Fig 10.2 Ireland

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question020

Part II: Global Strategy

11 Foundations of global strategy

The following ten chapters examine key concepts and issues in global strategy. This chapter covers basic definitions and themes, while the remaining nine chapters are organised along three key pillars of global strategy (GS):

- Global strategy **foundations**: global/regional strategy, frameworks, foreign market entry
- Global strategy **perspectives**: industry-, resource- and institution-based views of strategy
- Global strategy **layers**: organisation/structure, innovation/learning and alliances/networks

Fig 11.1 Foundations, perspectives and layers of global strategy (GS)

Your goals for each of the ten "Global Strategy" chapters are to learn:

Ch. 11: The definitions, fundamental questions and distinguishing features of global strategy.
Ch. 12: The nature of globalisation, regionalisation and related types and strategies of MNEs.
Ch. 13: The "strategy tripod" framework and four approaches to being an international company.
Ch. 14: The motivations, drivers, locations, modes and frameworks explaining foreign market entry.

Ch. 15: The global competitive analysis including key models and strategies for various industries.
Ch. 16: The importance of intangible resources, capability leverage and strategy building.
Ch. 17: The perspectives and implications of institutions and ethics for conducting global strategy.
Ch. 18: The organisational structures and implications of various strategies for global markets.
Ch. 19: The importance of worldwide learning, innovation and knowledge management for MNEs.
Ch. 20: The key forms of international business combinations and role of cooperative strategies.

What is global strategy?

Before we delve into a more in-depth discussion of global strategy, it will be helpful to clarify **what strategy is**. Porter (1996) suggests that competitive strategy is about "being different". Strategy means deliberately choosing a different set of activities to deliver a unique mix of value. According to Peng (2014, p. 15), there are four fundamental questions of strategy:

1. Why do firms differ?
2. How do firms behave?
3. What determines the scope of the firm?
4. What determines the success and failure of firms?

Global strategy is attempting to answer these questions for MNEs and other firms around the globe. Peng (2014, p. 19) defines **global strategy** as strategy of firms around the globe. He notes that this definition is distinct from the traditional and narrowly defined notion of "global strategy" as a particular theory on how to compete (centred on offering standardised products and services on a worldwide basis). This narrow definition of "global strategy" is explained in more detail in ch. 13.

Peng's global strategy definition builds on the concept of "global business" introduced earlier in ch. 1. Tallman (2009, p. 5) stresses that global strategy is **more than international business** – it focuses on *strategies* of multinational corporations, and is in essence, a strategy for the global marketplace.

Many authors acknowledge that global strategy is technically a subset of international strategy, but it is currently used as the generic term (Segal-Horn and Faulkner 2010, p. 19). Verbeke (2013, p. 4) defines **international business strategy** as: effectively and efficiently matching an MNE's internal strengths (firm-specific advantages relative to competitors) with the opportunities and challenges found in geographically dispersed environments that cross international borders (location advantages).

It is also important to understand the role of **international management** in global strategy. This concentrates on personal-level issues including culture and communication, negotiations and leadership, human resources and talent management, and international marketing and distribution. The roles of the international managers and of possessing a global mindset are paramount for strategy.

LAYMAN'S TERMS: How is global strategy different from strategy? A global strategy is both "global" and "strategy". It deals with the strategies of firms (multinational and local) in international environments. The basics of strategy might be the same (i.e. strategy purpose, process, content) but the international context is making it a more complex endeavour that requires understanding of the foundations of international business, the global business environment and of international management.

Review questions

1. What are the key theoretical perspectives/views of global strategy?
2. How is global strategy different from international management?
3. How is global strategy different from strategy in a domestic market context?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question021

Discussion question

Is global strategy only relevant for firms with sales in many markets? How many countries does a firm need to sell in to be really concerned about matters of "global" strategy? Why?

a. 50 or more
b. 20 or more
c. 10 or more
d. 5 or more
e. 2 or more

Fig 11.2 Global strategy map

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question022

12 Regional and global strategy

Semi-globalisation is a perspective that suggests that barriers to market integration at borders are high but not high enough to completely insulate countries from each other (Peng 2013, p. 13). In essence, we tend to overstate the extent to which the world is globalised, according to Ghemawat (2011). He gives an example of surveys he conducted with international managers who routinely over-report the degree to which various aspects of business and other activity is "globalised". In particular, he criticises Friedman's (2005) book *The World is Flat* for lacking data to back it up.

E-tool: www.ghemawat.com devoted to **global strategy**, including DHL Global Connectedness Index

Exercise: Try to estimate how much of world trade, FDI flows, portfolio equity stocks, internet traffic and phone calls is international (across national borders) and how much is domestic. Go to Ghemawat's website and get the recent DHL **Global Connectedness Index** or check the figure below. Have you overshot your estimates of our global connectedness? What are the recent trends?

Rugman and Verbeke (2004) have also been critical of the globalisation hypothesis. They claim that most of the world's largest corporations are not global but rather confined to the region of their origin: Europe, North America or Asia-Pacific. They call these three key regions the **triad**. They also argue for using hard data to test the extent to which firms are "global" or "regional" in their operations. They use sales location as a measure of a firm's globalisation, and find that 70–80% of sales from the world's largest 500 companies (Fortune Global 500) stay within their home triad region.

They classify MNEs into four categories:

1. **Global** – having >20% of sales in each of the Triads, but <50% in any of the Triad regions
2. **Bi-regional** – having >20% of sales in two Triads, but <50% in any of the Triad regions
3. **Host-region oriented** – having over 50% in a Triad market other than their home region
4. **Home-region oriented** – having at least 50% of sales in their home Triad region

They found that of the world's largest 500 MNEs, only 9 were "global", 25 bi-regional and 11 host-region oriented in 2001. They suggest that too much global diversification in sales may have managerial pitfalls (making it more complex, difficult and costly to manage far-flung operations). Their findings were later challenged by Osegowitsch and Sammartino (2008), who used different thresholds (10% instead of 20%) and dropped the 50% home region threshold. Using these different metrics, they found that there were 24 global firms and a trend towards more globalisation. However, subsequent research by Rugman and Oh (2012) found that both sales and assets of MNEs have remained largely regionalised in 2000–2007, with both staying at about 75–80%.

Exercise: Check a recent annual report of one of the only 9 truly "global" firms identified by Rugman and Verbeke (2004). What is the most recent data on its regional/global dispersion of sales, assets and profits? Is the firm getting more "global" over time and what does this say about "global strategy"?

LAYMAN'S TERMS: How is global strategy different from regional strategy? Ghemawat (2005) outlines what he calls "regional strategies" for global leadership. He says that embracing regional strategies requires flexibility and creativity. A company must decide what constitutes a region, choose the most appropriate strategies, and mesh those strategies with the organisation's existing structures. In a world that is neither truly global nor truly local, finding ways of coordinating within and across regions can deliver a powerful competitive advantage.

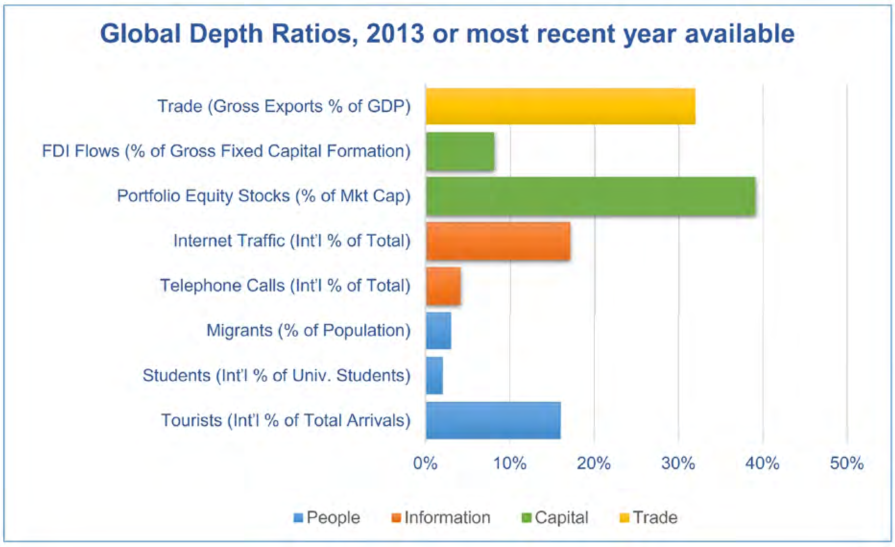


Fig 12.1 Global depth rations (adapted from DHL Global Connectedness Index 2014; and www.ghemawat.com)

500 rank	Company	Region	Revenues (US $ bn)	Foreign/total sales	Percentage intra-regional
19	Intl. Business Machines	North America	85.9	64.8	43.5
37	Sony	Asia-Pacific	60.6	67.2	32.8
143	Royal Philips Electronics	Europe	29.0	NA	43.0
147	Nokia	Europe	27.9	98.5	49.0
162	Intel	North America	26.5	64.6	35.4
190	Canon	Asia-Pacific	23.9	71.5	28.5
239	Coca-Cola	North America	20.1	NA	38.4
388	Flextronics International	Asia-Pacific	13.1	NA	22.4
459	LVMH	Europe	11.0	83.4	36.0

Fig 12.2 World's most global companies in 2001 (adapted from Rugman and Verbeke 2004)

Exercise: Update the table above (using the same firms) to reflect the most recent data available.

Exercise: Do you agree more with Thomas Friedman ("the world is flat") or Pankaj Ghemawat ("the world is semi-globalised")? Why? Read first Tom Friedman's article summarising his argument at: http://www.nytimes.com/2005/04/03/magazine/its-a-flat-world-after-all.html?_r=0

Review questions

1. What is semi-globalisation? How is it related to the concept of regionalisation?
2. What are global, bi-regional, host-region oriented and home-region oriented multinationals?
3. Do you agree with claims by some researchers that MNEs are increasingly globalised? Why?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question023

Discussion question

Rugman and Verbeke (2004) and Osegowitsch and Sammartino (2008) used two different definitions of "global" MNEs. The two key dimensions of the definitions are outlined in the figure below: minimum % of sales in each of the Triad regions and maximum % of sales in any of the Triad regions. Please indicate on the figure below what percentages you would choose for these two dimensions (in order to create your own definition of a global MNE). What is the justification for choosing specific thresholds?

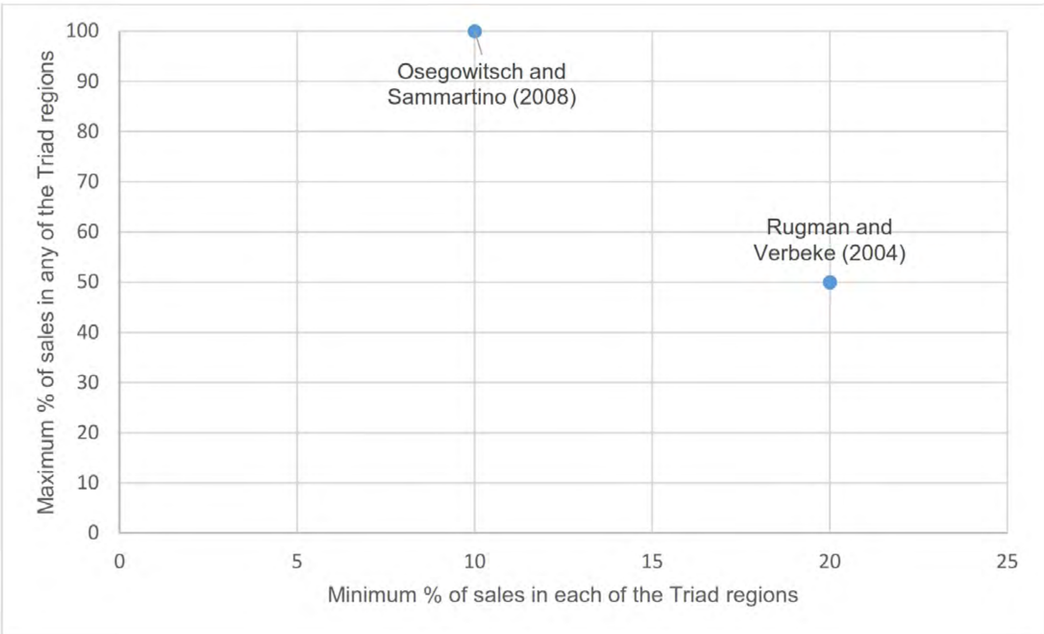


Fig 12.3 Definition of "global"

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question024

13 Global strategy frameworks

In chapters 15–17 we will cover three leading perspectives on global strategy. Peng (2015, p. 16) calls them a **strategy tripod** because this framework has three theoretical "legs":

1) **Industry-based view:** the key strategic task is to examine the competitive forces affecting an industry, and to carve out a position that is less vulnerable relative to these forces
2) **Resource-based view:** this concentrates on the internal strengths and weaknesses of the firm, positing that it is firm-specific capabilities that differentiate successful firms from failing ones
3) **Institution-based view:** we also need to take into account the influences of formal and informal "rules of the game" to explain differences in firm strategy and how firms behave

Bartlett and Beamish (2015) outline four broad approaches that firms can take to being international. They view the "transnational" mentality and strategy as the "solution" and most evolved of the four:

Organizational characteristics	Configuration of assets and capabilities	Role of overseas operations	Development and diffusion of knowledge
Multi-domestic/ multinational (localisation)	Decentralised, self-sufficient and nationally autonomous	Sensing and exploiting local opportunities	Knowledge developed and retained within each unit
Global (standardisation)	Centralised and globally scaled	Implementing parent-company strategies	Knowledge mostly developed and retained at the centre and key locations
International (home replication)	Core abilities centralised	Adapting and leveraging parent company competencies	Knowledge developed at the centre and transferred to subsidiaries
Transnational	Dispersed, specialised interdependencies	Integrated worldwide operations and differentiated country contributions	Shared centre/periphery knowledge development and shared learning worldwide

Fig 13.1 Four approaches to being an international company (characteristics, motivations and strategies)

Source: adapted from Segal-Horn & Faulkner (2010) and Bartlett & Ghoshal (1989)

To become "transnational", Bartlett and Beamish (2015) recommend building three layers of international competitive advantage (we will cover these in depth in chapters 18–20):

1) Developing a transnational organisation
2) Creating worldwide innovation and learning
3) Engaging in cross-border collaboration

Verbeke (2013, p. 5) developed his own unifying framework for understanding international strategy. He stresses the role of recombining internationally transferable **firm-specific advantages** and (non-transferable) **home- and host-country location advantages** into a multinational network.

Tallman (2009, p. 7) suggests that multinational strategy follows a standard strategic decision-making process, where the strategic mission, vision, objectives and goals are followed by strategic analysis, identifying strategic options, selecting one, and executing and evaluating the selected option.

Review questions

1. Please explain the main differences between the different elements of the strategy tripod.
2. Please describe the four broad approaches to being international (Bartlett & Beamish 2015).
3. What are the main characteristics of a transnational organisation?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question025

Discussion question

The four broad approaches to being international are often presented in a simplified way in a two by two matrix (see the figure below). The two key dimensions distinguishing the four strategies are "pressures for global integration" (vertical axis) and "pressures for local responsiveness" (horizontal axis) introduced in chapter 5. Think about the firms from Figure 12.2 and try to place one in each of the quadrants.

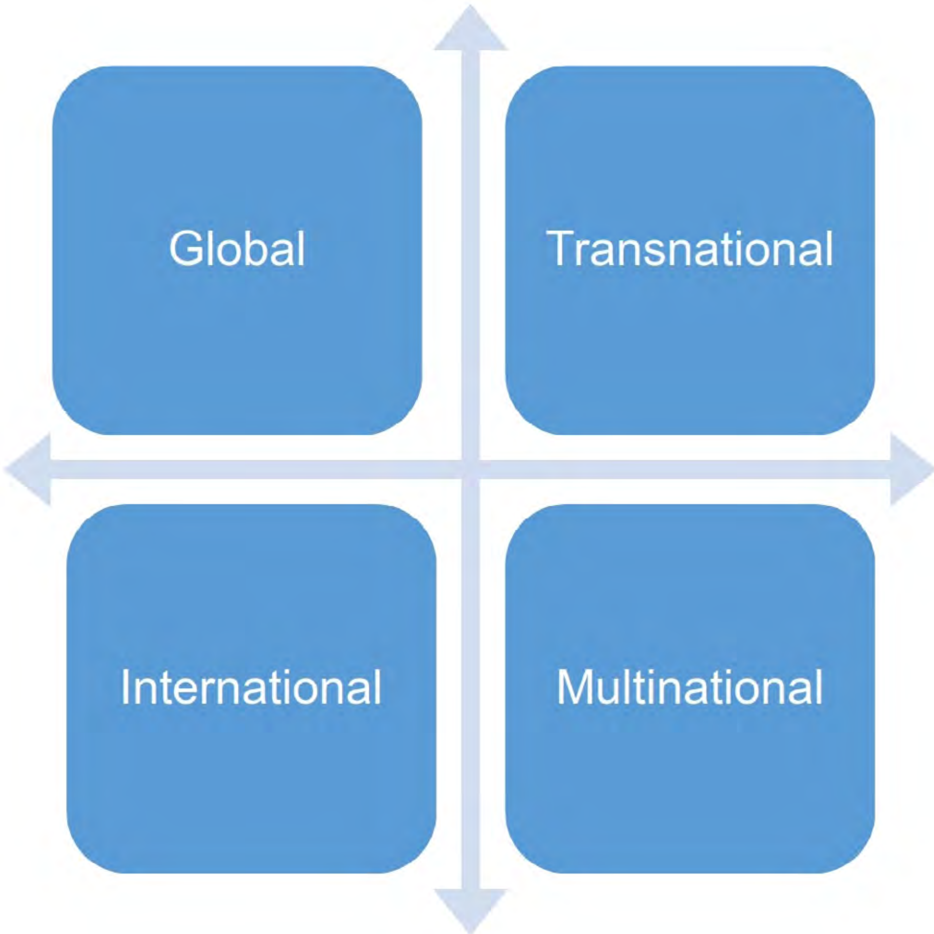


Fig 13.2 Four approaches to being an international company: an exercise

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question026

14 Foreign market entry

What are the **motivations** for firms to go abroad? Why would some choose to stay at home?

There are two underlying factors according to Peng (2014, p. 158): (1) size of the firm and (2) size of the domestic market. Large firms in a small domestic market are likely to be more enthusiastic internationalisers. Example: Nestlé, based in Switzerland which has a population of 8 million, sells food brands globally.

On the other side of the spectrum are small firms in a large domestic market, which are likely to stay at home or be "occasional internationalisers" because of their relatively poor resource base and the large size of their domestic market. Example: most US SMEs are local or export only to one market.[7]

X-FACTOR DATA

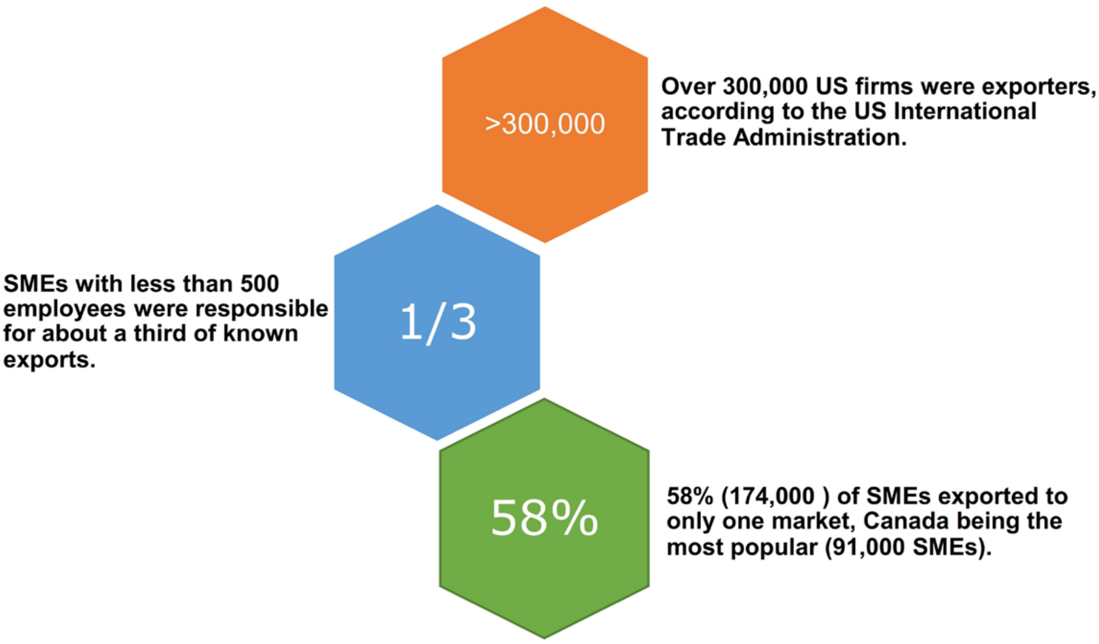


Fig 14.1 Small and medium-sized enterprises in the United States (adapted from USITA)

Foreign market entry involves strategic decisions about where, how and when to enter a foreign market. According to Peng (2014), underlying each decision is a set of **strategic considerations** drawn from his "tripod":

- Industry-based considerations on the degree of competitiveness (see chapter 15)
- Resource-based considerations on firm-specific assets (see chapter 16)
- Institution-based considerations on country risks (see chapters 6 and 17)

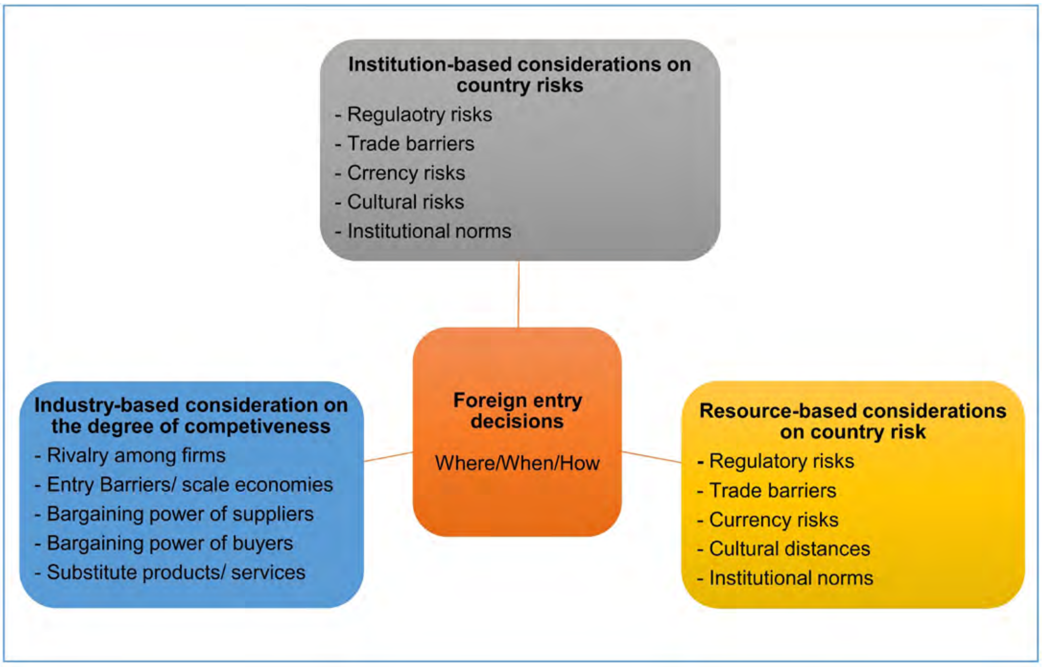


Fig 14.2 A comprehensive model of foreign market entries (adapted from Peng 2014)

Exercise: Choose a firm you are familiar with and briefly research its website and annual report. Find a recent new market that it has entered. Try to explain how this decision was affected by one of the strategy tripod considerations.

Where to enter?

Location is an important and often neglected factor in international business.[8] Two sets of considerations drive the location of foreign entries, according to Peng (2014):

1) **Location specific advantages and strategic goals.** Favourable locations in certain countries may give firms operating there **location specific advantages**. These need to be matched with strategic goals: resource-, market-, efficiency- or innovation-seeking (see Figure 14.3).
2) **Cultural/institutional distances and foreign entry locations.** Another set of considerations centres on cultural/institutional distances (see also ch. 17). **Cultural distance** is the difference between two cultures along some identifiable dimensions such as individualism or masculinity.[9] **Institutional distance** is "the extent of similarity or dissimilarity between the regulatory, normative and cognitive institutions of two countries", according to Xu and Shenkar, 2002.

Two schools of thought have emerged relating to the distance concepts and international business.

1) **Cultural proximity.** The first is associated with the Stages models (the Uppsala model of "gradual" internationalisation, see Part I). It argues that firms will enter culturally similar countries during their first stage of internationalisation, and that they may gain more confidence to enter culturally distant countries in later stages (Peng 2014, p. 166). Example: Swedish H&M expanded first in Scandinavia, before countries in the rest of Europe and in Northern America.
2) **Markets & efficiency.** A second school of thought argues that considerations of strategic goals such as markets and efficiency are more important than cultural/institutional considerations.[10] Example: natural resource seeking firm Rio Tinto from Australia entered culturally distant Mozambique to mine titanium.

Strategic Goals	Location-Specific Advantages	Examples
Natural resource seeking	Possession of natural resources and related transport and communication infrastructure	Oil in the Middle East, Russia, and Venezuela
Market seeking	Abundance of strong market demand and customers willing to pay	GM in China
Efficiency seeking	Economies of scale and abundance of low-cost factors	Manufacturing in China (especially in Shanghai)
Innovation seeking	Abundance innovative individuals, firms, and universities	IT in Silicon Valley and Bangalore; telecom in Dallas; aerospace in Russia

Fig 14.3 Strategic goals and location-specific advantages (adapted from Peng 2014)

Overall, in the complex analysis underpinning entry decisions, location represents but one of several important considerations. Entry mode and timing are also crucial.

LAYMAN'S TERMS: location specific advantages and country specific advantages. Location specific advantages can be linked to sub-national regions, cities and clusters, not just countries. A cluster/agglomeration is a geographic concentration of related companies, organisations, and institutions in a particular field that can be present in a region, state, or nation.

E-tools: clusters. An excellent resource on US clusters is Michael Porter's US cluster mapping project: http://clustermapping.us/. For clusters in Europe check out: http://www.clusterobservatory.eu/index.html.

For research on other clusters worldwide see for example:

http://www.isc.hbs.edu/resources/Pages/publications.aspx?HBSFormat=Print&HBSTopic=Clusters%20%26%20Cluster%20Development

How to enter foreign markets

The decision about how to enter foreign markets initially boils down to an equity (ownership) issue.

Non-equity modes are modes of foreign market entry that do not involve the use of capital. These include exports and contractual agreements, such as franchising. They tend to reflect relatively smaller commitments to foreign markets. Example: US Starbucks enters some markets through franchising. It has over 200 franchised and licensed coffee shops in the UK and that number is growing.

Exercise: How do you buy a Starbucks or other franchise? Check out this link and find out more about franchising: www.thefranchiseking.com/how-to-buy-a-starbucks-franchise.Which of the franchising opportunities on the website seem interesting to you and why?

Equity modes are modes of foreign market entry that involve the use of capital. They include joint ventures (JVs) and wholly owned subsidiaries and are indicative of relatively larger commitments. Example: French retailer Carrefour has entered a number of markets through JVs (Turkey, Taiwan).

FOCUS: French retailer Carrefour (the world's second largest retailer after US-based Wal-Mart) announced in 2011 plans to strike up a strategic joint venture with its biggest rival in Brazil, Grupo Pao de Açúcar. Carrefour's stock price gained 3.7% on hopes of higher profits as the move would create the biggest retail business in the South American country. Carrefour's French rival Casino was the largest shareholder in Grupo Pao de Açúcar. Its shares fell 5.6% after the JV was announced.

Fig 14.4 Carrefour

Exercise: Check the *Financial Times* or other sources to see what happened to the deal and what recent foreign entry market mode decisions has Carrefour taken. How were they received by the financial markets and why? Check financial analyst reports. Would you invest in the firm? Why?

E-tool: Morningstar provides analyst reports on most major stocks including Carrefour: http://www.morningstar.com/analyst-research/stock-reports.aspx. You can also find recent news and analyst opinions on major stocks at www.quotenet.com.

Verbeke (2013) suggests that there are three related aspects of **foreign entry mode dynamics**:

- Foreign distributors (why MNEs establish long-term relationships with local distributors, even when they also command a wholly owned distribution network)
- Strategic alliance partners (how MNEs select wholly owned affiliates versus alliances and develop an understanding of the main benefits and risks of alliances)
- Mergers and acquisitions (how international mergers and acquisitions can create economic value for the firm in spite of challenges with management biases, governance and integration)

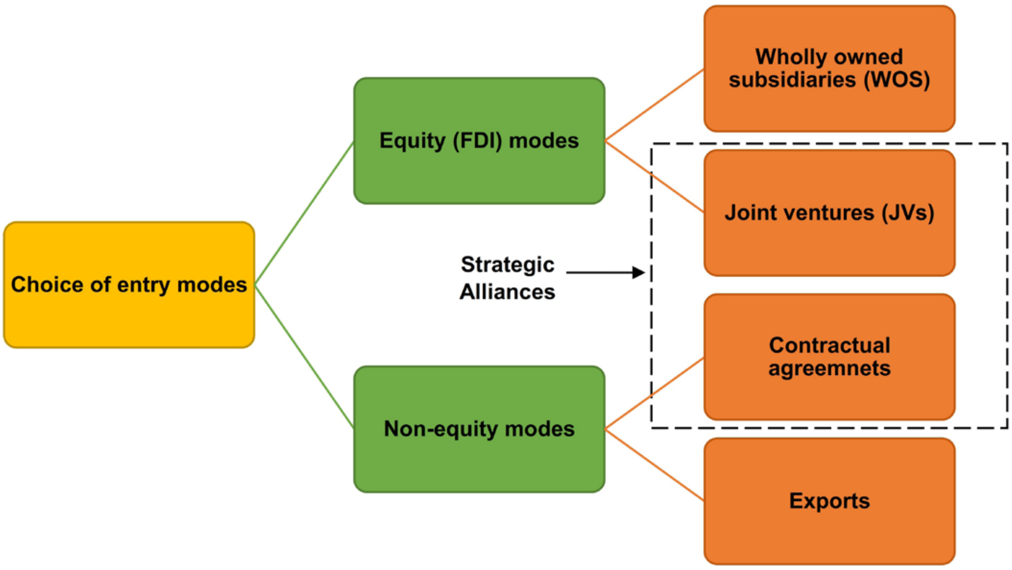


Fig 14.5 The choice of entry modes: a decision model (adapted from Peng 2014)

The decision between equity and non-equity modes is not trivial. In fact, the distinction traditionally defines an MNE: An MNE typically enters foreign markets via equity modes through FDI (Peng 2014, p. 171). Relative to a non-MNE, an MNE has three principal advantages: ownership, location and internalisation advantages (**OLI advantages** discussed in chapter 4) related to directly owning assets overseas, operating in specific locations and replacing external markets with in-house links.

During the second step of the foreign entry mode decision process (see Figure 14.5), managers consider variables within each group of non-equity and equity modes. Each of these has pros/cons.

Some scholars have suggested that the OLI framework is more applicable to traditional, Western MNEs than to **emerging multinationals** from countries such as China, Russia or Brazil (Peng 2012). While these MNEs, like their developed country counterparts, look for attractive locations and internalise transactions – conforming to the L and I parts of the OLI framework – they typically do not own better proprietary technology, and their management capabilities are usually not world class.[11]

Linkage, leverage and learning (LLL) framework tries to make sense of these emerging MNEs.[12] Linkage refers to an emerging MNE's ability to identify and bridge gaps. Leverage refers to an emerging MNE's ability to take advantage of their unique resources and capabilities (typically based on a deep understanding of customer needs). Learning refers to the motivation to "go global" to learn skills such as transparent governance, market planning, and management of a multicultural workforce.

Entry Mode	Example
1. Non-equity modes: Exports	
Direct exports	Pearl river piano exports to over 80 countries
Indirect exports	Commodities trade in textiles and meats
2. Non-equity modes: Contractual agreements	
Licensing/franchising	Pizza Hut in Thailand
Turnkey projects	A German, Italian, and Iranian consortium on a BOT project in Iran
R&D contracts	IT work in India and aerospace research in Russia
Co-marketing	McDonald's works with movie studios and toymakers; airline alliances
3. Equity modes: Partially owned subsidiaries	
Joint ventures	Shanghai Volkswagen
4. Equity modes: Wholly owned subsidiaries	
Greenfield operations	PRPG America; Japanese auto transplants in the United States
Acquisitions	Pearl River's acquisition of Ritmüller

Fig 14.6 Modes of entry and examples (adapted from Peng 2014)

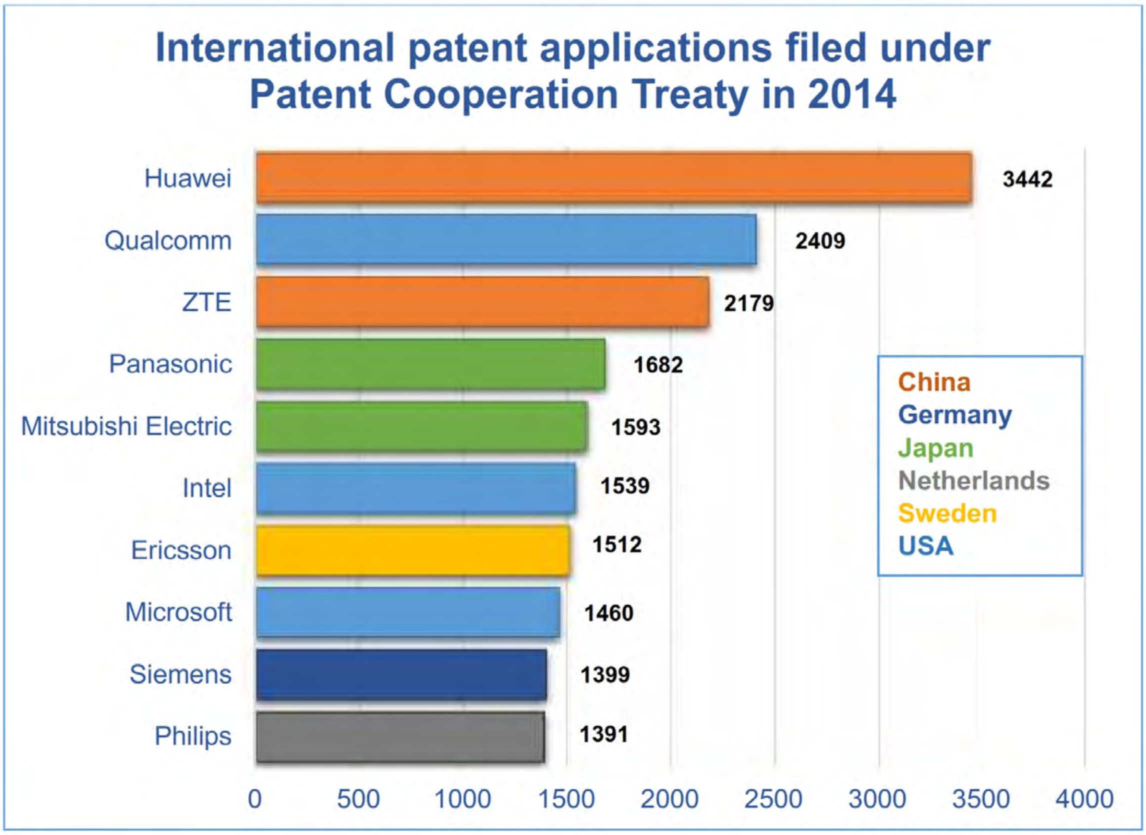


Fig 14.7 Firms with the most international patent applications

Source: adapted from http://www.statista.com/chart/3331/top-10-international-patent-filing-companies/

FOCUS: Are emerging MNEs lacking in technology? Chinese telecom giant Huawei led international patent filings in 2014, as the total number of patent applications filed under the Patent Cooperation Treaty reached a record high of 214,500. According to the World Intellectual Property Organization, Huawei applied for 3,442 patents, edging out US chipmaker Qualcomm and Chinese competitor ZTE with 2,409 and 2,179 applications, respectively. With 61,492 patent applications, the US was the primary origin of patent applicants ahead of Japan (42,459) and China (25,539). Among the top 10 filing countries, China was the only country to see double-digit growth in 2014, as the country's efforts to foster home-grown innovation are paying off.

Tallman (2009, p. 182–189) synthesised market entry strategies into these four groups:

1. **Market strategies** (no direct investment needed: including exporting, licensing, franchising)
2. **Cooperative entry strategies** (including both non-equity alliances and equity joint ventures)
3. **Entry through acquisition** (mergers of "two equals" and acquisitions by a dominant partner)
4. **Entry by start-up** (greenfields: building own operations from scratch with whole ownership)

When to enter?

First mover advantages: The advantages that first movers enjoy and later movers do not (e.g. proprietary and technological leadership, and pre-emption of scarce resources).[13] Examples: eBay was the first company to take the auction process online. Coca-Cola was the first cola drink producer.

Late-mover advantages: Advantages associated with being a late mover (e.g. opportunity to free ride on first mover investments, and resolution of technological and market uncertainties). Example: GM and Toyota had patience to wait until the Nissan Leaf resolved uncertainties about electric vehicles.

Review questions

1. Explain what equity and non-equity entry modes are and summarise their main types.
2. Explain how the OLI framework can help with decisions about foreign market entry.
3. What are the main motivations for firms to go abroad?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question027

Discussion question

Some scholars argue that emerging multinationals and their foreign market entry decisions are better explained with the LLL (linkage, leverage and learning) framework than with OLI. Which of the three elements of the LLL framework are best suited to explain Indian Tata Motors' acquisition of the iconic British car brand Jaguar Land Rover from US Ford? Or do you think OLI provides a sufficient explanation for the establishment of this wholly owned subsidiary of Tata Motors?

a. Linkage
b. Leverage
c. Learning
d. OLI
e. All of these

Fig 14.8 Jaguar cars

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question028

15 Industry and competition

Analysis of industry and competition is a part of business strategy. These can be applied to international and global settings to form global competitive analysis. However, when doing so, two aspects must be considered (Tallman 2009, p. 71).

First, in relation to global markets, it is essential that the global scope of such industries be matched by analysis of **global competitors**. Second, when entering new local markets, firms should conduct **local competitive analysis** – keeping in mind that any local market may be influenced by competition in the international market. Example: When US fast-food chain Subway enters a market such as France, it needs to consider both global rivals (such as KFC) and local competition (e.g. Flunch).

E-tool: Map of **Subway's worldwide locations**: http://chartsbin.com/view/e4b

The Five Forces framework developed by Michael Porter from the Harvard Business School is a key framework of the industry-based view of strategy.[14] It is based in the **industrial economics tradition**, in particular drawing on the structure-conduct-performance model that suggests that industry structure determines firm conduct (strategy), which in turn determines firm performance.[15]

The Five Forces model (Porter, 1980) suggests that firm performance critically depends on the degree of competitiveness of these five forces within an industry (see Figure 15.1 below):

1. **Rivalry among competitors** – the possibility that direct competitors will be unable to coordinate actions and will compete away profits among themselves
2. **Threat of new entrants** – the possibility that as more firms enter the industry, increasingly competitive markets will reduce profit potential
3. **Bargaining power of suppliers** – the possibility that specialised suppliers will have increased bargaining power and will extract excess profits from the industry
4. **Bargaining power of buyers** – the possibility that a limited set of customers will have the bargaining power to extract excess profits for themselves
5. **Threat of substitutes** – the possibility that new products or technologies will make existing firms obsolete

When industry structure is favourable, incumbents (existing firms) can stay profitable for extended periods. If some of the five forces are strong, industry profitability can be depressed. The challenge is to stake out a position that is less vulnerable to attack from old and new opponents and less vulnerable to erosion from buyers, suppliers and substitutes (Porter 1980; Peng 2014, p. 43).

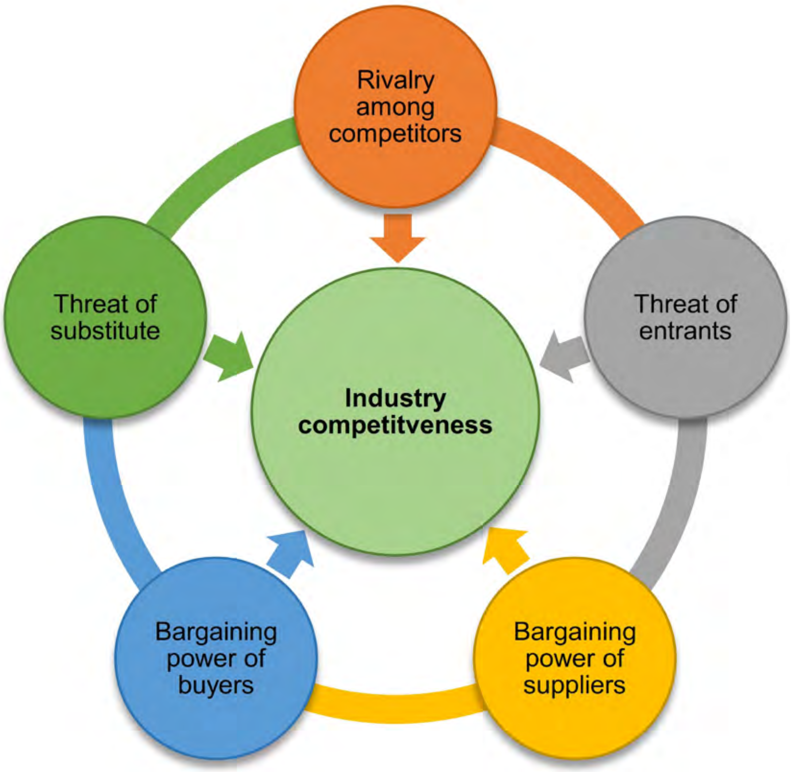


Fig 15.1 The five forces model (adapted from Porter 1980)

> **FOCUS: Apple's iPhone** accounted for nearly 90% of global smartphone industry profits in the last quarter of 2014. Its operating profit grew 65% from US$11.4 billion to US$18.8 billion from 2013 to 2014 while industry-wide profits grew 31% in the same period. Android hardware vendors (mainly Samsung) combined took a record-low 11% of the global smartphone profits, down from 29% a year ago. BlackBerry, Windows Phone and others recorded profits close to zero that quarter.

Fig 15.2 iPhone

Exercise: Use the Five Forces model to explain profitability patterns in the global smartphone industry. Conduct secondary research on the industry so that you are able to provide detailed comments. If the framework is not sufficient to explain iPhone's success, draw on other ideas and concepts from this chapter or try to come up with your own explanations based on industry and annual reports.

Global Smartphone Operating Profit Share (%)	Q4 2013	Q4 2014
Apple iOS	70.5%	88.7%
Android	29.5%	11.3%
Microsoft	0.0%	0.0%
BlackBerry	0.0%	0.0%
Others	0.0%	0.0%
Total	100.0%	100.0%

Fig 15.3 Global smartphone market shares (adapted from www.fairerplatform.com)

Global Smartphone Operating Profit (US$, Billions)	Q4 2013	Q4 2014
Apple iOS	11.4	18.8
Android	4.8	2.4
Microsoft	0.0	0.0
BlackBerry	0.0	0.0
Others	0.0	0.0
Total	16.2	21.2

Fig 15.4 Global smartphone profits (adapted from www.fairerplatform.com)

Exercise: Now consider the global PC industry and refer to Figure 15.5. Apple accounts for about 45% of the market's profits and there are a number of other players that are profitable (Dell, HP, Asus and Lenovo). The total profits of the industry were about US$2 billion, much lower than for the smartphone market. Explain the differences in profits and profit structures between the two industries.

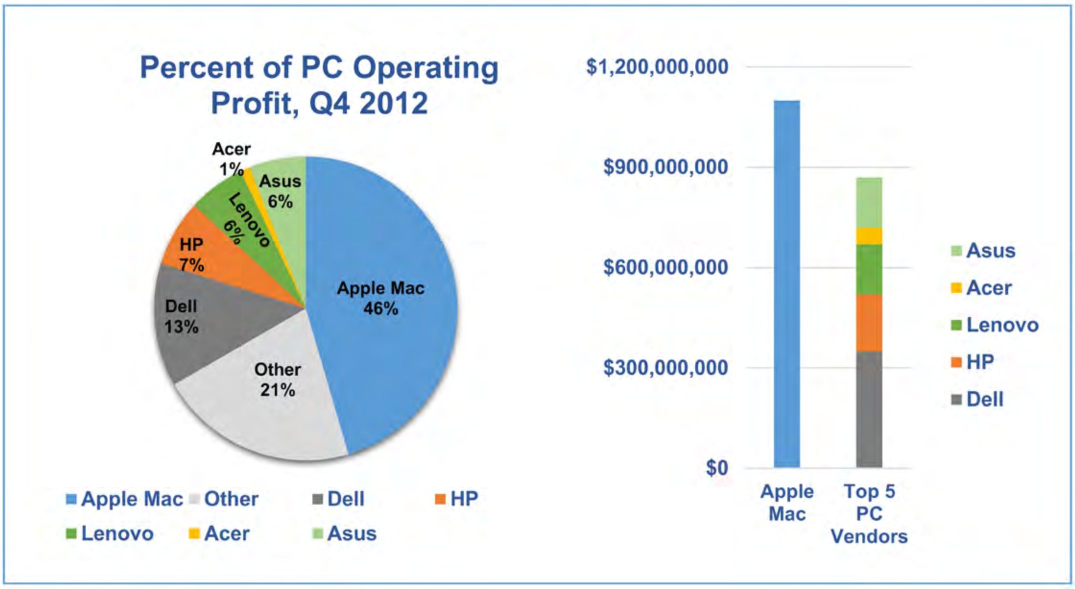


Fig 15.5 Global personal computer market shares (adapted from www.fairerplatform.com)

After identifying the five forces underlying industry competition, the next task is to make strategic choices. Porter (1985) suggested **three generic strategies** to strengthen a firm's competitive position:

1. **Cost leadership**: a competitive strategy that centres on competing on low cost and prices.
2. **Differentiation**: strategy of delivering products that customers see as valuable and different.
3. **Focus**: a strategy that serves the needs of a particular segment or niche of an industry.

E-tool: check out this video explaining **Porter's generic strategies** in an entertaining, visual and clear way:

https://www.youtube.com/watch?v=V14kuqYEsxE

Examples: Ryanair (Ireland) operates through cost leadership in the European airline industry. Onitsuka Tiger (Japan) produces distinctively styled and vibrantly coloured shoes and clothing blending urban and sports looks. Embraer (Brazil) focuses on medium sized aircraft production instead of jumbo jets.

Exercise: choose the airline, shoe or aircraft industry and try to think of a company that has used a different strategy from Ryanair, Onitsuka or Embraer yet still succeeded within that industry.

Strategy	Product Differentiation	Market Segmentation	Key Functional Areas
Cost Leadership	Low (mainly by price)	Low (mass market)	Manufacturing, services, and logistics
Differentiation	High (mainly by uniqueness)	High (many market segments)	R&D, marketing, and sales
Focus	Extremely high	Low (one or a few segments)	R&D, marketing, and sales

Fig 15.6 Three generic competitive strategies (adapted from Peng 2014)

Strategies of internationalization and globalization are driven by industry conditions, as in an industry-driven **model of configuration and coordination** (Porter 1986). This model builds on the Five Forces Model and concepts of global integration and national responsiveness (chapter 5). Porter recognises explicitly that concentration of activities and geographical dispersion are not necessarily mutually exclusive. He suggests that industries can be characterised by two dimensions:

1. **Configuration**: ranges from geographically concentrated to dispersed in many nations. Where in the world is a firm's activity performed, and in how many places?
2. **Coordination**: ranges from low integration across markets to high global coordination. How are the firm's international activities coordinated when they are done in many places?

Porter (1986) describes four strategies corresponding to each of the cells of the framework:

1. **International strategies** emphasise home-based economies of scale, with most production based in and serving the home location whilst international markets are served largely by casual exports – requiring little international coordination across markets
2. **Multi-domestic strategies** refer to industries with dispersed configuration and low coordination characteristics that favour nationally responsive strategies, with activities widely spread and operated independently – most local markets are served by local production

3. **Simple global strategy** refers to industries prone to high concentration and high coordination, in which activities are concentrated often in the home market and other major markets – combining location advantages with scale economies, and coordinated across markets
4. **Complex global integration** refers to industries with dispersed configuration and high coordination – here managers balance demands for efficiency with demands from location for adaptation and comparative advantage benefits from siting different stages of production in different locations

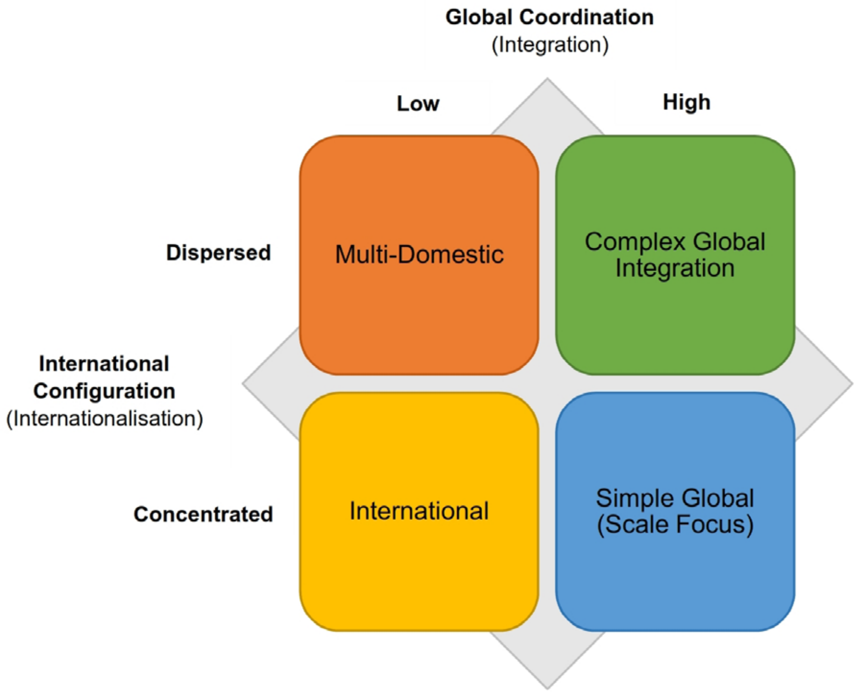


Fig 15.7 Coordination-configuration framework (adapted from Tallman 2009)

Debates and extensions of the industry-based models (Peng 2014, pp. 48–54):

- Clear vs blurred boundaries of industry (such as between smartphones and computers)
- Threats versus opportunities (the Five Forces may be seen as opportunities not threats)
- Sixth force: complementors (firms selling products that add value to the focal firm's products)
- Stuck in the middle vs all-rounders (successful firms that are cost leaders and differentiators)
- Industry rivalry vs strategic groups (groups of firms within a broad industry – e.g. ultra-luxury)
- Integration vs outsourcing (less integration and more outsourcing might be advisable)
- Industry-specific vs firm-specific and institution-specific performance determinants

Implications:

- Establish an intimate understanding of your industry by focusing on the Five Forces
- Be aware that additional forces may influence the competitive dynamics of your industry
- Firms may do well in a structurally unattractive industry

Review questions

1. Describe each of the factors in Porter's Five Forces Model.
2. Summarise the four strategies of Porter's model of configuration and coordination.
3. What are Porter's three generic strategies and how are they related to global strategy?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question029

Discussion question

Harley Davidson is a motorbike producer famous worldwide. Which of the models and frameworks from this chapter is helpful in explaining its success? How?

a. Porter's 5 Forces
b. Porter's Generic Strategies
c. Porter's Model of Configuration and Coordination
d. None of these
e. All of these

Fig 15.8 Harley Davidson

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question030

16 Resources and capabilities

While the industry-based view focuses on how industry structure and competition affect firm performance, the **resource-based view** is more concerned with how individual firms differ within one industry.[16] It suggests that differences in firm resources and capabilities are the most fundamental drivers of differences in firm performance.[17]

Resources and capabilities: tangible and intangible assets a firm uses to choose and implement its strategies (Peng 2014, p. 64). Tangible assets are observable and more easily quantifiable. They include:

- Financial resources and capabilities (e.g. capital resources and financing options)
- Physical resources and capabilities (e.g. plant, property and equipment)
- Technological resources and capabilities (e.g. software and database management systems)

Intangible resources and capabilities are harder to observe and difficult to quantify and codify. They include:

- Human resources and capabilities (management know-how and organisational capabilities)
- Innovation resources and capabilities (patents, research and development capabilities)
- Reputation resources and capabilities (brand and marketing capabilities)

X-FACTOR DATA: Intangible assets

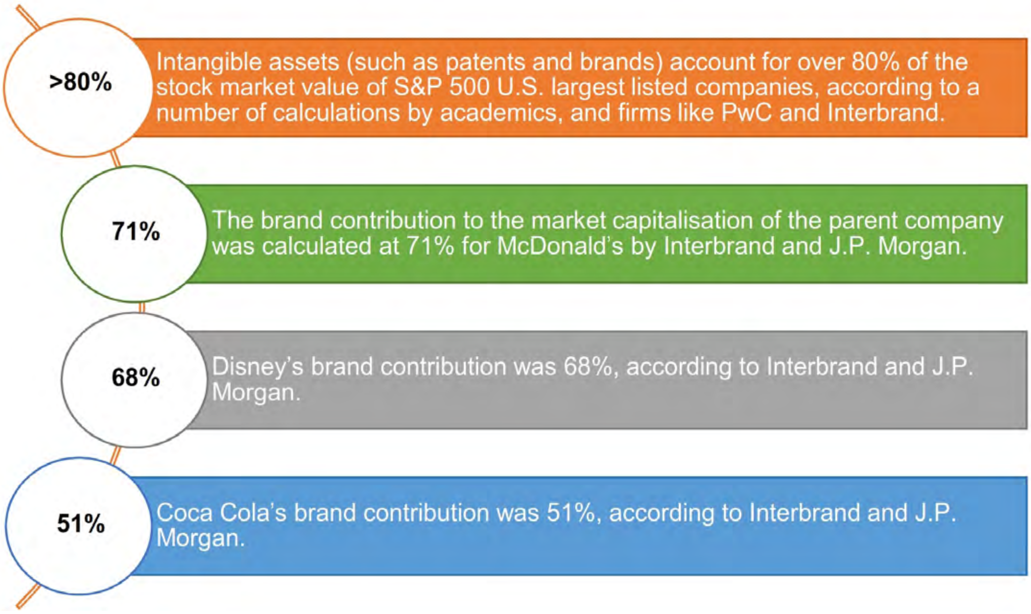


Fig 16.1 Intangible assets (adapted from *Business Week* 2007)

E-tool: **the most valuable global brands** are analysed at: http://bestglobalbrands.com/

Exercise: Choose one of these brands. Research it and describe how this brand was built. Be as specific as possible in telling the "story" of the brand.

FOCUS: Intellectual Property (IP) in China is a crucial concern for multinationals around the globe as China has come to dominate outsourced manufacturing, supplying over half of global production in many categories. PwC (2005) stresses the importance of IP value management in China as opposed to the traditional concerns about IP protection. IP value management is a holistic approach to IP rights, which re-engineers core business strategies and operations to cultivate and preserve value in ways that are resistant to the value-eroding global and market forces.

Fig 16.2 Intellectual property in China

The resource-based view attributes the achievement of competitive advantage to the particular qualities, resources and capabilities of the firm, rather than to market positioning (Segal-Horn & Faulkner 2010). A firm's unique **organisational resources**, also called capabilities or core competencies, are the key sources of sustained competitive advantage, as they are not easily acquired or imitated by competitors. Verbeke (2013) also stresses that **organisational routines** – the distinct ability to combine organisational resources in unique ways valued by customers – are very difficult to imitate.

Overall, it is important to consider the **value (V), rarity (R), imitability (I), and organisation (O)** aspects of resources and capabilities, also called the **VRIO Framework**.[18]

Valuable?	Rare?	Costly to imitate?	Exploited by organisation?	Competitive implications	Firm performance
No	–	–	No	Competitive disadvantage	Below average
Yes	No	–	Yes	Competitive parity	Average
Yes	Yes	No	Yes	Temporary competitive advantage	Above average
Yes	Yes	Yes	Yes	Sustained competitive advantage	Consistently above average

Fig 16.3 VRIO framework (adapted from Barney 2002 and Peng 2014)

LAYMAN'S TERMS: Don't confuse resources and capabilities. Although many authors use these two terms interchangeably, resources are often more static in nature while capabilities are relatively more dynamic and evolving. Capabilities are often linked organisational resources and routines (such as organisational culture and systems) that are more difficult to imitate than physical or human resources. In other words, capabilities are organisational skills and not just a resource base.

Table 16.1: The VRIO Framework: Is a resource or capability valuable, rare… (adapted from Peng, 2014)

One of the most important considerations in applying the resource-based view to global strategy is **outsourcing**: "turning over all or part of an activity to an outside supplier to improve the performance of the focal firm" (Peng 2014, p. 69). Example: the manufacturing of many branded products such as Puma or Adidas shoes is outsourced to suppliers in low-cost countries. In recent times, service activities such as call centres, IT, HR and logistics are also being outsourced. It's not only large MNEs that outsource; SMEs use outsourcing to grow globally too, allowing some sole-proprietor firms to break US$1million in sales.[19]

It is also important to distinguish between outsourcing, which can be done within a single country, with **offshoring** to foreign locations, and **captive sourcing**, which involves setting up subsidiaries in foreign locations to perform in-house work. This captive sourcing is essentially identical to foreign direct investment.

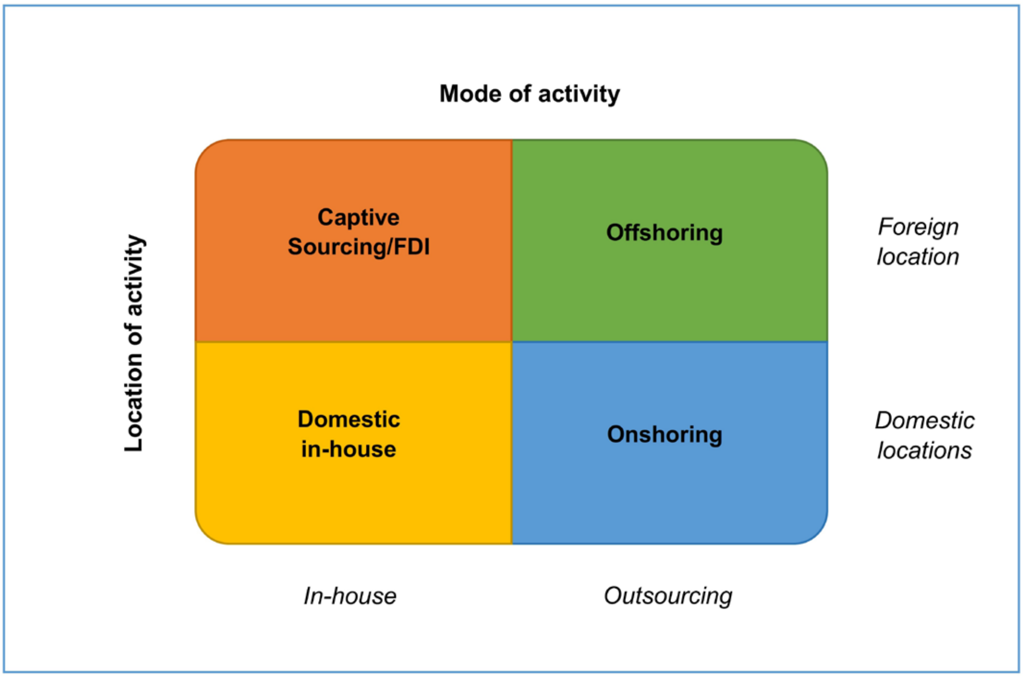


Fig 16.4 Location and types of sourcing (adapted from Peng 2014)

FOCUS: Outsourcing woes of 787 Boeing Dreamliner. Over 70% of the value of Boeing's new 787 Dreamliner was provided by outside suppliers, including engineering work in USA, Australia, France, Japan and Italy. This was a much higher share than in the previous airplanes of the company where less than 50% was outsourced. While outsourcing was supposed to reduce the 787's development time from six to four years and cut development costs by 40%, the end result was the opposite. The project was billions of dollars over budget and over three years behind schedule (Denning 2013). However, outsourcing was not the only reason for 787's problems. The core problem was perhaps that Boeing modularised a complicated innovation project too soon. In the creation of a truly new product, it is an advantage to start out as integrated as possible (Allworth 2013).

Fig 16.5 Boeing

The resource-based view can also be understood within a framework of **objectives of multinational business strategies** (Tallman 2009, pp. 23–36) entailing:

- the search for international markets (by leveraging resources and capabilities)
- the international search for innovation (to build resources and capabilities)
- international risk reduction objectives (to protect resources and capabilities)

Tallman (2009, pp. 99–112) further extends his analysis of firm-specific resources and capabilities in the global setting by applying them to multinational strategy via capability leveraging and building:

- **Capability leverage strategies** – leveraging existing resources and capabilities implies static sources of advantage based on firm-specific resources and capabilities derived from the home market. International markets represent opportunities to further leverage assets and capabilities which have been successfully exploited in the home market. Example: UnderArmor sports gear first developed itself as a successful US company, before leveraging this success when moving abroad later on.

- **Capability-building strategies** – most long-term successful multinational firms also build capabilities through their international operations, and an essential activity in the firms is to possess assets and capabilities that can be leveraged on an ongoing basis. Dynamic capabilities suggest a process of interaction between firm-level initiatives and environmental pressures. Example: HSBC bank, founded in Hong Kong, has built its dynamic capabilities in its London headquarters.

FOCUS: Domestic resources vs. cross-border capabilities in retail. Do domestically successful firms have what it takes to win internationally? In the retail industry, for example, Swedish IKEA became a global phenomenon, while US giant Wal-Mart Stores stayed largely local and withdrew from Germany and South Korea. Domestic resources and cross-border capabilities don't always have to be the same.

Fig 16.6 Walmart

Exercise: Explain how concepts and ideas from this section can explain IKEA's relative success and Wal-Mart's relative failure in global markets.

Implications:

- Managers need to build valuable, rare, non-imitable and organisationally feasible resources.
- Competitor imitation or benchmarking is unlikely to be a successful strategy.
- Managers need to build up resources and dynamic capabilities for future competition.

Review questions

1. Explain the VRIO framework. How does it help us to analyse firms' global competitiveness?
2. What is the difference between outsourcing and offshoring? Explain using Boeing as a case.
3. Explain the difference between tangible and intangible assets and give some examples.

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question031

Discussion question

Innovation resources are one of Boeing's key resources. Are they sufficiently valuable, rare, inimitable and exploited by the organisation? In particular, consider that Boeing's main rival Airbus has opened a manufacturing plant in the USA and its emerging Chinese competitor COMAC unveiled its first large passenger airplane in 2015. What other characteristic is necessary for Boeing's resources to assure the company's global competitiveness?

a. Sufficiently valuable (V)
b. Sufficiently rare (R)
c. Sufficiently inimitable (I)
d. Sufficiently exploitable (O)
e. Not sufficiently VRIO

Fig 16.7 Chinese aircraft

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question032

17 Institutions and ethics

The institution-based view argues that in addition to industry- and firm-level conditions, firms also need to take into account influences from sources such as the state and society when crafting global strategy as institutions and ethics often differ vastly across countries and societies (Peng 2014, p. 94).

Institutions are the "rules of the game" – humanly devised constraints that structure human interaction. They were popularised by **Douglass North**, a Nobel laureate in economics.[20]

They can be **formal** (laws, regulations, rules) and **informal** (norms, cultures, ethics). Richard Scott, a leading sociologist, outlined three pillars that support institutions:

1. **Regulatory** (how formal rules, laws and regulations influence our behaviour)
2. **Normative** (how the values, beliefs and norms of other relevant players influence us)
3. **Cognitive** (the internalised, taken-for-granted values and beliefs that guide our behaviour)

Institutions are expected to reduce **political and economic uncertainty**. By signalling which conduct is legitimate and which is not, institutions constrain the range of acceptable actions.

Uncertainty surrounding economic transactions can lead to **transaction costs**, which are defined as the costs associated with economic transactions – or more broadly, the costs of doing business.

E-tool: *Doing Business*, a World Bank sponsored project, provides objective measures of business regulations for local firms in 189 economies and selected cities at the subnational level. It looks at domestic small and medium-sized companies and measures the regulations applying to them through their life cycle. The various regulations and other costs of doing business are major obstacles to international growth of SMEs in particular. For more details see: http://www.doingbusiness.org/

Exercise: Select a country that you are not familiar with. Check the *Doing Business* website and try to find resources and intelligence that would help you understand what the costs of doing business there would be. Can you name three major hurdles an SME from your country would face in that other country?

Do the parties to business exchange operate harmoniously, or are there frequent misunderstandings and conflicts? If there is too much friction the economic mechanism can get "jammed," like an unlubricated car, and grind to a halt (Williamson 1985).

Opportunism – deceitful behaviour – is an important source of transaction costs. Examples: misleading, cheating, and confusing other parties in transactions (such as investment scams).

FOCUS: the largest investment scam in world history originated in the United States. Bernie Madoff, a New York self-styled financier, ran what he pretended to be a sophisticated hedge fund, attracting personal investment from wealthy Americans while promising them over double digit returns. His investors included celebrities such as movie director Steven Spielberg, actress Uma Thurman and TV personality Larry King. In the end, Madoff lost over $10 billion after the fund was found to be a Ponzi (pyramid) scheme, in which returns and payments to old investors are paid for by incoming funds from new investors. The collapse of the investment scheme compounded the effects of the demise of the Lehman Brothers investment bank and exacerbated the Global Financial Crisis of 2008–2009. This had negative effects worldwide, as investors lost faith in the institutions and ethics underpinning the global capitalist system (Maglich 2013).

Fig 17.1 Pyramid scheme

How do institutions reduce uncertainty for investors? There are two ways this occurs:

Arm's length transaction – a formal, rule-based, impersonal exchange with third-party enforcement (courts, lawyers, police) – is one institutional mode of exchange governing business relationships.

Relational contracting, on the other hand, reduces uncertainty through transactions based on mutual trust and informal relationships.

Example: these informal relationships are a major part of doing business worldwide and take various forms such as *guangxi* in China, *blat* and *svyazi* in Russia and *old boy networks* in the UK/USA.

The following figure highlights the relationships between firms, their strategic choices and institutions:

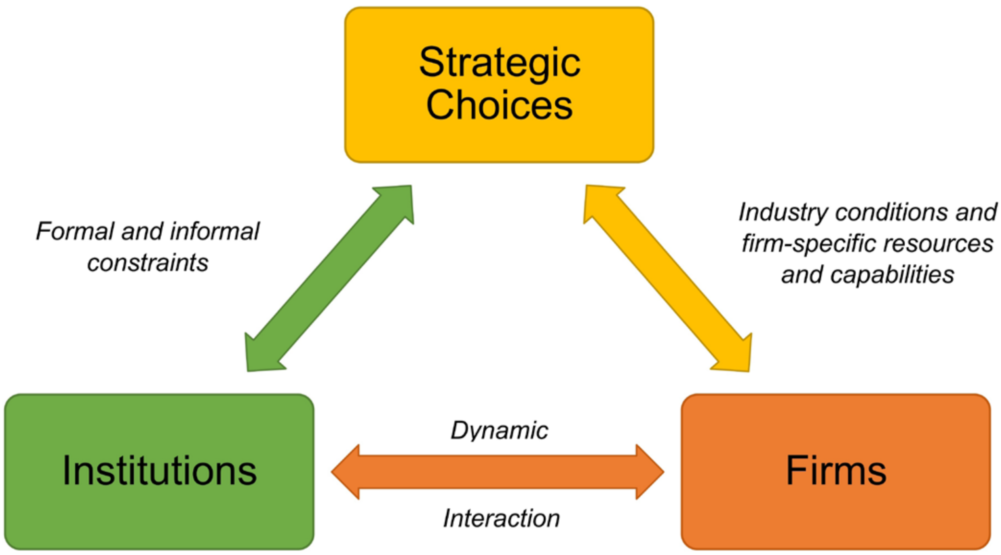


Fig 17.2 Institutions, firms and strategic choices (adapted from Peng 2014)

A key proposition of the institution-based view is that while formal and informal institutions combine to govern human behaviour, in situations where formal constraints are unclear or fail, informal constraints will play a *larger* role in reducing uncertainty for managers and firms (Peng 2014, p. 102).

Ethics: norms, principles, and standards of conduct governing individual and firm behaviour.

Code of conduct: written policies, standards and guidelines for corporate conduct and ethics.

Example: IKEA code of conduct: http://ww.ikea.com/ms/en_GB/about_ikea/our_responsibility/iway/index.html

Multinational enterprises face more challenges in managing ethics, as what is considered "normal" in one country may be considered "unethical" elsewhere.[21] Three schools of thought exist on this issue:

Ethical relativism: "When in Rome, do as the Romans do." Ethical standards vary significantly around the world, thus there are no universally agreed upon ethical and unethical behaviours.

Ethical imperialism: "There is one set of Ethics – ours." The "imperialistic" thinking that one's own ethical standards should be applied universally around the world.

Middle-of-the-road: Some principles apply universally (respect for human dignity and basic rights for example) but firms also need to be sensitive and respect local traditions and institutional context.[22]

Corruption is one of the most contentious issues in the ethics of global business. It is defined as the abuse of public power for private benefit usually in the form of bribery (in cash or kind).

> **FOCUS: When in Russia, do as the Russians do?** IKEA, a Swedish retail giant with global operations, learned about the importance of institutions and ethics when it expanded into Russia, a country with vastly different "rules of the game" compared to Sweden (McCarthy & Puffer 2008). While bribes are almost unheard of in Sweden, they are commonplace in Russia. When the expansion of IKEA in Russia was held up by bureaucracy and a bribe-seeking power company, one of its Russian staff apparently sped up the process in the "Russian way" by paying the utility firm officials "an extra". When this came to the public's attention in Sweden, two IKEA officials were fired as a result.

Fig 17.3 IKEA in Russia

To tackle ethical challenges, firms may adopt one of four strategic responses (see the figure below):

Strategic responses	Strategic behaviours	Example
Reactive	Deny responsibility; do less than required	Ford Pinto fire (the 1970s)
Defensive	Admit responsibility but fight it; do the least that is required	Nike (the 1990s), Facebook (2011)
Accommodative	Accept responsibility; do all that is required	Ford Explorer rollovers (the 2000s)
Proactive	Anticipate responsibility; do more than is required	BMW (the 1990s)

Fig 17.4 A strategic response framework for ethical challenges (adapted from Peng 2014)

Implications:

- Get informal: it is crucial to understand the role of informal rules of the game abroad.
- Get local: doing business abroad is more costly and complex – get an insider's perspective.
- Don't fake it: integrate ethical decisions as part of the core strategy process, it's not just "PR".

Review questions

1. Please describe the three pillars that support institutions (formal and informal).
2. Briefly explain the three main schools of thought on managing ethics across borders.
3. What is the difference between an arm's length transaction and a relational contract?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question033

Discussion question

In 2015, German car-maker Volkswagen faced a huge scandal linked to its rigging of emissions tests on millions of its vehicles worldwide. To tackle this ethical challenge, which strategic response should Volkswagen adopt? Why?

a. Reactive
b. Defensive
c. Accommodative
d. Proactive
e. Other

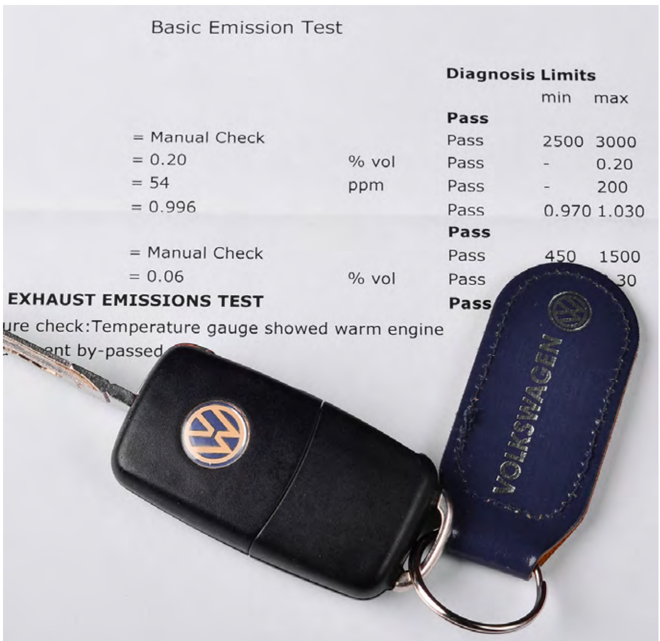


Fig 17.5 Volkswagen's emissions scandal

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question034

18 Organisation and structure

It is crucial to build an organisation that is able to deliver the strategic capabilities required to be successful globally. This chapter builds on the concepts of global integration and local responsiveness and the four approaches to being international (Bartlett & Beamish 2015) we previously introduced.

Global strategy (also called global standardisation) focuses on the world and standardised products.

Multi-domestic strategy (also called localisation) focuses on countries/regions and local adaptation.

International strategy (also called home-replication) focuses on international replication of home competencies.

Transnational strategy is an MNE strategy that tries to be cost efficient, locally responsive and learning-driven.

> **LAYMAN'S TERMS: global vs transnational strategy.** While these two terms sound similar, global strategy focuses on global standardisation and largely treats the world as one unit. Transnational strategy considers the costs and benefits of global standardisation, but strives to be responsive to differences among regions and attempts to derive learning advantages from an international presence.

The four strategic choices typically lead to the adoption of corresponding organisational structures:

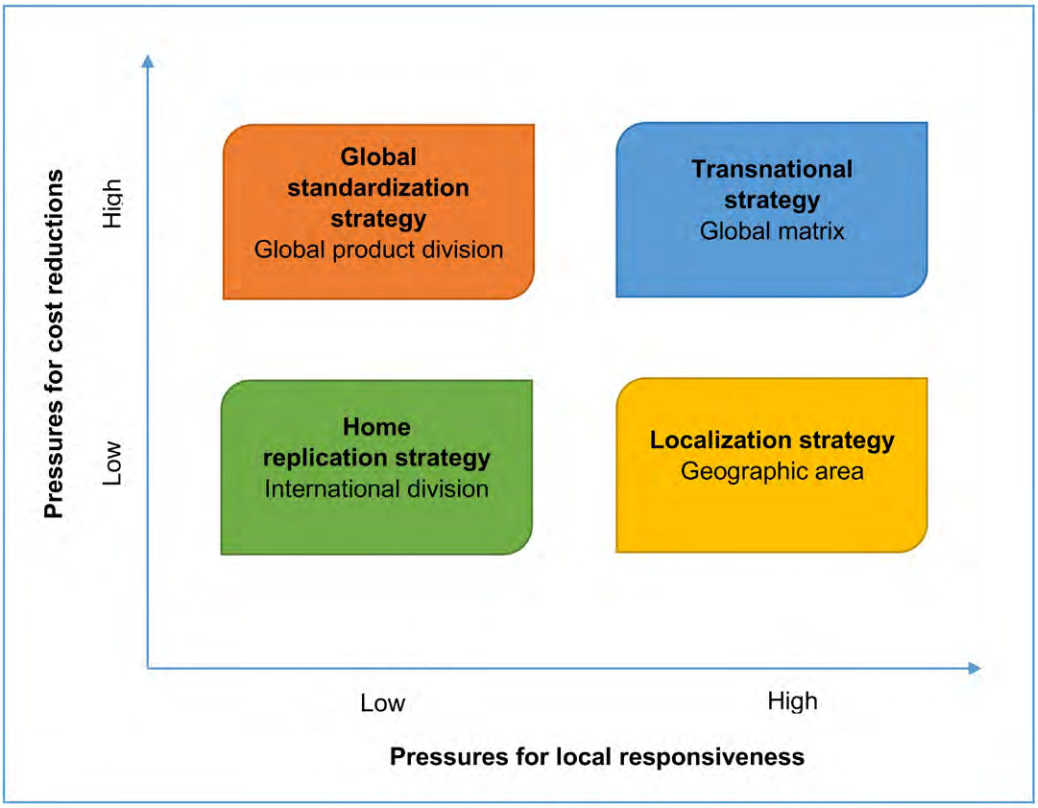


Fig 18.1 Strategies and structures (adapted from Peng 2014)

International division structure: an organisational structure typically set up when firms initially expand abroad, often engaging in a home replication strategy.

Geographic area structure: an organisational structure that organises the MNE according to different countries and regions. This is the most appropriate structure for a multi-domestic strategy. Example: General Motors and its German Opel, British Vauxhall and Australasian Holden divisions.

Country (regional manager): a business leader is assigned to be in charge of a specific country (or region) for an MNE. This is typically associated with a geographic area structure.

Global product division: an organisational structure that assigns global responsibilities to each product division. Example: Philips has global divisions for healthcare, lighting and consumer goods.

Centres of excellence: MNE subsidiaries explicitly recognised as a source of important capabilities, with the intention that these capabilities be leveraged by and/or disseminated to other subsidiaries. Example: Chinese Huawei opened a global finance centre of excellence in London, UK.

Global mandate: having a responsibility for one MNE function (such as design or an aspect of R&D) throughout the world. Example: Apple products are designed in California for global markets.

X-FACTOR DATA

Fig 18.2 R&D in China (adapted from *Forbes* 2014)

> **FOCUS: Tata International.** Karan, an Indian student who was about to finish his Master of International Business degree in New Zealand, was considering internship opportunities in New Zealand and the United Kingdom. After studying about the rise of emerging giants – MNEs from emerging markets – he realised that his "golden opportunity" might be closer to home. He picked up the phone and after an interview process landed an internship and later a full time job with Tata International. Tata International is a global trading and distribution division of India's Tata Group. It leverages the group's global presence and marketing capabilities across five business lines: metals; leather and leather products; agricultural trading; distribution; and minerals.

Exercise: check http://tatainternational.com/ and learn more about careers in the division dedicated to international business, check staff testimonials: http://tatainternational.com/careers/.

Fig 18.3 Tata Group

Global matrix: an organisational structure often used to counter the disadvantages associated with both geographic area and global product division structures, especially for MNEs adopting a transnational strategy. Example: Swiss food giant Nestlé used this structure. See exercise below.

Exercise: Observe and analyse Nestlé's organisational structure via the link below. Is it driven more by geographic area or global product divisions or both? Research recent changes made to it. What reasons did the management give for these changes?

http://www.nestle.com/aboutus/management

Global account structure: a customer-focused structure that supplies customers (often other MNEs) in a coordinated way across various countries.[23] Example: Flextronics and Hewlett-Packard

Solutions-based structure: an MNE organisational structure that caters to the needs of customers by providing solutions to their problems. Example: IBM

One of the leading debates on how to manage large firms is centralisation (corporate controls) versus decentralisation (subsidiary initiatives). Subsidiary initiative is a proactive and deliberate pursuit of new business opportunities by an MNE's subsidiary to expand its scope of responsibility. The subsidiary's initiatives may lead to chaos if they are not in line with the corporate HQ's overall policies. As Andy Grove, former chairman and CEO of Intel, said, the challenge of corporate management is:

"Let chaos reign, then rein in chaos – repeatedly." (Burgelman & Grove 2007).

FOCUS: Emerging multinationals moving their headquarters to developed countries. It is unusual for MNEs to be so transnational that they move their HQ overseas, but some of them do. HSBC (Hong Kong), SABMiller (South Africa), Anglo American (South Africa), and Old Mutual (South Africa) have all moved their headquarters to London and Chinese Lenovo moved its HQ to Raleigh, North Carolina in the United States. However, some companies are reassessing their choice. HSBC has hinted several times that it might relocate its headquarters from London to Hong Kong (a trend often referred to as "re-shoring" back to the home location).

Fig 18.4 HSBC

Exercise: Research one of these MNEs' websites and try to explain why they moved their HQ abroad.

Implications:

- Come up with the right strategy-structure configurations based on your industry's evolution.
- Master the external rules of the game governing MNEs and home/host country environments.
- Be prepared to change the internal rules of the game governing MNE management.

Review questions

1. Which organisational structures correspond to the four approaches to being international?
2. What is the difference between a global account structure and solutions-based structure?
3. Would you rather work in a subsidiary of a foreign multinational operating in your country or for a local multinational company from your country with operations abroad? Why?

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question035

Discussion question

Is China unique among emerging economies in its success in attracting foreign R&D centres? Which other emerging economies are likely to become attractive locations for R&D centres?

a. India and emerging Asia
b. Russia and emerging Europe
c. Brazil and Latin America
d. The Middle East and Africa
e. None of these regions

Fig 18.5 China and R&D

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question036

19 Knowledge and innovation

Underpinning the emphasis on worldwide innovation and learning is the emerging interest in **knowledge management**. This may be defined as the structures, processes, and systems that actively develop, leverage and transfer knowledge (Peng 2014, p. 310).

Explicit knowledge: knowledge that is codifiable (that is, it can easily be written down and transferred without losing much of its richness). Example: much IT knowledge, such as software code.

Tacit knowledge: knowledge that is not codifiable (that is, difficult to write down and be transmitted without losing much of its richness).[24] Example: experiential leadership and organisational skills.

Knowledge management goes beyond information technology, it also depends on informal social relationships within the MNE.[25] The table below sums up knowledge management in four MNE types:

Strategy	International	Multinational	Global	Transnational
Interdependence	Moderate	Low	Moderate	High
Role of foreign subsidiaries	Adapting and leveraging parent firm's competencies	Sensing and exploiting local opportunities	Implementing parent company initiatives	Differentiated contributions by subsidiaries to integrate worldwide operations
Development and diffusion of knowledge	Knowledge developed at the centre and transferred to subsidiaries	Knowledge developed and retained within each subsidiary	Knowledge mostly developed and retained at the centre and key locations	Knowledge developed jointly and shared worldwide
Flow of knowledge	Extensive flow of knowledge and people from HQ to subsidiaries	Limited flow of knowledge and people in both directions	Extensive flow of knowledge and people from HQ and key locations to subsidiaries	Extensive flow of knowledge and people in multiple directions

Fig 19.1 Knowledge management in four types of MNEs (adapted from Peng 2014 Bartlett & Ghoshal 1989)

Globalising research and development

Relative to production and marketing, only more recently has R&D emerged as an important function to be internationalised – often known as innovation-seeking investment.[26] The intensification of competition for innovation drives companies to seek a foreign country's local talents and expertise.

Example: many MNEs such as Swiss Nestlé have opened R&D centres in Singapore. Nestlé's Singapore-based R&D centre serves fast growing markets in Asia-Pacific and works on eco design.

FOCUS: Canadian Research in Motion (RIM), the producer of BlackBerry smartphones, can trace its decline from its leading position in the smartphone market to slow internationalisation of its R&D and innovation, leaving it "stuck" with a rather limited pool of talent in its home country. In 2008, shortly after the launch of Apple's iPhone, the vast majority of RIM's 2,000 R&D staff remained based in Canada and the company has not opted for an aggressive expansion of its innovation activities in other locations such as the United States or Asia.

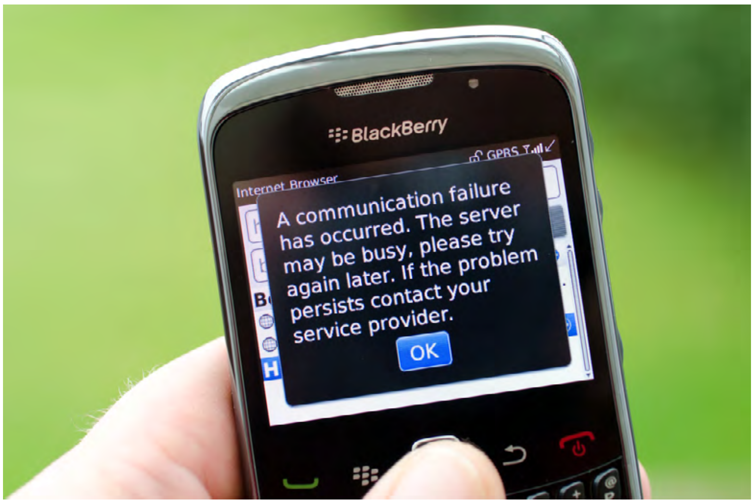


Fig 19.2 BlackBerry smartphone

Open innovation: the use of purposeful inflows and outflows of knowledge to accelerate internal innovation and expand the markets for external use of innovation.

Global virtual teams: teams whose members are physically dispersed in multiple locations in the world. They cooperate on a virtual basis.

FOCUS: Procter & Gamble (P&G), a producer of fast moving consumer goods such as *Head and Shoulders* shampoo, in 2000 launched the *Connect and Develop* programme with the goal of generating more than half of the company's innovations from outside sources. The programme sped up the process of innovation, resulting in an almost 60% increase in innovation productivity. Their innovation success rate more than doubled, while the cost of innovation fell. More than 35% of their new products in the market had elements originating from outside P&G in 2005, up from around 15% in 2000. Check out this P&D website inviting individuals to submit their innovation ideas to the firm: http://www.pgconnectdevelop.com/home/submit_innovation.html.

Worldwide innovation and learning

Bartlett and Beamish (2014, p. 393) suggest that traditionally, MNEs' innovative capabilities were dominated by one of two classic processes:

In the **centre-for-global innovation** model, the new opportunity is sensed in the home country. The centralised resources and capabilities of the parent company are brought in to create the new product or process, usually in the main R&D centre. Implementation involves driving the innovation through subsidiaries whose role it is to introduce that innovation to their local market. Example: Pfizer's development of the drug *Viagra* at its US HQ, followed by sales worldwide.

In contrast, **local-for-local** innovation relies on subsidiary-based knowledge development. Responding to perceived local opportunities, subsidiaries use their own resources and capabilities to create innovative responses that are then implemented in the local market. Example: Dutch Unilever's development of a detergent bar in response to the Indian market's needs.

The key challenges of the centre-for-global innovation model include making central innovations effective by:

- Gaining subsidiary input through multiple channels
- Responding to national needs through market mechanisms
- Managing responsibility transfer through personnel flow

The key challenges in making local-for-local innovations efficient are:

- Empowering local management
- Linking local managers to corporate decision-making processes
- Integrating subsidiary functions

In recent years, the traditional models have evolved into two new processes:

Locally leveraged innovation involves ensuring that the special resources and capabilities of each national subsidiary are available not only to that local entity, but also to other MNE units worldwide. Example: the world's best-selling phone at the time, the Nokia 1100, was developed in 2003 specifically for the Indian market.

Globally linked innovation pools the resources and capabilities of many different units – typically at both the parent company and the subsidiary level – to create and manage an activity jointly (Bartlett & Beamish 2014, p. 397). Example: P&G's introduction of an improved liquid laundry detergent deliberately drew on the diverse technological capabilities being applied separately to its products sold in Europe, Japan and the US.

Realistically, a one-size-fits-all approach to capturing the benefits of innovation will not work in a large MNE. The most effective way to exploit (technical) knowledge within an organisation depends on the complexity of the technology itself and the understanding of the focal market. In practice, the best way to capture innovation varies. Sometimes it may be to move people, and at other times to move or exchange information (Santos, Doz & Williamson 2005).

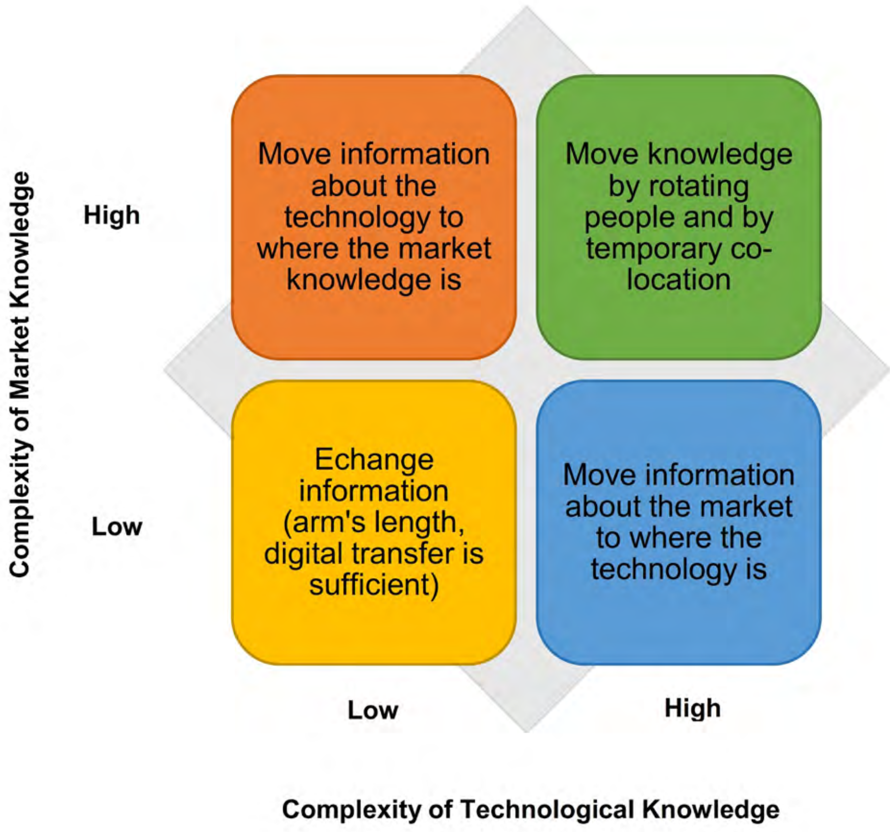


Fig 19.3 Mobilising knowledge (adapted from Santos, Doz & Williamson 2005)

Implications:

- Develop learning and innovation capabilities to leverage multinational presence as an asset.
- Think about whether your foreign R&D facilities are home-base-exploiting or augmenting.
- Assess whether your knowledge-generating activities are in the best possible locations.
- Align your R&D initiatives in host country labs with the firm's overall corporate goals.
- Consider alternative avenues for acquiring new knowledge (alliances, acquisitions etc.)

Review questions

1. Describe knowledge management in a company that focuses on a "transnational" strategy.
2. Describe centre-for-global and local-for-local innovation models. What are their challenges?
3. Explain the difference between explicit and tacit knowledge using an example from your life.

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question037

Discussion question

Chinese consumer goods company Haier acquired an innovative design-led New Zealand competitor Fisher and Paykel to consolidate its presence in the Asia-Pacific region and improve its innovative capabilities. How should it manage innovation in the acquired firm?

a. Move information about the technology to where the market knowledge is
b. Move knowledge by rotating people and by temporary co-location
c. Exchange information (arm's length, digital transfer is sufficient)
d. Move information about the market to where the technology is
e. None of these

Fig 19.4 Haier

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question038

20 Alliances and collaboration

Strategic alliances are voluntary agreements of cooperation between firms. They are a compromise between market transactions (such as exporting) and mergers and acquisitions (M&As).

Equity-based alliances (involving an ownership stake) include strategic investment (one partner invests in another), cross-shareholding (both partners invest in each other), and joint ventures (a new independent firm whose equity is provided by two or more partners).

Contractual alliances (without an equity stake) include co-marketing, research and development (R&D) contracts, turnkey projects, strategic suppliers, strategic distributors, licensing and franchising.

Advantages	Disadvantages
Reduce costs, risks, and uncertainties	Possibilities of choosing the wrong partners
Gain access to complementary assets	Costs of negotiation and coordination
Opportunities to learn from partners	Possibilities of partner opportunism
Possibilities to use alliances and networks as real options	Risks of helping nurture competitors (learning race)

Fig 20.1 Advantages and disadvantages of strategic alliances (adapted from Peng 2014)

Strategic network (sometimes called a constellation[27]) is a strategic alliance formed by multiple firms to compete against other such groups and against traditional single firms (Peng 2014, p. 190).

Example: The Star Alliance includes airlines Lufthansa, Swiss, United, Air China and Air India etc.

Alliance formation

How are alliances formed? Figure 20.2 illustrates the three stages of alliance formation:

- **Stage 1: To cooperate or not to cooperate?** International growth by market transactions can be highly demanding, even for resource-rich multinationals. M&As are also costly and can be highly complex.
- **Stage 2: Contract or equity?** The driving forces of the choice between contract and equity involvement include the: (1) nature of shared resources capabilities; (2) importance of direct organisational monitoring and control; (3) influence of formal institutions.
- **Stage 3: What kind of relationship?** Firms are likely to have multiple inter-firm relationships and they need to be managed as a corporate portfolio or network of alliances.

Figure 20.3 explains factors affecting **alliance partner selection** based on two dimensions: (1) partner comfort and (2) partner competence. There is no real upside to selecting a partner who is competent but with whom you may not be comfortable working. Nor, however, should partners be selected on the basis of comfort rather than competence.

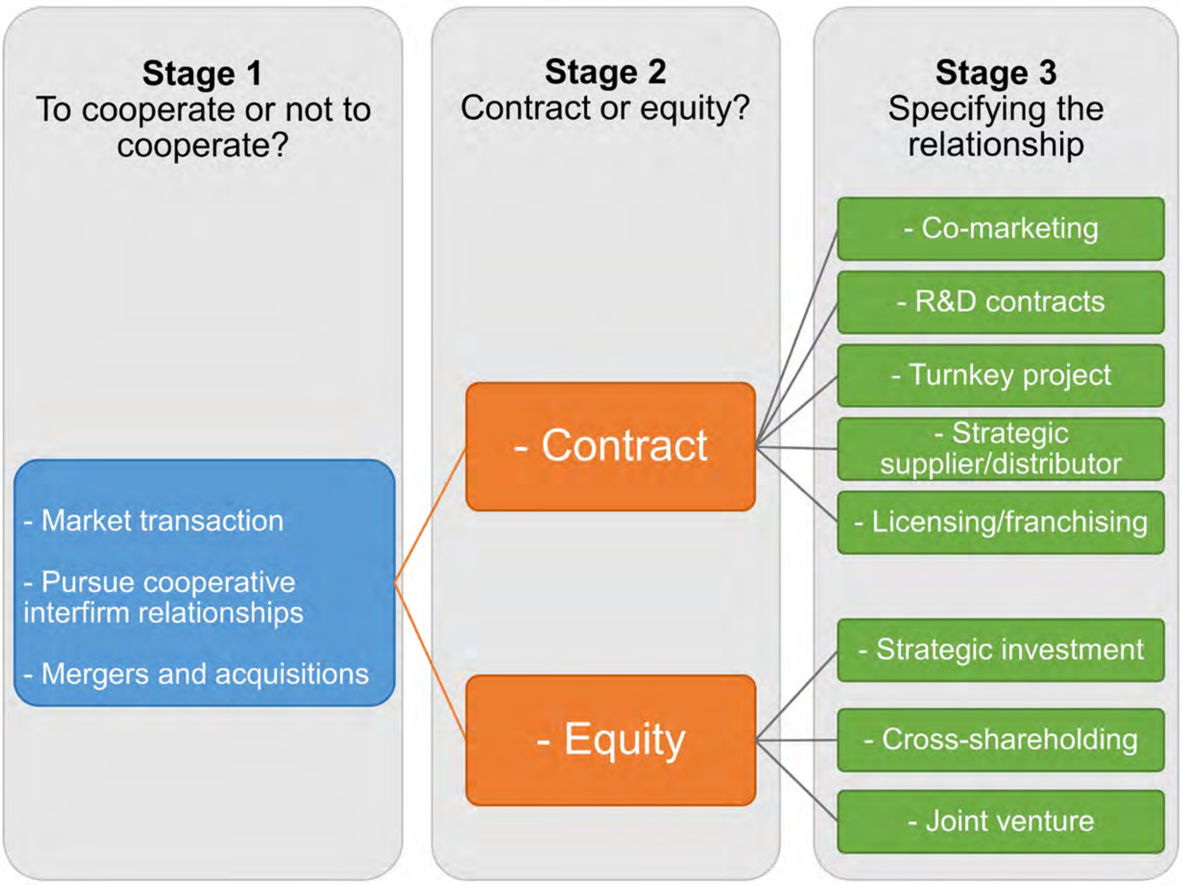


Fig 20.2 Stages of alliance formation (adapted from Peng 2014)

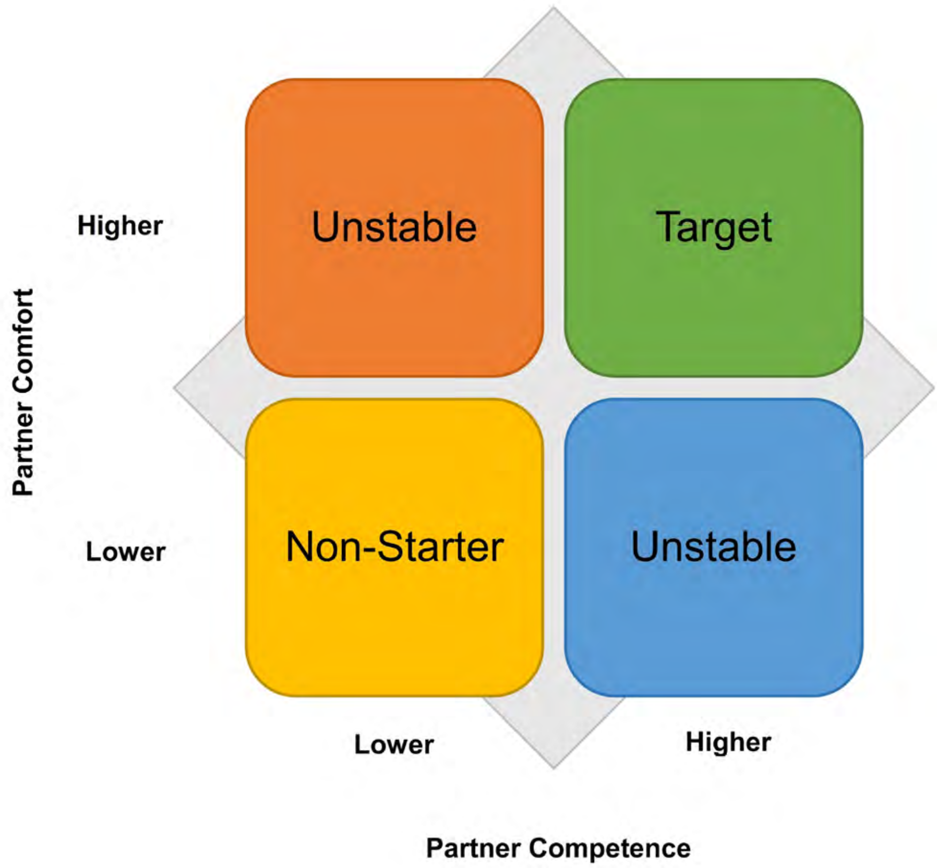


Fig 20.3 Partner selection: comfort vs competence (adapted from Bartlett & Beamish 2014)

Alliance evolution

There are three key issues relating to alliance relationships, according to Peng (2014, p. 203–206):

1. Combating opportunism (cheating), e.g. by blocking off critical capabilities
2. Using both strong (long term, durable) relationships and weak (infrequent, low intimacy) ties
3. Managing corporate marriage through to divorce (planning for and managing potential alliance dissolution or partner exit)

Hamel, Doz and Prahalad (1989) draw these lessons for international strategic alliances:

- Collaboration is competition in a different form
- Harmony is not the most important measure of success
- Cooperation has limits
- Learning from partners is paramount

FOCUS: Why did Danone's JVs in China turn sour? From 2007 to 2009, Danone, a French multinational food company, was in a fierce battle with Chinese Wahaha Group (the largest beverage producer in China) to win control of their joint ventures in China. Danone discovered financial irregularities in its Chinese joint ventures, and the legal battle that ensued involved disputes about brands and perceived levels of commitment to the joint ventures. Lawsuits were launched both in China and internationally. Finally, Danone resolved a long-running dispute with its Chinese joint venture partner in late 2009, agreeing to exit the venture by selling its 51% stake in Wahaha.

Fig 20.4 Danone

Alliance performance

Performance is a central consideration for strategic alliances and networks. It is influenced by four factors highlighted in Figure 20.4. Additionally, there are two aspects to consider (see Figure 20.5):

1. The performance of strategic alliances and networks
2. The performance of parent firms

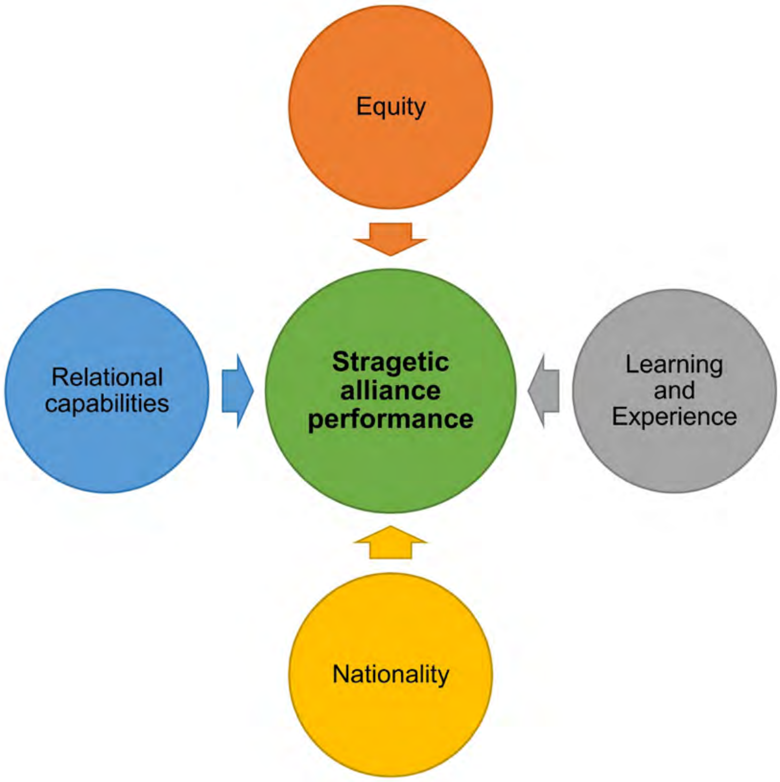


Fig 20.5 Factors affecting strategic alliance performance (adapted from Peng 2014)

Alliance/Network Level	Parent Firm Level
Objective	***Objective***
Financial performance (e.g., profitability)	Financial performance (e.g., profitability)
Product market performance (e.g., market share)	Product market performance (e.g., market share)
Stability and longevity	Stock market reaction
Subjective	***Subjective***
Level of top management satisfaction	Assessment of goal attainment

Fig 20.6 Performance of strategic alliances and parent firms (adapted from Peng 2014)

Recent trends in alliances and collaboration

X-FACTOR DATA

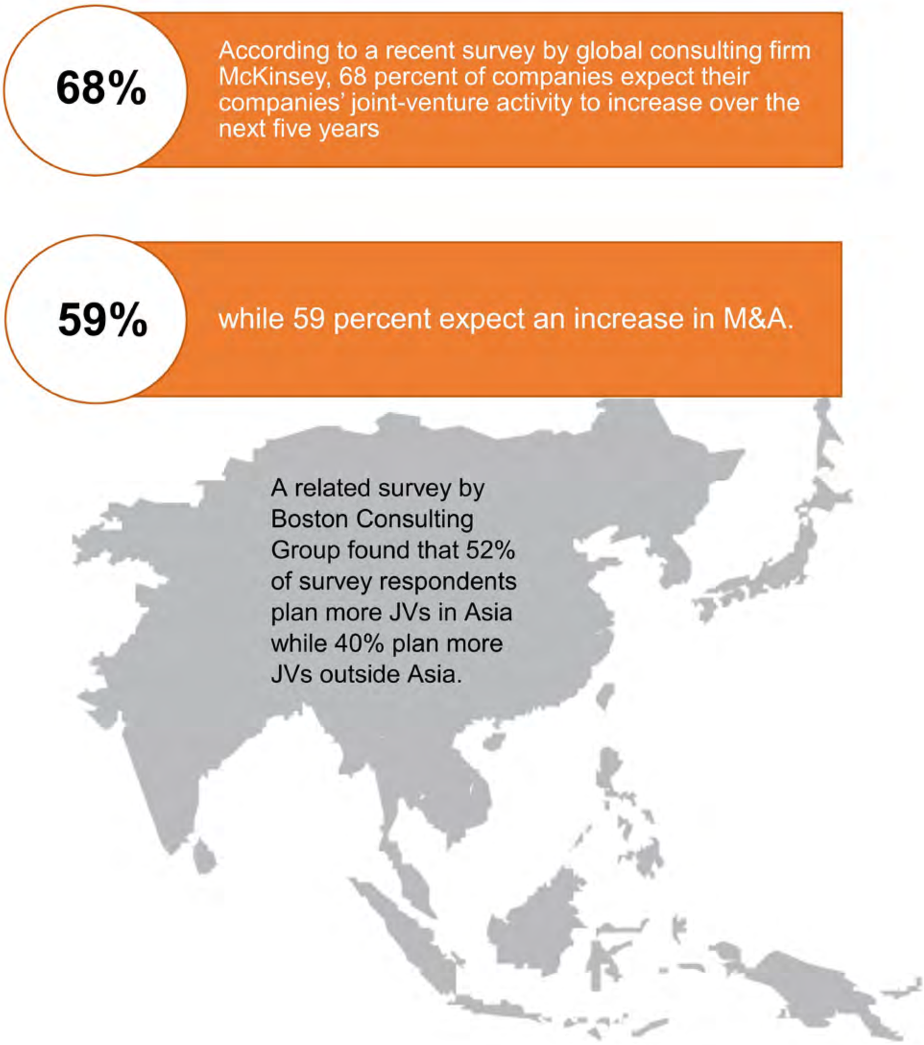


Fig 20.7 International joint ventures and M&As on the rise (adapted from McKinsey 2015 and BCG 2015)

Segal-Horn and Faulkner (2010) suggest that just as network theory and strategic alliance became popular phrases to describe the growing intra-organizational forms of the 1990s, the *virtual corporation* in its varied forms makes claims to fill that role in the 2000s.

The **virtual corporation** differs from the strategic alliance in that it places its emphasis not primarily on how two or more firms can work together to their mutual advantage, but on how one firm can be created with flexible boundaries and ownership. This firm is supported by electronic data exchange and information and communication technologies.

Example: Italian clothing giant Benetton carries out about seven-eighths of its activities through externally employed virtually connected parties, allowing it to focus only on core activities such as design.

Alliance strategy expert Benjamin Gomes-Casseres, in his book *Remix strategy* (2015), highlights these **three laws of business combinations** (including alliances, JVs, M&As etc.):

1. **Synergy**: The combination must have the potential to create more value than the parties could create on their own.
2. **Unity**: The combination must be designed and managed to realise the joint value.
3. **Contribution**: The value earned by the parties must motivate them to contribute to the collaboration.

Implications

- Relational (collaborative) capabilities are crucial for the success of alliances and networks
- Understand and master the rules of the game governing alliances and networks worldwide
- Carefully weigh the pros and cons of alliances vis-à-vis those of acquisitions
- Alliances can be relatively easy to form – but may not be the best solution
- Alliances need not be permanent
- Flexibility in alliance relationships is key
- An international knowledge network is a basis for learning

Review questions

1. Summarise the main advantages and disadvantages of strategic alliances.
2. Which factors affect strategic alliance performance at the alliance and parent firm levels?
3. What are the main types of non-equity alliances? Please give examples.

Answer the third review question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question039

Discussion question

Global Hotel Alliance has a number of member organisations worldwide ranging from Europe's oldest luxury hotel group Kempinski to Rydges Hotels with a strong presence in Australia and New Zealand. Which of these lessons for international strategic alliances do you think matters most for this alliance? Why?

a. Collaboration is competition in a different form
b. Harmony is not the most important measure of success
c. Cooperation has limits
d. Learning from partners is paramount
e. Relational (collaborative) capabilities are crucial

Fig 20.8 Kempinski Hotel in Russia

Answer this question online by clicking the link below and get extra feedback:

http://xorro.featherlight.net/question040

21 Quizzes

Take this quiz online by clicking the link below and get correct answers and extra feedback:

Quiz 1 (Chapters 1–10): http://xorro.featherlight.net/quiz001

Chapter 1:

1. Which of the following options is NOT one of the main domains of international business (according to the *Journal of International Business Studies*)?
   a. The activities of multinational enterprises
   b. Interactions between multinationals and institutions
   c. How the international environment affects firms
   d. The international balance of payments
   e. Cross-country comparative studies of businesses

2. TRUE/FALSE: Some scholars (such as Mike Peng) suggest that global business activities include both the international activities of multinational firms and the domestic activities of local firms.

Chapter 2:

3. TRUE/FALSE: Globalisation refers (among other things) to both the merging of separate national markets into a bigger "global" marketplace and the shift towards sourcing goods and services from locations around the globe.
4. TRUE/FALSE: For the first time in history we have entered into a slower, more cautious and protectionist phase of globalisation following the global recession of 2008–2009.

Chapter 3:

5. Which of these theories is a dynamic theory to account for changes in the patterns of international trade over time (suggesting a pattern of change over time between more and less developed nations)?
   a. Theory of comparative advantage
   b. International product life cycle theory
   c. Internalisation theory
   d. Porter's Diamond model
   e. Internationalisation model

6. China is a global leader in exporting all of these products EXCEPT:
   a. Air-conditioners
   b. Mobile phones
   c. Cars
   d. Shoes
   e. Fish

Chapter 4:

7. Which of these countries was NOT among the top 5 host economies for foreign direct investment flows in 2014, according to the most recent *World Investment Report 2015*?
   a. China
   b. United States
   c. United Kingdom
   d. Japan
   e. Singapore

8. Which of the following concepts is NOT an element of John Dunning's eclectic paradigm?
   a. Ownership advantages
   b. Location advantages
   c. Internalisation advantages
   d. Internationalisation advantages
   e. All of these are elements of the eclectic paradigm

Chapter 5:

9. TRUE/FALSE: Internationalisation process theory, a model developed at Sweden's Uppsala University, is mostly applicable to European multinationals and does not apply to firms based in the Asia-Pacific region.
10. TRUE/FALSE: The theory of international new ventures challenges internalisation theory and claims that in today's globalised world, many firms can expand via licensing and franchising instead of foreign direct investment.

Chapter 6:

11. TRUE/FALSE: Local content requirements are used relatively less after the Great Recession of 2008–09.
12. TRUE/FALSE: In each sector, including energy and healthcare, political risk was a bigger worry for businesses than other factors such as talent and skill shortages, according to a 2015 survey by the Economist Intelligence Unit.

Chapter 7:

13. Which of these is NOT one of the ten principles of the United Nations Global Compact?
    a. Businesses should support a precautionary approach to environmental challenges
    b. Businesses should support and respect the protection of internationally proclaimed human rights
    c. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
    d. Businesses should work against corruption in all its forms, including extortion and bribery
    e. Businesses should encourage the development and diffusion of innovative digitally disruptive technologies

14. Which of these is NOT one of the four key factors explaining why the oil price is falling, according to *The Economist?*
    a. Demand is low because of weak economic activity, increased efficiency, and a growing switch away from oil to other fuels
    b. Turmoil in Iraq and Libya has not affected their output
    c. America has become the world's largest oil producer
    d. The Saudis and their Gulf allies have decided not to sacrifice their own market share to restore the price
    e. The rate of economic growth in the emerging markets has increased

Chapter 8:

15. TRUE/FALSE: A key difference between a free trade area and a customs union is that a customs union abolishes restrictions on movement of goods, services and capital while a free trade area does not.
16. Regional economic integration has a number of implications for management. Many firms modify their strategies to take advantage of new opportunities in the enlarged marketplace or to safeguard their positions against potential threats. Which of these is NOT an example of such a strategy:
    a. China's Haier Group acquired more than 90 per cent of Fisher & Paykel Appliances (New Zealand), thereby consolidating its market presence in the Asia-Pacific region.
    b. Caterpillar, the US manufacturer of earthmoving equipment, shifted its focus from serving individual European countries to serving the EU region.
    c. Asea AB of Sweden and Brown, Boveri & Co. of Switzerland merged to form Asea Brown Boveri.
    d. Firms from France, Germany, Spain and the UK collaborated to establish Airbus Industries, the global commercial aircraft manufacturer.
    e. All of these were valid strategic responses to regional economic integration.

Chapter 9:

17. TRUE/FALSE: Currency depreciation is mainly a result of market psychology while a currency appreciation is mainly a result of other factors, especially interest rates and political action.
18. TRUE/FALSE: Both currency hedging and strategic hedging can be used to protect investors from exposure to fluctuations in the exchange rate.

Chapter 10:

19. TRUE/FALSE: Emerging economies were affected less than advanced economies by the Global Financial Crisis of 2008–2009 and have grown faster than advanced economies over the last fifteen years.
20. Global money management decisions include all of these EXCEPT:
    a. Deciding how much to invest in money market accounts
    b. Deciding how much to invest in longer-term financial instruments
    c. Reducing transaction costs
    d. Tax optimisation
    e. Capital budgeting

Take this quiz online by clicking the link below and get correct answers and extra feedback:

Quiz 2 (Chapters 11–20): http://xorro.featherlight.net/quiz002

Chapter 11:

21. Which of these is not one of the four fundamental questions of strategy (according to Mike Peng)?
    a. Why do firms differ?
    b. How do firms behave?
    c. What determines the scope of the firm?
    d. What determines the success and failure of firms?
    e. All of the above are the fundamental questions of strategy.

22. TRUE/FALSE: Global strategy is a complex endeavour that requires understanding of the foundations of international business and international management.

Chapter 12:

23. TRUE/FALSE: Well over half the sales from the largest 500 companies (Fortune Global 500) stay within their home "Triad" region (such as North America or Europe), according to research lead by Professor Alan Rugman.
24. TRUE/FALSE: Pankaj Ghemawat, a global strategy scholar, is a keen proponent of globalisation and his research finds that managers often underestimate the degree to which various aspects of business and other activity is "globalised".

Chapter 13:

25. TRUE/FALSE: Multi-domestic strategy is characterised by a shared centre/periphery knowledge development and shared learning worldwide.
26. TRUE/FALSE: A company's global strategy is not only driven by its internal resources and affected by competition in its industry; institutions (formal and informal "rules of the game") also explain differences in the strategic behaviour of multinational firms.

Chapter 14:

27. TRUE/FALSE: There is general agreement among international business scholars that distance (cultural and institutional) is the most important factor in foreign market entry decisions.
28. TRUE/FALSE: Strategic alliances include both equity foreign entry modes (such as joint ventures) and non-equity entry modes (such as contractual agreements).

Chapter 15:

29. TRUE/FALSE: In his industry-driven model of configuration and coordination, Professor Michael Porter recognises explicitly that concentration of activities and geographical dispersion are not necessarily mutually exclusive.
30. TRUE/FALSE: Michael Porter's three generic strategies can be classified according to factors including product differentiation, market segmentation and key functional areas.

Chapter 16:

31. TRUE/FALSE: Outsourcing – defined as turning over all or part of an activity to an outside supplier to improve the performance of the focal firm – can involve setting up subsidiaries both at home and in foreign locations.
32. TRUE/FALSE: Intangible assets such as patents and brands account for over half of the stock market value of the 500 largest US listed companies included in the S&P 500 index.

Chapter 17:

33. TRUE/FALSE: A key proposition of the institution-based view is that while formal and informal institutions combine to govern human behaviour, in situations where formal constraints are unclear or fail, informal constraints will play a larger role in reducing uncertainty for managers and firms.
34. Each of these is an example of informal relationships that are a major part of doing business worldwide EXCEPT:
    a. Guangxi
    b. Svyazi
    c. Old boy networks
    d. Regulations

Chapter 18:

35. TRUE/FALSE: Localisation strategy usually leads to the adoption of a geographic area structure while global standardisation strategy usually leads to the adoption of a global product division structure.
36. Which of these emerging MNEs has not moved its global HQ to a developed country?
    a. SABMiller
    b. Lenovo
    c. HSBC
    d. Old Mutual
    e. Haier

Chapter 19:

37. TRUE/FALSE: Globally linked innovation involves ensuring that the special resources and capabilities of each national subsidiary are available not only to that local entity, but also to other MNE units worldwide.
38. TRUE/FALSE: Transnational strategy is characterised by a flow of knowledge and people in multiple directions while international strategy is characterised by a flow of knowledge and people from HQ to subsidiaries.

Chapter 20:

39. TRUE/FALSE: Alliance partner selection is driven by partner comfort and partner competence, and both of these are usually required for the alliance to be stable.
40. Which of these factors has no impact on the performance of international alliances?
    a. Equity (relative stakes in the alliance)
    b. Relational capabilities (of partners)
    c. Learning and experience
    d. Nationality (match of partners)
    e. All of these impact alliance performance

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