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GLOBAL STRATEGY

THIRD EDITION

Mike W. Peng, PhD

Jindal Chair of Global Strategy

Jindal School of Management

University of Texas at Dallas

Chair, Global Strategy Interest Group (2008)

Strategic Management Society

Fellow, Academy of International Business (since 2012)

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Global Strategy, 3rd Edition

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To Agnes, Grace, and James



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ABOUT THE AUTHOR



Mike W. Peng is the Jindal Chair of Global Strategy at the Jindal School of Management, University of Texas at Dallas, a National Science Foundation CAREER Award winner, and a Fellow of the Academy of International Business. He is also Executive Director of the Center for Global Business, which he founded. At UT Dallas, he has been the number one contributor to the 45 top journals tracked by *Financial Times*, which ranked UT Dallas as a top 20 school in research worldwide and its MBA and EMBA programs increasingly in the top tier.

Professor Peng holds a bachelor's degree from Winona State University, Minnesota, and a PhD degree from the University of Washington, Seattle. Between 2005 and 2011, he was the first Provost's Distinguished Professor at UT Dallas, a chair position that was created to attract him to join the faculty. He had previously been an associate professor (with tenure) at the Ohio State University. Prior to that he had served on the faculty at the Chinese University of Hong Kong and University of Hawaii. He has taught in five states in the United States (Hawaii, Ohio, Tennessee, Texas, and Washington) as well as China, Hong Kong, and Vietnam. He has also held visiting or courtesy appointments in Australia, Britain, China, Denmark, Hong Kong, and the United States.

Professor Peng is one of the most prolific and most influential scholars in global strategy. During the decade 1996–2006, he was among the top seven contributors to the *Journal of International Business Studies*. His research is also among some of the most widely cited—both the United Nations and the World Bank have cited his work. A *Journal of Management* article found him to be among the top 65 most widely cited management scholars, and an *Academy of Management Perspectives* study found him to be the fourth most influential management scholar both inside and outside of academia (measured by academic citations and non-edu Google webpages) among professors who obtained their PhD since 1991. Overall, Professor Peng has published over 100 articles in

leading journals, over 30 pieces in non-refereed outlets, and five books. Since the launch of *Global Strategy's* second edition, he has published not only in top global strategy journals, such as the *Academy of Management Journal*, *Journal of International Business Studies*, and *Strategic Management Journal*, but also in leading outlets in operations (*Journal of Operations Management*), entrepreneurship (*Journal of Business Venturing* and *Entrepreneurship Theory and Practice*), and human resources (*International Journal of Human Resource Management*).

Professor Peng's market-leading textbooks, *Global Strategy*, *Global Business*, and *GLOBAL*, are studied in over 30 countries and have been translated into Chinese, Spanish, and Portuguese. A European adaptation, *International Business* (with Klaus Meyer), has been successfully launched.

Professor Peng is active in leadership positions. He has served on the editorial boards of *AMJ*, *AMR*, *JIBS*, *JMS*, *JWB*, and *SMJ*, and guest-edited a special issue for the *JMS*. At the Strategic Management Society (SMS), he was elected to be the Global Strategy Interest Group Chair (2008). He also co-chaired the SMS Special Conference on China in Shanghai (2007). At the Academy of International Business (AIB), he was co-chair of the AIB/JIBS Frontiers Conference in San Diego (2006), guest-edited a *JIBS* special issue (2010), chaired the Emerging and Transition Economies track for the Nagoya conference (2011), and chaired the Richard Farmer Best Dissertation Award Committee for the Washington conference (2012). He was recently elected to be a Fellow of AIB. He served one term as Editor-in-Chief of the *Asia Pacific Journal of Management*. During his editorial tenure, he managed the doubling of submission numbers and the successful bid to enter the Social Sciences Citation Index (SSCI), which reported *APJM's* first citation impact to be 3.36 and rated it as the top 18 among 140 management journals for 2010.

Professor Peng is also an active consultant, trainer, and keynote speaker. He has provided on-the-job training to over 300 professors. He has consulted and been a keynote speaker for multinational enterprises (such as AstraZeneca, Berlitz, KOSTA, Nationwide, SAFRAN, and Texas Instruments), nonprofit organizations (such as Greater Dallas Asian American Chamber of Commerce and World Affairs Council of Dallas-Fort Worth), educational and funding organizations (such as Harvard University Kennedy School of Government, National Science Foundation, Social Sciences and Humanities Research Council of Canada, and the University of Memphis), and national and international organizations (such as the US-China Business Council, US Navy, and World Bank).

Professor Peng has attracted close to \$1 million in external funding. His honors include a National Science Foundation CAREER Grant, a US Small Business Administration Best Paper Award, a (lifetime) Distinguished Scholar Award from the Southwestern Academy of Management, and a (lifetime) Scholarly Contribution Award from the International Association for Chinese Management Research. He has been quoted in *The Economist*, *Newsweek*, *Dallas Morning News*, *Smart Business Dallas*, *The Exporter Magazine*, *The World Journal*, *Business Times* (Singapore), *Sing Tao Daily* (Vancouver), and *Brasil Econômico* (São Paulo), as well as on Voice of America.



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PREFACE

It has been a decade since I began work on the first edition of *Global Strategy*. While the practice of global strategy has clearly become more important, the research and teaching of global strategy have also scaled new heights. Two landmark events important to the global strategy community in the past decade are (1) the founding of a dedicated Global Strategy Interest Group (GSIG) within the Strategic Management Society (SMS) and (2) the launch of the *Global Strategy Journal (GSJ)*. I have actively supported these two initiatives, by serving as the first elected officer of GSIG (culminating in my service as the GSIG Chair) and by serving as an inaugural member of *GSJ*'s editorial review board. I believe that the widespread adoption of *Global Strategy*'s first two editions has enhanced the legitimacy of the global strategy field, widened its influence, and helped push the launch of these two exciting initiatives.

Starting from 2002, my goal has been to set a new standard for strategic management and international business textbooks in general and global strategy textbooks in particular. *Global Strategy* serves the needs of three types of undergraduate or MBA courses: (1) global or international strategy courses, (2) strategic management courses (especially those taught by internationally oriented instructors), and (3) international business courses (especially those taught by strategically oriented instructors). Based on the enthusiastic support from students and professors in Angola, Australia, Austria, Brazil, Britain, Canada, Chile, China, Finland, France, Denmark, Germany, Hong Kong, India, Ireland, Macau, Malaysia, Mexico, the Netherlands, Netherlands Antilles, New Zealand, Norway, Portugal, Romania, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, and the United States, the first two editions achieved unprecedented success and largely accomplished my goal. In addition to English, *Global Strategy* is also available in Chinese, Spanish, and Portuguese. In short, *Global Strategy* is global.

The third edition aspires to do even better. It continues the market-winning framework centered on the “strategy tripod” pioneered in the first edition and has been thoroughly updated to capture the rapidly moving research and events in the past several years. Its most strategic features include (1) a broadened definition of “global strategy,” (2) a comprehensive and innovative coverage, (3) an evidence-based, in-depth, and consistent explanation of cutting-edge research, and (4) an interesting and accessible way to engage students.

A Broadened Definition of “Global Strategy”

In this book, “global strategy” is defined not as a particular multinational enterprise (MNE) strategy, but as “strategy around the globe.” While emphasizing international strategy, we do not exclusively focus on it. Just like “international business” is about “business” (in addition to being “international”), “global strategy” is most fundamentally about “strategy” before being “global.” Most global strategy and international business

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textbooks take the perspective of the foreign entrant, typically the MNE, often dealing with issues such as how to enter foreign markets and how to look for local partners. Important as these issues are, they only cover one side of international business—namely, the foreign side. The other side, naturally, is how domestic firms strategize by competing against each other and dealing with foreign entrants. Failing to understand the “other side,” at best, captures only one side of the coin.

A Comprehensive and Innovative Coverage

With a broadened definition of “global strategy,” this book covers the strategies of both large MNEs and smaller entrepreneurial firms, both foreign entrants and domestic firms, and both firms from developed economies and from emerging economies. As a result, this text offers the most comprehensive and innovative coverage of global strategy topics available on the market. In short, it is the world’s first *global*, global-strategy book. Its unique features include:

- A chapter on institutions, cultures, and ethics (Chapter 4) and a focus on the emerging institution-based view of strategy (in addition to the traditional industry-based and resource-based views) throughout the book.
- A chapter on entrepreneurship (Chapter 5), especially its internationalization aspects.
- A chapter on global competitive dynamics (Chapter 8), including substantial discussions on cartel, antitrust, and antidumping issues typically ignored by other textbooks.
- A chapter on both product and geographic diversification (Chapter 9), the first time these crucial aspects of corporate strategies appear in the *same* textbook chapter.
- A chapter on corporate governance around the world (Chapter 11), the first time both the principal-agent and principal-principal conflicts are given *equal* “air time.”
- A chapter on corporate social responsibility (Chapter 12), an increasingly important area of interest.
- A geographically comprehensive coverage, not only covering firms from the developed economies of the Triad (North America, Western Europe, and Japan) but also those from emerging economies of the world (with a focus on BRIC—Brazil, Russia, India, and China)
- A consistent theme on ethics, which is not only highlighted in Chapters 4 and 12 but also throughout all chapters in the form of Ethical Dilemma features and ethics-based Critical Discussion Questions

An Evidence-Based, In-Depth, and Consistent Explanation

The breadth of the field poses a challenge to textbook authors. My respect and admiration for the diversity of the field have increased tremendously over the past decade. To provide an evidence-based, in-depth explanation, I have leveraged the latest research (including my own forthcoming and ongoing work).¹ Specifically, *every* article published in the past

¹ All my articles are listed at www.mikepeng.com and www.utdallas.edu/~mikepeng. Go to “Journal Articles.”

ten years in leading journals has been consulted. Consequently, the Notes after each chapter are lengthy and comprehensive. While not every publication is cited, I am confident that I have left no major streams of research untouched. Readers—especially contributors to the literature—should feel free to check the Name Index to verify this claim. (Unfortunately, a number of older references have to be deleted to make room for more recent research.)

Given the breadth of the field, it is easy to lose focus. To combat this tendency, I have endeavored to provide a consistent set of frameworks in *all* chapters. This is done in three ways. First, I have focused on the four most fundamental questions in strategic management.² These are: (1) Why do firms differ? (2) How do firms behave? (3) What determines the scope of the firm? and (4) What determines the success and failure of firms around the globe? A particular emphasis is on the fourth question on firm performance, which has also been argued to be the leading question guiding global strategy and international business research.³

Another way to combat the tendency to lose the sight of the “forest” while scrutinizing various “trees” (or even “branches”) is to consistently draw on the strategy tripod—the three leading perspectives on strategy, namely, industry-based, resource-based, and institution-based views. An innovative feature is the development of the institution-based view. In *every* chapter, these three views are integrated to develop a comprehensive model. This provides a great deal of continuity in the learning process.

Finally, I have written a beefy “Debates and Extensions” section for *every* chapter. Virtually all textbooks uncritically present knowledge “as is” and ignore the fact that the field is alive with numerous debates. Because debates drive practice and research ahead, it is imperative that students be exposed to various cutting-edge debates.

An Interesting and Accessible Way To Engage Students

If you fear this book must be very boring because it draws so heavily on current research, you are wrong. I have used a clear, engaging, conversational style to tell the “story.” Relative to rival books, my chapters are generally more lively and shorter. Some reviewers commented that reading *Global Strategy* is like reading a “good magazine.”

I have woven a large number of interesting anecdotes into the text. In addition to examples from the business world, “outside-the-box” examples range from ancient Chinese military writings to the Roman Empire’s import quotas, from quotes from *Anna Karenina* to mutually assured destruction (MAD) strategy during the Cold War.

So what? Many textbooks leave students to struggle with this question at the end of every chapter. In *Global Strategy*, every chapter ends with a section on “The Savvy Strategist” with one teachable table/slide on “Strategic Implications for Action” from a *practical* standpoint. No other competing textbook is so savvy and so relevant.

Students and professors especially enjoyed the wide-ranging and globally relevant cases in previous editions. In the third edition, I have worked hard to bring together a new (and I believe more attractive) set of case materials. The third edition has been blessed by a

2 R. Rumelt, D. Teece, & D. Schendel (eds.), 1994, *Fundamental Issues in Strategy: A Research Agenda*, Boston: Harvard Business School Press.

3 M. W. Peng, 2004, Identifying the big question in international business research, *Journal of International Business Studies*, 35(2): 99–108.

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global community of case contributors who are based in Australia, Brazil, Canada, China, Germany, India, Singapore, and the United States. Many are experts who are located in or are from the countries in which the cases take place. For example, we now have an Australia case written by an Australia-based author (see Integrative Case on SnowSports Interactive), a Brazil case penned by a Brazil-based author (see Integrative Case on Jobek do Brasil), two Macau and Hong Kong, China, cases contributed by Macau-based and Hong Kong-based authors (see Integrative Cases on Wynn Macau and Ocean Park fights Hong Kong Disneyland), and a Texas Instruments (TI) case coauthored by a TI executive (see Integrative Case on TI in South Korea). This edition also features a Russia case contributed by the world's top two leading experts on Russian management (see Integrative Case on Wikimart). The end result is an unparalleled, diverse collection of case materials that will significantly enhance the teaching and learning of global strategy around the world.

What's New in the Third Edition?

Most strategically, the third edition has (1) enhanced the executive voice by drawing more heavily from CEOs and other strategic leaders and (2) dedicated more space to emerging economies.

First, if *Global Strategy* aims to train a new generation of global strategists, we need to coach them to think, act, and talk like CEOs. While I have taught a few CEO classes in executive education with *Global Strategy*, most students using the book—even the highest-level Executive MBA (EMBA) students—have not assumed that kind of executive responsibilities. To facilitate strategic thinking, the third edition has featured more extensive quotes and perspectives from CEOs and other strategic leaders. These are longer and more visibly prominent break-out quotes—not merely single quotes typically embedded (or “buried”) in paragraphs. In Chapter 1 alone, you will enjoy such insightful quotes from (1) Facebook's founder, chairman, and CEO, (2) GE's chairman and CEO, (3) Microsoft's CEO of Greater China, and (4) P&G's chairman and CEO. In later chapters, the following leaders will share their thoughts with you:

| | |
|--|--|
| Bayer North America's CEO | US Secretary of Justice (representing the |
| Carlyle Group's co-founder and managing director | Department of Justice's challenge of AT&T's proposed merger with T-Mobile) |
| Dow Chemical's CEO | US Secretary of Treasury (on the |
| GE's former chairman and CEO | US-China Strategic and Economic Dialogue) |
| IBM's CEO | Whole Foods' co-founder and CEO |
| LG's chairman | |
| TNK-BP's chairman and CEO | |

Second, this edition builds on *Global Strategy's* previous strengths by more prominently highlighting global strategy challenges in and out of emerging economies. This is both a reflection of the global realities in which emerging economies have played a more important role and a reflection of my own strong research interest in emerging economies. Specifically, in the third edition, (1) a new Emerging Markets in-chapter feature is launched in every chapter, and (2) more than half of the longer Integrative Cases are now

devoted to competition in and out of emerging economies (including one case on Brazil, two on Russia, one on India, and five on China).

Of course, in addition to these new features, every chapter has been thoroughly updated. Of the 16 Integrative Cases, 15 (94%) are new to this edition. Of the 60 in-chapter features (each chapter has an Opening Case, a Closing Case, and three boxes), 54 (90%) are new.

Overall, the third edition of *Global Strategy* has packed rigor with relevance, timeliness with excitement, and the strategic with the practical. To see how this book, itself a global product, competes around the world, check out the Chapter 1 Opening Case.

Support Materials

A full set of support materials is available for adopting instructors on the accompanying Instructor Resource CD, ensuring that instructors have the tools they need to plan, teach, and assess their course. These resources include:

- *Instructor's Manual*—This comprehensive manual provides chapter outlines, lecture notes, and sample responses to end-of-chapter questions, providing a complete set of teaching tools to save instructors time in preparing for class and to maximize student success within the class. The Instructor's Manual also includes notes to accompany the Integrative Cases from the text.
- *Testbank*—The robust *Global Strategy* testbank contains a wide range of questions with varying degrees of difficulty in true/false, multiple-choice, and short answer/essay formats. All questions have been tagged to the text's learning objectives and according to AACSB standards to ensure students are meeting necessary criteria for course success. Instructors can use the included ExamView® software package to view, choose, and edit their test questions according to their specific course requirements.
- *PowerPoint® Slides*—Each chapter includes a complete set of PowerPoint slides designed to present relevant chapter material in a way that will allow more visual learners to firmly grasp key concepts.

Acknowledgment

As *Global Strategy* launches its third edition, I first want to thank all the customers—professors, instructors, and students around the world who have made the book's success possible. As my (non-book-related) research not only progresses but also accelerates while I work on the book, I also want to thank my over 90 coauthors around the world for being in action together with me on the research front.

At UT Dallas, I thank my colleagues Dan Bochsler, Larry Chasteen, Tev Dalgic, Van Dam, Greg Dess, Dave Ford, Richard Harrison, Maria Hasenhuttl, Charlie Hazzard, Marilyn Kaplan, Seung-Hyun Lee, Elizabeth Lim, John Lin, Livia Markóczy, Joe Picken, Roberto Ragozzino, Orlando Richard, Jane Salk, Mary Vice, Eric Tsang, and Habte Woldu, as well as the supportive leadership team—Hasan Pirkul (dean), Varghese Jacob (associate dean), and Greg Dess (area coordinator). I also thank my two PhD students, Brian Pinkham (now at Texas Christian University) and Steve Sauerwald, for their research assistance. One PhD student (Canan Mutlu), four MBA students (Kris Baker,

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Harold Burman, Andrew Cyders, and Ben Wilson), and seven EMBA students (Cathy Benjamin, Fabia Bourda, Vivian Brown, James Buchanon, Grace Crane, David Darling, and Michele Harkins) authored excellent case materials.

At South-Western Cengage Learning, I thank the “Peng team” that not only publishes *Global Strategy* but also *Global Business* and *GLOBAL*. Our *Global Strategy* team includes Erin Joyner, Publisher; Michele Rhoades, Senior Acquisitions Editor; Josh Wells, Associate Development Editor; Jonathan Monahan, Market Development Manager; Rob Ellington, Media Editor; and Tammy Grega, Editorial Assistant.

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Jun Li (University of New Hampshire)
 Carol Sanchez (Grand Valley State University)

In addition, I thank many colleagues who provided informal feedback to me on the book. Over the last decade I have been blessed by such feedback from hundreds of colleagues from around the world. Space constraints here force me to only acknowledge colleagues who wrote me since the second edition, since colleagues who wrote me earlier were thanked in earlier editions. (If you wrote me but I failed to mention your name here, my apologies—blame this on the volume of such emails.)

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 Hari Bapuji (University of Manitoba, Canada)
 Balbir Bhasin (University of Arkansas at Fort Smith, USA)
 Murali Chari (Rensselaer Polytechnic Institute, USA)
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Anisul Islam (University of Houston, USA)
 Basil Janavaras (Minnesota State University, USA)
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 Ben Kedia (University of Memphis, USA)
 Aldas Kriauciunas (Purdue University, USA)
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 Anoop Madhok (York University, Canada)
 Mike Poulton (Dickinson College, USA)
 David Pritchard (Rochester Institute of Technology, USA)
 Pradeep Kanta Ray (University of New South Wales, Australia)

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FR AU: Probably no need,
given the new entry on "Maria
Hasenhuttl"

David Reid (Seattle University, USA)

Al Rosenbloom (Dominican University,
USA)

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Clyde Stoltenberg (Wichita State
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Loren Vickery (Western Oregon
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In this edition, 30 colleagues—including one executive from Texas Instruments—graciously contributed cases:

Kris Baker (University of Texas at Dallas,
USA)

Cathy Benjamin (University of Texas at
Dallas, USA)

Dirk Michael Boehe (Insper Institute of
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Michael Young (Hong Kong Baptist University, China)—*two cases*

In addition, the work of the following global dignitaries was reprinted to grace the pages of our book:

Mikhail Fridman (chairman and CEO of TNK-BP and founder of Alfa Group, Russia)

John Mackey (co-founder and CEO of Whole Foods)

Michael Porter (strategy guru at Harvard Business School)

Barbara Tuchman (deceased)—Pulitzer award winning author of *The Guns of August*

Last, but no means least, I thank my wife Agnes, my daughter Grace, and my son James—to whom this book is dedicated. I have named Agnes CEO, CFO, CIO, CTO, and CPO for our family, the last of which is coined by me, which stands for “chief parenting officer.” Ten years ago Grace was a newborn and James was still waiting for his turn to show up in the world. Now my ten-year-old Grace, already a voracious reader and writer, can help me edit, and my eight-year-old James can assist me to enter grades. Grace is writing and editing her 17th short story called *My Magic Life*, and James is very interested in creating Lego models. For now, Grace wants to be a lawyer and James a banker. As a third-generation professor in my family, I can’t help but wonder whether one (or both) of them will become a fourth-generation professor. To all of you, my thanks and my love.

MWP
December 1, 2012