

---

# Strategic International Management

---

Dirk Morschett · Hanna Schramm-Klein ·  
Joachim Zentes

# Strategic International Management

Text and Cases

3rd Edition

 Springer Gabler

Dirk Morschett  
University of Fribourg  
Fribourg, Switzerland

Joachim Zentes  
Saarland University  
Saarbrücken, Germany

Hanna Schramm-Klein  
University of Siegen  
Siegen, Germany

ISBN 978-3-658-07883-6  
DOI 10.1007/978-3-658-07884-3

ISBN 978-3-658-07884-3 (eBook)

Library of Congress Control Number: 2014959424

Springer Gabler

© Springer Fachmedien Wiesbaden 2009, 2010, 2015

This work is subject to copyright. All rights are reserved, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilm or in any other way, and storage in data banks. Duplication of this publication or parts thereof is permitted only under the provisions of the German Copyright Law of September 9, 1965, in its current version, and permission for use must always be obtained from Springer. Violations are liable to prosecution under the German Copyright Law.

The use of general descriptive names, registered names, trademarks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made.

Printed on acid-free paper

Springer-Verlag GmbH Berlin Heidelberg is part of Springer Science+Business Media  
([www.springer.com](http://www.springer.com))

# Preface

In this third edition, all chapters have been updated, new chapters integrated, all case studies revised and recent data were integrated. The concept, as it is described below, remained unchanged.

Over the last few decades, international activities of companies have gained dramatically in importance. Empirical evidence for this statement can be found, for instance, in the rapid growth of world trade and in foreign direct investment flows as well as in the high share of intra-company trade on total world trade, indicating the relevance of cross-border value creation processes. Courses on International Management have, thus, become an integral part of most management studies at universities today and dedicated Masters and MBA programmes on International Management have emerged in recent years.

## Concept and Overview of this Book

This book intends to give a compact overview of the most relevant concepts and developments in International Management. Various strategy concepts of internationally active companies and their implementation in practice are the core of this book. It is not designed as a traditional textbook or a collection of case studies, but tries to combine both. The book introduces the complex and manifold questions of International Management in the form of 23 lessons that give a thematic overview of key issues and illustrates each topic by providing a comprehensive case study.

The book is divided into six major parts. Part I (“Introduction to Strategic International Management”) lays the foundation by explaining basic concepts and theories of International Management. The growing importance of emerging country multinationals will be taken into account. In Part II, the influence of the external environment on Multinational Corporations (MNCs) is described, looking into market barriers and regional integration, the competitive advantage of nations and the influence of country culture. Part III focuses on the coordination of internationally dispersed activities in a Multinational Corporation. An overview of formal and informal instruments is given and some coordination instruments are discussed in more detail. Another core decision with regard to international activities, the foreign operation mode, is dealt with in Part IV. After an overview of the basic types of foreign operation modes, the three main options – market, coopera-

tion and hierarchies – are explained in individual chapters. In this third edition export modes now also receive special attention. Part V is devoted to specific value chain activities, production & sourcing, R&D and marketing. At last, human resource management and international control are discussed as highly relevant business functions in Part VI of the book.

### **Teaching and Learning**

The book is primarily aimed at students at the beginning of their Masters studies who major in Business Administration, International Management, Strategic Management or related fields. In addition, practitioners who seek compact and practice-oriented information on international strategy concepts can benefit from the book. The case studies accompany each lesson in such a way that they provide additional content and a specific application of the individual lessons on the one hand. They are part of the explanation of the topic, but they also lead to suggested discussion subjects and questions in order to deepen the understanding of the topic.

Instructors are provided with additional resources. A set of PowerPoint slides can be downloaded from the publisher's website ([www.gabler.de](http://www.gabler.de)). Furthermore, for each case study, a solution draft can be obtained.

### **Acknowledgements**

A textbook with cases cannot be written without the active support and cooperation of the selected companies. Thus, first of all we appreciate the help of the companies and their representatives who have willingly supported us in the development of the case studies.

At Gabler we thank Barbara Roscher who accompanied and supported our concept for this book from the beginning.

At the universities where the three authors are teaching and researching International Management, we would in particular like to thank Darlene Whitaker (Saarland University) for the preparation of case studies as well as for copyediting the book. We also acknowledge the assistance of Marta Kramarek and Matthias Schu from the University of Fribourg, Kim Kathrin Kunze, Gunnar Mau, Florian Neus, Robér Rollin and Sascha Steinmann from the University of Siegen, and Tatjana Freer, Daniel Keßler, Victoria Lonnes and Benjamin Ney from the Saarland University, who have all prepared specific case studies.

Fribourg, Siegen and Saarbrücken, October 2014

DIRK MORSCHEIT      HANNA SCHRAMM-KLEIN      JOACHIM ZENTES

# Contents

Preface .....	V
Basic Definitions .....	1

## Part I Introduction to Strategic International Management

Chapter 1	Multinational Corporations as Networks .....	7
	<i>Case Study: British Petroleum</i> .....	17
Chapter 2	The Integration/Responsiveness- and the AAA-Frameworks .....	29
	<i>Case Study: Retailing</i> .....	42
Chapter 3	Role Typologies for Foreign Subsidiaries.....	55
	<i>Case Study: Walmart</i> .....	67
Chapter 4	Motives for Internationalisation .....	79
	<i>Case Study: SAP</i> .....	90
Chapter 5	Emerging Country Multinationals .....	103
	<i>Case Study: Tata Group</i> .....	116
Chapter 6	Important International Management Theories.....	127

## Part II The External Environment

Chapter 7	Market Barriers, Global and Regional Integration.....	151
	<i>Case Study: Mazda</i> .....	162
Chapter 8	Competitive Advantage of Nations and Regional Clusters .....	175
	<i>Case Study: London Financial Cluster</i> .....	189
Chapter 9	The Role of Country Culture in International Management .....	203
	<i>Case Study: Russia</i> .....	217

## Contents

### Part III International Coordination

Chapter 10	Formal and Informal Coordination Mechanisms .....	233
	<i>Case Study: McKinsey</i> .....	242
Chapter 11	International Organisational Structures as Coordination Mechanism .....	255
	<i>Case Study: Microsoft</i> .....	269
Chapter 12	Corporate Culture as Coordination Mechanism .....	279
	<i>Case Study: Apple</i> .....	290
Chapter 13	MNCs' Corporate Social Responsibility .....	299
	<i>Case Study: Coop/Remei</i> .....	310

### Part IV Foreign Operation Modes

Chapter 14	Basic Types of Foreign Operation Modes.....	323
	<i>Case Study: AB InBev</i> .....	332
Chapter 15	Export Modes.....	343
	<i>Case Study: Herrenknecht</i> .....	354
Chapter 16	Outsourcing and Offshoring .....	365
	<i>Case Study: Foxconn</i> .....	377
Chapter 17	International Alliances .....	389
	<i>Case Study: Danone</i> .....	400
Chapter 18	Wholly-Owned Subsidiaries, Greenfield Investments and Mergers & Acquisitions .....	409
	<i>Case Study: ThyssenKrupp</i> .....	419

### Part V Selected Value Chain Activities

Chapter 19	International Production and Sourcing .....	431
	<i>Case Study: Audi</i> .....	445
Chapter 20	International Research & Development.....	457
	<i>Case Study: Sanofi</i> .....	470
Chapter 21	International Marketing .....	481
	<i>Case Study: Nestlé</i> .....	495

<b>Part VI</b>	<b>Selected International Business Functions</b>	
Chapter 22	International Human Resource Management .....	509
	<i>Case Study: Google</i> .....	522
Chapter 23	International Control.....	533
	<i>Case Study: Henkel</i> .....	547
Index	.....	557

**Dirk Morschett** is Professor of International Management at the University of Fribourg, Switzerland. He holds the Chair of International Management and is responsible for the Master of Arts in European Business. He is in the directorate of the Centre for European Studies at the University of Fribourg and visiting lecturer in several Master and MBA programmes at universities in Switzerland and abroad.

**Hanna Schramm-Klein** is Professor of Marketing at the University of Siegen, Germany. She holds a Chair in Business Administration, especially Marketing, and is visiting lecturer in several Master and MBA programmes at universities in Germany and abroad.

**Joachim Zentes** is Professor of Management and Marketing at the Saarland University, Saarbrücken, Germany. He is Director of the H.I.MA. (Institute for Commerce & International Marketing) and Director of the Europa-Institut at the Saarland University. He holds a Chair in Business Administration, especially Foreign Trade and International Management. Joachim Zentes is a member of various boards of directors and advisory boards in Germany and abroad.

## Basic Definitions

Globalisation – the growing integration of economies around the world and companies’ increasing cross-border activities – is one of the most intensively discussed topics of recent decades. Such cross-border activities of companies take various forms:

- *International trade* has risen strongly during recent decades. More importantly, worldwide exports are consistently growing more strongly than worldwide gross domestic product (GDP). This proves that the world’s GDP is increasingly produced and consumed in cross-border processes. For companies, as well as for countries, international trade can be *exports*, i.e. selling merchandise and services to customers in other countries, or *imports*, i.e. buying merchandise and services from suppliers in other countries.
- In addition, companies have increasingly undertaken *foreign direct investment (FDI)*, for example establishing production plants abroad. Over the past two decades, global FDI flows have increased twice as fast as global GDP. Under the definition of most international organisations and statistical offices, FDI refers to an investment made to acquire a lasting interest in enterprises operating outside of the economy of the investor. The investor’s assumed objective is to gain an effective voice in the management of the enterprise. FDI can take the form of transferring equity capital or reinvestment of foreign earnings, among others. Usually, a threshold of 10% of equity ownership is used to qualify an investment as FDI. Below that threshold, the term “portfolio investment” is used, which represents passive holdings of foreign financial assets such as foreign stocks or bonds.

The link between FDI and international trade becomes clear through the fact that about one-third of worldwide trade is undertaken as intra-company trade. This is clear evidence of the enormous relevance of the cross-border value chains of Multinational Corporations with production facilities in different countries. The most recent World Investment Report by UNCTAD even argues that global value chains coordinated by Multinational Corporations account for approximately 80% of global trade (UNCTAD 2013, p. x).

It is this international dispersion of activities that ultimately characterises a Multinational Corporation (MNC). We use the term MNC very broadly, referring to *any company with routine cross-border activities*. More particularly, following an old definition from the United Nations that is also employed by

*Exports and Imports*

*Foreign Direct Investment*

*Multinational Corporation (MNC)*

## Basic Definitions

Bartlett/Beamish (2014, p. 2), we see an MNC as “an enterprise (a) comprising *entities* in two or more countries, regardless of the legal form and fields of activity of those entities, (b) which operates under a system of decision-making permitting coherent policies and a common strategy through one or more decision-making centres, (c) in which the entities are so linked, *by ownership or otherwise*, that one or more of them may be able to exercise a significant influence over the activities of the others, and, in particular, to share knowledge, resources and responsibilities with others” (United Nations 1984, p. 2).

It is not relevant which legal form the entity has, only that “active, coordinated management of operations in different countries, as the key differentiating characteristic of an MNC” (Bartlett/Beamish 2014, p. 3) is possible. And those entities are not necessarily production plants; they could be just sales subsidiaries or other activities. While some authors demand certain quantitative thresholds for an MNC, (e.g. entities in a certain number of foreign countries, a certain percentage of employees abroad, share of foreign sales or direct investment) we consider those thresholds to be arbitrary. It should be noted that the UN applies the term *transnational corporation* (TNC) with the same meaning in its reports (e.g. UNCTAD).

When characterising those corporations’ activities and highlighting their relevance for the world economy, UNCTAD states: “[Global Value Chains] are typically coordinated by TNCs, with cross-border trade of inputs and outputs taking place within their networks of affiliates, contractual partners and arm’s-length suppliers.” (UNCTAD 2013, p. xxii)

## Foreign Subsidiaries

International operations do not necessarily have to be internalised. Instead, contractual cooperation or joint ventures are viable alternatives to wholly-owned foreign subsidiaries. As a consequence, subsidiaries are not necessarily wholly-owned. Instead, we understand a *foreign subsidiary* to be “any operational unit controlled by the MNC and situated outside the home country” (Birkinshaw/Hood/Jonsson 1998, p. 224). For international business (IB), the main criterion is not ownership (even though it will be the usual form of control) but the possibility to exercise influence. For example, in an MNC network, a contract manufacturer or a long-time supplier may deliver a strategic contribution to the MNC’s performance and, thus, such entities must also be “managed”, an adequate location must be chosen, their conduct needs to be influenced for the sake of the MNC, etc.

It has to be noted, though, that some authors only use the term “subsidiary” when there is a certain degree of equity ownership. This understanding of subsidiary (or, synonymous, “affiliate”) is exemplified by UNCTAD’s definition (2004, p. 44): “A *foreign affiliate* or direct investment enterprise is an incorporated or unincorporated enterprise in which a foreign direct investor,

resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise (an equity stake of 10% for an incorporated enterprise or its equivalent for an unincorporated enterprise).”

For International Management, three main dimensions need to be decided and managed: the configuration, coordination and operation mode of the international activities.

- A major characteristic of MNCs is that they are active in more than one country. This is simultaneously an advantage and a challenge. The specific characteristics of a country therefore play a role in the selection of locations. *Configuration* refers to the location where each value chain activity is performed, including the number of locations (Porter 1986, p. 17).
- Those dispersed activities must be integrated to ensure that all subsidiaries contribute to the MNC’s objectives and achieve synergy effects where possible. *Coordination* can be defined as the process of integrating activities that remain dispersed across subsidiaries (Martinez/Jarillo 1991, p. 431). “A mechanism of coordination is any administrative tool for achieving integration among different units within an organisation, i.e. to align a number of dispersed and yet interdependent international activities” (Martinez/Jarillo 1989, p. 490).
- As has already been established, MNCs can exploit country-specific advantages in a foreign country through other methods than establishing a wholly-owned subsidiary. For example, production in a foreign country could be carried out via a licensing agreement with a local manufacturing company. A *foreign operation mode* can be defined as an institutional arrangement or organisational arrangement that is used for organising and conducting an international business transaction, such as manufacturing goods, servicing customers or sourcing various inputs (Andersen 1997, p. 29; Welch/Benito/Petersen 2007, p. 18).

*Configuration*

*Coordination*

*Foreign Operation Modes*

## References

- ANDERSEN, O. (1997): Internationalization and Market Entry Mode: A Review of Theories and Conceptual Framework, in: *Management International Review*, Vol. 27, No. 2, pp. 27-42.
- BARTLETT, C.A.; BEAMISH, P.W. (2014): *Transnational Management: Text, Cases, and Readings in Cross-Border Management*, 7th ed., Boston, McGraw-Hill.

### *Basic Definitions*

BIRKINSHAW, J.; HOOD, N.; JONSSON, S. (1998): Building Firm-specific Advantages in Multinational Corporations: The Role of Subsidiary Initiative, in: *Strategic Management Journal*, Vol. 19, No. 3, pp. 221-241.

MARTINEZ, J.; JARILLO, J. (1989): The Evolution of Research on Coordination Mechanisms in Multinational Corporations, in: *Journal of International Business Studies*, Vol. 20, No. 3, pp. 489-514.

MARTINEZ, J.; JARILLO, J. (1991): Coordination Demands of International Strategies, in: *Journal of International Business Studies*, Vol. 22, No. 3, pp. 429-444.

PORTER, M.E. (1986): Changing Patterns of International Competition, in: *California Management Review*, Vol. 28, No. 2, pp. 9-40.

UNCTAD (2004): *Development and Globalization 2004: Fact & Figures*, Geneva.

UNCTAD (2013): *World Investment Report 2013: Global Value Chains: Investment and Trade for Development*, Geneva.

UNITED NATIONS (1984): *Work Related to the Definition of Transnational Corporations: Question of the Definition of Transnational Corporations, Report of the Secretariat, E/C.10/1984/17*, New York.

WELCH, L.; BENITO, G.; PETERSEN, B. (2007): *Foreign Operation Methods: Theory – Analysis – Strategy*, Glos, Edward Elgar Publishing.