# Introduction & Basic Definitions

Globalisation – the growing integration of economies around the world and the increasing international activities of companies – has been one of the most intensively discussed topics over recent decades. Cross-border activities of companies take various forms: *International trade* has been constantly and strongly rising over the last decades. What is even more important as an indicator for its relevance is that worldwide exports are consistently growing more strongly than worldwide gross domestic product (GDP). This indicates that the world 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. Secondly, companies have increasingly undertaken *foreign direct investment* (FDI) and, e.g., established production plants abroad. Over the past two decades, global FDI flows have increased twice as fast as global GDP.

*Foreign Trade*

*Foreign Direct Investment*

In a regional perspective, trade liberalisation has led to major shifts in trade and FDI flows. For example, since China joined the World Trade Organisation in 2001, it has almost quadrupled its exports. Similarly, India and Brazil have become major players in international trade. As a rather recent trend, companies from emerging markets are also active players in international mergers & acquisitions (M&As). More and more often, it is not only Multinational Corporations (MNCs) from developed countries buying companies in developing countries but vice versa, i.e., companies from countries like China, India or Brazil acquire companies in developed countries to enter these markets and to gain access to their know-how and brands. However, even though world trade and FDI have been drastically increasing on a global basis, trade flows within regions still account for a higher share of world trade than flows between regions. Regional integration has moved ahead and the countries of the most integrated trade block, the European Union, realise about two-thirds of their trade-transactions within the region.

*Intra-company Trade*

Linking FDI and international trade is the fact that about one-third of worldwide trade is undertaken as *intra-company trade*. This is clear evidence of the enormous relevance of cross-border value chains which are internalised in large MNCs. Companies disperse their activities and assets in complex international configurations and production processes are fragmented and located in different regions of the world.

D. Morschett et al., *Strategic International Management*,
DOI 10.1007/978-3-8349-6331-4_1,

*Definition Multinational Corporations*

Eventually, it is the international dispersion of activities that characterises a Multinational Corporation (MNC). We understand the term MNC very broadly as referring to companies with routine cross-border activities. More particularly, following an old definition of the United Nations, we see a 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 centers, (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). Thereby it is not relevant which legal form the entity has but only that "active, coordinated management of operations in different countries, as the key differentiating characteristic of a MNE" (Bartlett/Ghoshal/Beamish 2008, p. 3) is possible. And those entities are not necessarily production plants, they can be mere sales subsidiaries or other activities. While some authors demand certain quantitative thresholds for a "MNC", e.g. 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.

*Definition Foreign Subsidiaries*

As one option – and actually an increasingly popular option – international operations do not necessarily have to be internalised. Instead, contractual cooperations or joint ventures are viable alternatives to wholly-owned foreign subsidiaries. As a consequence, foreign subsidiaries are not necessarily wholly-owned. Instead, we understand a subsidiary to be "any operational unit controlled by the MNC and situated outside the home country" (Birkinshaw/Hood/Jonsson 1998, p. 224).

With this book, our objective is to cover the most important aspects of International Management with a comprehensive, yet brief, and innovative approach. We discuss 20 different topics in Strategic International Management by first giving a thematic overview of the topic which covers the key issues and explains the most important concepts and then illustrating them with the help of extended case studies. For the case studies, internationally known companies were chosen that can be considered best practice cases in the respective strategy fields.

*The MNC as Differentiated, Integrated Network*

In Part I, the concept of the MNC as a differentiated network is presented. The international dispersion confronts MNC management with the challenge of designing structures, processes and systems that allow flexible responses to the heterogeneous local conditions in the host countries and to simultaneously ensure the necessary coherence to act as one company. The conceptualisation of the *MNC as a differentiated network* (Ghoshal/Nohria 1989) in which different subsidiaries can have individual tasks to fulfil and be assigned strategically important roles, is increasingly acknowledged to be an adequate design to exploit the capabilities of the different subsidiaries and the advantages of their locations. At the same time, however, the interdependence of worldwide units increases and the structure of an *integrated network* becomes necessary to coordinate the dispersed activities (Chapter 1). A core challenge of such a network is the tension between external forces towards adaptation to the local environment in the different host countries, on the one hand, and the forces towards global integration on the other hand. In the *integration/responsiveness framework*, these pressures are categorised and solutions offered (Chapter 2). Another consequence of a differentiated network is that subsidiaries are heterogeneous and take over specialised roles. To describe and analyse those roles, a number of *role typologies* has been developed in the literature. These are described in Chapter 3. While internationalisation is often considered to be mainly a sales-side phenomenon, many companies internationalise with very different motives, e.g. to gain access to natural resources in a foreign country. The potential *motives for internationalisation* which have major consequences for the internationalisation strategies are dealt with in Chapter 4.

*External Environment*

A major characteristic – an advantage and a challenge at the same time – of MNCs is that they are active in more than one country. Thus, different subsidiaries are embedded in different external conditions. In Part II, the most important aspects of the external environment are examined. First, it is shown that there are still many tariff and non-tariff barriers between different countries, influencing, for instance, the location choice of companies. But in the last few years, trade and investment barriers have been reduced. This has occurred in *regional integration agreements*, such as within the European Union or by the creation of the NAFTA, but simultaneously on a global basis, mainly driven by GATT and WTO (Chapter 5). Heterogeneity between countries is rooted in many country characteristics. Based on Porter's diamond model, the *competitive advantage of different nations* and specific regional clusters can be examined. These concepts are described in Chapter 6. Finally, one underlying difference between different locations is caused by *cultural differences*. Different host countries and regions may have strongly diverging cultures. The challenges that are caused by this fact as well as approaches to measure and describe culture are presented in Chapter 7.

*International Coordination*

As pointed out, MNCs are characterised by internationally dispersed activities. To integrate all these activities and organisational units of the MNC under a common strategy, coordination is necessary, which is the focus of Part III of the book. Coordination is a process that tries to achieve alignment between the activities that are dispersed and carried out by different units within the MNC in different countries. The different *coordination mechanisms* as well as different theories to explain the use of specific mechanisms are explained in Chapter 8. One important coordination mechanism is the formal design of the organisation's tasks, resources and responsibilities. Chapter 9 is devoted to this international *organisation structures* because different structures lead to different employee behaviour, different information flows and different subordination patterns, integrating certain tasks and differentiating others. However the complexity of modern MNC networks and the dynamic challenges are frequently not manageable by formal coordination mechanisms alone. In Chapter 10, the use of the *corporate culture* as coordination mechanism is discussed. This is based on the idea that if managers of different subunits of the MNC around the world internalise the values and objectives of the company, orders and direct supervision may become obsolete and still, the decisions of the dispersed organisational units are aligned with the corporate objectives. As a part of the corporate culture, *values* are important because they provide the employees with a sense of deeper purpose of their activities and daily work. In recent years, more and more companies have adopted the concept of *corporate social responsibility* (CSR) which tries to define the company's place in society and argues that managers are responsible not only to their shareholders but to all stakeholders, including employees (in different parts of the world), the environment, etc. CSR as an emerging concept in International Management is discussed in Chapter 11.

***Foreign Operation Modes***

Part IV focuses on a major decision in International Management – the *foreign operation mode*, i.e., the institutional arrangement for organising and conducting international business transactions. In Chapter 12, the *basic types of operation modes* are introduced and the most important theories to explain the choice of operation mode are briefly explained. A key strategic decision is the *choice between internalisation vs. externalisation* with regard to all activities of the value chain. In the case of externalisation, the "market" is used as the governance mechanism. Outsourcing is one potential consequence of this strategy. The trend towards outsourcing in the last few decades has resulted in drastically changed value chain architectures. Examples are pyramidal structures, as in the automotive industry, but also the emergence of pure "coordinators". These companies – like *Nike* or *Puma* – are manufacturers without their own production and they focus their business processes on product development, marketing and the control of the supply chain. These new processes are discussed in Chapter 13. Another highly relevant arrangement in which value-added processes are realised in modern MNCs are *cooperative operation modes*. These come in various forms, like licensing or joint ventures (Chapter 14). Eventually, MNCs can use *hierarchy* as an operation mode. In this case, they establish wholly-owned foreign subsidiaries, which can happen either by acquisition or by greenfield investment. Both options are examined in Chapter 15.

*Value Chain Activities*

While Parts I to IV consider the MNC in general, in Part V, some important value chain activities are looked into specifically. Chapter 16 is devoted to *international production & sourcing*. Very different production processes are possible and, in particular, the geographic configuration of the different stages of such processes has to be determined. Furthermore, the benefits and caveats of own production or external sourcing have to be considered to decide on the optimal level of vertical integration. With regard to a more upstream value-added activity, research and development (R&D), MNCs have to take similar decisions (Chapter 17). In particular, a MNC has to decide on the configuration of its R&D, i.e., the optimal location(s) for this activity. Closely linked to this decision is the question whether to establish an R&D alliance or not. Alliances have some advantages, in particular access to the competences of a partner, but also some disadvantages, e.g. the risk of losing one's competitive advantage to a competitor. In each case, R&D has to be embedded in the structure and processes of the MNC and different organisational models are proposed for this. As a third value chain activity that we consider to be of high relevance, the MNC has to sell its products and services on international markets. The core challenge here is to find the right balance between standardisation of the international marketing mix and adaptation to each country market. This is dealt with in Chapter 18.

*Selected Business Functions*

Eventually, the core processes and activities of a MNC have to be overlooked by different management processes. Part VI examines two international business functions. First, human resources are among the most critical success factors of International Management. *Human resource management* (HRM) in a MNC faces challenges that are far beyond those of purely domestic operations. Therefore, Chapter 19 is devoted to international HRM. The complexity of international operations can only be managed, however, if the MNC's executives have adequate information to hand. *Control* is a fundamental task of management and its main purpose is to provide information to decision makers at different levels of the company. Control in MNCs faces particularities, both because it is influenced by international heterogeneity and because it usually takes place in a complex multi-level organisation. These challenges and some control instruments that help to overcome these problems are presented in Chapter 20.

This short overview of different fields of Strategic International Management reveals that this issue is highly complex and challenging. In the following 20 Chapters, we cover the most important aspects and give the reader an insight into the main developments and concepts. Based on the case studies, the reader will also gain an understanding of how the concepts are implemented by successful companies around the world.