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978-1-107-02789-3 - International Business Strategy: Rethinking the Foundations of Global Corporate Success: Second Edition

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## International Business Strategy

Verbeke provides a new perspective on international business strategy by combining analytical rigour and true managerial insight on the functioning of large multinational enterprises (MNEs). With unique commentary on forty-eight seminal articles published in the *Harvard Business Review*, *Sloan Management Review* and *California Management Review* over the past three decades, Verbeke shows how these can be applied to real businesses engaged in international expansion programmes, especially as they venture into high-distance markets. The second edition has been thoroughly updated and features greater coverage of emerging markets with a new chapter and seven new cases. Suited for advanced undergraduates and graduate courses, students will benefit from updated case studies and improved learning features including 'management takeaways', key lessons that can be applied to MNEs and a wide range of online resources.

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Corporate Success: Second Edition

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‘Two things make Alain Verbeke’s book stand out from other textbooks. First, it incorporates the latest theoretical insights and helps students to understand the complexities of international business in the real world. Second, it is truly integrative, presenting a framework in the first half of the book that is consistently used in all subsequent chapters and applications.’

**Sjoerd Beugelsdijk**, Professor of International Business, University of Groningen, The Netherlands

‘This is a most impressive textbook which effortlessly blends analytical depth, strategic problem-solving skills and vivid engagement with the most challenging international contexts. Having long searched in vain for such a three-dimensional textbook, I believe it is one of a kind. Alain Verbeke has pulled off one of the hardest feats in management education.’

**Manuel Hensman**, Professor of Strategic Management, Solvay Brussels School of Economics and Management, Belgium

From 1st edition: ‘Alain Verbeke draws on his unmatched knowledge of international business research and provides a fresh and insightful, integrated perspective for rethinking the foundations of international strategy. This highly readable text supported by excellent cases should appeal to students whose managerial careers will span an increasingly global economy. International strategy faculty will find that the text easily lends itself to customizing the course to their particular needs. This book deepens our understanding of the global economy and the evolving role of the multinational enterprise.’

**Arie Y. Lewin**, Professor of Strategy and Sociology, The Fuqua School of Business, Duke University, and Editor-in-Chief of the *Journal of International Business Studies* (2002–7)

‘Being the first of its kind, this insightful textbook not only describes the main academic insights relevant to international business strategy, but also rigorously scrutinizes and reinterprets them using an overarching yet simple framework composed of country, firm, and individual-level concepts. By taking this reflective and integrative approach, Verbeke offers an unprecedented learning experience to both students and practitioners by greatly enhancing their understanding of successful international strategy formulation and implementation.’

**Arjen Slangen**, Associate Professor of International Business, Rotterdam School of Management, The Netherlands

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## Contents

List of figures	<i>page</i> vii
List of case studies	x
About the author	xiii
Foreword from Jean-François Hennart	xv
Acknowledgements	xvi
List of abbreviations	xviii
Walkthrough	xxii
Introduction and overview of the book's framework	1
<b>Part I Core concepts</b>	<b>11</b>
1 Conceptual foundations of international business strategy	13
2 The critical role of firm-specific advantages	79
3 The nature of home country location advantages	103
4 The problem with host country location advantages	133
5 Combining firm-specific advantages and location advantages in a multinational network	157
<b>Part II Functional issues</b>	<b>193</b>
6 International innovation	195
7 International sourcing and production	219
8 International finance	245
9 International marketing	273
10 Managing managers in the multinational enterprise	303
<b>Part III Dynamics of global strategy</b>	<b>327</b>
11 Entry mode dynamics 1: Foreign distributors	329
12 Entry mode dynamics 2: Strategic alliance partners	355
13 Entry mode dynamics 3: Mergers and acquisitions	385
14 The role of emerging economies	417
15 Emerging economy multinational enterprises	455
16A International strategies of corporate social responsibility	483

Cambridge University Press  
978-1-107-02789-3 - International Business Strategy: Rethinking the Foundations of Global  
Corporate Success: Second Edition  
Alain Verbeke  
Frontmatter  
[More information](#)



## Contents

16B	International strategies of corporate environmental sustainability	519
	Conclusion: The true foundations of global corporate success	551
	Appendix: Suggested additional readings	563
	Index	570

## Figures

1.1	Core concepts	<i>page</i> 14
1.2	The essence of international business strategy	35
1.3	Centralized exporter	36
1.4	International projector	36
1.5	International coordinator	37
1.6	Multi-centred MNE	37
1.7	Ten patterns of FSA development in MNEs	41
2.1	Non-location-bound (or internationally transferable) FSAs as drivers of economies of scope across markets and products	88
3.1	Domestic ‘diamond’ determinants as drivers of home-base location advantages, and subsequent FSAs	111
3.2	Porter’s single diamond model and the double diamond model	112
3.3	A multilevel analysis of the diamond determinants	116
4.1	The MNE’s diminishing stock of internationally transferable FSAs as a function of ‘Distance’	140
4.2	The need for LB FSAs as a function of ‘Distance’	141
4.3	Ghemawat’s perspective of FSA development in MNEs	141
5.1	A classification of subsidiary roles in the MNE	161
5.2	The impact of procedural justice	165
5.3	MNE resource base – subsidiaries as driving factor	167
5.4	Bartlett and Ghoshal’s perspective on FSA development in MNEs	168
5.5	Unbundling subsidiary roles in Bartlett and Ghoshal (1986)	170
5.6	The impact of regional integration on subsidiary dynamics	173
5.7	Organizational structure at Nestlé in 2012	178
5.8	The Tata Group holding structure	187
6.1	Home-base-exploiting and augmenting foreign R&D units	205
6.2	Patterns of FSA development in home-base-exploiting and augmenting research centres in MNEs	206
7.1	Six roles of foreign manufacturing plants	222

## List of figures

7.2	Ferdows' analysis of FSA development in MNEs	228
7.3	Key differences among the six plant types	230
8.1	A classification of operating exposure at the subsidiary level	249
8.2	Patterns of FSA development from managing operating exposure in MNEs	255
8.3	Centralized exporter: Operating exposure from changes in the real exchange rate between the currencies of countries A and B	256
8.4	Multi-centred MNE: Overall exposure from the individual exposures of all foreign affiliates	258
8.5	International projector: Centralized exposure management	259
8.6	International coordinator: Network optimization	260
8.7	The current Porsche holding structure	268
9.1	Product standardization as the driver of global competitiveness	281
9.2	Levitt's perspective of FSA development in MNEs	282
10.1	International projector: Expatriates as knowledge carriers	314
10.2	Multi-centred MNEs: Expatriates as carriers of core values and trusted communication channels	315
10.3	International coordinator: Expatriates as key resources to link internationally transferable FSAs and location advantages of host nations	316
11.1	FSA development in international distribution: Arnold's perspective	339
11.2	Optimal governance of international distribution	341
11.3	An integrative approach to coordinate various components of the supply chain	342
11.4	Managing foreign distribution	343
12.1	Dissipation of FSA bundles to alliance partners	365
12.2	Alliance in emerging economies	368
12.3	Alliance in emerging economies	368
12.4	MNE foreign market penetration via wholly owned affiliates versus alliances	371
13.1	M&A partners	394
13.2	The top 10 of the global PC market in 2004	407
13.3	Top vendors in the global PC market in 2011	411
14.1	Patterns of FSA development in emerging economy MNEs	429
14.2	MNE operations in emerging economies	430
15.1	Six types of EMNEs	460
15.2	The 'smiling curve'	461
15.3	FSA development in EMNEs	463
16A.1	CSR and location context	495



Cambridge University Press  
978-1-107-02789-3 - International Business Strategy: Rethinking the Foundations of Global  
Corporate Success: Second Edition  
Alain Verbeke  
Frontmatter  
[More information](#)

## List of figures

16A.2	Location advantages and MNE CSR	496
16A.3	Patterns of CSR development in MNEs	497
16B.1	The Porter and multiple diamond model perspectives on environmental strategy	531
16B.2	Patterns of environmental FSA development in MNEs	533

## Case studies

1.1	Honda's 'answers' to the seven basic questions in international strategy formation	<i>page 61</i>
1.2	Four Seasons' 'answers' to the seven basic questions in international strategy formation	65
2.1	3M, the spirit of innovation	91
2.2	IKEA	96
3.1	The rise, fall and resurgence of industrial hot spots: The experience of Silicon Valley and Boston's Route 128	117
3.2	Shiseido: Becoming an insider in the perfume business in France	124
4.1	Coping with the four dimensions of distance in the international expansion of Starbucks	145
4.2	Wal-Mart's retreat from Germany: How distance made the replication of a domestically successful model impossible	149
5.1	Organizational transformation at Nestlé	175
5.2	Organizational transformation at the Tata Group	180
6.1	Globalizing corporate R&D at Siemens	208
6.2	Sony: Managing the international R&D network	211
7.1	Defining the roles of manufacturing plants at Flextronics	231
7.2	Internationalizing production at BMW: An unfortunate experience in the UK	236
8.1	Avon: Dancing with volatile exchange rates	261
8.2	Porsche: Fighting with currency swinging	265
9.1	International marketing at beer brewer Anheuser Busch – InBev	284
9.2	A rising star from China: Haier Group	291
10.1	Managing expatriates at LVMH	318
11.1	The direct sales model or a 'dual system' model: Dell's distribution strategy in China	344
12.1	Danone's affair in China	373
13.1	CEMEX: Growing and growing stronger?	397
13.2	Lenovo: A Chinese company grows an international brand	404
14.1	AIG: Filling the institutional voids in China	433

Cambridge University Press  
978-1-107-02789-3 - International Business Strategy: Rethinking the Foundations of Global  
Corporate Success: Second Edition  
Alain Verbeke  
Frontmatter  
[More information](#)

## List of case studies

14.2	Just Google it: China and India	439
15.1	Chinese energy goes African	466
15.2	Infosys: The rise of a leading IT giant from India	472
16A.1	Talisman: An unexpected war?	499
16A.2	Sweatshop wars: Nike and its opponents in the 1990s	508
16B.1	Shell's environmental management strategy	536

Cambridge University Press

978-1-107-02789-3 - International Business Strategy: Rethinking the Foundations of Global  
Corporate Success: Second Edition

Alain Verbeke

Frontmatter

[More information](#)

---

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Alain Verbeke  
Frontmatter  
[More information](#)

## About the author

Dr Alain Verbeke is an Elected Fellow of the Academy of International Business and former Editor of the *Journal of International Business Studies* (Area Multinational Enterprise Theory and International Strategy). He is an Academic Associate of the Centre for International Business and Management, Judge Business School, University of Cambridge (UK).

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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.

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[More information](#)

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## 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 analysed 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

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Denise Larsen, Jill Thorlacius and Amin Zargarzadeh provided fine research assistance for this second edition. Intellectual exchanges with Sjoerd Beugelsdijk, Markus Nordberg, Christos Pitelis, Bob Schulz, Paul Beamish, John Cantwell, Shih-Fen Chen, Anthony Goerzen, Birgitte Grøgaard, Liena Kano, Ans Kolk, Sarianna Lundan, Anoop Madhok, Hemant Merchant, Ravi Ramamurti, Peter Sherer, Steven Tallman, Ilan Vertinsky, Bernard Wolf, Bernard Yeung and George Yip helped me refine various components of the manuscript.

With pride, I acknowledge my former student and friend, Wenlong Yuan, whose assistance has been invaluable. He co-drafted most of the cases in the book's first edition, and provided substantive comments on the manuscript throughout the writing process.

Sjoerd Beugelsdijk, a well-known business scholar, developed a substantial body of excellent online materials while using the book at the University of Groningen in the Netherlands. I am very grateful to him for making these available to other instructors adopting the book.

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 twenty-five years. Second, the late 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 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. When drafting the book's initial version, she sat shoulder to shoulder with me watching *Dora, the Explorer*. Embarked on separate adventures, we happily travelled together.

*Calgary*

## Abbreviations

3M	Minnesota Mining and Manufacturing Company
AB	Anheuser Busch
A&C	Automation and control
AAFLI	Asian-American Free Labor Institute
AAU	American Asiatic Underwriters
ACLA	Acer Computec Latino America
AIA	American International Assurance
AIG	American International Group
Ambev	Companhia de bebidas das Américas
APEAL	Automotive performance, execution and layout
ARIS	Architecture of integrated information systems
ASAs	Alliance-specific advantages
ATM	Automated teller machines
BEF	Brightness enhancement film
BFW	Bayerische Flugzeugwerke
BLMC	British Leyland Motor Corporation
BMW	Bayerische Motoren Werke
BP	Best position, best practice, and best performance
BP	British Petroleum
BPI	Beauté Prestige International
BRIC	Brazil, Russia, India and China
BSN	Boussois-Souchon-Neuvesel
C&C	Computers and communications
CAD	Computer-aided design
CAM	Computer-aided manufacturing
CCC	China customer centre
CD	Compact disk
CEO	Chief executive officer
CMD	Committee of Managing Directors
CMR	<i>California Management Review</i>
CNOOC	China National Offshore Oil Corporation
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.
DM	Deutsche Mark
EBC	European business centre
EDC	European distribution centres
EDLP	Every day low price
EMNEs	Emerging economy multinational enterprises
EMS	Electronics manufacturing service
ERP	Enterprise resource planning
FAA	Federal Aviation Administration
FDI	Foreign direct investment
FLA	Fair Labor Association
FMS	Flexible manufacturing systems
FSA	Firm-specific advantage
GCI	Global competitiveness index
GDP	Gross domestic product
GE	General Electric
GM	General Motors
GMS	Global manufacturing system
GNPOC	Greater Nile Petroleum Operating Company
GOS	Government of Sudan
GTF	Global technology fields
H&C	Harrisons & Crosfields
HAM	Honda of America manufacturing
HBR	<i>Harvard Business Review</i>
HBS	Harvard Business School
HP	Hewlett-Packard
HPs	High potentials
HR	Human resources
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.
IPO	Initial public offering
IPR	Intellectual property rights
IT	Information technology


 List of abbreviations

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
LVMH	Moët Hennessy Louis Vuitton
M&As	Mergers and acquisitions
MBA	Master of Business Administration
MCM	Multi-chip module
MFA	Multifiber Arrangement
MIC	Market information centre
MIT	Massachusetts Institute of Technology
MNE	Multinational enterprise
NAFTA	North-American Free Trade Agreement
NAO	North American operations
NASDAQ	National Association of Securities Dealers Automated Quotations
NCR	National Cash Register
NDG	Nippon Data General Corporation
NEC	Nippon Electric Company
NGO	Non-governmental organization
NIOC	National Iranian Oil Company
NLB	Non-location-bound
NMC	Nippon Mini Computer Corporation
NPPC	Nestlé Purina PetCare
NUMMI	New United Motor Manufacturing Inc.
NYSE	New York Stock Exchange
ODM	Original design manufacturing
OEM	Original equipment manufacturing
OMR	Organizational and management review
P&G	Procter & Gamble
PC	Personal computer
PCB	Printed circuit boards
PCBA	Printed circuit board assemblies
PICC	People's Insurance Company of China
PTH	Pin-through-hole
R&D	Research and development
RMB	Renminbi
RTUs	Remote terminal units

SAPREF	Shell African Petroleum Refinery
SBC	Sony Broadcast Limited
SBU	Strategic business unit
SCGP	Shell coal gasification process
SCR	Siemens Corporate Research
SINOPEC	China Petroleum and Chemical Corporation
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
SPLM	Sudanese People's Liberation Movement
SRI	Stanford Research Institute
SSAs	Subsidiary-specific advantages
SSI	Strategic sourcing initiative
SUV	Sport utility vehicle
TBT	Technical barriers to trade
TCS	Tata Consultancy Services
TKS	Time-keeping system
TPS	Toyota production system
TQM	Total quality management
TSX	Toronto Stock Exchange
TTB	Technology-to-business
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
VET	Vocational education and training
VLSI	Very large scale integration
VUB	University of Brussels

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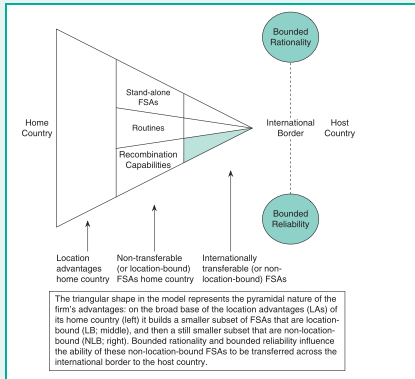
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Alain Verbeke  
Frontmatter[More information](#)

## WALKTHROUGH

## Chapter 1



*International Business Strategy* presents, interprets and critiques 48 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

**Case example** In 1996, Kao was Japan's largest consumer goods company. In the shampoo market, three quarters of the bleach market.

One of the main reasons for Kao's dominant domestic market was its comprehensive distribution system within Japan. Kao owned and operated only Kao's products. As a result, Kao was able to prevent outsiders from entering the market. More privileged information on consumers' shopping habits. However, Kao has failed to build the comprehensive distribution system in other countries. Around 20 per cent of Kao's sales came from overseas markets. In 2000, foreign sales had risen to nearly 30 per cent, in ascending order: America, Europe and Asia/Oceania. Kao has not been able to expand abroad.<sup>30</sup> ■

**Case example** The immobility of domestic networks poses challenges to many foreign retail banks in Japan, such as Citibank. Citibank's position in the US retail banking industry and a large network in Japan made it difficult to access Japanese customers when it decided to enter the market in 1984. It took Citibank a full ten years to break into the Japanese market. "[R]etail banking . . . is like the petrol-station business: you'

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.

## Management Insight

we see that Prahalad and Hamel's model is based on the higher-order FSA concept of core competences and capabilities. Recombination capabilities, as Hamel, but, as they correctly argue, are difficult to deconstruct. These FSAs are not new or heritages that have evolved over time, but their ingredients are similar to the ones identified by Prahalad and Hamel. *Attitude* of senior corporate-level managers is crucial in identifying and pursuing new opportunities that are not yet fully utilized. *Organizational ability to meld*

discussed in Chapter 1, the authors argue that the core competences of a firm (discussed in Chapter 1), with core competences of a country (guided by corporate-level strategy) are the core of the firm. Here, the firm has cross-product lines and units, but not cross-country. The authors assume that Japanese companies are more effective than Asian companies in exploiting internationally transferable FSAs. Their exploitation is, unfortunately, not fully exploited by the company. The authors

## MANAGEMENT INSIGHTS

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

Thirty '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.

## 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.
- Multiple choice questions to test student understanding.

### Case 1.1 Honda's 'answers' to the seven basic questions in international strategy formation

#### CASE

For the Japanese car manufacturer Honda, the domestic and international environments in the early 1970s brought tremendous challenges to its export strategy, previously based on mass production in Japan. Honda wanted to develop extensive international production capabilities in overseas markets, especially the US market. However, Honda doubted its foreign facilities could attain the quality level characteristic of its Japanese-built cars. Furthermore, Honda also wondered whether its foreign manufacturing facilities could achieve Japanese cost levels.

#### The environment in the early 1970s

Internationally, Honda faced three major environmental changes in the early 1970s: the rising value of the yen against the US dollar, new US regulations of tailpipe emissions and the first oil crisis. Although the rising yen threatened Honda's traditional export strategy, the other two changes – together with the success of its small, fuel-efficient Civic model in Japan and the US – provided a window of opportunity for Honda to expand in the US.

Specifically, the rising value of the yen in 1971 increased the costs of exporting cars to the US, Honda's largest overseas market. The first oil crisis of 1973 negatively affected Honda's domestic operations, as rising oil prices significantly increased Honda's manufacturing costs. At the same time, however, the public demanded more fuel-efficient cars to reduce the costs brought by the soaring oil prices.

In 1970, the US Congress passed the Clean Air Act, imposing stricter requirements on tailpipe emissions. However, the US automakers had not been able to reach a consensus regarding the appropriate technology to meet such requirements. Both the first oil crisis and the Clean Air Act pushed the demand for fuel-efficient cars, which became the market niche US automakers had not been able to occupy. Clearly, Honda viewed the US regulations as a welcome opportunity for it to catch up, as reflected in the words of Honda's President Soichiro Honda: "[T]his allows latecomers like us to line up at the same starting line as our rivals."<sup>12</sup>

In 1972, Honda brought to the Japanese market its Civic model with the CVCC (Controlled Vortex Combustion Chamber) engine, which met the US emissions standards. The CVCC engine permitted the regulated burning of a very lean mixture without the catalytic converter or exhaust-gas recirculation required by most other engines. In Japan, the Civic model won the Car of the Year Award for three consecutive years as of 1973; in the US, it beat all other competitors in a fuel-economy test for four consecutive years as of 1974.

#### QUESTIONS

1. What was Four Seasons' distinct resource base, including elements of its administrative heritage, that provided internationally transferrable FSAs?
2. Which value-added activities in which foreign location(s) permitted Four Seasons to exploit and augment its distinct resource base to the fullest?
3. What were the expected costs and difficulties Four Seasons faced when transferring this distinct resource base?
4. What specific resource recombination (associated with each alternative foreign entry and operating mode) was required so as to make the proposed international value-added activities successful?
5. Did Four Seasons have the required resource recombination capability in-house?
6. What were the costs and benefits of using complementary resources of external actors to fill resource gaps?
7. What were the main bounded rationality and bounded reliability problems Four Seasons faced when extending the geographic scope of the firm's activities, given the changed boundaries of the firm, the changed linkages with outside stakeholders and the changes in its internal functioning?

## Case studies

## Case questions

## Web materials