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Strategizing Around the Globe
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Managing Industry Competition
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and Ethics**

PART

1

FOUNDATIONS OF
GLOBAL STRATEGY

Not For Sale

STRATEGIZING AROUND THE GLOBE



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KNOWLEDGE OBJECTIVES

After studying this chapter, you should be able to

1. Offer a basic critique of the traditional, narrowly defined “global strategy”
2. Articulate the rationale behind studying global strategy
3. Define what is strategy and what is global strategy
4. Outline the four fundamental questions in strategy
5. Participate in the debate on globalization with a reasonably balanced view and a keen awareness of your likely bias

The Global Strategy of *Global Strategy*

Launched in 2005, *Global Strategy* has been used by business schools in over 30 countries and is now available in Chinese, Spanish, and Portuguese in addition to English. *Global Strategy* has also spawned two related books: *Global Business* (a more comprehensive, traditional textbook in international business) and *GLOBAL* (a more compact, innovative paperback). Everybody knows global competition is tough. How do *Global Strategy* and its sister books compete around the world? In other words, what is the nature of the global strategy of *Global Strategy*?

Global Strategy and its sister books are published by South-Western Cengage Learning, which is a division of Cengage Learning. Cengage Learning serves students, teachers, and libraries in the secondary and higher education markets, as well as government agencies and corporations. While the copyright page of this book indicates an address in Mason, Ohio (a suburb of Cincinnati), note that this is the address for the specific *division*: South-Western. The corporate headquarters of Cengage Learning is in Stamford, Connecticut. Cengage Learning is a global company, which is owned by Apax Partners of the UK and OMERS Capital Partners of Canada, two private equity groups. Overall, the global nature of Cengage Learning permeates the organization: it is UK- and Canadian-owned and US-headquartered. With annual sales of over \$2 billion, Cengage Learning has approximately 5,800 employees worldwide across 35 countries.

In business and economics textbooks, South-Western Cengage Learning vies for number one in the world in terms of market share with McGraw-Hill Irwin and Pearson Prentice Hall, the other two members of the Big Three in this industry. While competition historically focused on the United States and other English-speaking countries, it is now worldwide. *Global Strategy* targets courses in strategic management and international business. While there is no shortage of textbooks in these two areas, *Global Strategy* broke new ground by being the first to specifically address their *intersection*. Thanks to enthusiastic students and professors in Angola, Australia, Austria, Brazil, Britain, Canada, Chile, China, Finland, France, Denmark, Germany, Hong Kong, India, Ireland, Japan, Macau, Malaysia, Mexico, the Netherlands, Netherlands Antilles, New Zealand, Norway,



Map Resources

Portugal, Romania, Singapore, South Korea, Spain, Sweden, Taiwan, Thailand, and the United States, *Global Strategy* achieved unprecedented success.

While competition is primarily among the Big Three, *Global Strategy* has also attracted new entrants—competing textbooks published by smaller, historically more specialized academic publishers such as Cambridge, Oxford, and Wiley that are interested in breaking into the mainstream textbook market. In addition to new entrants, the publishing industry has also been experiencing another challenge: the digital revolution. E-books have emerged as a viable substitute to the printed version. Amazon now sells more Kindle versions than printed versions of books. To keep up with this movement, the Kindle version of *Global Strategy* has been available since the second edition.

Although competition, in theory, is global, in practice Cengage Learning needs to win one local market after another—literally, one course taught by one instructor in one school in one country. Obviously, no instructor teaches globally, and no student studies globally. Teaching and learning remain very local. For the company as a



whole, the motto is: “Think global, act local.” The hard truth is: *Global Strategy* does not have a “global strategy” (!). While this statement is provocative, what it really means is that *Global Strategy* does not have a grand strategic plan around the globe. What defines its strategy is a relentless process to be in touch with the rapidly evolving market and an unwavering commitment to aspire to meet and exceed customer expectations around the world. In other words, Cengage Learning embraces a “strategy as action” perspective, as opposed to a “strategy as plan” perspective. Every step of the way, Cengage Learning literally learns, tests the market, engages customers, and aspires to improve in the next edition. For instance, the Portuguese edition has been developed by two professors in Brazil, who are not mere translators but “revisers” who enhance the local flavor. In the third edition, *Global Strategy* builds on the already strong coverage of emerging economies in the two previous editions and introduces a new feature on emerging markets in every chapter. This edition has also expanded coverage on the previously under-covered regions such as Latin America and Africa, thus making *Global Strategy* more global.

Finally, to successfully compete around the globe, a good understanding of the rules of the game is a must. In some countries, foreign publishers are free to publish whatever they please. In other countries, foreign publishers are not allowed to publish anything at all. For example, Brazil allows

Cengage Learning to set up a wholly owned subsidiary that can publish the Portuguese version. However, China does not allow foreign publishers to publish books on their own. Therefore, Cengage Learning licensed the translation of *Global Strategy* to a leading Chinese publisher: Posts and Telecom Press. Further, Chinese rules dictate that all books published in China—regardless of foreign or domestic origin—have to pass political censorship. A thorough understanding of these rules is crucial. Experienced editors at Posts and Telecom Press advised that the title be changed to *Global Business Strategy (Quanqiu Qiye Zhanlue)*, to avoid potential confusion in the eyes of the political censors that this might be a book about “global military strategy.” Such important but subtle local knowledge helped avoid misunderstandings and troubles down the road, and helped a global company to successfully turn a page locally.

Sources: Based on (1) author’s interviews with Cengage Learning executives in Brazil, China, and the United States; (2) *Economist*, 2010, The future of publishing, April 3: 65–66; (3) M. W. Peng, 2009, *Global Strategy*, 2nd ed., Cincinnati: South-Western Cengage Learning; (4) M. W. Peng, 2007, *Quanqiu Qiye Zhanlue*, translated by W. Sun & X. Lui, Beijing, China: Posts & Telecom Press; (5) M. W. Peng, 2008, *Estratégia Global*, translated by J. C. Racy & G. B. Rossi, São Paulo, Brazil: Cengage Learning; (6) M. W. Peng, 2010, *Estrategia Global*, segundaedición, translated by A. Alcérreca & M. Muñoz, Mexico City, Mexico: Cengage Learning.

A Global Global-Strategy Book

How do firms, such as Cengage Learning, McGraw-Hill, and Pearson, compete around the globe? In the publishing industry in each country, how do various foreign entrants and local firms interact, compete, and/or sometimes collaborate? What determines their success and failure? Since strategy is about competing and winning, this book on global strategy will help current and would-be strategists answer these and other important questions. Setting an example by itself, the book you are reading is a real global product that leverages its strengths, engages rivals, and competes around the world (see Opening Case).

However, this book does *not* focus on a particular form of international (cross-border) strategy, which is characterized by the production and distribution of standardized products and services on a worldwide basis. For over two decades, this strategy, commonly referred to as “global strategy” for lack of a better term, has often been advocated by traditional global-strategy books.¹ However, there is now a great deal of rumbling and soul-searching among managers frustrated by the inability of their “world car,” “world drink,” or “world commercial” to conquer the world.

multinational enterprise (MNE)

A firm that engages in foreign direct investment (FDI) by directly controlling and managing value-adding activities in other countries.

foreign direct investment (FDI)

A firm's direct investment in production and/or service activities abroad.

Triad

Three primary regions of developed economies: North America, Europe, and Japan.

emerging economies (emerging markets)

A label that describes fast-growing developing economies since the 1990s.

In reality, **multinational enterprises (MNEs)**, defined as firms that engage in **foreign direct investment (FDI)** by directly controlling and managing value-adding activities in other countries,² often have to adapt their strategies, products, and services for local markets. For example, the Opening Case clearly shows that in the publishing industry, one size does not fit all. In the automobile industry, there is no “world car.” Cars popular in one region are often rejected by customers elsewhere. The Volkswagen Golf and the Ford Mondeo (marketed as the Contour in the United States), which have dominated Europe, have little visibility in the streets of Asia and North America. The so-called “world drink,” Coke Classic, actually tastes different around the world (with varying sugar content). The Coca-Cola Company's effort in pushing for a set of “world commercials” centered on the polar bear cartoon character presumably appealing to some worldwide values and interests has been undermined by uncooperative TV viewers around the world. Viewers in warmer weather countries had a hard time relating to the furry polar bear. In response, Coca-Cola switched to more costly but more effective country-specific advertisements. For instance, the Indian subsidiary launched an advertising campaign that equated Coke with “thanda,” the Hindi word for “cold.” The German subsidiary developed a series of commercials that showed a “hidden” kind of eroticism (!).³

It is evident that the narrow notion of “global strategy” in vogue over the past two decades (in other words, the “one-size-fits-all” strategy), while useful for some firms in certain industries, is often incomplete and unbalanced.⁴ This is reflected in at least three manifestations:

- Too often, the quest for worldwide cost reduction, consolidation, and restructuring in the name of “global strategy” has sacrificed local responsiveness and global learning. The results have been unsatisfactory in many cases and disastrous in others. Many MNEs have now pulled back from such a strategy. MTV has switched from standardized (American) English-language programming to a variety of local languages. With over 5,000 branches in 79 countries, HSBC is one of the world's largest and most global banks. Yet, instead of highlighting its “global” power, HSBC brags about being “the world's *local* bank.”
- Almost by definition, the narrow notion of “global strategy” focuses on how to compete internationally, especially on how global rivals, such as Coca-Cola and Pepsi, Toyota and Honda, and Boeing and Airbus, meet each other in one country after another. As a result, the issue of how domestic companies compete with each other and with foreign entrants seems to be ignored. Does anyone know the nationalities and industries of the following companies: Cemex, Embraer, Foxconn, Huawei, and Tata? Based in Mexico, Brazil, Taiwan, China, and India, these five firms are world-class competitors in, respectively, cement, aerospace, electronics manufacturing, telecommunications equipment, and cars. They represent some of the top MNEs from emerging economies. If such firms are outside your strategic radar screen, then perhaps the radar has too many blind spots (see Emerging Markets 1.1).
- The current brand of “global strategy” seems relevant only for MNEs from developed economies, primarily North America, Europe, and Japan—commonly referred to as the **Triad**—to compete in other developed economies, where income levels and consumer preferences may be similar. **Emerging economies** (or **emerging markets**), a term that has gradually replaced the term developing economies since the 1990s, now command half of the worldwide FDI inflow and nearly half of the global gross domestic product

EMERGING MARKETS 1.1

ETHICAL DILEMMA

Foxconn

Until 2010, the vast majority of the endusers of Apple iPhones and iPads, Hewlett-Packard laptops, Amazon Kindles, and Microsoft Xboxes around the world had no clue about the firm that manufactured their beloved gadgets. The firm is Foxconn, which is headquartered in Taipei, Taiwan. Foxconn's shares (under the name of Hon Hai) are not only listed in Taipei (TWSE: 2317), but also in Hong Kong (SEHK: 2038), London (LSE: HHPD), and NASDAQ (HNHPF). With \$110 billion in annual revenue, Foxconn is the global leader in contract manufacturing services. In other words, everybody has heard that leading electronics firms such as Cisco, Dell, Ericsson, Intel, Motorola, Nintendo, Nokia, and Sony—in addition to those named in the first three lines of this box above—have outsourced a large chunk of their manufacturing to “low-cost producers.” But to whom? Only a small number of people know the answer: Foxconn has been scooping up a tremendous number of outsourcing orders.

Starting in 1975 in Taipei with a meager \$7,500, Foxconn was founded by Taiwanese entrepreneur Terry Gou, who still serves as its chairman. As Foxconn becomes a giant, of course, industry insiders know and respect it. But outside the industry Foxconn lives in relative obscurity. It is likely to be the largest firm many people around the world have never heard of. Just how big is Foxconn? Worldwide, it has 1.3 million employees. In China alone, it employs over 920,000 workers (300,000 on one factory campus in Shenzhen). To put these mind-boggling numbers in perspective, its worldwide headcount is as large as the entire US military, and its headcount in China is three times the size of the Taiwanese military. In addition to China, Foxconn has factories in 12 countries: Australia, Brazil, the Czech Republic, India, Japan, Mexico, the Netherlands, Poland, Russia, Slovakia, Singapore, and the United States. Foxconn is the largest private employer and the largest exporter in China and the second largest exporter in the Czech Republic.

In 2010, Foxconn stumbled into the media spotlight, not because of its accomplishments, but because a dozen

employees in Shenzhen, China, committed suicide in a span of several months, most of them by jumping from high-rise Foxconn dormitories. Here comes one of the biggest paradoxes associated with such an emerging multinational. What are Foxconn's secrets for being so successful? Just like 100 years ago when Henry Ford created the mass assembly line by standardizing each worker's job, Foxconn has pioneered a business model that it calls e-enabled Components, Modules, Moves, and Services (eCMMS) that can help its clients save a ton of money. But why were there so many worker suicides that shocked the world? The business model is certainly a culprit. Working at Foxconn demands a great deal of concentration and repetition that breed enormous stress. *Bloomberg Businessweek* described Gou as “a ruthless taskmaster.” Although the media and corporate social responsibility gurus criticize Foxconn for treating workers like machines and exploiting cheap labor, there is no evidence that Foxconn has mistreated or abused employees. In fact, in China, labor watchdogs actually give Foxconn credit for exceeding the norms, by paying workers (relatively) higher salaries, on time, and for overtime. In both 2005 and 2006, it was among the Best Employers in China, according to a ChinaHR.com poll. In response to the suicides, Foxconn increased Shenzhen factory workers' pay by 30% to \$176 a month in 2010. Such raises cut earnings per share by about 5% in 2010 and by 12% in 2011. As a result, Gou recently scaled back his annual growth target from 30% to 15%. Despite the setback, this intriguing (and until recently largely hidden) emerging multinational continues to deserve your attention, especially the next time you turn on your iPad.

Sources: Based on (1) *Bloomberg Businessweek*, 2010, Chairman Gou, September 13: 58–69; (2) *Bloomberg Businessweek*, 2011, How to beat the high cost of happy workers, May 9: 39–40; (3) www.foxconn.com.

BRIC

Brazil, Russia, India,
and China.

BRICS

Brazil, Russia, India, China,
and South Africa

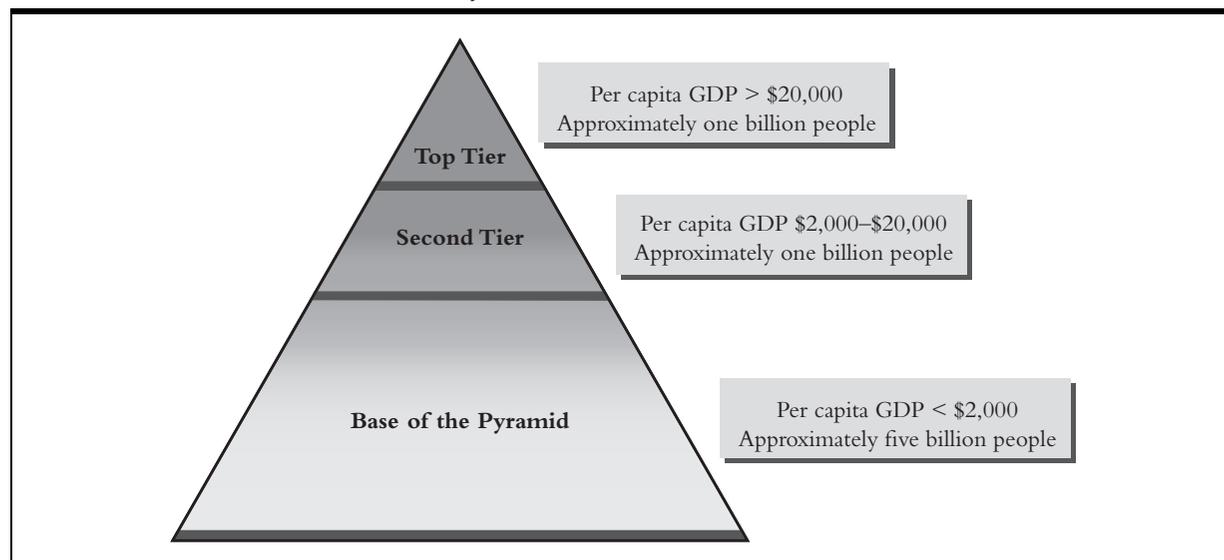
base of the pyramid (BOP)

The vast majority of
humanity, about five billion
people, who make less
than \$2,000 a year.

(GDP) measured at purchasing power parity.⁵ Brazil, Russia, India, and China—now known as **BRIC** in the new jargon—command more attention. **BRICS** (that is: BRIC + South Africa) has become a newer buzzword. Many local firms rise to the challenge, not only effectively competing at home but also launching offensives abroad.⁶ Overall, more than a quarter of the worldwide FDI outflows are now generated by these emerging multinationals from emerging economies.

As a result, modifying (or even abandoning) the traditional “global strategy” has increasingly been entertained.⁷ Figure 1.1 illustrates the global economy as a pyramid. The top consists of about one billion people with annual per capita income greater than \$20,000. These are mostly people in the Triad and a small percentage of rich people in the rest of the world. Another billion people, making \$2,000 to \$20,000 a year, make up the second tier. The vast majority of humanity—about five billion people—make less than \$2,000 a year and comprise the **base of the pyramid (BOP)**, which has been ignored by traditional “global strategy.” Many MNEs from developed economies believed that there was no money to be made in BOP markets. Recent developments in the global economy have shaken this erroneous belief. General Motors (GM) now sells more cars in China than in the United States, and China has surpassed the United States as the world’s largest car market. If MNEs from developed economies do not pay serious attention to BOP markets in emerging economies, local competitors such as India’s Tata Motors and China’s Geely will (see Emerging Markets 1.2). From the bottom (BOP) up, these new competitors increasingly go after the second and top tier markets overseas, creating serious competitive challenges to MNEs from developed economies.

FIGURE 1.1 The Global Economic Pyramid



Sources: Adapted from (1) C. K. Prahalad & S. Hart, 2002, The fortune at the bottom of the pyramid, *Strategy+Business*, 26: 54–67; (2) S. Hart, 2005, *Capitalism at the Crossroads* (p. 111), Philadelphia: Wharton School Publishing.

EMERGING MARKETS 1.2

GE's Reverse Innovation from the Base of the Pyramid

Multinationals such as General Electric (GE) historically innovate new products in developed economies and then localize these products by tweaking and simplifying them for customers in emerging economies. Unfortunately, a lot of these expensive products meant for well-off customers at the top of the global economic pyramid flop at the base of the pyramid. This is not only because of the products' price tag, but also due to the lack of consideration for the specific needs and wants of local customers. Being the exact opposite, **reverse innovation** turns innovative products created for emerging economies into low-cost offerings for developed economies.

Take a look at GE's conventional ultrasound machines, originally developed in the United States and Japan and sold for \$100,000 and up (as much as \$350,000). In China, these expensive, bulky devices sold poorly because not every sophisticated hospital imaging center could afford them. GE's team in China realized that more than 80% of China's population relies on rural hospitals or clinics that are poorly funded. Conventional ultrasound machines are simply out of reach for these facilities. Patients thus have to travel to urban hospitals to access ultrasound. However, transportation to urban hospitals, especially for the sick and the pregnant, is challenging. Since most Chinese patients could not come to the ultrasound machines, the machines have to go to the patients. Scaling down its existing bulky, expensive, and complex ultrasound machines was not going to serve that demand. GE realized that it needed a revolutionary product—a compact, portable ultrasound machine. In 2002, GE in China launched its first compact ultrasound, which combined a regular laptop computer with sophisticated software. The machine sold for only \$30,000. In 2008, GE introduced a new model that sold for \$15,000, less than 15% of the price tag of its high-end conventional ultrasound models. While portable ultrasounds have naturally become a hit in China, especially in rural clinics, they have also generated dramatic growth throughout the world, including *developed* economies. These machines combine a new dimension previously unavailable to ultrasound machines—portability—with an unbeatable price in developed economies where

containing health care cost is increasingly paramount. Before the global recession hit, portable ultrasounds by 2008 were a \$278 million global product line for GE, growing at 50% to 60% annually. Even in the midst of a severe global recession, this product line has been growing 25% annually in China.

GE's experience in developing portable ultrasound machines in China is not alone. For rural India, it has pioneered a \$1,000 handheld electrocardiogram (ECG) device that brings down the cost by a margin of 60% to 80%. In the Czech Republic, GE developed an aircraft engine for small planes that slashes its cost by half. This allows GE to challenge Pratt & Whitney's dominance of the small turboprop market in developed economies.

Why is GE so enthusiastic about reverse innovation? GE's chairman and CEO Jeffrey Immelt wrote in a *Harvard Business Review* article:

To be honest, the company is also embracing reverse innovation for defensive reasons. If GE doesn't come up with innovations in poor countries and take them global, new competitors from the developing world—like Mindray, Suzlon, Goldwind, and Haier—will... GE has tremendous respect for traditional rivals like Siemens, Philips, and Rolls-Royce. But it knows how to compete with them; they will never destroy GE. By introducing products that create a new price-performance paradigm, however, the emerging giants very well could. Reverse innovation isn't optional; it's oxygen.

Sources: Based on (1) *Economist*, 2011, Frugal healing, January 22: 73–74; (2) *Economist*, 2011, Life should be cheap, January 22: 16; (3) V. Govindarajan & R. Ramamurti, 2011, Reverse innovation, emerging markets, and global strategy, *Global Strategy Journal*, 1: 191–205; (4) J. Immelt, V. Govindarajan, & C. Trimble, 2009, How GE is disrupting itself, *Harvard Business Review*, October: 56–65; (5) C. K. Prahalad & R. Mashelkar, 2010, Innovation's holy grail, *Harvard Business Review*, July: 132–141; (6) *Wall Street Journal*, 2011, Medicine on the move, March 28.

reverse innovation

Low-cost innovation from emerging economies that has potential in developed economies.

Overall, this book can be considered as part of this broad movement in search of a better understanding of how to effectively strategize and compete around the globe, not being merely about “global strategy” per se. This book differentiates itself from existing global-strategy books by providing a more balanced coverage, not only in terms of the traditional “global strategy” and “non-global strategy,” but also in terms of both MNEs’ and local firms’ perspectives. In addition to developed economies, this book also devotes extensive space to competitive battles waged in and out of emerging economies. In every chapter, at least one box deals with “emerging markets” that refer to competition within emerging economies or multinationals emerging from these economies that enhance your understanding of this new breed of global competitors. No other global-strategy book does this. In a nutshell, this is truly a *global* global-strategy book.

Why Study Global Strategy?

Strategy courses in general—and global strategy courses in particular—are typically the most valued courses in a business school.⁸ Why study global strategy? Three compelling reasons emerge. First, the most sought-after and highest-paid business school graduates (both MBAs and undergraduates) are typically strategy consultants with global expertise. You can be one of them. Outside the consulting industry, if you aspire to join the top ranks of large firms, expertise in global strategy is often a prerequisite. While eventually international experience may be required to become an expatriate (expat) manager, knowledge of and interest in global strategy during your education will eventually make you a more ideal candidate to be selected.⁹ So, don’t forget to add a line on your resume that you have studied this strategically important course.

Second, even for graduates at large companies with no interest in working for the consulting industry and no aspiration to compete for top jobs, as well as those individuals who work at small firms or are self-employed, you may find yourself dealing with foreign-owned suppliers and buyers, competing with foreign-invested firms in your home market, and perhaps even selling and investing overseas. Or alternatively, you may find yourself working for a foreign-owned corporation, your previously domestic employer acquired by a foreign player, or your unit ordered to shut down for global consolidation. Approximately 80 million people worldwide, including six million Americans, one million British, and 18 million Chinese, are directly employed by foreign-owned firms. For example, in Africa, the largest private sector employer is Coca-Cola, with 65,000 employees. In the UK, the largest private sector employer is Tata with 45,000 employees. Understanding how strategic decisions are made may facilitate your own career in such organizations. If there is a strategic rationale to downsize your unit, you would want to be able to figure this out as soon as possible and be the first to post your resume online, instead of being the first to receive a pink slip. In other words, you want to be more *strategic*. After all, it is your career that is at stake. Don’t be the last in the know!

Overall, in this age of globalization, “how do you keep from being Bangalored? Or Shanghaied?”¹⁰ (That is, have your job outsourced to India or China.) To do this, you must first understand what strategy is, which is discussed next.

What Is Strategy?

Origin

Derived from the ancient Greek word *strategos*, the word “strategy” originally referred to the “art of the general” or “generalship.” Strategy has very strong military roots.¹¹ The oldest book on strategy, *The Art of War*, dates back to around 500 BC. It was authored by Sun Tzu, a Chinese military strategist.¹² Sun Tzu’s most famous teaching is “Know yourself, know your opponents; encounter a hundred battles, win a hundred victories.” The application of the principles of military strategy to business competition, known as **strategic management** (or **strategy** in short), is a more recent phenomenon developed since the 1960s.¹³

strategic management

A way of managing the firm from a strategic, “big picture” perspective.

strategy

A firm’s theory about how to compete successfully.

strategy as plan

A perspective that suggests that strategy is most fundamentally embodied in explicit, rigorous formal planning as in the military.

Plan versus Action

Because business strategy is a relatively young field (despite the long roots of military strategy), what defines strategy has been a subject of intense debate.¹⁴ Three schools of thought have emerged (Table 1.1). The first “**strategy as plan**” school is the oldest. Drawing on the work of Carl von Clausewitz, a Prussian (German) military strategist of the 19th century,¹⁵ this school suggests that strategy is embodied in the same explicit rigorous formal planning as in the military.

TABLE 1.1 What Is Strategy?

<p>Strategy as plan</p> <ul style="list-style-type: none"> ■ “Concerned with drafting the plan of war and shaping the individual campaigns and, within these, deciding on the individual engagements” (von Clausewitz, 1976)¹ ■ “A set of concrete plans to help the organization accomplish its goal” (Oster, 1994)²
<p>Strategy as action</p> <ul style="list-style-type: none"> ■ “The art of distributing and applying military means to fulfill the ends of policy” (Liddell Hart, 1967)³ ■ “A pattern in a stream of actions or decisions” (Mintzberg, 1978)⁴ ■ “The creation of a unique and valuable position, involving a different set of activities ... making trade-offs in competing ... creating fit among a company’s activities” (Porter, 1996)⁵
<p>Strategy as integration</p> <ul style="list-style-type: none"> ■ “The determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals” (Chandler, 1962)⁶ ■ “The major intended and emergent initiatives undertaken by general managers on behalf of owners, involving utilization of resources to enhance the performance of firms in their external environments” (Nag, Hambrick, and Chen, 2007)⁷ ■ “The analyses, decisions, and actions an organization undertakes in order to create and sustain competitive advantages” (Dess, Lumpkin, and Eisner, 2008)⁸

Sources: Based on (1) C. von Clausewitz, 1976, *On War*, vol. 1 (p. 177), London: Kegan Paul; (2) S. Oster, 1994, *Modern Competitive Analysis*, 2nd ed. (p. 4), New York: Oxford University Press; (3) B. Liddell Hart, 1967, *Strategy*, 2nd rev. ed. (p. 321), New York: Meridian; (4) H. Mintzberg, 1978, Patterns in strategy formulation (p. 934), *Management Science*, 24: 934–948; (5) M. Porter, 1996, What is strategy? (pp. 68, 70, 75), *Harvard Business Review*, 74: 61–78; (6) A. Chandler, 1962, *Strategy and Structure* (p. 13), Cambridge, MA: MIT Press; (7) R. Nag, D. Hambrick, & M. Chen, 2007, What is strategic management, really? *Strategic Management Journal*, 28: 935–955; (8) G. Dess, G. T. Lumpkin, & A. Eisner, 2008, *Strategic Management*, 4th ed. (p. 8), Chicago: McGraw-Hill Irwin.

strategy as action

A perspective that suggests that strategy is most fundamentally reflected by firms' pattern of actions.

intended strategy

A strategy that is deliberately planned for.

emergent strategy

A strategy based on the outcome of a stream of smaller decisions from the "bottom up."

strategy as integration

A perspective that suggests that strategy is neither solely about plan nor action and that strategy integrates elements of both schools of thought.

strategy formulation

The crafting of a firm's strategy.

strategy implementation

The actions undertaken to carry out a firm's strategy.

SWOT analysis

A strategic analysis of a firm's internal strengths (S) and weaknesses (W) and the opportunities (O) and threats (T) in the environment.

However, the planning school has been challenged by the likes of Liddell Hart, a British military strategist of the early 20th century, who argued that the key to strategy is a set of flexible goal-oriented actions.¹⁶ Hart favored an indirect approach, which seeks rapid flexible actions to avoid clashing with opponents head-on. Within the field of business strategy, this "**strategy as action**" school has been advocated by Henry Mintzberg, a Canadian scholar. Mintzberg posited that in addition to the **intended strategy** that the planning school emphasizes, there can be an **emergent strategy** that is not the result of "top down" planning but rather the outcome of a stream of smaller decisions from the "bottom up."¹⁷ For example, Mark Zuckerberg, Facebook's founder, shared with a journalist in an interview:

*We build things quickly and ship them. We get feedback. We iterate, we iterate, we iterate. We have these great signs around: "Done is better than perfect."*¹⁸

Each of these two schools of thought has merits and drawbacks. Strategy in Action 1.1 compares and contrasts them by drawing on real strategies used by the German and French militaries in 1914. The Opening Case suggests that the very book you are reading now comes from a multinational publisher that embraces the "strategy as action" school.

Strategy as Theory

Although the debate between the planning school and action school is difficult to resolve, many managers and scholars have realized that, in reality, the essence of strategy is likely to be a *combination* of both planned deliberate actions and unplanned emergent activities, thus leading to a "**strategy as integration**" school. First advocated by Alfred Chandler,¹⁹ an American business historian, this more balanced "strategy as integration" school of thought has been adopted in many textbooks and is the perspective we embrace here. Following Peter Drucker, an Austrian-American management guru, we extend the "strategy as integration" school by defining strategy as *a firm's theory about how to compete successfully*. In other words, if we have to define strategy with one word, our choice is neither plan nor action—it is *theory*.

According to Drucker, "a valid theory that is clear, consistent, and focused is extraordinarily powerful."²⁰ Table 1.2 outlines the four advantages associated with our "strategy as theory" definition. First, it capitalizes on the insights of both planning and action schools. This is because a firm's theory of how to compete will simply remain an idea until it has been translated into action. Thus, formulating a theory (advocated by the planning school as **strategy formulation**) is merely a first step; implementing it through a series of actions (noted by the action school as **strategy implementation**) is a necessary second part. Although the cartoon in Figure 1.2 humorously portrays these two activities as separate endeavors, in reality, good strategists do both. Graphically shown in Figure 1.3, a strategy entails a firm's assessment at point A of its own strengths (S) and weaknesses (W), its desired performance levels at point B, and the opportunities (O) and threats (T) in the environment.²¹ Such a **SWOT analysis** resonates very well with Sun Tzu's teaching on the importance of knowing "yourself" and "your opponents." After such an assessment, the firm formulates its theory on how to best connect points A and B. In other words, the broad arrow becomes its intended strategy. However, given so many uncertainties, not all intended strategies may prove successful, and some may become unrealized strategies. On the other hand, other unintended actions may become emergent

STRATEGY IN ACTION 1.1

German and French Military Strategy, 1914

Although Germany and France are now the best of friends within the European Union (EU), they had fought for hundreds of years (the last war in which they butted heads was World War II). Prior to the commencement of hostilities that led to World War I in August 1914, both sides had planned for a major clash.

Known as the Schlieffen Plan, the German plan was meticulous. Focusing on the right wing, German forces would smash through Belgium. Every day's schedule of march was fixed in advance: Brussels would be taken by the 19th day, the French frontier crossed on the 22nd, and Paris conquered and a decisive victory attained by the 39th. Heeding Carl von Clausewitz's warning that military plans that left room for the unexpected could result in disaster, the Germans with infinite care had endeavored to plan for every contingency except one—flexibility.

Known as Plan 17, the French plan was a radical contrast to the German plan. Humiliated in the 1870 Franco-Prussian War, during which France lost two provinces (Alsace and Lorraine), the French were determined to regain their lost territories. However, the French had a smaller population and thus a smaller army. Since the French army could not match the German army man for man, the French military emphasized the individual initiatives, actions, and bravery (known as *élan vital*, the all-conquering will). A total of five sentences from Plan 17 was all that was shown to the generals who would



lead a million soldiers into battle. As a strategy exercise, we can speculate that Sentence 1 would be "Target Berlin," Sentence 2 "Recover Alsace and Lorraine," and the last sentence "Good luck!" Now, fill in the blanks for the two other sentences—it won't be too hard.

Sources: Based on (1) B. Tuchman, 1962, *The Guns of August*, New York: Macmillan; (2) US Military Academy, 2008, *Map: Northwest Europe 1914*, Department of History, www.dean.usma.edu.

TABLE 1.2 Four Advantages of the "Strategy as Theory" Definition

- Integrating both planning and action schools
- Leveraging the concept of "theory," which serves two purposes (explanation and prediction)
- Requiring replications and experimentations
- Understanding the difficulty of strategic change

strategies with a thrust toward point B. Overall, this definition of strategy enables us to retain the elegance of the planning school with its more orthodox logical approach, and to entertain the flexibility of the action school with its more dynamic experimental character.

FIGURE 1.2 Strategy Formulation and Strategy Implementation

Source: *Harvard Business Review*, October 2011 (p. 40).

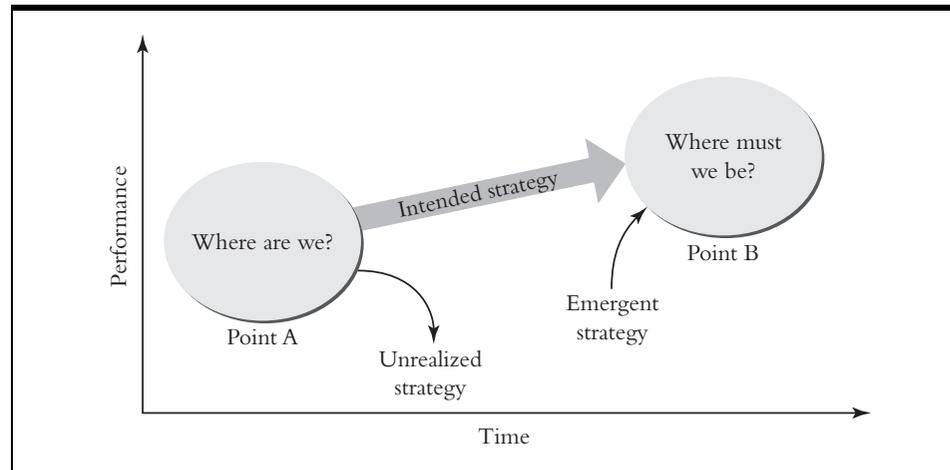
Second, this new definition rests on a simple but powerful idea, the concept of “theory.” The word “theory” often frightens students and managers because it implies an image of “abstract” and “impractical.” But it shouldn’t.²² A theory is merely a statement describing relationships between a set of phenomena. At its core, a theory serves two powerful purposes: to *explain* the past and to *predict* the future.²³ If a theory is too complicated, nobody can understand, test, or use it. For example, the theory of gravity explains why some Foxconn employees committing suicide were successful by jumping from a high-rise (see Emerging Markets 1.1). It also predicts that should you (hypothetically) harbor such a dangerous tendency, you will be equally successful by doing the same. Likewise, Wal-Mart’s theory, “everyday low prices,” captures the essence of all the activities performed by its two million employees in 8,500 stores in 15 countries. This theory explains why Wal-Mart has been successful in the past. After all, who doesn’t like “everyday low prices”? It also predicts that Wal-Mart will continue to do well by focusing on low prices.

Third, a theory proven successful in one context during one time period does not necessarily mean it will be successful elsewhere.²⁴ As a result, a hallmark of theory building and development is **replication**—repeated testing of theory under a variety of conditions to establish its applicable boundaries. In natural sciences, this is known as continuous experimentation. For instance, after several decades of experiments in outer space, we now know that the theory of gravity is earth bound and that it does not apply in outer space. This seems to be the essence of business strategy.²⁵ Firms successful in one

replication

Repeated testing of theory under a variety of conditions to establish its applicable boundaries.

Not For Sale

FIGURE 1.3 The Essence of Strategy

product or country market—that is, having proven the merit of their theory once—constantly seek to expand into newer markets and replicate their previous success. In new markets, firms sometimes succeed and other times fail. As a result, these firms are able to gradually establish the *limits* of their particular theory about how to compete successfully. For instance, Wal-Mart’s theory failed in both Germany and South Korea, and the retail giant had to pull out from those markets recently.

Finally, the “strategy as theory” perspective helps us understand why it is often difficult to change strategy.²⁶ Imagine how hard it is to change an established theory. The reason that certain theories are widely accepted is because of their past success. However, past success does not guarantee future success. Although scientists are supposed to be objective, they are also human. Many scientists may be unwilling to concede the failure of their favorite theories even in the face of repeatedly failed tests. Think about how much resistance from the scientific establishment that Galileo, Copernicus, and Einstein had to face initially. The same holds true for strategists. Bosses were promoted to current positions because of their past success in developing and implementing “old” theories. National heritage, organizational politics, and personal career considerations may prevent many bosses from admitting the evident failure of an existing strategy. Yet, the history of scientific progress suggests that although difficult, it is possible to change established theories. If enough failures in testing are reported and enough researchers raise doubts about certain theories, their views, which may be marginalized initially, gradually drive out failed theories and introduce better ones. The painful process of strategic change in many firms such as Microsoft is similar (see the Closing Case). Usually a group of managers, backed by performance data, challenge the current strategy. They propose a new theory on how to compete more effectively, which initially is often marginalized by top management. But eventually, the momentum of the new theory may outweigh the resistance of the old strategy, thus leading to some strategic change. For example, Wal-Mart recently changed its strategy from “everyday low prices” to “save money, live better” in order to soften its undesirable image as a ruthless cost cutter.

top management team (TMT)

The team consisting of the highest level of executives of a firm led by the CEO.

Overall, strategy is not a rulebook, a blueprint, or a set of programmed instructions. Rather, it is a firm's theory about how to compete successfully, a unifying theme that gives coherence to its various actions. Just as military strategies and generals have to be studied simultaneously, an understanding of business strategies around the globe would be incomplete without an appreciation of the role top managers play as strategists. Although mid-level and lower-level managers need to understand strategy, they typically lack the perspective and confidence to craft and execute a *firm-level* strategy. A **top management team (TMT)** led by the chief executive officer (CEO) must exercise leadership by making strategic choices. Since the directions and operations of a firm typically are a reflection of its top managers, their personal preferences based on their own culture, background, and experience may affect firm strategy.²⁷ Therefore, although this book focuses on firm strategies, it is also about strategists who lead their firms. By definition, strategic work is different from non-strategic (tactical) work. Drawing on the wisdom of A. G. Lafley, chairman and CEO of Procter & Gamble (P&G) between 2000 and 2009, Table 1.3 outlines the nature of the highest level of strategic work that only the CEO can do.

TABLE 1.3 Strategic Work Only the CEO Can Do

- | |
|---|
| <ul style="list-style-type: none"> ■ Identify the meaningful outside and link it with the internal organization ■ Define what business the firm is in (and <i>not</i> in) ■ Balance present and future ■ Shape values and standards |
|---|

Source: Adapted from A. G. Lafley, 2009, What only the CEO can do, *Harvard Business Review*, May: 54–62. Lafley was chairman and CEO of P&G, 2000–2009.

Fundamental Questions in Strategy

Although strategy around the globe is a vast area, we will focus our attention only on the *most fundamental* issues, which act to define a field and to orient the attention of students, practitioners, and scholars in a certain direction. Specifically, we will address the following four fundamental questions:²⁸

- Why do firms differ?
- How do firms behave?
- What determines the scope of the firm?
- What determines the success and failure of firms around the globe?

Why Do Firms Differ?

In every modern economy, firms, just like individuals, differ. This question thus seems obvious and hardly generates any debate. However, much of our knowledge about “the firm” is from research on firms in the United States and to a lesser extent the United Kingdom, both of which are embedded in what is known as Anglo-American capitalism.

A smaller literature deals with other Western countries such as Germany, France, and Italy, collectively known as continental European capitalism. While some differences between Anglo-American and continental European firms have been reported (such as a shorter and a longer investment horizon, respectively),²⁹ the contrast between these Western firms and their Japanese counterparts is more striking.³⁰ For example, instead of using costly acquisitions typically found in the West, Japanese firms extensively employ a network form of supplier management, giving rise to the term *keiretsu* (interfirm network).³¹ The word *keiretsu* is now frequently used in English-language publications without the explanation given in the parentheses—an educated reader of *BusinessWeek*, *Economist*, or *Wall Street Journal* is presumed to already understand it.

More recently, as the strategy radar screen scans the business landscape in emerging economies, more puzzles emerge. For example, it is long established that economic growth can hardly occur in poorly regulated economies. Yet given China's strong economic growth and its underdeveloped formal institutional structures (such as a lack of effective courts), how can China achieve rapid rates of economic growth? Among many answers to this intriguing puzzle, a partial answer suggests that interpersonal networks and relationships (*guanxi*), cultivated by managers, may serve as informal substitutes for formal institutional support. In other words, interpersonal relationships among managers are translated into an interfirm strategy of relying on networks and alliances to grow the firm, which, in the aggregate, contributes to the growth of the economy.³² As a result, the word *guanxi* has now become the most famous Chinese business word to appear in English-language media, again often without the explanation provided in parentheses. Similarly, the Korean word *chaebol* (large business group) and the Russian word *blat* (relationships) have also entered the English vocabulary. Behind each of these deceptively simple words lie some fundamental differences on how to compete around the world.³³

How Do Firms Behave?

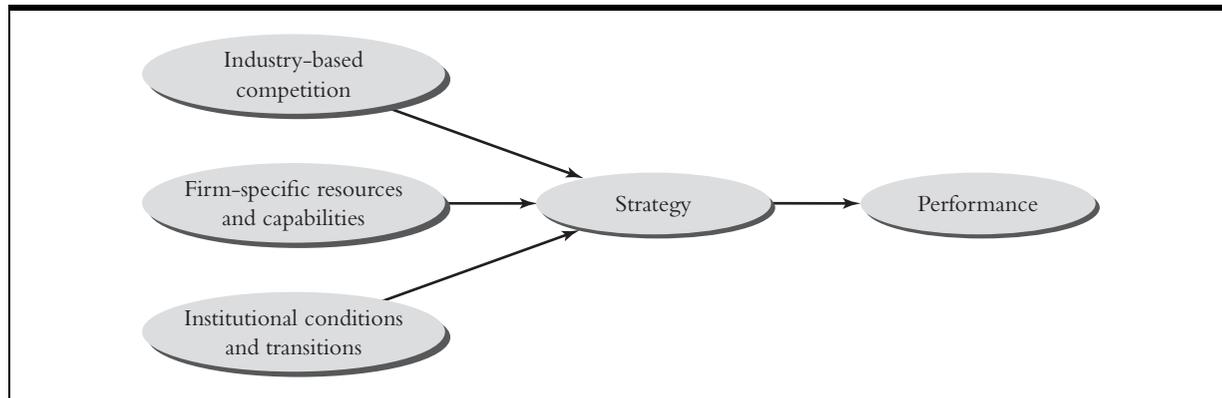
This question focuses on what determines firms' theories about how to compete. Figure 1.4 identifies three leading perspectives that collectively lead to a **strategy tripod**.³⁴ The industry-based view suggests that the strategic task is mainly to examine the competitive forces affecting an industry, and to stake out a position that is less vulnerable relative to these five forces. While the industry-based view primarily focuses on the *external* opportunities and threats (the O and T in a SWOT analysis), the resource-based view largely concentrates on the *internal* strengths and weaknesses (S and W) of the firm. This view posits that it is firm-specific capabilities that differentiate successful firms from failing ones.

Recently, an institution-based view has emerged to account for differences in firm strategy.³⁵ This view argues that in addition to industry-level and firm-level conditions, firms also need to take into account the influences of formal and informal rules of the game. A better understanding of the formal and informal rules of the game explains a great deal behind Microsoft's strategic changes in China (see the Closing Case).

Collectively viewed as a strategy tripod, these three views form the backbone of the first part of this book, Foundations of Global Strategy (Chapters 2, 3, and 4). They shed considerable light on the question "How do firms behave?"³⁶

strategy tripod

A framework that suggests that strategy as a discipline has three "legs" or key perspectives: industry-based, resource-based, and institution-based views.

FIGURE 1.4 The Strategy Tripod: Three Leading Perspectives on Strategy

What Determines the Scope of the Firm?

This question first focuses on the growth of the firm. Most firms seem to have a lingering love affair with growth. The motivation to grow is fueled by the excitement associated with such growth. For publicly listed firms, without growth, the share price will not grow. However, there is a limit beyond which further growth may backfire. Then downsizing, downscoping, and withdrawals are often necessary. In other words, answers to the question, “What determines the scope of the firm?” pertain not only to the growth of the firm, but also to the contraction of the firm.

In developed economies, a conglomeration strategy featuring unrelated product diversification, which was in vogue in the 1960s and the 1970s, was found to destroy value and was largely discredited by the 1980s and the 1990s. Witness how many firms are still trying to divest and downsize in the West. However, this strategy seems to be alive and well in many emerging economies. Although puzzled Western media and consultants often suggest that conglomerates destroy value and should be dismantled in emerging economies, empirical evidence suggests otherwise. Recent research in emerging economies reports that some (but not all) units affiliated with conglomerates may enjoy higher profitability than independent firms, pointing out some discernible performance *benefits* associated with conglomeration.³⁷ One reason behind such a contrast lies in the institutional differences between developed and emerging economies. Viewed through an institutional lens, conglomeration may make sense (at least to some extent) in emerging economies because this strategy and its relatively positive link with performance may be a function of the level of institutional (under)development in these countries.³⁸

In addition to product scope, careful deliberation of the geographic scope is important.³⁹ On the one hand, for companies aspiring to become global leaders, a strong position in *each* of the three Triad markets is often necessary. Expanding market position in key emerging economies, such as BRIC, may also be desirable. But on the other hand, it is not realistic that all companies can, or should, “go global.” Given the recent hype to “go global,” many companies may have entered too many countries too quickly and may be subsequently forced to withdraw.

What Determines the Success and Failure of Firms Around the Globe?

This focus on performance, more than anything else, defines the field of strategic management and international business.⁴⁰ We are not only interested in *acquiring* and *leveraging* competitive advantage, but also in *sustaining* such advantages over time and across regions. All three major perspectives that form the strategy tripod ultimately seek to answer this question.

The industry-based view posits that the degree of competitiveness in an industry largely determines firm performance. Shown in the Opening Case, the structure of the college textbook publishing industry, such as stable brands and high entry barriers, explains a great deal behind the dominance of the top three incumbents in business and economics college textbook publishing around the world.

The resource-based view suggests that firm-specific capabilities drive performance differences. Within the same industry, while some firms win, others struggle. Winning firms such as South-Western Cengage Learning tend to have valuable, unique, and hard-to-imitate capabilities, such as having a “Mr. Global” born in China to author *Global Strategy*, which will inherently have a more global flavor. Rival publishers have a hard time competing with *Global Strategy*, because a majority of other textbook authors were born in the United States and, despite their best efforts to globalize their work, will naturally exhibit a US-centric tendency.

The institution-based view argues that institutional forces also provide an answer to differences in firm performance. As illustrated by our Opening Case, firms must “think global” and “act local” *simultaneously*. Firms that do not do their “homework” by getting to know the various formal and informal rules of the game in overseas markets are unlikely to emerge as winners in the global marketplace.

Overall, although there are many debates among the different schools of thought, the true determinants of firm performance probably involve a *combination* of these three-pronged forces (see Figure 1.4).⁴¹ While these three views present relatively straightforward answers, the reality of global competition often makes these answers more complex and murky. If you survey ten managers from ten countries on what performance exactly is, you may get ten different answers. Long-term or short-term performance?⁴² Financial returns or market shares? Profits maximized for shareholders or benefits maximized for **stakeholders** (individuals and organizations that are affected by a firm’s actions and thus have a stake in how a firm is managed)? Without consensus on the performance measures, it is difficult to find an easy, uncontroversial answer. Instead of focusing on a single financial or economic bottom line, some firms adopt a **triple bottom line**, which consists of economic, social, and environmental dimensions (see Chapter 12). Another solution is to adopt a **balanced scorecard**, which is a performance evaluation method from the customer, internal, innovation and learning, and financial perspectives. Outlined in Table 1.4, the balanced scorecard can be thought of as the dials in a flight cockpit. To fly an aircraft, pilots simultaneously need a lot of information, such as air speed, altitude, and bearing. To manage a firm, strategists have similar needs. But pilots and strategists also cannot afford **information overload**—too much information. The balanced scorecard summarizes and channels a large volume of information to a relatively small number of crucial dimensions.

stakeholder

Any group or individual who can affect or is affected by the achievement of the organization’s objectives.

triple bottom line

A performance yardstick consisting of economic, social, and environmental performance.

balanced scorecard

A performance evaluation method from the customer, internal, innovation and learning, and financial perspectives.

information overload

Too much information to process.

TABLE 1.4 Performance Goals and Measures from the Balanced Scorecard

- From a customer perspective: How do customers see us?
- From an internal business perspectives: What must we excel at?
- From an innovation and learning perspective: Can we continue to improve and create value?
- From a financial perspective: How do we look to shareholders?

Source: Adapted from R. Kaplan & D. Norton, 2005, The balanced scorecard: Measures that drive performance, *Harvard Business Review*, July: 172–180.

In summary, these four questions represent some of the most fundamental puzzles in strategy. While other questions can be raised, they all relate in one way or another to these four. Thus, answering these four questions will be the primary focus of this book and will be addressed in *every* chapter.

What Is Global Strategy?

“Global strategy” has at least two meanings. First, as noted earlier, the traditional and narrowly defined notion of “global strategy” refers to a particular theory on how to compete and is centered on offering standardized products and services on a worldwide basis.⁴³ This strategy obviously is only relevant for large Triad-based MNEs active in many countries. Smaller firms in developed economies and most firms in emerging economies operating in only one or a few countries may find little use for this definition.

Second, “global strategy” can also refer to “strategy with a comprehensive worldwide perspective.”⁴⁴ It essentially means any strategy outside one’s home country. Americans seem especially fond of using the word “global” this way, which essentially becomes the same as “international.” For example, Wal-Mart’s first foray outside the United States in 1991 was widely hailed as evidence that Wal-Mart had “gone global.” In fact, Wal-Mart had only expanded into Mexico at that time. While this was an admirable first step for Wal-Mart, the action was similar to Singapore firms doing business in Malaysia or German companies investing in Austria. To many internationally active Asian and European firms, there is nothing significantly “global” about these activities in neighboring countries. So why is there the hype about the word “global,” especially among Americans? Historically, the vast US domestic markets made it unnecessary for many firms to seek overseas markets. As a result, when many US companies do venture abroad, even in countries as close as Mexico, they are likely to be fascinated about their “discovery of global markets.” Since everyone seems to want a more exciting “global” strategy rather than a plain-vanilla “international” one, calling non-US (or non-domestic) markets “global” markets becomes a cliché.

So what do we mean by “global strategy” in *this* book? *Neither* of the preceding definitions will do. Here, **global strategy** is defined as *strategy of firms around the globe*—essentially various firms’ theories about how to compete successfully. Seeking to break out of the US-centric straightjacket, this book deals with both the strategy of MNEs (some of which may fit into the traditional narrow global strategy definition)

global strategy

(1) Strategy of firms around the globe. (2) A particular form of international strategy, characterized by the production and distribution of standardized products and services on a worldwide basis.

and the strategy of smaller firms (some of which may have an international presence, while others may be purely domestic). These firms compete in both developed and emerging economies. We do *not* exclusively concentrate on firms doing business abroad, which is the traditional domain of global-strategy books. To the extent that international business involves two sides—namely, domestic firms and foreign entrants—an exclusive focus on foreign entrants only covers one side and, thus, paints a partial picture. The strategy of domestic firms is equally important. As a result, a truly *global* global-strategy book needs to provide a balanced coverage. Like our publisher in the Opening Case, our motto is: Think global, act local.⁴⁵ This is the challenge we will take on throughout this book.

What Is Globalization?

globalization

The close integration of countries and peoples of the world.

Globalization, generally speaking, is the close integration of countries and peoples of the world. This abstract five-syllable word is now frequently heard and debated. Those who approve of globalization count its contributions to include greater economic growth and standards of living, increased technology sharing, and more extensive cultural integration. Critics argue that globalization causes the global recession, undermines wages in rich countries, exploits workers in poor countries, and gives MNEs too much power. This section (1) outlines three views on globalization, (2) recommends the pendulum view, and (3) introduces the idea of semiglobalization.

Three Views on Globalization

Depending on what sources you read, globalization could be

- A new force sweeping through the world in recent times
- A long-run historical evolution since the dawn of human history
- A pendulum that swings from one extreme to another from time to time

An understanding of these views helps put the debate about globalization in perspective. First, opponents suggest that it is a new phenomenon beginning in the late 20th century, driven by recent technological innovations and a Western ideology focused on exploiting and dominating the world through MNEs. The arguments against globalization focus on an ideal world free of environmental stress, social injustice, and sweatshop labor but present few clear alternatives to the present economic order. Advocates and anti-globalization protesters often argue that globalization needs to be slowed down, if not stopped.

A second view contends that globalization has always been part of human history. Historians debate whether globalization started 2,000 or 8,000 years ago. MNEs existed for more than two millennia, with their earliest traces discovered in Phoenician, Assyrian, and Roman times.⁴⁶ International competition from low-cost countries is nothing new. In the first century AD, the Roman emperor Tiberius was so concerned about the massive quantity of low-cost Chinese silk imports that he imposed the world's first known import quota of textiles.⁴⁷ In a nutshell, globalization is nothing new and will always exist.

A third view suggests that globalization is the “closer integration of the countries and peoples of the world which has been brought about by the enormous reduction of the costs of transportation and communication and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders.”⁴⁸ Globalization is neither recent nor one-directional. It is, more accurately, a process similar to the swing of a pendulum.

The Pendulum View on Globalization

The pendulum view probably makes the most sense because it can help us understand the ups and downs of globalization. The current era of globalization originated in the aftermath of World War II, when major Western countries committed to global trade and investment. However, between the 1950s and the 1970s, this view was not widely shared. Communist countries, such as the former Soviet Union and China, sought to develop self-sufficiency. Many non-communist developing countries such as Brazil, India, and Mexico focused on protecting domestic industries. But refusing to participate in global trade and investment ended up breeding uncompetitive industries. In contrast, four developing economies in Asia—namely, Hong Kong, Singapore, South Korea, and Taiwan—earned their stripes as the “Four Tigers” by participating in the global economy. They became the *only* economies once recognized as less developed (low-income) by the World Bank to have subsequently achieved developed (high-income) status.

Inspired by the Four Tigers, more countries and regions—such as China in the late 1970s, Latin America in the mid 1980s, Central and Eastern Europe in the late 1980s, and India in the 1990s—realized that joining the global economy was a must. As these countries started to emerge as new players in the global economy, they became known as “emerging economies.” As a result, globalization rapidly accelerated in the 1990s.

The pendulum view suggests, however, that globalization is unable to keep going in one direction. Rapid globalization in the 1990s saw some significant backlash. First, the rapid growth of globalization led to the historically inaccurate view that globalization is new. Second, it created fear among many people in developed economies that they would lose jobs. Emerging economies not only seem to attract many low-end manufacturing jobs away from developed economies, but also increasingly appear to threaten some high-end jobs. Finally, some factions in emerging economies complained against the onslaught of MNEs, alleging that MNEs not only destroy local companies, but also local cultures, values, and the environment.

While small-scale acts of vandalizing McDonald’s restaurants are reported in several countries, the December 1999 anti-globalization protests in Seattle and the September 2001 terrorist attacks in New York and Washington are undoubtedly the most visible and most extreme acts of anti-globalization forces at work. As a result, international travel was curtailed, and global trade and investment flows slowed in the early 2000s. Then in the mid-2000s, worldwide GDP, cross-border trade, and per capita GDP all soared to historically high levels. But starting in 2008, the world was engulfed in a global economic crisis now known as the Great Recession. This recession has been characterized by a painful financial meltdown and numerous government bailouts. Rightly or wrongly, many people have blamed globalization for the recent crisis.

risk management

The identification and assessment of risks and the preparation to minimize the impact of high-risk, unfortunate events.

scenario planning

A technique to prepare and plan for multiple scenarios (either high or low risk).

semiglobalization

A perspective that suggests that barriers to market integration at borders are high but not high enough to completely insulate countries from each other.

After unprecedented intervention throughout developed economies whose governments ended up being the largest shareholders of many banks, there is growing confidence that the global economy has now turned the corner and that the global recession is now ending. However, economic recovery is likely to be slow in developed economies, whereas emerging economies have rebounded faster.⁴⁹

The recession reminds all firms and managers of the importance of **risk management**—the identification and assessment of risks and the preparation to minimize the impact of high-risk, unfortunate events.⁵⁰ As a technique to prepare and plan for multiple scenarios, **scenario planning** is now used by many firms around the world.⁵¹ As far as the direction of globalization is concerned, the recovery may see more protectionist measures because various governments' stimulus packages and job creation schemes emphasize policies to “hire locals” and “buy national” (such as the “buy American” policy in the United States and the promotion of “indigenous innovation” in China). In short, the pendulum is swinging back.

Like the proverbial elephant, globalization is seen by everyone and rarely comprehended. The suddenness and ferocity of the recent economic crisis surprised everybody, ranging from central bankers to academic experts. Remember, all of us felt sorry when we read the story of a bunch of blind men trying to figure out the shape and form of the elephant. We really shouldn't. Although we are not blind, our task is more challenging than the blind men with a standing animal. Our beast—globalization—does not stand still and is often moving, back and forth (!). Yet, we try to live with it, avoid being crushed by it, and even profit from it. Overall, relative to the other two views, the view of globalization as a pendulum is more balanced and more realistic. In other words, globalization has both rosy and dark sides, and it changes over time.

Semiglobalization

Despite the hype, globalization is not complete. Do we really live in a globalized world? Is doing business abroad just as easy as at home? Obviously not. Most measures of market integration, such as trade and FDI, have recently scaled new heights but still fall far short of becoming a single, globally integrated market. In other words, what we have may be labeled **semiglobalization**, which is more complex than extremes of total isolation and total globalization. Semiglobalization suggests that barriers to market integration at borders are high, but not high enough to completely insulate countries from each other.⁵²

Semiglobalization calls for more than one way of strategizing business around the globe. Total isolation on a nation-state basis would suggest localization—a strategy of treating each country as a unique market. So an MNE marketing products to 100 countries will need to come up with 100 versions of local cars or drinks. This approach is clearly too costly. Total globalization, on the other hand, would lead to standardization, or a strategy of treating the entire world as one market. The MNE in our previous example can just market one version of “world car” or “world drink.” The world obviously is not that simple. Between total isolation and total globalization, semiglobalization has no single right strategy, resulting in a wide variety of strategic experimentations and changes (see the Closing Case). Overall, (semi)globalization is neither to be opposed as a menace nor to be celebrated as a panacea; it is to be *engaged*.

Global Strategy and the Globalization Debate

Anti-globalization protests in Seattle (1999). 9/11 terrorist attacks (2001) and the resultant War on Terror (still ongoing). Enron (2001). Global financial crisis (2008) and the Great Recession afterwards. The euro crisis (since 2010). Earthquake in Japan (2011). Occupy Wall Street (2011). These and many other challenges confronting strategists around the globe in the 21st century are enormous. This book is designed to help you make informed strategic choices in this complex and rapidly moving world.

A fundamental reason that many executives, policymakers, and scholars were caught off guard by the anti-globalization protests, the terrorist attacks, and the Occupy Wall Street movement is that they have failed to heed Sun Tzu's most famous maxim: "Know yourself, know your opponents." To know yourself calls for a thorough understanding of not only your strengths, but also your limitations. Many individuals fail to understand their limitations or simply choose to ignore them. Although relative to the general public, executives, policymakers, and scholars tend to be better educated and more cosmopolitan, they are likely to be biased—just like everybody else. Most of them, in both developed and emerging economies in the last two decades, are biased toward acknowledging the benefits of globalization.

Although it has long been known that globalization carries both benefits and costs, many executives, policymakers, and scholars have failed to take into sufficient account the social, political, and environmental costs associated with globalization. However, that these elites share certain perspectives on globalization does *not* mean that most other members of society share the same views. Unfortunately, many elites mistakenly assume that the rest of the world either is, or should be, more like "us." To the extent that powerful economic and political institutions are largely controlled by these elites, it is not surprising that some powerless and voiceless anti-globalization groups end up resorting to unconventional tactics, such as mass protests, to make their point.

Many of the opponents of globalization are **nongovernmental organizations (NGOs)** such as environmentalists, human rights activists, and consumer groups. Ignoring them will be a grave failure in due diligence when doing business around the globe. Instead of viewing NGOs as opponents, many firms view them as partners. NGOs do raise a valid point when they insist that firms, especially MNEs, should have a broader concern for the various stakeholders affected by the MNEs' actions around the world.⁵³

It is certainly interesting and perhaps alarming to note that as would-be business leaders who will shape the global economy in the future, current business school students already exhibit values and beliefs in favor of globalization similar to those held by executives, policymakers, and scholars and different from those held by the general public. Shown in Table 1.5, US business students have significantly more positive (almost one-sided) views toward globalization than the general public. While these data are based on US business students, my teaching and lectures around the world suggest that most business students around the world—regardless of their nationality—seem to share such positive views. This is not surprising. Both self-selection to study business and socialization within the curriculum, in which free trade is widely regarded as positive, may lead to certain attitudes in favor of globalization. Consequently, business students tend to focus more on the economic gains of globalization and be less concerned with its darker sides.

nongovernmental organization (NGO)

Organization advocating causes such as the environment, human rights, and consumer rights that are not affiliated with government.

TABLE 1.5 Views on Globalization: American General Public versus Business Students

PERCENTAGE ANSWERING "GOOD" FOR THE QUESTION: OVERALL, DO YOU THINK GLOBALIZATION IS <i>GOOD</i> OR <i>BAD</i> FOR	GENERAL PUBLIC ¹ (N = 1,024)	BUSINESS STUDENTS (AVERAGE AGE 22) ² (N = 494)
US consumers like you	68%	96%
US companies	63%	77%
The US economy	64%	88%
Strengthening poor countries' economies	75%	82%

Sources: Based on (1) A. Bernstein, 2000, Backlash against globalization, *BusinessWeek*, April 24: 43; (2) M. W. Peng & H. Shin, 2008, How do future business leaders view globalization? *Thunderbird International Business Review* (p. 179), 50 (3): 175–182. All differences are statistically significant.

Current and would-be business leaders need to be aware of their own biases embodied in such one-sided views toward globalization. Since business schools aspire to train future business leaders by indoctrinating students with the dominant values managers hold, these results suggest that business schools may have largely succeeded in this mission. However, to the extent that current managers (and professors) have strategic blind spots, these findings are potentially alarming. They reveal that students already share these blind spots. Despite possible self-selection in choosing to major in business, there is no denying that student values are shaped, at least in part, by the educational experience provided by business schools. Knowing such limitations, professors and students need to work especially hard to break out of this mental straitjacket.

In order to combat the widespread tendency to have one-sided, rosy views, a significant portion of this book is devoted to the numerous debates that surround globalization.⁵⁴ Debates are systematically introduced in *every* chapter to provoke more critical thinking and discussion. Virtually all textbooks uncritically present knowledge “as is.” The reality is that our field has no shortage of debates.⁵⁵ It is imperative that you be exposed to cutting-edge debates and encouraged to form your own views.⁵⁶ In addition, ethics is emphasized throughout the book. A featured Ethical Dilemma can be found in every chapter. Two whole chapters are devoted to ethics, norms, and cultures (Chapter 3) and corporate social responsibility (Chapter 14).

Organization of the Book

This book has three parts. The first part concerns *foundations*. Following this chapter, Chapters 2, 3, and 4 introduce the strategy tripod, consisting of the three leading perspectives on strategy: industry-based, resource-based, and institution-based views. Students will be systematically trained to use this tripod to analyze a variety of strategy problems. The second part covers *business-level strategies*. In contrast to most global-strategy books that focus on large MNEs, we start with the internationalization of small entrepreneurial firms (Chapter 5), followed by ways to enter foreign markets (Chapter 6),

to leverage alliances and networks (Chapter 7), and to manage global competitive dynamics (Chapter 8). Finally, the third part deals with *corporate-level strategies*. Chapter 9 on diversifying, acquiring, and restructuring starts this part, followed by strategies to structure, learn, and innovate (Chapter 10), to govern the corporation around the world (Chapter 11), and to profit from corporate social responsibility (Chapter 12).

A unique organizing principle is a consistent focus on the strategy tripod and on the four fundamental questions regarding strategy in *all* chapters. Following this chapter, every chapter has a substantial “Debates and Extensions” section, which is followed by “The Savvy Strategist” section culminating a one-slide “Strategic Implications for Action” to drive home the important take-aways.

CHAPTER SUMMARY

- 1. Offer a basic critique of the traditional, narrowly defined “global strategy”**
 - The traditional and narrowly defined notion of “global strategy” is characterized by the production and distribution of standardized products and services on a worldwide basis—in short, a “one size fits all” approach. This strategy has often backfired in practice.
 - As a *global* global-strategy book, this book provides a more balanced coverage, not only in terms of the traditional “global strategy” and “non-global strategy,” but also in terms of both MNEs’ and local firms’ perspectives. Moreover, this book has devoted extensive space to emerging economies.
- 2. Articulate the rationale behind studying global strategy**
 - To better compete in the corporate world that will appreciate expertise in global strategy.
- 3. Define what is strategy and what is global strategy**
 - There is a debate between two schools of thought: “strategy as plan” and “strategy as action.” This book, together with other leading textbooks, instead follows the “strategy as integration” school.
 - In this book, strategy is defined as a firm’s theory about how to compete successfully, while global strategy is defined as strategy of firms around the globe.
- 4. Outline the four fundamental questions in strategy**
 - The four fundamental questions are: (1) Why do firms differ? (2) How do firms behave? (3) What determines the scope of the firm? (4) What determines the success and failure of firms around the globe?
 - The three leading perspectives guiding our exploration are industry-based, resource-based, and institution-based views, which collectively form a strategy tripod.
- 5. Participate in the debate on globalization with a reasonably balanced view and a keen awareness of your likely bias**
 - Some view globalization as a recent phenomenon, while others believe that it has been evolving since the dawn of human history.
 - We suggest that globalization is best viewed as a process similar to the swing of a pendulum.
 - Strategists need to know themselves (including their own biases) and know their opponents.

KEY TERMS

Balanced scorecard p. 18	Multinational enterprise (MNE) p. 5	Strategy as integration p. 11
Base of the pyramid (BOP) p. 7	Nongovernmental organization (NGO) p. 23	Strategy as plan p. 10
BRIC p. 7	Replication p. 13	Strategy formulation p. 11
BRICS p. 7	Reverse innovation p. 9	Strategy implementation p. 11
Emergent strategy p. 11	Risk management p. 22	Strategy tripod p. 16
Emerging economies (emerging markets) p. 5	Scenario planning p. 22	SWOT analysis p. 11
Foreign direct investment (FDI) p. 5	Semiglobalization p. 22	Top management team (TMT) p. 15
Global strategy p. 19	Stakeholder p. 18	Triad p. 5
Globalization p. 20	Strategic management p. 10	Triple bottom line p. 18
Information overload p. 18	Strategy p. 10	
Intended strategy p. 11	Strategy as action p. 11	

CRITICAL DISCUSSION QUESTIONS

1. A skeptical classmate says: “Global strategy is relevant for top executives such as CEOs in large companies. I am just a lowly student who will struggle to gain an entry-level job, probably in a small company. Why should I care about it?” How do you convince her that she should care about global strategy?
2. **ON ETHICS:** Some argue that globalization benefits citizens of rich countries. Others argue that globalization benefits citizens of poor countries. What are the ethical dilemmas here? What do you think?
3. **ON ETHICS:** Critics argue that MNEs, through FDI, allegedly both exploit the poor in poor countries and take jobs away from rich countries. If you were the CEO of an MNE from a developed economy or from an emerging economy, how would you defend your firm?

TOPICS FOR EXPANDED PROJECTS

1. The 2008 global financial crisis and the Great Recession since then have been devastating. However, not all industries and not all firms have suffered. Some may have profited from these events. Write a short paper describing how some industries and firms may have profited from the crisis and the recession.

2. As the CEO of an MNE from an emerging economy, use the strategy tripod to analyze what the leading challenges for your firm's internationalization will be. Present your analysis in the form of a short paper or visual presentation.
3. **ON ETHICS:** What are some of the darker sides (in other words, costs) associated with globalization? How can strategists make sure that the benefits of their various actions outweigh their drawbacks (such as job losses in developed economies and environmental damage in emerging economies)? Working individually or in teams, write a short paper describing at least three examples.

CLOSING CASE

ETHICAL DILEMMA

Emerging Markets: Microsoft's Evolving China Strategy

Microsoft's first decade in China was disastrous. It established a representative office in 1992 and then set up a wholly owned subsidiary, Microsoft (China), in 1995. The firm quickly realized that it didn't have a market share problem—everybody was using Windows. The problem was how to translate that market share into revenue, since everybody seemingly used pirated versions. Microsoft's solution? Sue violators in Chinese courts. But Microsoft lost such lawsuits regularly. Alarmed, the Chinese government openly promoted the free open-source Linux operating systems. For security reasons, the Chinese government was afraid that Microsoft's software might contain spyware for the US government. Internally, Microsoft's executives often disagreed with this confrontational strategy. Its country managers came and went—five in a five-year period. Two of them later wrote books criticizing this strategy. These books revealed that Microsoft's antipiracy policy was excessively heavy-handed. Their authors' efforts to educate their bosses in headquarters in Redmond, Washington (a Seattle suburb), were deeply frustrated.

Fast forward to 2007. President Hu Jintao visited Microsoft and paid Bill Gates a visit at his house as a dinner guest. "You are a friend to the Chinese people, and I am a friend of Microsoft," Hu told Gates. "Every morning I go to my office and use your software." Starting in the mid-2000s, the Chinese government required all government agencies to use legal software and all PC manufacturers to load legal software before selling to consumers. Prior to these



Map Resources

requirements, Lenovo, the leading domestic PC maker, had only shipped about 10% of its PCs that way. Many foreign (and some US) PC makers in China sold numerous machines "naked," implicitly inviting their customers to use cheap illegal software. From a disastrous start, Microsoft today is in a sweet spot in China. So, what happened?

In a nutshell, Microsoft radically changed its China strategy in its second decade in the country. In China, it became the "un-Microsoft": pricing at rock bottom instead of insisting on one very high "global price," abandoning the confrontational, litigious approach in defense of its intellectual property rights (IPR), and closely

Not For Sale

partnering with the government as opposed to fighting it (as it was doing back home when it was sued by the US government).

To be sure, the strategic changes were gradual. In 1998, Gates sent Craig Mundie, who headed the firm's public policy group, to Beijing. Mundie urged for strategic changes. He brought 25 of Microsoft's 100 vice presidents for a week-long "China Immersion Tour." Also in 1998, in part as a gesture of goodwill, Microsoft set up a research center in Beijing, which emerged to become the premier employer for top-notch software talent in China.

Within Microsoft, debates raged. Given the size of the country, changing the China strategy would inevitably lead to changing the global strategy, which was centered on a globally "one-size-fits-all" set of pricing (such as \$560 for the Windows and Office toolset as in the United States). The heart of the question was: "Does Microsoft need China?" As late as in 2004, its CFO John Connors argued "No" publicly. Connors was not alone. On the face of it, nobody needed China less than Microsoft, which became a dynamo without significant China sales. However, in the long run, China's support of Linux could pose dangers to Microsoft. This was because a public infrastructure for a software industry built around Linux could generate an alternative ecosystem with more low-cost rivals that break free from dependence on Windows. By the early 2000s, concerned about this competitive threat, Gates increasingly realized that if the Chinese consumer were going to use pirated software, he would rather prefer it to be Microsoft's.

In 2003, Tim Chen, a superstar China manager at Motorola, was hired as Corporate Vice President and CEO of Greater China Region for Microsoft. Led by Chen, Microsoft quit suing people and tolerated piracy. Instead, it worked with the National Development Reform Commission to build a software industry, with the Ministry of Information Industry to jointly fund labs, and with the Ministry of Education to finance computer classrooms in rural areas. Overall, it elevated its R&D presence, trained thousands of professionals, and invested close to \$100 million in local firms. In response to Chinese government concerns about the alleged US government spyware embedded in Microsoft's software, in 2003 the firm offered China (and 59 other countries) the fundamental source code for Windows and the right to substitute certain portions with local adaptation—something Microsoft had never done before. Only after such sustained and

multidimensional efforts did the Chinese government bless Microsoft's business by requiring that only legal software be used by government offices and be loaded by PC makers. Although Microsoft never disclosed how deep the discount it offered to the Chinese government, a legal package of Windows and Office could be bought for \$3 (!). In Chen's own words:

With all this work, we start changing the perception that Microsoft is the company coming just to do antipiracy and sue people. We changed the company's image. We're the people. We changed the company's image. We're the company that has the long-term vision. If a foreign company's strategy matches with the government's development agenda, the government will support you, even if they don't like you.

Microsoft now has its own five-year plan to match the Chinese government's. But not all is rosy when working closely with the Chinese government. Problems have erupted on two fronts. First, Microsoft continues to be frustrated by the lack of sufficient progress on IPR. While not disclosing country-specific sales numbers, CEO Steve Balmer complained in an interview in 2010 that thanks to IPR problems, "China is a less interesting market to us than India ... than Indonesia." Second, Microsoft has been criticized by free speech and human rights activists for its "cozy" relationship with the Chinese government. While largely unscrutinized by the media, the Chinese version of Microsoft MSN has long filtered certain words such as "democracy" and "freedom." In 2010 Google butted heads with the Chinese government and openly called for Microsoft (and other high-tech firms) to join its efforts. Microsoft refused. Instead, Microsoft took advantage of Google's trouble. It set up an alliance with Google's number one rival in China, Baidu, to provide English-language search results for Baidu from its Bing search engine. Such search results, of course, would be subject to political censorship. In 2011, anyone in China searching "jasmine," in either Chinese (on Baidu) or English (on Baidu and routed through Bing), would find this term to be unsearchable—thanks to the Jasmine Revolution (otherwise known as the Arab Spring).

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CASE DISCUSSION QUESTIONS

1. From an industry-based view, why does Microsoft feel threatened by Linux in China and globally?
2. From a resource-based view, what valuable and unique resources and capabilities does Microsoft have in the eyes of the Chinese users and the government?
3. From an institution-based view, what are the major lessons from Microsoft's strategic changes?
4. From a "strategy as theory" perspective, why is it hard to change strategy? How are strategic changes made?
5. **ON ETHICS:** As a Microsoft spokesperson, how do you respond to free speech and human rights critics?

NOTES

[Journal acronyms] *AMJ* – *Academy of Management Journal*; *AMP* – *Academy of Management Perspectives*; *AMR* – *Academy of Management Review*; *APJM* – *Asia Pacific Journal of Management*; *BW* – *BusinessWeek* (before 2010) or *Bloomberg Businessweek* (since 2010); *ETP* – *Entrepreneurship Theory and Practice*; *GSJ* – *Global Strategy Journal*; *HBR* – *Harvard Business Review*; *IJMR* – *International Journal of Management Reviews*; *JEL* – *Journal of Economic Literature*; *JEP* – *Journal of Economic Perspectives*; *JF* – *Journal of Finance*; *JIBS* – *Journal of International Business Studies*; *JIM* – *Journal of International Management*; *JM* – *Journal of Management*; *JMS* – *Journal of Management Studies*; *JWB* – *Journal of World Business*; *MBR* – *Multinational Business Review*; *MIR* – *Management International Review*; *Ost* – *Organization Studies*; *SMJ* – *Strategic Management Journal*

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