About the Author	v
Preface xxi	
Acknowledgments	xxvii

# part 1 Foundations of Global Strategy 1

## 1 Strategy Around the Globe 2

Opening Case: How Did *Global Strategy* Enter and Compete in China? 3 Closing Case: Strategy for the Base of the Pyramid 26

### 2 Industry Competition 32

Opening Case: The Automobile Industry: From Good Life to Bloodbath at the Top 33

Closing Case: Five Forces in the Beauty Products Industry 57

### 3 Resources and Capabilities 62

Opening Case: Zara Breaks Industry Rules 63

Closing Case: The Portman Ritz-Carlton, Shanghai 84

#### 4 Institutions, Cultures, and Ethics 90

Opening Case: Behind the Profitability of Big Pharma 91 Closing Case: Siemens in a Sea of Scandals 117

## IC 1.1 The Japanese Bookselling Industry 123

- IC 1.2 AGRANA 133
- IC 1.3 Mattel and the Toy Recalls 139
- IC 1.4 How Chinese Toymakers Respond to Recalls 149

# part 2 Business-Level Strategies 153

### 5 Foreign Markets Entries 154

Opening Case: Wal-Mart in Germany 155 Closing Case: Foreign Retailers Eye India 182

## 6 The Entrepreneurial Firm 188

Opening Case: An American Chasing the China Dream 189 Closing Case: Cyworld Launches Against MySpace 211

8	Strategic Alliances and Networks 216  Opening Case: Danone versus Wahaha: From Alliance to Divorce 217  Closing Case: General Motors and Daewoo: Married, Divorced, and Married Again 242  Global Competitive Dynamics 248  Opening Case: Unilever Fights Procter & Gamble 249  Closing Case: Fighting the Online Video Game Wars in China 279
IC 2.1	Competition in the Chinese Automobile Industry 283
IC 2.2	Unilever's "Fair & Lovely" Whitening Cream 291
IC 2.3	Pearl River's International Strategy 299
IC 2.4	Is a Diamond (Cartel) Forever? 303
rt 3	Corporate-Level Strategies 311
9	Diversifying and Acquisitions 312
	Opening Case: Renault-Nissan 313
	Closing Case: From Diversification Premium to Diversification Discount in South Korea 341
10	Multinational Strategies, Structures, and Learning 348
	Opening Case: Toyota as (Almost) Number One 349
	Closing Case: Moving Headquarters Overseas 372
11	Corporate Governance 378
	Opening Case: The Private Equity Challenge 389
	Closing Case: David Webb: A Shareholder Activist in Hong Kong 405
12	Corporate Social Responsibility 410
	Opening Case: Plan A at Marks & Spencer 411
	Closing Case: Which Side Is Toyota On? 433
IC 3.1	Sunflower Company 439
IC 3.2	3i Group and Little Sheep 447
IC 3.3	Building a Better Rat Trap 461
IC 3.4	Have You Offset Your Own Carbon Emissions? 471

Glossary 473
Index of Names 483
Index of Companies 495
Index of Subjects 501

part

# contents

About the Author v

Preface xxi

Acknowledgments xxvii

# part 1 Foundations of Global Strategy 1

## chapter 1 Strategy Around the Globe 2

Opening Case: How Did Global Strategy Enter and Compete in China? 3

A Global Global-Strategy Book 5

Strategy in Action 1.1 - Li Ning Goes Global 7

Why Study Global Strategy? 8

What Is Strategy?

Origin 8

Plan versus Action 8

Strategy in Action 1.2 - A 250-Year Plan at Matsushita 10

Strategy as Theory 10

Strategy in Action 1.3 - German and French Military Strategy, 1914 11 Fundamental Questions in Strategy 14

Why Do Firms Differ? 14

How Do Firms Behave? 15

What Determines the Scope of the Firm? 15

What Determines the Success and Failure of Firms around the Globe? 16

What Is Global Strategy? 17 What Is Globalization? 18

Three Views on Globalization 18

The Pendulum View on Globalization 19

Semiglobalization 20

Global Strategy and Globalization at a Crossroads 20

Three Defining Events 21

Know Yourself, Know Your Opponents 2:

Strategy in Action 1.4 - Are US Multinationals Good for America? 23

Organization of the Book 24

Chapter Summary 25

Critical Discussion Questions 26

Closing Case: Strategy for the Base of the Pyramid 26

Notes 28

Key Terms 26

57

hapter 2	Industry Competition	32
----------	----------------------	----

Opening Case: The Automobile Industry: From Good Life to Bloodbath at the Top 33

43

66

Defining Industry Competition The Five Forces Framework 35

From Economics to Strategy

Threat of Potential Entry

Strategy in Action 2.1 - Fighting in the Small Arms Industry

Bargaining Power of Suppliers Bargaining Power of Buyers

Threat of Substitutes Lessons from the Five Forces Framework

47

Three Generic Strategies Cost Leadership 45

Differentiation 45 46 Focus

Lessons from the Three Generic Strategies 47

Debates and Extensions Clear versus Blurred Boundaries of Industry 47

Threats versus Opportunities 48 Five Forces versus a Sixth Force 48 Stuck in the Middle versus All Rounder 48

Strategy in Action 2.2 - Our Instant Noodles Are Better than Yours! Industry Rivalry versus Strategic Groups

chapter 3

Strategy in Action 2.3 - Can Hyundai Go Upmarket? Integration versus Outsourcing 52 Industry- versus Firm- and Institution-Specific Determinants of

Performance 53 Making Sense of the Debates 54 The Savvy Strategist 54

Chapter Summary Key Terms 56 Critical Discussion Questions 56

Closing Case: Five Forces in the Beauty Products Industry

Notes 58

Resources and Capabilities

Understanding Resources and Capabilities 64 Resources, Capabilities, and the Value Chain

A VRIO Framework

The Question of Value

71

Opening Case: Zara Breaks Industry Rules

Strategy in Action 3.1 - Outsourcing Luxury Car Production 71 The Question of Rarity 72 The Question of Imitability

chapter 4

Can't Reach 73 The Question of Organization 74 Debates and Extensions 75 Firm- versus Industry-Specific Determinants of Performance 75 Strategy in Action 3.3 - Capabilities of Private Military Companies 76 Static Resources versus Dynamic Capabilities Offshoring versus Non-Offshoring 78 Domestic Resources versus International (Cross-Border) Capabilities 80 The Savvy Stategist 81 Chapter Summary 82 Key Terms 83 Critical Discussion Questions 83 Closing Case: The Portman Ritz-Carlton, Shanghai 84 Notes 85 Institutions, Cultures, and Ethics Opening Case: Behind the Profitability of Big Pharma 91 Understanding Institutions 93 Definitions 93 What Do Institutions Do? 94 How Do Institutions Reduce Uncertainty? 94 Strategy in Action 4.1 - Kenya's Flower Industry Copes with Uncertainty 95 Strategy in Action 4.2 - Resolving Commercial Disputes in India 98 An Institution-Based View of Business Strategy 98 Overview 98 Two Core Propositions 100 Strategy in Action 4.3 - Why Are Japanese Pharmaceutical Firms Not World-Class? The Strategic Role of Cultures 102 The Definition of Culture 102 The Five Dimensions of Culture Cultures and Strategic Choices 105 The Strategic Role of Ethics 107 The Definition and Impact of Ethics 107 Managing Ethics Overseas 107 Ethics and Corruption 109 A Strategic Response Framework for Ethical Challenges 110 Debates and Extensions 111 Opportunism versus Individualism/Collectivism 112 Cultural Distance versus Institutional Distance 113 Bad Apples versus Bad Barrels 113 The Savvy Strategist 114 Chapter Summary 115

Strategy in Action 3.2 - ANA: Refreshing the Parts Other Airlines

	Key Terms 116 Critical Discussion Questions 117 Closing Case: Siemens in a Sea of Scandals 117 Notes 119
IC 1.1	The Japanese Bookselling Industry (Charles E. Stevens, Fisher College of Business, The Ohio State University) 123
IC 1.2	AGRANA (Erin Pleggenkuhle-Miles, University of Texas at Dallas) 133
IC 1.3	
IC 1.4	How Chinese Toymakers Respond to Recalls (Hao Chen, University of Texas at Dallas) 149
part 2	Business-Level Strategies 153
apter 5	Foreign Markets Entries 154
	Opening Case: Wal-Mart in Germany 155
	Overcoming the Liability of Foreignness 156
	Strategy in Action 5.1 - A Warship Named Joint Venture 157
	Understanding the Propensity to Internationalize 158
	A Comprehensive Model of Foreign Market Entries 159
	Industry-Based Considerations 160
	Resource-Based Considerations 161 Institution-Based Considerations 161
	Institution-Based Considerations 161 Strategy in Action 5.2 - Chinese Banks Eye US Assets: Tough Road
	Ahead 162
	Where to Enter? 165
	Location-Specific Advantages and Strategic Goals 165
	Cultural/Institutional Distances and Foreign Entry Locations 167
	When to Enter? 168
	How to Enter? 169
	Scale of Entry: Commitment and Experience 169
	Modes of Entry: The First Step on Equity versus Non-equity Modes 170
	Modes of Entry: The Second Step on Making Actual Selections 172  Debates and Extensions 175
	Liability versus Asset of Foreignness 175
	Global versus Regional Geographic Diversification 176
	Cyberspace versus Conventional Entries 176

Strategy in Action 5.3 - Did Yahoo! Really Enter France? 178

The Savvy Strategist 178 Chapter Summary 180

Key Terms 181 Critical Discussion Questions 181 Closing Case: Foreign Retailers Eye India 182 Notes 183 chapter 6 The Entrepreneurial Firm 188 Opening Case: An American Chasing the China Dream 189 Entrepreneurship and Entrepreneurial Firms 190 A Comprehensive Model of Entrepreneurship 191 Industry-Based Considerations 191 Resource-Based Considerations Strategy in Action 6.1 - Ski in Southern Africa, Anyone? 193 Institution-Based Considerations 194 Five Entrepreneurial Strategies 194 Growth 194 Strategy in Action 6.2 - Dealing with Counterfeiting 196 Innovation 197 Network 198 Financing and Governance 199 Harvest and Exit 200 Internationalizing the Entrepreneurial Firm 202 Transaction Costs and Entrepreneurial Opportunities International Strategies for Entering Foreign Markets International Strategies for Staying in Domestic Markets 204 Debates and Extensions 205 Traits versus Institutions 205 Slow Internationalizers versus "Born Global" Start-Ups 206 Anti-Failure Bias versus Entrepreneur-Friendly Bankruptcy Laws 207 Strategy in Action 6.3 - Bankruptcy as Social Stigma in Japan 208 The Savvy Entrepreneur 209 Chapter Summary 210 Key Terms 211 Critical Discussion Questions 211 Closing Case: Cyworld Launches Against MySpace 211 Notes 212 Opening Case: Danone versus Wahaha: From Alliance to Divorce 217

#### Strategic Alliances and Networks 216 chapter 7

Defining Strategic Alliances and Networks 219 A Comprehensive Model of Strategic Alliances and Networks 220 Industry-Based Considerations 221 Strategy in Action 7.1 - Russia's MiG and Sukhoi Join Hands 222 Resource-Based Considerations 223 Strategy in Action 7.2 - How to Select Partners? A Local Firm Perspective 224 Institution-Based Considerations 226

	Formation 228
	Stage One: To Cooperate or Not to Cooperate? 228
	Stage Two: Contract or Equity? 228
	Stage Three: Positioning the Relationship 230
	Evolution 230
	Combating Opportunism 231
	Evolving from Strong Ties to Weak Ties 231
	From Corporate Marriage to Divorce 233
	Performance 234
	The Performance of Strategic Alliances and Networks 234
	The Performance of Parent Firms 235
	Debates and Extensions 236
	Learning Race versus Cooperative Specialization 236
	Majority JVs as Control Mechanisms versus Minority JVs as
	Real Options 237
	Alliances versus Acquisitions 237
	Strategy in Action 7.3 - Embraer's Alliances and Acquisitions 238
	The Savvy Strategist 239
	Chapter Summary 241
	Key Terms 241
	Critical Discussion Questions 242
	Closing Case: General Motors and Daewoo: Married, Divorced,
	and Married Again 242
	Notes 243
chapter 8	Global Competitive Dynamics 248
-	Opening Case: Unilever Fights Procter & Gamble 249
	Strategy as Action 251
	Court 1 A 2 04 Ct
	Industry-based Considerations 253
	Collusion and Prisoners' Dilemma 253
	Industry Characteristics and Collusion vis-à-vis Competition 255
	Resource-based Considerations 257
	Value 257
	Strategy in Action 8.2 - Publish or Perish in Patent Race 258
	Rarity 258
	Imitability 259
	Organization 259
	Resource Similarity 259
	Fighting Low-Cost Rivals 260
	Institution-based Considerations 262
	Formal Institutions Governing Domestic Competition: A Focus on
	- 5 A Focus on
	Antitrust 262
	Antitrust 262 Strategy in Action 8.3 - Who's Afraid of Google? 263

Antidumping 266

Attack and Counterattack 268
Three Main Types of Attack 268
Awareness, Motivation, and Capability 269
Cooperation and Signaling 270
Local Firms versus Multinational Enterprises 272
Debates and Extensions 273
Strategy versus IO Economics and Antitrust Policy 273
Competition versus Antidumping 274
The Savvy Strategist 275
Chapter Summary 277
Key Terms 278
Critical Discussion Questions 278
Closing Case: Fighting the Online Video Game Wars in China 279

IC 2.1 Competition in the Chinese Automobile Industry

IC 2.2 Unilever's "Fair & Lovely" Whitening Cream (Aneel Karnani, University of Michigan) 291

(Qingjiu (Tom) Tao, Lehigh University)

IC 2.3 Pearl River's International Strategy
(Yuan Lu, Chinese University of Hong Kong) 299

IC 2.4 Is a Diamond (Cartel) Forever?

(Mike W. Peng, University of Texas at Dallas) 303

## part 3 Corporate-Level Strategies 311

## chapter 9 Diversification and Acquisitions 312

Notes 280

Opening Case: Renault-Nissan 313

Product Diversification 315

Product-Related Diversification 315

Product-Unrelated Diversification 315

Strategy in Action 9.1 - Beatrice: The Rise and Fall of a US

Conglomerate 316

Product Diversification and Firm Performance 316

Geographic Diversification 318

Limited versus Extensive International Scope 318

Geographic Diversification and Firm Performance 318

Combining Product and Geographic Diversification 319

A Comprehensive Model of Diversification 320

Industry-Based Considerations 320

Strategy in Action 9.2 - Indian Companies on a Buying Binge 322

Resource-Based Considerations 323

Institution-Based Considerations 325

Strategy in Action 9.3 - Making M&As Fly in China/

The Evolution of the Scope of the Firm 327



	Acquisitions 331
	Setting the Terms Straight 331
	Motives for Mergers and Acquisitions 331
	Performance of Mergers and Acquisitions 333
	Restructuring 336
	Setting the Terms Straight 336
	Motives for Restructuring 336
	Debates and Extensions 336
	Product Relatedness versus Other Forms of Relatedness 336
	Acquisitions versus Alliances 337
	The Savvy Strategist 338
	Chapter Summary 339
	Key Terms 340
	Critical Discussion Questions 340
	Closing Case: From Diversification Premium to Diversification
	Discount in South Korea 341
	Notes 343
apter 10	Multinational Strategies, Structures, and Learning 348
•	Opening Case: Toyota as (Almost) Number One 349
	Multinational Strategies and Structures 351
	D C C D 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
	Four Strategic Choices 351
	<del>-</del>
	Strategy in Action 10.1 - The Ups and Downs at Ford 352 Four Organizational Structures 355
	The Reciprocal Relationship Between Multinational Strategy
	and Structure 358
	A Comprehensive Model of Multinational Strategy, Structure,
	and Learning 359
	Industry-Based Considerations 359
	Resource-Based Considerations 360
	Worldwide Learning, Innovation, and Knowledge Management 363  Knowledge Management 363
	Knowledge Management in Four Types of MNEs 363
	Strategy in Action 10.2 - Siemens' ShareNet 365
	Globalizing Research and Development (R&D) 365
	Problems and Solutions in Knowledge Management 366
	Debates and Extensions 367
	Corporate Controls versus Subsidiary Initiatives 368
	Customer-Focused Dimensions versus Integration, Responsiveness,
	and Learning 368
	Strategy in Action 10.3 - A Subsidiary Initiative
	at Honeywell Canada 369
	The Savvy Strategist 369
	Chapter Summary 371

Key Terms 371 Critical Discussion Questions 372 Closing Case: Moving Headquarters Overseas 372 Notes 374

#### chapter 11 Corporate Governance

Opening Case: The Private Equity Challenge 379

Owners 381

Concentrated versus Diffused Ownership 381

Family Ownership 382

State Ownership 382

Managers 382

Principal—Agent Conflicts 382

Principal-Principal Conflicts 383

Board of Directors 385

Key Features of the Board 385

Strategy in Action 11.1 - Outside Directors in Chinese Corporations 386

The Role of Boards of Directors

Directing Strategically 387

Governance Mechanisms as a Package 388

Internal (Voice-Based) Governance Mechanisms

External (Exit-Based) Governance Mechanisms 389

Internal Mechanisms + External Mechanisms = Governance Package 391

A Global Perspective 391

Strengthening Governance Mechanisms through Privatization 392

A Comprehensive Model of Corporate Governance 393

Industry-Based Considerations 393

Resource-Based Considerations 394

Institution-Based Considerations 395

Strategy in Action 11.2 - Sarbanes-Oxley and New York 396

Debates and Extensions 399

Opportunistic Agents versus Managerial Stewards 400

Global Convergence versus Divergence 400

The Savvy Strategist 401

Strategy in Action 11.3 - Infosys 402

Chapter Summary 403

Key Terms 404

Critical Discussion Questions 404

Closing Case: David Webb: A Shareholder Activist in Hong Kong 405 Notes 406

#### Corporate Social Responsibility 410 chapter 12

Opening Case: Plan A at Marks & Spencer 411

A Stakeholder View of the Firm 413

A Big Picture Perspective 413

Strategy in Action 12.1 - Is Icelandic Glacial Really "Carbon Neutral"? 414

Primary and Secondary Stakeholder Groups 414 A Fundamental Debate 416 A Comprehensive Model of Corporate Social Responsibility 417 Industry-Based Considerations 417 Resource-Based Considerations 420 Institution-Based Considerations 423 Debates and Extensions 427 Domestic versus Overseas Social Responsibility 427 Strategy in Action 12.2 - Salmon, Salmon, Everywhere 428 Active versus Inactive CSR Engagement Overseas 429 Race to the Bottom ("Pollution Haven") versus Race to the Top 430 The Savvy Strategist 430 Chapter Summary 432 Key Terms 432 Critical Discussion Questions 432 Closing Case: Which Side Is Toyota On? 433 Notes 434 Sunflower Company (Aldas Pranas Kriauciunas, Purdue University) 3i Group and Little Sheep (Lily Fang, INSEAD, and Roger Leeds, Johns Hopkins University, School of Advanced International Studies) 447 Building a Better Rat Trap (Siri Terjesen, Texas Christian University

IC 3.3 Building a Better Rat Trap (Siri Terjesen, Texas Christian Univer and Queensland University of Technology) 461

IC 3.4 Have You Offset Your Own Carbon Emissions? (Mike W. Peng, University of Texas at Dallas) 471

Glossary 473 Index of Names 483 Index of Companies 495 Index of Subjects 501

IC 3.1

IC 3.2