



## International Business Strategy

How can you best extend your knowledge of how multinational enterprises (MNEs) function? What does globalization mean for today's managers? How do students turn the messages from the academic literature into effective business strategies within an MNE?

This practical textbook shows how the key concepts from the business strategy literature can be applied to MNE management.

- MBA and Master's students will gain the practical knowledge and skills needed to succeed as effective managers in multinational companies through a critical study of mainstream strategy models and the analysis of forty-five key journal articles.
- More than twenty 'half-length' case studies from leading firms including Dell, Nike, Honda, IKEA and Danone show globalization in practice.
- Identifies seven central themes from the literature for successful global strategies and unifies them into a clear framework that can be applied to real businesses worldwide.

**Alain Verbeke** is Visiting Chair in Strategy and International Business at the Rotterdam School of Management, Erasmus University, Rotterdam, and an Academic Associate of the Centre for International Business and Management, Judge Business School, University of Cambridge. He holds the McCaig Research Chair in Management at the Haskayne School of Business, University of Calgary, and was previously the Director of the MBA programme at the Solvay Business School, University of Brussels (VUB).

Cambridge University Press

978-0-521-68111-7 - International Business Strategy: Rethinking the Foundations of Global Corporate Success

Alain Verbeke

Frontmatter

[More information](#)

A teal graphic on the left side of the cover features several white arrows pointing to the right, overlaid on a pattern of faint, overlapping geometric shapes like squares and diamonds.

# International Business Strategy

Rethinking the Foundations of  
Global Corporate Success

ALAIN VERBEKE



Cambridge University Press

978-0-521-68111-7 - International Business Strategy: Rethinking the Foundations of Global Corporate Success

Alain Verbeke

Frontmatter

[More information](#)



CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo, Delhi

Cambridge University Press

The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press, New York

[www.cambridge.org](http://www.cambridge.org)

Information on this title: [www.cambridge.org/9780521681117](http://www.cambridge.org/9780521681117)

© Alain Verbeke 2009

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2009

Printed in the United Kingdom at the University Press, Cambridge

*A catalogue record for this publication is available from the British Library*

ISBN-13 978-0-521-86258-5 hardback

ISBN-13 978-0-521-68111-7 paperback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party internet websites referred to in this publication, and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

Cambridge University Press

978-0-521-68111-7 - International Business Strategy: Rethinking the Foundations of Global Corporate Success

Alain Verbeke

Frontmatter

[More information](#)



To my wonderful spouse Juliet and my children,  
Raymond-Laurent, Mary-Claire and Sophie-Charlotte

# Contents

List of figures	<i>page</i> vii
List of case studies	xi
About the author	xiii
Foreword	xv
Acknowledgements	xvii
List of abbreviations	xix
Walkthrough	xxii
Introduction and overview of the book's framework	1
<b>Part I Core concepts</b>	
1 Conceptual foundations of international business strategy	13
2 The critical role of firm-specific advantages (FSAs)	77
3 The nature of home country location advantages	101
4 The problem with host country location advantages	129
5 Combining firm-specific advantages and location advantages in a multinational network	151
<b>Part II Functional issues</b>	
6 International innovation	177
7 International sourcing and production	199
8 International finance	219
9 International marketing	243
10 Managing managers in the multinational enterprise	261
<b>Part III Dynamics of global strategy</b>	
11 Entry mode dynamics 1: foreign distributors	285
12 Entry mode dynamics 2: strategic alliance partners	309
13 Entry mode dynamics 3: mergers and acquisitions	339
14 The role of emerging economies	359
15A International strategies of corporate social responsibility	383
15B International strategies of corporate environmental sustainability	419

Cambridge University Press

978-0-521-68111-7 - International Business Strategy: Rethinking the Foundations of Global Corporate Success

Alain Verbeke

Frontmatter

[More information](#)**Contents**

Conclusion. The true foundations of global corporate success	451
Appendix: Suggested additional readings	461
Index	467

## Figures

1.1	Core concepts	<i>page 5</i>
1.1	Core concepts	14
1.2	The essence of international business strategy	34
1.3	Centralized exporter	35
1.4	International projector	35
1.5	International coordinator	36
1.6	Multi-centred MNE	36
1.7	Ten patterns of FSA development in MNEs	40
2.1	Non-location-bound (or internationally transferable) FSAs as drivers of economies of scope across markets and products	86
3.1	Domestic ‘diamond’ determinants as drivers of home-base location advantages, and subsequent FSAs	109
3.2	Porter’s analysis of FSA development of MNEs	109
3.3	Porter’s single diamond model and the double diamond model	110
3.4	A multilevel analysis of the diamond determinants	114
4.1	The MNE’s diminishing stock of internationally transferable FSAs as a function of ‘Distance’	136
4.2	The need for LB FSAs as a function of ‘Distance’	137
4.3	Ghemawat’s perspective of FSA development in MNEs	137
5.1	A classification of subsidiary roles in the MNE	155
5.2	The impact of procedural justice	159
5.3	MNE resource base – subsidiaries as driving factor	161
5.4	Bartlett and Ghoshal’s perspective on FSA development in MNEs	161
5.5	Unbundling subsidiary roles in Bartlett and Ghoshal (1986)	164
5.6	The impact of regional integration on subsidiary dynamics	167
5.7	New organizational structure at Nestlé proposed in 2004	171
6.1	Home-base-exploiting and augmenting foreign R&D units	187
6.2	Patterns of FSA development in home-base-exploiting and augmenting research centres in MNEs	188
7.1	Six roles of foreign manufacturing plants	202
7.2	Ferdow’s analysis of FSA development in MNEs	208
7.3	Key differences among the six plant types	210

## List of figures

7.4	Distribution of Flextronics' manufacturing capacities (firm website)	216
8.1	A classification of operating exposure at the subsidiary level	223
8.2	Patterns of FSA development from managing operating exposure in MNEs	229
8.3	Centralized exporter: Operating exposure from changes in the real exchange rate between the currencies of countries A and B	230
8.4	Multi-centred MNE: Overall exposure from the individual exposures of all foreign affiliates	232
8.5	International projector: centralized exposure management	233
8.6	International coordinator: Network optimization	234
9.1	Product standardization as the driver of global competitiveness	251
9.2	Levitt's perspective of FSA development in MNEs	252
10.1	International projector: Expatriates as knowledge carriers	273
10.2	Multi-centred MNEs: Expatriates as carriers of core values and trusted communication channels	273
10.3	International coordinator: Expatriates as key resources to link internationally transferable FSAs and location advantages of host nations	274
11.1	FSA development in international distribution: Arnold's perspective	295
11.2	Optimal governance of international distribution	297
11.3	An integrative approach to coordinate various components of the supply chain	298
11.4	Managing foreign distribution	299
12.1	Dissipation of FSA bundles to alliance partners	319
12.2	Alliance in emerging economies	322
12.3	Alliance in emerging economies	323
12.4	MNE foreign market penetration via wholly owned affiliates versus alliances	325
13.1	M&A partners	348
14.1	Patterns of FSA development in emerging economy MNEs	371
14.2	MNE operations in emerging economies	372
15A.1	CSR and location context	395
15A.2	Location advantages and MNE CSR	397
15A.3	Patterns of CSR development in MNEs	398
15B.1	The Porter and multiple diamond model perspectives on environmental strategy	431
15B.2	Patterns of environmental FSA development in MNEs	434



## Case studies

1.1	Honda's 'answers' to the seven basic questions in international strategy formation	<i>page 59</i>
1.2	Four Seasons' 'answers' to the seven basic questions in international strategy formation	63
2.1	3M, the spirit of innovation	88
2.2	IKEA	94
3.1	The rise, fall and resurgence of industrial hot spots: the experience of Silicon Valley and Boston's Route 128	115
3.2	Shiseido: becoming an insider in the perfume business in France	122
4.1	Coping with the four dimensions of distance in the international expansion of Starbucks	141
4.2	Wal-Mart's retreat from Germany: how distance made the replication of a domestically successful model impossible	144
5.1	Organizational transformation at Nestlé	168
6.1	Globalizing corporate R&D at Siemens	189
6.2	Sony: managing the international R&D Network	192
7.1	Defining the roles of manufacturing plants at Flextronics	211
8.1	Avon: dancing with volatile exchange rates	235
8.2	Porsche: fighting with currency swinging	237
9.1	Getting rid of the nickname 'Interwho?': Launching Stella Artois as the global brand at InBev (formerly Interbrew)	253
10.1	Managing expatriates at LVMH	275
11.1	The direct sales model or a 'dual system' model: Dell's distribution strategy in China	299
12.1	Danone's affair in China	327
13.1	CEMEX: Growing and growing stronger	350
14.1	AIG: Filling the institutional voids in China	374
15A.1	Talisman: An unexpected war?	398
15A.2	Sweatshop wars: Nike and its opponents in the 1990s	407
15B.1	Shell's environmental management strategy	435

## About the author

Dr Alain Verbeke is Editor of the *Journal of International Business Studies* (Area Multinational Enterprise Theory and International Strategy) and an elected Fellow of the Academy of International Business. He is associated with the Centre for International Business and Management, Judge Business School, University of Cambridge (UK), and is Visiting Chair in International Business at the Rotterdam School of Management, Erasmus University Rotterdam (The Netherlands).

Dr Verbeke holds the McCaig Research Chair in Management at the Haskayne School of Business, University of Calgary (Canada). He was previously the Director of the MBA programme, Solvay Business School, University of Brussels (VUB, Belgium). He has also been a Visiting Professor at Dalhousie University (Canada), the University of Toronto (Canada) and the Université Catholique de Louvain (Belgium), as well as an Associate Fellow of Templeton College, University of Oxford (UK).

Dr Verbeke has consulted widely for a variety of firms and public agencies, evaluating large-scale, strategic investment projects and restructuring programmes. His research and advisory work has involved numerous large multinational enterprises from Europe, North America and Asia. He has particular expertise in the linkages between multinational enterprise corporate headquarters and foreign affiliates.

## Foreword

Too many international business strategy textbooks slavishly adhere to mainstream conceptual models. The publication of those models in prestigious practitioner journals such as the *Harvard Business Review* seems to shelter them from scholarly criticism. The problem is that the policy recommendations derived from these models, while sometimes insightful, are all too often based on implicit and restrictive assumptions. They are frequently oversimplified and seldom based on a rigorous analytical framework that assesses the opportunity costs of following the recommended paths, that is the costs of foregoing alternative strategies.

In this textbook of unusual depth and scope, Alain Verbeke provides a critical reassessment of Theodore Levitt's famous edicts on global marketing, Michael Porter's diamond, Prahalad and Hamel's core competence, Bartlett and Ghoshal's transnational solution, and many other conceptual models that have until now been treated as almost sacrosanct. These mainstream views are not analyzed in isolation, but systematically within the context of a simple but insightful conceptual framework, which synthesizes several decades of scholarly research on multinational enterprise strategy.

In addition to solid conceptual foundations, this book provides a rich empirical background. Every concept is illustrated with examples drawn from actual managerial practice. The tight link between theory and practice makes for a powerful intellectual toolkit which can be directly used by senior managers as they weigh alternative global strategies.

As a scholar engaged in the comparative institutional analysis of multinational enterprises, I am struck by the ad hoc quality of much of the advice offered to senior managers. Too often such advice makes short shrift of the considerable body of theoretical insights and empirical evidence that has been amassed by international business researchers over the last decades. Not so with this book which shows, once again, that 'nothing is more practical than a good theory'.

### **Jean-François Hennart**

*Fellow of the Academy of International Business*

*Professor of International Management*

*Tilburg University, The Netherlands*

## Acknowledgements

This book took time to move from an idea to a full-fledged manuscript. In 2004, I was fortunate to meet Katy Plowright, then Commissioning Editor with Cambridge University Press (CUP). She immediately understood the concept and significance of the proposed work. I shall always be grateful for her early and unwavering support of this project, which seeks to escape the crowded genres of conventional, highly descriptive international business textbooks and one-idea guru-type books. It has been a privilege also to work with her successor at CUP, Paula Parish, whose constructive and wise comments greatly improved the original manuscript. Sinead Moloney and Raihanah Begum, Textbook Development Editors at CUP, as well as Jodie Barnes and Philip Good, have also been particularly helpful.

I am pleased to acknowledge the generous financial support of the McCaig family in Calgary, Canada. Their leadership in funding the McCaig Research Chair in Management allowed me to write this textbook. I have also received valuable financial support from the Social Sciences and Humanities Research Council (SSHRC) in Canada and, earlier, from the Geconcerteerde Onderzoeksactie (GOA) at the University of Brussels (VUB), Belgium.

Charles Backman, Nathan Greidanus and Jeff Huebner provided fine research assistance. Intellectual exchanges with Markus Nordberg, Christos Pitelis, Bob Schulz, Paul Beamish, John Cantwell, Shih-Fen Chen, Anthony Goerzen, Ans Kolk, Sarianna Lundan, Anoop Madhok, Hemant Merchant, Peter Sherer, Steven Tallman, Ilan Vertinsky, Bernard Wolf, Bernard Yeung and George Yip helped me refine various components of the manuscript. Brad Abernethy edited the entire volume and greatly improved its language and style. Teri Bryant performed the last edit; her pedagogical insights helped to clarify and improve the text even further.

With pride, I acknowledge my former student and friend, Wenlong Yuan, whose assistance in writing the cases has been invaluable. He co-drafted all twenty-three cases in the book, and provided substantive comments on the manuscript throughout the writing process.

With abiding gratitude, I acknowledge my colleagues in international business, whose ideas have inspired the concepts developed throughout the text. First, my friend and mentor, Alan Rugman, with whom I have worked for more



## Acknowledgements

than twenty years. Second, John Dunning, Peter Buckley, Mark Casson, Jean-François Hennart, Julian Birkinshaw and the late Sumantra Ghoshal, whose brilliant conceptual ideas have greatly influenced my own thinking and writing on international business strategy. Third, my senior colleagues, Jean Boddewyn, Lorraine Eden, Arie Lewin, Klaus Macharzina and Daniel Van Den Bulcke, from whom I have learned much about collegiality, inclusion and institution building in the field of international business.

I should also like to acknowledge the hundreds of senior managers from around the globe who shared with me their insight and dreams of international growth for the companies they cherish.

Finally, I thank my wife and our children for their patient support. In particular, I am grateful to Sophie-Charlotte for her eager solidarity. Throughout this process, she sat shoulder to shoulder with me watching *Dora, the Explorer*. Embarked on separate adventures, we happily travelled together.

Calgary, July 2008

## Abbreviations

3M	Minnesota Mining and Manufacturing Company
A&C	Automation and control
AAFLI	Asian-American Free Labor Institute
AAU	American Asiatic Underwriters
ACLA	Acer Computec Latinoamerica
AIG	American International Group
ASA	alliance-specific advantages
ATM	automated teller machines
BEF	brightness enhancement film
BP	best position, best practice, and best performance
BP	British Petroleum
BPI	Beauté Prestige International
BSN	Boussois-Souchon-Neuvesel
C&C	computers and communications
CD	compact disk
CEO	chief executive officer
CMD	Committee of managing directors
CMR	California Management Review
CNPC	China National Petroleum Company
CSR	corporate social responsibility
CT	corporate technology
CTO	chief technology officer
CVCC	controlled vortex combustion chamber
DEC	Digital Equipment Corporation
DGC	Data General Corp.
EBC	European business centre
EDC	European distribution centres
EDLP	every-day low price
EMS	electronics manufacturing service
ERP	enterprise resource planning
EU	European Union
FDI	foreign direct investment
FMS	flexible manufacturing systems


**List of abbreviations**

FSA	firm-specific advantage
GDP	gross domestic product
GE	General Electric
GM	General Motors
GMS	global manufacturing system
GNPOC	Greater Nile Petroleum Operating Company
H&C	Harrisons & Crosfields
HAM	Honda of America manufacturing
HBR	<i>Harvard Business Review</i>
HP	Hewlett-Packard
HPs	high potentials
HRH	His Royal Highness
HTML	hyper text mock-up language
HTTP	hyper text transfer protocol
I&C	information and communication
IBM	International Business Machines
ICJ	International Court of Justice
ICT	information communication technology
IE	Instrumentation Engineering, Inc.
IKEA	a major company manufacturing and selling furniture
IPR	intellectual property rights
JIT	just in time
JV	joint venture
KFC	Kentucky Fried Chicken
LA	location advantages
LB	location-bound
LCD	liquid crystal display
LNG	liquefied natural gas
LSID	Lake Stevens Instrument Division
Ltd	Limited
LVMH	Moët Hennessy Louis Vuitton
M&A	mergers and acquisitions
MBA	Master of Business Administration
MCM	multi-chip module
MIT	Massachusetts Institute of Technology
MNE	multinational enterprise
NAFTA	North-American Free Trade Agreement
NAO	North American operations
NCR	National Cash Register
NDG	Nippon Data General Corporation
NEC	Nippon Electric Company
NIOC	National Iranian Oil Company

## List of abbreviations

NLB	non-location-bound
NMC	Nippon Mini Computer Corporation
NPPC	Nestlé Purina PetCare
NUMMI	New United Motor Manufacturing Inc.
NYSE	New York Stock Exchange
OEM	original equipment manufacturing
OMR	organizational management review
P&G	Procter & Gamble
PCB	printed circuit boards
PCBA	printed circuit board assembly
PICC	People's Insurance Company of China
PTH	pin-through-hole
R&D	research and development
RTU	remote terminal unit
SAPREF	Shell African Petroleum Refinery
SBC	Sony Broadcast Limited
SBU	Strategic Business Unit
SCGP	Shell coal gasification process
SCR	Siemens Corporate Research
SISL	Siemens Information Systems Limited
SMI	Societa Metallurgica Italiana
SMR	<i>Sloan Management Review</i>
SMT	surface mount technology
SONAM	Sony Corporation of America
SOSA	Sony Overseas S.A.
SPDC	Shell Petroleum Development Company
SRI	Stanford Research Institute
SSA	subsidiary-specific advantages
SUV	Sport utility vehicle
TKS	time-keeping system
TPS	Toyota production system
TQM	total quality management
TSX	Toronto Stock Exchange
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
US	United States
VLSI	very large scale integration
VTE	vocational training and education
VUB	University of Brussels

(Compiled by: Charles A. Backman)



# WALKTHROUGH

## Chapter 1 ▶

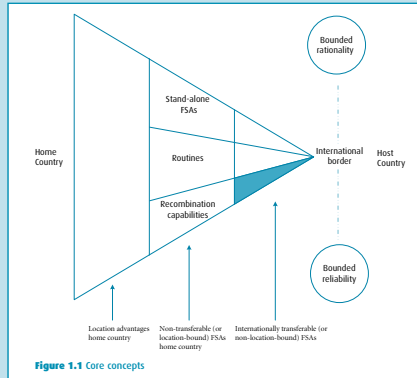


Figure 1.1 Core concepts

*International Business Strategy* presents, interprets and critiques 45 seminal articles from the *Harvard Business Review*, *Sloan Management Review* and *California Management Review*. It synthesizes the practical knowledge contained in these articles into a unifying framework of seven key concepts for successful global business. These concepts are analysed in detail in Chapter 1.

## Case examples ▶

**International Business Strategy**

**Case example** *TRW Automotive* (purchased by the Blackstone group in 2002) is one of the world's largest suppliers of automobile components. In 1993, Nissan, one of TRW's customers, complained about the high defect rate and high cost structure of the steering assemblies manufactured by TRW-UK. An internal investigation at TRW-UK found that employees responsible for engineering, product design and process design had poor communications with each other and were also particularly weak at execution.

To solve this problem, TRW established the Nissan Global team. For each of the three regions (the US, Japan and the UK), TRW chose the individuals considered the best engineer and best customer support professional. These six members together represented TRW's best capabilities in lean principles as they applied to product and process engineering and design, manufacturing, shop floor issues, and customer service.<sup>59</sup> Within less than two years, TRW became one of the most efficient and high-quality operations inside TRW.

TRW did not stop there. As of 1996, the Nissan Global team was still in operation, applying what it had learned by other parts of TRW's operations.<sup>60</sup>

The ten above patterns of FSA development may not be an exhaustive set, but each can be observed regularly in international business practice. An MNE's overall recombination capability can be described, roughly, as its mastering a variety of FSA development patterns. The firm's recombination capability will evolve over time, particularly as foreign affiliates develop their own recombination strengths.

**Complementary resources of external actors**

Having discussed value creation through recombination, let us turn now to the fifth concept of the unifying framework: complementary resources of external actors. In many cases, MNEs need complementary resources of external actors (technology providers, licensors, local distributors, joint venture partners, etc.) to be successful abroad. The firm's domestically successful stand-alone FSAs, its routines and even its recombination capabilities may be insufficient or inappropriate to operate successfully in host countries and regions, because of the cultural, economic, institutional and spatial 'distance' from the home country or home region. In other words, some success ingredients may be missing, and these can then be provided by external actors, if at least two conditions are fulfilled. First, internal development of the required strengths is expected to bring a lower net value than relying upon external actors. Second, the need to rely on external actors can be satisfied in practice, and does not jeopardize the specific expansion project considered.

59

Chapter 1 includes a wide range of short case examples featuring high-profile multinational firms. The case examples illustrate aspects of each of the seven key concepts of successful business strategy in practice.

## Critical analysis ▶

**International Business Strategy**

technological knowledge, tax rate differentials among countries, etc. Internal MNE markets can overcome such imperfections, since senior managers set the transfer prices themselves, in the best interest of the firm as a whole, through administrative fiat. The internal MNE market also lets all domestic and foreign investment projects be evaluated using a single cost of capital, and this internal market, run by a centralized financial management function, acts as a 'proxy' for an external, internationally integrated capital market.

Importantly, Rugman argues against the suggestions of some finance scholars that economic exposure should drive strategic decisions such as plant location. For Rugman, financial transactions should not dominate 'real-world' transactions: 'The exposure of MNEs to foreign exchange risk is not a problem in itself... Instead, the MNE should determine its long-run profit maximization strategy by producing and selling in optimal locations. Its economic decisions should include exchange risk as only one element in the location decision.'<sup>61</sup>

**CRITICAL ANALYSIS**

Lessard and Lightstone's analysis should be considered not simply as the study of one specific, functional area in international business. Rather, it sheds additional light on the nature of location advantages: any configuration of location advantages, whether in input or output markets, carries risks, in this case the risk of unexpected exchange rate fluctuations affecting future cash flows. In response, MNEs should aim to develop, as an FSA, a central routine that integrates economic exposure information into the capital budgeting evaluation of large investment projects. This is especially relevant in the context of large-scale foreign expansion. The development of this type of FSA reflects Pattern I in this book's framework (see Figure 8.2). However, especially for large subsidiaries, it may be useful to combine this internationally transferable knowledge with local capabilities in the particular affiliates, following Pattern III. Obviously, especially in the absence of a central economic exposure policy, one would also expect Pattern IV to occur, whereby individual affiliates learn how to protect themselves against the hazards of economic exposure.

The last pattern allows us to identify a first limitation of Lessard and Lightstone's story line, namely the suggestion that operations managers not responsible for setting economic exposure policy should not be held accountable for performance differentials resulting from such exposure. The problem is that many large MNE subsidiaries, operating without strict firm-wide economic exposure policies or guidelines, have substantial autonomy in their supply chain management processes and targeting of markets – actions which create economic exposure. Chapters 5, 6 and 7 addressed precisely this issue of strategic leader-type subsidiaries benefiting from substantial autonomy and in some cases developing their own knowledge base. Why should the managers of such subsidiaries be exempted from the risks resulting from economic exposure? How is this

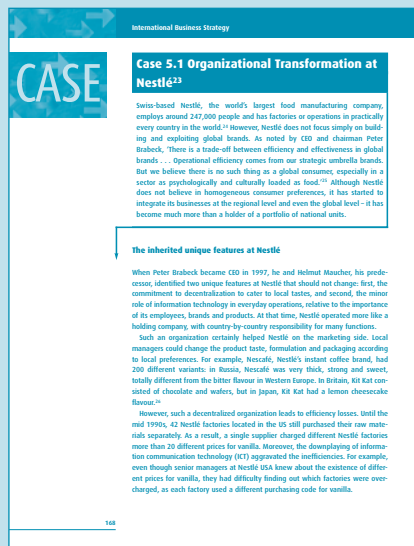
228

A rigorous and in-depth analysis of articles drawn from the leading practitioner journals. Their content is fully explored in terms of the key concepts in international business strategy, as well as recent real-world examples.

## WALKTHROUGH

Twenty-three 'half-length' case studies are spread throughout the text to relate the concepts discussed to real-life examples in global business. These provide up-to-date coverage of leading firms and offer valuable material for independent or classroom study.

Questions at the end of each case study test and reinforce the reader's knowledge and understanding of the main ideas discussed in the case.



## ◀ Case studies

## ◀ Case questions

**For students:**

- Links to articles in *Fortune*, *FT*, etc., with cases that can be applied to the framework developed in the book. This set will be updated and will grow over time.
- Links to useful databases and other electronic sources of useful information relevant to international business strategy.

**For lecturers:**

- The answers to the case study questions (password protected).
- Downloadable PowerPoint slides for every chapter and all figures.

## ◀ Web materials