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Global Strategy

FIFTH EDITION

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Global Strategy, Fifth Edition
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WCN: 02-300

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Library of Congress Control Number: 2020949397

ISBN: 978-0-357-51236-4

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To Agnes, Grace, and James

Brief Contents

List of In-Chapter Features and Integrative Cases	xi
Preface	xv
About the Author	xx

PART 1 Foundations of Global Strategy 1

- 1** Strategizing Around the Globe 2
- 2** Managing Industry Competition 32
- 3** Leveraging Resources and Capabilities 58
- 4** Emphasizing Institutions, Cultures, and Ethics 84

PART 2 Business-Level Strategies 113

- 5** Growing and Internationalizing the Entrepreneurial Firm 114
- 6** Entering Foreign Markets 140
- 7** Making Strategic Alliances and Networks Work 168
- 8** Managing Competitive Dynamics 194

PART 3 Corporate-Level Strategies 223

- 9** Diversifying and Managing Acquisitions Globally 224
- 10** Strategizing, Structuring, and Innovating Around the World 254
- 11** Governing the Corporation Globally 282
- 12** Strategizing on Corporate Social Responsibility 314

PART 4 Integrative Cases 341

Glossary	426
Index of Names	438
Index of Organizations	451
Index of Subjects	454

Contents

List of In-Chapter Features and Integrative Cases	xi
Preface	xv
About the Author	xx

PART 1 Foundations of Global Strategy

CHAPTER 1 STRATEGIZING AROUND THE GLOBE 2

Opening Case: Zoom	3
Why Study Global Strategy?	5
What Is Strategy?	6
Origin	6
Plan versus Action	6
Strategy as Theory	7
Strategy in Action 1.1: German and French Military Strategies in 1914	7
Strategy in Action 1.2: Selling Star Wars to LEGO Top Management	10
Strategy, Strategist, and Strategic Leadership	11
Fundamental Questions in Strategy	12
Why Do Firms Differ?	12
How Do Firms Behave?	14
What Determines the Scope of the Firm?	15
What Determines the Success and Failure of Firms Around the Globe?	15
Strategy in Action 1.3: Confessions of Your Textbook Author	16
What is Global Strategy?	17
Globalization and Semiglobalization	17
What Is Globalization?	17
The Swing of a Pendulum	18
Black Swan and Risk Management	19
Semiglobalization	20
Debates and Extensions	20
Debate 1: Globalization versus Deglobalization	20
Debate 2: Strategic versus Nonstrategic Industries	22
Debate 3: Just-in-Time versus Just-in-Case Management	22
Fostering Critical Strategic Thinking Through Debates	23
Organization of the Book	23
Chapter Summary	24
Key Terms	24
Critical Discussion Questions	24
Topics for Expanded Projects	25
Closing Case: Two Scenarios of the Global Economy in 2050	25
Notes	27

CHAPTER 2 MANAGING INDUSTRY COMPETITION 32

Opening Case: Global Competition in the Cruise Industry	33
Defining Industry Competition	35
The Five Forces Framework	35
From Economics to Strategy	35
Rivalry among Competitors	37
Threat of Entrants	37
Strategy in Action 2.1: High Fashion Fights Recession	38
Bargaining Power of Suppliers	40
Bargaining Power of Buyers	40
Threat of Substitutes	41
Lessons from the Five Forces Framework	41
Strategy in Action 2.2: Digital Strategy and Five Forces	42
Three Generic Strategies	43
Cost Leadership	43
Differentiation	44
Focus	45
Lessons from the Three Generic Strategies	45
Debates and Extensions	45
Debate 1: Clear versus Blurred Definitions of Industry	46
Debate 2: Industry Rivalry versus Strategic Groups	46
Debate 3: Integration versus Outsourcing	47
Debate 4: Stuck in the Middle versus All-Rounder	48
Debate 5: Economies of Scale versus 3D Printing	48
Strategy in Action 2.3: Singapore Airlines Is Both a Differentiator and a Cost Leader	49
Debate 6: Industry-Specific versus Firm-Specific and Institution-Specific Determinants of Performance	50
Making Sense of the Debates	50
The Savvy Strategist	50
Chapter Summary	51
Key Terms	51
Critical Discussion Questions	52
Topics For Expanded Projects	52

Closing Case: The Future of the Automobile Industry	52
Notes	54

CHAPTER 3 LEVERAGING RESOURCES AND CAPABILITIES 58

Opening Case: Canada Goose Flies High	59
Understanding Resources and Capabilities	60
Resources, Capabilities, and the Value Chain	62
From SWOT to VRIO	65
The Question of Value	66
The Question of Rarity	66
The Question of Imitability	66
Strategy in Action 3.1: ASML	67
The Question of Organization	68
Strategy in Action 3.2: CIMC	69
Debates and Extensions	70
Debate 1: Firm-Specific versus Industry-Specific Determinants of Performance	71
Debate 2: Static Resources versus Dynamic Capabilities	71
Debate 3: Offshoring versus Nonoffshoring	72
Debate 4: Domestic Resources versus International (Cross-Border) Capabilities	74
Strategy in Action 3.3: Natura	75
The Savvy Strategist	76
Chapter Summary	77
Key Terms	77
Critical Discussion Questions	78
Topics For Expanded Projects	78
Closing Case: H-E-B Fights Coronavirus	78
Notes	80

CHAPTER 4 EMPHASIZING INSTITUTIONS, CULTURES, AND ETHICS 84

Opening Case: Brexit and Strategic Choices	85
Understanding Institutions	87
Definitions	87
What Do Institutions Do?	88
How Do Institutions Reduce Uncertainty?	88
An Institution-Based View of Business Strategy	90
Overview	90
Two Core Propositions	92
Strategy in Action 4.1: The American Guanxi Industry	93
Institutional Logics and Hybrid Organizations	94

The Strategic Role of Culture	94
The Definition of Culture	94
The Five Dimensions of Culture	95
Cultures and Strategic Choices	96
The Strategic Role of Ethics	97
The Definition and Impact of Ethics	97
Managing Ethics Overseas	98
Strategy in Action 4.2: <i>Onsen</i> and Tattoos in Japan	98
Ethics and Corruption	99
A Strategic Response Framework for Ethical Challenges	100
Strategy in Action 4.3: Monetizing the Maasai Tribal Name	101
Debates and Extensions	102
Debate 1: Opportunism versus Individualism/Collectivism	102
Debate 2: Cultural Distance versus Institutional Distance	103
Debate 3: Freedom of Speech versus Censorship on the Internet	104
The Savvy Strategist	105
Chapter Summary	106
Key Terms	106
Critical Discussion Questions	107
Topics For Expanded Projects	107
Closing Case: IKEA's Challenge in Saudi Arabia	107
Notes	108

PART 2 Business-Level Strategies

CHAPTER 5 GROWING AND INTERNATIONALIZING THE ENTREPRENEURIAL FIRM 114

Opening Case: The New East India Company	115
Entrepreneurship and Entrepreneurial Firms	116
A Comprehensive Model of Entrepreneurship	117
Industry-Based Considerations	118
Resource-Based Considerations	119
Institution-Based Considerations	120
Strategy in Action 5.1: Europe's Entrepreneurship Deficit	120
Five Entrepreneurial Strategies	121
Growth	122
Strategy in Action 5.2: Tory Burch's Rise in the Fashion Industry	122
Innovation	123
Network	123
Financing and Governance	124
Harvest and Exit	125

Internationalizing the Entrepreneurial Firm	126
International Strategies for Entering Foreign Markets	126
International Strategies for Staying in Domestic Markets	127
Debates and Extensions	128
Debate 1: Traits versus Institutions	128
Debate 2: Slow Internationalizers versus Born Global Start-ups	128
Strategy in Action 5.3: Immigrant Entrepreneurs	129
Debate 3: High-Growth Entrepreneurship versus Ethically Questionable Behavior	130
The Savvy Entrepreneur	131
Chapter Summary	132
Key Terms	132
Critical Discussion Questions	132
Topics For Expanded Projects	133
Closing Case: Boom in Busts: Good or Bad?	133
Notes	134

CHAPTER 6 ENTERING FOREIGN MARKETS 140

Opening Case: Amazon Enters India	141
Overcoming Liability of Foreignness	143
Understanding the Propensity to Internationalize	143
Strategy in Action 6.1 Nordic Multinationals	144
A Comprehensive Model of Foreign Market Entries	145
Industry-Based Considerations	145
Resource-Based Considerations	146
Institution-Based Considerations	147
Where to Enter?	148
Location-Specific Advantages and Strategic Goals	148
Cultural and Institutional Distances and Foreign Entry Locations	150
When to Enter?	150
How to Enter?	152
Scale of Entry: Commitment and Experience	152
Modes of Entry: The First Step on Equity versus Nonequity Modes	152
Modes of Entry: The Second Step in Making Actual Selections	155
Strategy in Action 6.1: Thai Union's Foreign Market Entries	157
Debates and Extensions	157
Debate 1: Liability versus Asset of Foreignness	157
Debate 2: Old-Line versus Emerging Multinationals: OLI versus LLL	158

Debate 3: Global versus Regional Geographic Diversification	159
Debate 4: Contractual versus Noncontractual Approaches of Entry	159
Strategy in Action 6.3: Goldman Sachs Enters Libya	160
The Savvy Strategist	161
Chapter Summary	162
Key Terms	162
Critical Discussion Questions	162
Topics For Expanded Projects	163
Closing Case: How Firms from Emerging Economies Fight Back	163
Notes	164

CHAPTER 7 MAKING STRATEGIC ALLIANCES AND NETWORKS WORK 168

Opening Case: Even Toyota Needs Friends	169
Defining Strategic Alliances and Networks	170
A Comprehensive Model of Strategic Alliances and Networks	171
Industry-Based Considerations	171
Resource-Based Considerations	172
Rarity	173
Imitability	174
Organization	174
Institution-Based Considerations	175
Formation	176
Stage One: To Cooperate or Not to Cooperate?	176
Stage Two: Contractual or Equity Modes?	176
Stage Three: How to Position the Relationship?	177
Strategy in Action 7.1: Delta Spreads Its Wings Globally	178
Evolution	178
Combating Opportunism	178
Evolving from Strong Ties to Weak Ties	179
From Corporate Marriage to Divorce	180
Strategy in Action 7.2: Yum Brands, McDonald's, and Sinopec	181
Performance	182
The Performance of Strategic Alliances and Networks	182
The Performance of Parent Firms	183
Debates and Extensions	184
Debate 1: Majority JVs as Control Mechanisms versus Minority JVs as Real Options	184
Debate 2: Alliances versus Acquisitions	184

Debate 3: Acquiring versus Not Acquiring Alliance Partners	185
Strategy in Action 7.3: Renaissanbishi: No Way!	186
The Savvy Strategist	187
Chapter Summary	188
Key Terms	188
Critical Discussion Questions	189
Topics For Expanded Projects	189
Closing Case: Fiat Chrysler: From Alliance to Acquisition	189
Notes	190

CHAPTER 8 MANAGING COMPETITIVE DYNAMICS 194

Opening Case: Jetstar's Rise in the Asia Pacific	195
Strategy as Action	196
Industry-Based Considerations	198
Collusion and Prisoner's Dilemma	198
Industry Characteristics and Collusion vis-à-vis Competition	198
Strategy in Action 8.1: The Global Vitamin Cartel	200
Resource-Based Considerations	201
Value	201
Rarity	202
Imitability	202
Organization	202
Resource Similarity	202
Competitor Analysis	202
Strategy in Action 8.2: Alibaba versus Amazon	204
Institution-Based Considerations	205
Formal Institutions Governing Domestic Competition: A Focus on Antitrust	205
Formal Institutions Governing International Competition: A Focus on Antidumping	207
Attack and Counterattack	208
Three Main Types of Attack	208
Awareness, Motivation, and Capability	210
Cooperation and Signaling	211
Debates and Extensions	211
Debate 1: Strategy versus Antitrust Policy	211
Debate 2: Competition versus Antidumping	213
Strategy in Action 8.3: Brussels versus Google	214
The Savvy Strategist	215
Chapter Summary	216
Key Terms	216
Critical Discussion Questions	217
Topics for Extended Projects	217

Closing Case: Is There an Antitrust Case Against Big Tech?	217
Notes	219

PART 3 Corporate-Level Strategies

CHAPTER 9 DIVERSIFYING AND MANAGING ACQUISITIONS GLOBALLY 224

Opening Case: The Growth of Marriott International	225
Product Diversification	227
Product-Related Diversification	227
Product-Unrelated Diversification	227
Strategy in Action 9.1: Starbucks Diversifies into Tea	227
Product Diversification and Firm Performance	228
Geographic Diversification	229
Limited versus Extensive International Diversification	229
Geographic Diversification and Firm Performance	229
Combining Product and Geographic Diversification	230
A Comprehensive Model of Diversification	231
Industry-Based Considerations	231
Resource-Based Considerations	232
Institution-Based Considerations	234
The Evolution of the Scope of the Firm	235
Acquisitions	238
Setting the Terms Straight	238
Motives for Mergers and Acquisitions	239
Performance of Mergers and Acquisitions	240
Strategy in Action 9.2: GE-Alstom: A Deal Too Far?	241
Strategy in Action 9.3: Can Mergers of Equals Work?	242
Debates and Extensions	243
Debate 1: Product Relatedness versus Other Forms of Relatedness	243
Debate 2: Old-Line versus New-Age Conglomerates	244
Debate 3: High Road versus Low Road in Integration	245
Debate 4: Acquisitions versus Alliances	246
The Savvy Strategist	246
Chapter Summary	248
Key Terms	248
Critical Discussion Questions	248
Topics for Expanded Projects	249

Closing Case: Puzzles Behind Emerging Multinationals' Acquisitions	249
Notes	250

CHAPTER 10 STRATEGIZING, STRUCTURING, AND INNOVATING AROUND THE WORLD 254

Opening Case: Launching the McWrap	255
Multinational Strategies and Structures	256
Pressures for Cost Reduction and Local Responsiveness	256
Four Strategic Choices	257
Strategy in Action 10.1: KFC Leverages Artificial Intelligence in China	259
Four Organizational Structures	260
The Reciprocal Relationship between Multinational Strategy and Structure	262
A Comprehensive Model of Multinational Strategy, Structure, and Innovation	262
Industry-Based Considerations	263
Resource-Based Considerations	264
Institution-Based Considerations	265
Strategy in Action 10.2: Canadian Apotex, Indian Production, and EU, UK, and US Regulations	265
Strategy in Action 10.3: Moving Headquarters	267
Worldwide Learning, Innovation, and Knowledge Management	269
Knowledge Management	269
Knowledge Management in Four Types of Multinational Enterprises	269
Globalizing Research and Development	271
Problems and Solutions in Knowledge Management	272
Debates and Extensions	273
Debate 1: Headquarters Control versus Subsidiary Initiative	273
Debate 2: Customer-Focused Dimensions versus Integration, Responsiveness, and Learning	273
The Savvy Strategist	274
Chapter Summary	275
Key Terms	276
Critical Discussion Questions	276
Topics for Expanded Projects	276
Closing Case: Subsidiary Initiative at Schenck Shanghai Machinery	277
Notes	278

CHAPTER 11 GOVERNING THE CORPORATION GLOBALLY 282

Opening Case: The Murdochs versus Minority Shareholders	283
--	-----

Owners	284
Concentrated versus Diffused Ownership	284
Family Ownership	285
State Ownership	285
Managers	286
Principal-Agent Conflicts	286
Principal-Principal Conflicts	287
Board of Directors	288
Board Composition	288
Strategy in Action 11.1: The Debate about Independent Directors in China	289
Leadership Structure	290
Board Interlocks	290
The Role of Boards of Directors	290
Strategy in Action 11.2: Professor Michael Jensen as an Outside Director	291
Directing Strategically	291
Governance Mechanisms as a Package	292
Internal (Voice-Based) Governance Mechanisms	292
External (Exit-Based) Governance Mechanisms	293
Internal Mechanisms + External Mechanisms = Governance Package	294
A Global Perspective	294
Strategy in Action 11.3: Global Competition in How to Best Govern Large Firms	296
A Comprehensive Model of Corporate Governance	297
Industry-Based Considerations	297
Resource-Based Considerations	298
Institution-Based Considerations	298
Debates and Extensions	300
Debate 1: Opportunistic Agents versus Managerial Stewards	300
Debate 2: Global Convergence versus Divergence	301
Debate 3: Value versus Stigma of Multiple Directorships	301
Debate 4: State Ownership versus Private Ownership	302
The Savvy Strategist	304
Chapter Summary	305
Key Terms	305
Critical Discussion Questions	306
Topics for Expanded Projects	306
Closing Case: The Private Equity Challenge	306
Notes	308

CHAPTER 12 STRATEGIZING ON CORPORATE SOCIAL RESPONSIBILITY 314

Opening Case: Starbucks's Corporate Social Responsibility Journey	315
--	-----

A Stakeholder View of the Firm 317
 A Big Picture Perspective 317
 Strategy in Action 12.1: Global Warming and Arctic Boom 318
 Stakeholder Groups, Triple Bottom Line, and ESG 319
 A Fundamental Debate 320
 A Comprehensive Model of Corporate Social Responsibility 322
 Strategy in Action 12.2: Giants of the Sea 323
 Industry-Based Considerations 323
 Resource-Based Considerations 325
 Strategy in Action 12.3: Can McDonald's Set the Chickens Cage-Free? 326
 The CSR-Economic Performance Puzzle 326
 Institution-Based Considerations 327
 Debates and Extensions 330
 Debate 1: Reducing versus Contributing toward Income Inequality 330
 Debate 2: Domestic versus Overseas Social Responsibility 331
 Debate 3: Active versus Inactive CSR Engagement Overseas 332
 Debate 4: Race to the Bottom ("Pollution Haven") versus Race to the Top 332
 The Savvy Strategist 333
 Chapter Summary 334
 Key Terms 335
 Critical Discussion Questions 335
 Topics For Expanded Projects 335
 Closing Case: The Ebola Challenge 336
 Notes 337

PART 4 Integrative Cases

IC 1 The Consulting Industry
 (by M. W. Peng) 342

IC 2 The Asia Pacific Airline Industry
 (by M. W. Peng) 346

IC 3 LEGO's Secrets
 (by M. W. Peng) 349

IC 4 BMW at 100
 (by K. Meyer) 351

IC 5 Occidental Petroleum (Oxy): From Also-Ran to Segment Leader
 (by C. F. Hazzard) 355

IC 6 Tesla's CEO Quits Presidential Councils
 (by Y. H. Jung) 360

IC 7 Legalization of Ride-Hailing in China
 (by Y. Li) 362

IC 8 The Final Frontier of Outsourcing to India
 (by A. P. Krishnan) 367

IC 9 Volkswagen's Emissions Scandal
 (by B. E. Coates) 372

IC 10 Private Military Companies
 (by M. W. Peng) 375

IC 11 Snowsports Interactive: A Global Start-Up's Challenges
 (by M. L. Taylor, X. Yang, and D. Mardiasmo) 379

IC 12 Business Jet Makers Eye China
 (by M. W. Peng) 384

IC 13 Carlsberg in Russia
 (by M. W. Peng) 386

IC 14 Enter North America by Bus
 (by M. W. Peng) 388

IC 15 Etihad Airways' Alliance Network
 (by M. W. Peng) 390

IC 16 Jobek do Brasil's Joint Venture Challenges
 (by D. M. Boehe and L. B. Cruz) 392

IC 17 Saudi Arabia in OPEC: Price Leader in a Cartel
 (by M. W. Peng) 398

IC 18 AGRANA: From a Local Supplier to a Global Player
 (by M. Hasenhüttl and E. Pleggenkuhle-Miles) 402

IC 19 Nomura's Integration of Lehman Brothers
 (by M. W. Peng) 407

IC 20 Cyberattack on TNT Express and Impact on Parent Company FedEx
 (by W. E. Hefley) 409

IC 21 Shanghai Disneyland
 (by M. W. Peng) 414

IC 22 Samsung's Global Strategy Group
 (by M. W. Peng) 417

IC 23 Corporate Governance the HP Way
 (by M. W. Peng) 419

IC 24 When CSR Is Mandated by the Government in India
 (by N. Kathuria) 422

IC 25 Wolf Wars
 (by M. W. Peng) 424

Glossary 426
 Index of Names 438
 Index of Organizations 451
 Index of Subjects 454

List of In-Chapter Features and Integrative Cases

		Action location	Headquarters location	Industry
CH 1	STRATEGIZING AROUND THE GLOBE			
Opening Case	Zoom	Worldwide	USA	Videoconference
SIA 1.1	German and French military strategies	Belgium/France	Germany/France	Military
SIA 1.2	Selling Star Wars to LEGO top management	North America/worldwide	Denmark	Toy
SIA 1.3	Confessions of your textbook author	Worldwide	USA	Publishing
Closing Case	Two scenarios of the global economy in 2050	Worldwide	Worldwide	Unspecified
CH 2	MANAGING INDUSTRY COMPETITION			
Opening case	Global competition in the cruise industry	Worldwide	USA	Cruise
SIA 2.1	High fashion fights recession	Worldwide	USA/Europe	Fashion
SIA 2.2	Digital strategy and five forces	Worldwide	Worldwide	Digital/AI
SIA 2.3	Singapore Airlines	Worldwide	Singapore	Airline
Closing Case	The future of the automobile industry	Worldwide	USA/Europe/Japan/Korea	Automobile
CH 3	LEVERAGING RESOURCES AND CAPABILITIES			
Opening Case	Canada Goose flies high	Worldwide	Canada	Apparel
SIA 3.1	ASML	Worldwide	The Netherlands	Chipmaking equipment
SIA 3.2	CIMC	Worldwide	China	Containers
SIA 3.3	Natura	Brazil/worldwide	Brazil	Cosmetics
Closing Case	H-E-B fights coronavirus	USA	USA	Supermarkets
CH 4	EMPHASIZING INSTITUTIONS, CULTURES, AND ETHICS			
Opening Case	Brexit and strategic choices	UK/EU	UK/EU/rest of the world	Automobile, financial services, and agriculture
SIA 5.1	The American <i>guanxi</i> industry	USA	USA	Lobbying
SIA 5.2	<i>Onsen</i> and tattoos in Japan	Japan	Japan	Bathhouse
SIA 5.3	Monetizing the Maasai tribal name	Kenya	The West	Unspecified
Closing Case	IKEA's challenge in Saudi Arabia	Saudi Arabia	Sweden	Furniture retail

		Action location	Headquarters location	Industry
CH 5	GROWING AND INTERNATIONALIZING THE ENTREPRENEURIAL FIRM			
Opening Case	The new East India Company	UK	UK	High-end retail
SIA 5.1	Europe's entrepreneurship deficit	Europe	Europe	Unspecified
SIA 5.2	Tory Burch's rise in the fashion industry	Worldwide	USA	Fashion
SIA 5.3	Immigrant entrepreneurs	Worldwide	Worldwide	Unspecified
Closing Case	Boom in busts: Good or bad	Worldwide	Worldwide	Unspecified
CH 6	ENTERING FOREIGN MARKETS			
Opening Case	Amazon in India	India	USA	E-commerce
SIA 6.1	Nordic multinationals	Worldwide	Nordic countries	Unspecified
SIA 6.2	Thai Union's foreign market entries	Worldwide	Thailand	Seafood
SIA 6.3	Goldman Sachs enters Libya	Libya	USA	Financial services
Closing Case	How firms from emerging economies fight back	Worldwide	Emerging economies	Unspecified
CH 7	MAKING STRATEGIC ALLIANCES AND NETWORKS WORK			
Opening Case	Even Toyota needs friends	Worldwide	Japan	Automobile
SIA 7.1	Delta spreads its wings globally	Worldwide	USA	Airline
SIA 7.2	Yum Brands, McDonald's, and Sinopec	China	USA/China	Fast food and energy
SIA 7.3	Renaissanbishi: No way!	France/Japan	France/Japan	Automobile
Closing Case	Fiat Chrysler: From alliance to acquisition	Italy/USA	Italy/USA	Automobile
CH 8	MANAGING COMPETITIVE DYNAMICS			
Opening Case	Jetstar's rise in the Asia Pacific	Asia Pacific	Australia	Airline
SIA 8.1	The global vitamin cartel	Worldwide	Switzerland/ Germany/France/ Japan	Vitamin
SIA 8.2	Alibaba versus Amazon	China/ worldwide	China/USA	E-commerce
SIA 8.3	Brussels versus Google	Europe	USA	Tech
Closing Case	Is there an antitrust case against Big Tech?	USA	USA	Tech
CH 9	DIVERSIFYING AND MANAGING ACQUISITIONS GLOBALLY			
Opening Case	The growth of Marriott International	Worldwide	USA	Hotel
SIA 9.1	Starbucks diversifies into tea	Worldwide	USA	Beverage service
SIA 9.2	GE-Alstom: A deal too far?	France	USA	Conglomerates
SIA 9.3	Can mergers of equals work?	Unspecified	Unspecified	Unspecified
Closing Case	Puzzles behind emerging multinationals' acquisitions	Worldwide	Emerging economies	Unspecified
CH 10	STRATEGIZING, STRUCTURING, AND INNOVATING AROUND THE WORLD			
Opening Case	Launch the McWrap	USA/Europe	USA	Fast food
SIA 10.1	KFC leverages artificial intelligence in China	China	USA	Fast food
SIA 10.2	Canadian Apotex, Indian production, and EU, UK, and US regulations	India	Canada	Pharmaceuticals
SIA 10.3	Moving headquarters	Worldwide	Worldwide	Unspecified
Closing Case	Subsidiary initiative at Schenck Shanghai	China	Germany	Machinery

		Action location	Headquarters location	Industry
CH 11	GOVERNING THE CORPORATION GLOBALLY			
Opening Case	The Murdochs versus minority shareholders	USA/UK	USA	Media
SIA 11.1	The debate about independent directors in China	China	China	Unspecified
SIA 11.2	Professor Michael Jensen as an outside director	USA	USA	Unspecified
SIA 11.3	Global competition in how to best govern large firms	Worldwide	Worldwide	Unspecified
Closing Case	The private equity challenge	Worldwide	Worldwide	Unspecified
CH 12	STRATEGIZING ON CORPORATE SOCIAL RESPONSIBILITY			
Opening Case	Starbucks' CSR journey	USA/UK	USA	Beverage service
SIA 12.1	Global warming and Arctic boom	The Arctic region	Australia/Canada/Denmark/Russia	Shipping and mining
SIA 12.2	Giants of the sea	Worldwide	Denmark	Shipping
SIA 12.3	Can McDonald's set the chickens cage-free?	Worldwide	USA	Fast food
Closing Case	The Ebola challenge	Africa/USA	USA/Canada/Europe	Pharmaceutical
INTEGRATIVE CASES				
IC 1	The consulting industry	Worldwide	USA/Europe	Consulting
IC 2	The Asia Pacific airline industry	Asia Pacific	Asia Pacific	Airline
IC 3	LEGO's secrets	Worldwide	Denmark	Toys
IC 4	BMW at 100	Worldwide	Germany	Automobile
IC 5	Occidental Petroleum (Oxy): From also-ran to segment leader	Worldwide	USA	Energy
IC 6	Tesla's CEO quits presidential councils	USA	USA	Automobile
IC 7	Legalizing ride-hailing in China	China	China/USA	Ride hailing
IC 8	The final frontier of outsourcing to India	India/USA	India	Commercial surrogacy
IC 9	Volkswagen's emissions scandal	USA/worldwide	Germany	Automobile
IC 10	Private military companies	Worldwide	USA/UK	Private military
IC 11	SnowSports Interactive: A global start-up's challenges	Australia	Australia	Skiing
IC 12	Business jet makers eye China	China	Brazil/Canada/France/USA	Business aviation
IC 13	Carlsberg in Russia	Russia	Denmark	Beer
IC 14	Enter North America by bus	USA	UK	Motor coach travel
IC 15	Etihad Airways's alliance network	Worldwide	UAE	Airline
IC 16	Jobek do Brasil's joint venture challenge	Brazil	Brazil/USA	Furniture
IC 17	Saudi Arabia in OPEC: Price leader in a cartel	Worldwide	Saudi Arabia/Austria	Energy
IC 18	AGRANA: From a local supplier to a global player	Worldwide	Austria	Food processing
IC 19	Nomura's integration of Lehman Brothers	USA/UK	Japan	Investment banking

		Action location	Headquarters location	Industry
IC 20	Cyberattack on TNT Express and impact on parent company FedEx	Europe/The Netherland	USA	Express delivery
IC 21	Shanghai Disneyland	China	USA	Theme park
IC 22	Samsung's global strategy group	Worldwide	Korea	Conglomerate
IC 23	Corporate governance the HP way	USA	USA	IT
IC 24	When CSR is mandated by the government of India	India	India	Unspecified
IC 25	Wolf wars	USA	USA	Ranching and hunting

Preface

The first four editions of *Global Strategy* have made this book the world's number-one global-strategy textbook. The fifth edition aspires to do even better. *Global Strategy* has set a new standard for (1) global or international strategy courses, (2) strategic management courses, and (3) international business courses at the undergraduate and MBA levels. It has been widely used in Angola, Australia, Austria, Brazil, Britain, Canada, Chile, China, Denmark, Egypt, Finland, France, Germany, Hong Kong, India, Indonesia, Ireland, Israel, Lithuania, Macau, Malaysia, Mexico, the Netherlands, Netherlands Antilles, New Zealand, Norway, Peru, the Philippines, Portugal, Puerto Rico, Romania, Russia, Singapore, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, and the United States. Now available in Chinese, Portuguese, and Spanish, *Global Strategy* is global.

Written during the tumultuous time of the coronavirus that shut down most of the global economy, the fifth edition continues the market-winning framework centered on the *strategy tripod* pioneered in the first edition. Its most strategic features include (1) a broadened definition of *global strategy*; (2) an evidence-based, in-depth, and consistent explanation of cutting-edge research; and (3) an interesting and accessible way to engage students.

A Broadened Definition of “Global Strategy”

In this text, “global strategy” is defined not as a particular multinational enterprise (MNE) strategy but as *strategy around the globe*. In other words, we do not exclusively focus on international strategy. *Global strategy* is most fundamentally about strategy before being global. Most global-strategy textbooks take the perspective of the foreign entrant, typically the MNE, and ignore the other side. The other side—namely, the domestic side—does not sit around waiting for its market to be invaded. Instead, domestic firms actively strategize, too. Failing to understand the other side captures only one side of the coin at best.

Offering a more balanced and more inclusive perspective, *Global Strategy* covers the strategies of both large MNEs and small entrepreneurial start-ups, both foreign entrants and domestic firms, and enterprises from both developed and emerging economies. In short, this is a truly *global* global-strategy text.

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

The breadth of the field poses a challenge to textbook authors. My respect for the diversity of the field has increased

tremendously over the past two decades. To provide an evidence-based, in-depth explanation, I have leveraged the latest research. Personally, I have accelerated my own research, publishing more than 40 articles after I finished the fourth edition. Drawing on such cutting-edge research has greatly enriched *Global Strategy*.

In addition to my own work, I have also drawn on the latest research of numerous colleagues—please check the Index of Names. Beyond academic sources, I have often relied on my two favorite magazines—*Bloomberg Businessweek* and *Economist*. Recently, I have also subscribed to *Foreign Affairs*, *Fortune*, *Harvard Business Review*, and *Wall Street Journal*. The end result is an unparalleled, most comprehensive set of evidence-based and timely insights on the market.

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 strategy. These 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?

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. 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 important debates and that their critical thinking skills be fostered. The new debates that have become more prominent since the fourth edition—such as globalization versus deglobalization and firms’ role in reducing versus contributing toward income inequality—are more *spicy*, making the book more relevant.

An Interesting and Accessible Way to Engage Students

If you fear this text must be boring because it draws so heavily on latest research, you are wrong. I have used a clear and engaging conversational style to tell the “story.” Relative to rival texts, my chapters are shorter and livelier. The length of all our Integrative Cases is shorter than that of many long “monster cases” found elsewhere.

Some earlier users commented that reading *Global Strategy* is like enjoying a “good magazine.” A large number of interesting anecdotes have been woven into the text. Non-traditional (“outside-the-box”) examples range from ancient Chinese military writings to modern “four-star company commanders” armed with UAVs (Chapter 1), from Shakespeare’s *The Merchant of Venice* (Chapter 5) to Tolstoy’s *Anna Karenina* (Chapter 7). Some of the discussions are truly cutting-edge. For example, the closing case for Chapter 8, “Is There an Antitrust Case Against Big Tech?” (written in March 2020), will force students to discuss it in a *future tense*. This is because the US government—in an effort to make the discussion about this case more interesting—sued Google in October 2020 *after* this case was written, and the future outcome of this case is unknown as the fifth edition goes to press. A consistent theme is to engage ethics. This is not only highlighted in Chapters 4 and 12, but also throughout all chapters in the form of Ethical Dilemma features and Critical Discussion Questions marked “On Ethics.”

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 titled “The Savvy Strategist” with one teachable table or slide on “Strategic Implications for Action” from a *practical* standpoint. No other competing textbook is so savvy and so relevant.

What’s New in the Fifth Edition?

Most strategically, the fifth edition has (1) significantly upgraded the global-strategy knowledge base, (2) enhanced the executive voice by drawing more heavily from CEOs and other strategic leaders, (3) drawn directly on the author’s consulting experience, (4) introduced a new and diverse set of cases, and (5) returned to the traditional format of having one hardcopy book including everything.

The scale and scope of the changes in the global-strategy landscape between the publication of the fourth edition (2017) and the fifth edition is likely to be some of the most profound since the launch of the first edition (2006). Sources of such changes not only come from disruptive technological start-ups known as *unicorns*—a term coined as recently as in 2013—but also from worsening geopolitical relationships between the top two economies of the world. Instead of *globalization*, the new buzzword is *deglobalization*. On top of all of the above, the coronavirus of 2020—a *black swan* event—shut down the global economy. Thoroughly updated, the fifth edition helps students make better sense of this rapidly changing and tumultuous era.

If *Global Strategy* aspires to train a new generation of global strategists, we need to coach them to think, act, and talk like CEOs. Although I have taught a few executive education classes with *Global Strategy*, most students using the text have not assumed that kind of executive responsibility. To facilitate strategic thinking, the fifth edition has enhanced the executive voice by featuring

extensive block quotes from the following CEOs and other strategic leaders:

Armstrong Industries’ outside director Michael Jensen (Chapter 11)

Business Roundtable (183 members who are CEOs of prominent US firms signed a statement on the purpose of a corporation in 2019—Chapter 12)

Canada Goose’s CEO Dani Reiss (Chapter 5)

Dow Chemical’s CEO William Stavropoulos (Chapter 10)

The (new) East India Company’s founder Sanjiv Mehta (Chapter 5)

Facebook’s founder and CEO Mark Zuckerberg (Chapter 1)

GE’s chairman and CEO Jeff Immelt (Chapters 8)

GE’s chairman and CEO Jack Welch (Chapter 12)

Google’s CEO Eric Schmidt (Chapter 7)

IBM’s CEO Ginni Rometty (Chapter 3)

L’Oreal’s CEO Jean Paul Agon (Chapter 10)

P&G’s chairman and CEO A. G. Lafley (Chapter 1)

US Assistant Attorney General (commenting on the global vitamin cartel case—Chapter 8)

US Assistant Attorney General (representing the Department of Justice to challenge AT&T’s proposed merger with T-Mobile—Chapter 8)

Walmart’s CEO Doug McMillon (Chapter 1)

Whole Foods’s cofounder and CEO John Mackey (Chapter 12)

World Health Organization’s Director-General Margaret Chan (Chapter 12)

Zoom’s founder and CEO Eric Yuan (Chapter 1)

I have directly drawn on my consulting experience to inject new insights. Chapter 1 describes my consulting engagement with MTR Corporation in Hong Kong (see Table 1.3). Chapter 3 illustrates a strategic sweet spot for UK manufacturing, which I developed for a major consulting engagement I completed for the UK government as part of its two-year Future of Manufacturing project (see Figure 3.6). Table 4.5 (“Texas Instruments Guidelines on Gifts in China,” which is in the public domain) is shared with me by a consulting client at TI. In addition, I have written the new Integrative Case 1 “The Consulting Industry” to more comprehensively introduce this strategically important industry.

The fifth edition has expanded case offerings by (1) presenting 21 new Integrative Cases and (2) making available four popular and still timely Integrative Cases from earlier editions. Students and instructors especially enjoyed the wide-ranging and globally relevant cases in previous editions. Fourteen of the 25 Integrative Cases were authored by me, and the other 11 were contributed by 17 colleagues from Australia, Canada, China, New Zealand, and the United States. The fifth edition is

blessed with that many new Integrative Cases. The end result is an unparalleled, diverse collection of cases that will significantly enhance the teaching and learning of global strategy.

Finally, what's new in the fifth edition is what is old—returning to a hardcopy format that includes everything (including all Integrative Cases). The fourth edition experimented with a format that (1) was completely digital or (2) was a hybrid—printing the 12 chapters in a hardcopy loose-leaf book but keeping all Integrative Cases online. Customer feedback indicated that the all-inclusive hardcopy is still the most preferred format. Of course, for those digitally savvy, the product will also be online.

MindTap

Online resources are transforming many aspects of everyday life, and learning is not immune to the impact of technology. Rather than simply taking the pages of *Global Strategy* and placing them online, we have restructured the content to fully utilize the engagement and interactivity that the medium allows.

MindTap is a digital learning solution that helps instructors engage and transform today's students into critical thinkers. Through (1) paths of dynamic assignments and applications that you can personalize, (2) real-time course analytics, and (3) an accessible reader, MindTap helps you turn apathy into engagement:

- **Critical Thinking**—Engaging, chapter-specific content is arranged in a singular Learning Path designed to elevate thinking.
- **Personalization**—Customize the Learning Path by integrating outside content like videos, articles, and more.
- **Analytics**—Easily monitor student progress, time on task, and outcomes with real-time reporting.

In addition, MindTap integrates other powerful tools to help enhance your course:

- *YouSeeU* facilitates group projects and a variety of other assignments through digital video and collaboration tools.
- *Business Insights* provides a rich online database and research tool.
- We have provided a pre- and postcourse assessment that measures Global Literacy, which provides both students and instructors with feedback on the general awareness of global social, cultural, political, and economic awareness. In addition, having these data can also provide valuable data to support assurance of learning reporting for accreditation purposes. We thank the efforts of Anne Mägi of the University of Illinois–Chicago for her work on these assessments.

- Additional media and text cases that are not found in the chapters, assessment, and much more!

For more information on using MindTap in your course, consult the instructor resources or visit www.cengage.com/mindtap.

Support Materials

A full set of support materials is available for adopting instructors, 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.
- *Test bank*—The robust *Global Strategy* test bank 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 Cognero software package to view, choose, and edit their test questions according to their specific course requirements. The test bank is also available in a format compatible with most Learning Management Systems.
- *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.

Acknowledgments

As *Global Strategy* celebrates the launch of its fifth edition, I first want to thank all the customers—instructors and students around the world who have made the book's success possible. A big thanks goes to 11 very special colleagues: Xinmei Liu and Sun Wei (Xi'an Jiaotong University), Bin Xu (Peking University), and Haifeng Yan (East China University of Science and Technology) in China; Joaquim Carlos Racy (Pontifícia Universidade Católica de São Paulo) and George Bedinelli Rossi (Universidade de São Paulo) in Brazil; Enrique Benjamín and Franklin Fincowski (Universidad Nacional Autónoma del de México), Mercedes Muñoz (Tecnológico de Monterrey Campus Santa Fe y Estado de México), Octavio Nava (Universidad del Valle de México), and Claudia Gutiérrez Rojas (Tecnológico de Monterrey

Campus Estado de México) in México. They loved the book so much that they were willing to endure the pain of translating it into Chinese, Portuguese, and Spanish. Their hard work has made *Global Strategy* more global.

At the Jindal School at UT Dallas, I appreciate Naveen Jindal's generous support to fund the Jindal Chair. I thank my colleagues Shawn Carraher, Larry Chasteen, Emily Choi, Greg Dess, Maria Hasenhuttl, Charlie Hazzard, Tom Henderson, Jeff Hicks, Shalonda Hill, Sora Jun, Seung Lee, Sheen Levin, John Lin, Livia Markóczy, Toyah Miller, Dennis Park, Cuili Qian, Orlando Richard, Rajiv Shah, Riki Takeuchi, Eric Tsang, McClain Watson, Habte Woldu, Junfeng Wu, and Jun Xia—as well as Hasan Pirkul (dean) and Varghese Jacob (vice dean). At the Center for Global Business that I founded and have served as executive director, I appreciate the contributions made by Hubert Zydorek (director) and the Advisory Board (especially Mike Skelton, chair; Kerry Tassopoulos, co-chair; Laura Gatins, Hajo Siemers, and Brewster Waddell, executive committee members). I have directly sought their advice on how to make the fifth edition better.

At Cengage Learning, I thank Joe Sabatino (product director), Jennifer Ziegler (senior project manager), and John Rich (content creation manager) for their guidance. At MPS Limited, I appreciate the contributions of Anubhav Kaushal (senior project manager) and his team, who made the editing and production process a joy.

In addition, I thank many customers who provided informal feedback to me. Space constraints force me to only acknowledge those who wrote me since the fourth edition, because those 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 e-mails.)

Siah Hwee Ang (Victoria University of Wellington, New Zealand)

Hari Bapuji (University of Melbourne, Australia)

Balbir Bhasin (University of Arkansas at Fort Smith, USA)

Dane Blevins (University of North Carolina at Greensboro, USA)

Charles Byles (Virginia Commonwealth University, USA)

Anil Chandrakumara (University of Wollongong, Australia)

Murali Chari (Rensselaer Polytechnic Institute, USA)

Tee Yin Chaw (Management and Science University, Malaysia)

Futian Chen (Xiamen University, China)

Limin Chen (Wuhan University, China)

Glen Damro (RMIT University, Australia)

Ngo Vi Dzung (Vietnam National University, Vietnam)

Todd Fitzgerald (Sanit Joseph's University, USA)

Dennis Garvis (Washington and Lee University, USA)

John Gerace (Chestnut Hill College, USA)

Mike Geringer (Ohio University, USA)

Katalin Haynes (Texas A&M University, USA)

Jorge Heredia (Universidad del Pacífico, Peru)

Stephanie Hurt (Meredith College, USA)

Ana Iglesias (Tulane University, USA)

Basil Janavaras (Minnesota State University, USA)

Ferry Jie (RMIT University, Australia)

Jungkwon Kim (Hanyang University, South Korea)

Aldas Kriauciunas (Purdue University, USA)

Yong Li (University of Nevada at Las Vegas, USA)

David Liu (George Fox University, USA)

Rajiv Mehta (New Jersey Institute of Technology, USA)

Kiran Momaya (Indian Institute of Technology Bombay, India)

Phillip Nell (Vienna University of Economics and Business, Austria)

Pradeep Kanta Ray (University of New South Wales, Australia)

David Reid (Seattle University, USA)

Pamela Resurreccion (De La Salle University, Philippines)

Trond Randøy (University of Agder, Norway)

Al Rosenbloom (Dominican University, USA)

Daniel Rottig (Florida Gulf Coast University, USA)

Paula Tomsett (I-Shou University, Taiwan)

Jose Vargas-Hernandez (Universidad de Guadalajara, Mexico)

Krishna Venkitachalam (Stockholm University, Sweden)

George White (University of Michigan at Flint, USA)

Josef Windsperger (University of Vienna, Austria)

Richard Young (Minnesota State University, USA)

Man Zhang (Bowling Green State University, USA)

Alan Zimmerman (City University of New York, USA)

For the fifth edition, the following 18 colleagues kindly read one chapter of manuscript and provided crucial feedback, for which I am grateful:

Larry Chasteen (University of Texas at Dallas, USA)

Miranda Eleazar (University of Texas at Dallas, USA)

Nishant Kathuria (University of Texas at Dallas, USA)

Som Lahiri (Illinois State University, USA)

Sheen Levine (University of Texas at Dallas, USA)

John Lin (University of Texas at Dallas, USA)

Kaveh Moghaddam (University of Houston at Victoria, USA)

Deb Mukherjee (University of Akron, USA)

Canan Mutlu (Kennesaw State University, USA)

Dennis Park (University of Texas at Dallas, USA)

Cuili Qian (University of Texas at Dallas, USA)

Prashant Salwan (Indian Institute of Management Indore, India)

Sunny Li Sun (University of Massachusetts at Lowell, USA)

Cristina Vlas (University of Massachusetts at Amherst, USA)

Joyce Wang (St. Cloud State University, USA)

Jun Xia (University of Texas at Dallas, USA)

Michael Young (Appalachian State University, USA)

Wu Zhan (University of Sydney, Australia)

In this edition, the following 17 colleagues graciously contributed fascinating new cases that grace the pages of the fifth edition:

Dirk Michael Boehe (Massey University, New Zealand)

Breena Coates (California State University, San Bernardino, USA)

Luciano Barin Cruz (HEC Montreal, Canada)

Maria Hasenhuttl (University of Texas at Dallas, USA)

Charles F. Hazzard (University of Texas at Dallas, USA)

William E. Hefley (University of Texas at Dallas, USA)

Young H. Jung (Montclair State University, USA)

Nishant Kathuria (University of Texas at Dallas, USA)

Arun Perumb Krishnan (University of Texas at Dallas, USA)

Yugang Li (East China University of Science and Technology, China)

Diaswati (Asti) Mardiasmo (PRD Real Estate, Australia)

Klaus Meyer (Ivey Business School, Canada)

Canan Mutlu (Kennesaw State University, USA)

Grace Peng (Highland Park High School, USA)

Erin Pleggenkuhle-Miles (University of Nebraska at Omaha, USA)

Marilyn L. Taylor (University of Missouri at Kansas City, USA)

Xiaohua Yang (University of San Francisco, USA)

Last, but no means least, I thank my wife Agnes, my daughter Grace, and my son James—to whom this textbook is dedicated. When the first edition was conceived, Grace was one month old and James was waiting for his turn to show up in the world. Now Grace is a published author of young-adult novels and a case contributor to *Global Strategy*, and James can build robots from nuts and bolts and edit videos for professional presentations. Both are world travelers, having been to more than 40 countries. Now both of them are on the verge of leaving our house to join the wider world—a scary (but exciting) prospect to any parent. 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
January 1, 2021
Dallas, Texas

About the Author



© Mike Peng

Mike W. Peng is the Jindal Chair of Global Strategy at the University of Texas at Dallas. He is a National Science Foundation (NSF) Career Award winner and a Fellow of the Academy of International Business (AIB) and the Asia Academy of Management (AAOM).

Professor Peng holds a bachelor's degree from Winona State University, Minnesota; and a Ph.D. degree from the University of Washington, Seattle. He had previously served on the faculty at the Ohio State University, University of Hawaii, and Chinese University of Hong Kong. He has also held visiting or courtesy appointments in Australia, Brazil, Britain, Canada, China, Denmark, Hong Kong, the United States, and Vietnam.

Truly global in scope, Professor Peng's research has investigated firm strategies in Africa, Asia Pacific, Europe, and North and South America. With more than 160 articles and five books, he is one of the most prolific and most influential scholars in global strategy. Used in more than 40 countries, his textbooks, *Global Strategy*, *Global Business*, and *GLOBAL*, are world market leaders that have been translated into Chinese, Portuguese, and Spanish. He has more than 50,000 Google citations, and both the United Nations and the World Bank have cited his work. Among the top 0.1% most cited researchers worldwide, he is one of the only 101 top scholars in business and economics listed among *Highly Cited Researchers* (compiled by Clarivate Analytics/Web of Science based on citation impact) in 2020. He has been on this distinguished list every year since 2014 and is the *only* global-strategy textbook author to have attained this honor.

Professor Peng is active in leadership positions. He has served on the editorial boards of *AMJ*, *AMP*, *AMR*, *GSJ*,

JIBS, *JMS*, *JWB*, and *SMJ*; and guest-edited a special issue for *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 in Shanghai (2007) and Sydney (2014). At AIB, he co-chaired the AIB/*JIBS* Frontiers Conference in San Diego (2006), guest-edited a *JIBS* special issue (2010), and chaired the Richard Farmer Best Dissertation Award Committee (2012). At AAOM, he served one term as Editor-in-Chief of the *Asia Pacific Journal of Management* (2007–2009). In recognition of his contributions, *APJM* named its best paper award the Mike Peng Best Paper Award. He served as program chair for the biennial conference in Bali, Indonesia (2019); and is currently Vice President of AAOM.

Professor Peng's consulting clients include AstraZeneca, Berlitz, Canada Research Chair, MTR Hong Kong, Nationwide, Routledge, SAFRAN, Texas Instruments, UK Government Office for Science, and World Bank. His numerous honors include 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 (IACMR). He has been included in *Who's Who in America*, and quoted by *The Economist*, *Newsweek*, *US News and World Report*, *Dallas Morning News*, *Texas CEO*, *Atlanta Journal-Constitution*, *Exporter Magazine*, *World Journal*, *Business Times* (Singapore), *CEO-CIO* (Beijing), *Sing Tao Daily* (Vancouver), and *Brasil Econômico* (São Paulo).

PART 1

Foundations of Global Strategy

1

Strategizing Around
the Globe

2

Managing Industry
Competition

3

Leveraging Resources
and Capabilities

4

Emphasizing Institutions,
Cultures, and Ethics

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CHAPTER 1

Strategizing Around the Globe



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. Understand the nature of globalization and semiglobalization
6. Participate in three debates concerning globalization and global strategy

Zoom

The year 2020 is destined to go down in history as one of the most unforgettable years. Thanks to the coronavirus (COVID-19), economies shut down one after another. Millions of people were sick, many died, and suffering was immense. All nonessential businesses closed, stock markets crashed, oil prices dived into the negative, unemployment soared, and firms were bankrupt left and right. In such a bleak environment, can any firm grow? It turns out that videoconferencing software firm Zoom has experienced skyrocketing growth during the crisis.

Zoom was founded in 2011 by a Chinese immigrant Eric Yuan. In 1997, Yuan went to work for WebEx, a videoconferencing start-up. In 2007, Cisco acquired Webex for \$3.2 billion. Yuan—as Cisco’s corporate vice president of engineering—proposed that Cisco develop a product that would work on mobile phones, not merely on personal computers (PCs). Cisco rejected his proposal. Frustrated but determined, Yuan left in 2011 to start Zoom. By 2017, San Jose, California-based Zoom became a “unicorn”—a private firm worth more than \$1 billion. It went through an initial public offering (IPO) at NASDAQ in April 2019. By the end of its first day of trading, its share price increased more than 72% to reach \$62 per share, resulting in a \$16 billion market capitalization. By the end of December 2019, Zoom was trading at \$68. On April 22, 2020, its share reached \$169 and it was worth \$46 billion.

Convenient live-video chat was a science-fiction dream for a long time. Helping to turn that dream into reality, Zoom’s mission, according to its IPO prospectus, was “to make video communications frictionless.” Its original strategy was to be a leading corporate videoconferencing firm—specifically for businesses with information technology (IT) departments that can set up accounts and help end users. It competed with two giants—Cisco Webex and Microsoft Teams—as well as smaller rivals such as Skype, Google Meets, and Hangouts. Zoom excelled in its easy-to-use software: one click on an email or the smartphone. If the conference had fewer than 100 participants and was less than 40 minutes, Zoom was free. Clients that paid a monthly fee of

\$19.99 could host as many 1,000 participants on a single video call. Another attractive feature was that it was a neutral platform. Its solution offered video, audio, and screen-sharing experience across Windows, Mac, Linux, Android, BlackBerry, and Zoom Rooms. Its IPO prospectus identified six leading sources of competitive advantage: (1) video-first platform, (2) cloud-native architecture, (3) functionality and scalability, (4) ease of use and reliability, (5) ability to utilize existing legacy infrastructure, and (6) low total cost of ownership.

The onslaught of COVID-19 made Zoom a household name. According to a letter from Zoom’s management team to customers posted on its website on April 23, 2020:

We are humbled to have the opportunity to support such a wide range of clients from schools (100,000 in 25 countries), to universities (many of the major US institutions), to governments (e.g., major functions of the US Government, the British Parliament, and many other governments around the world), to enterprises of all sizes, industries, and geographies (226 of the 241 countries and territories), including full deployments in many Fortune 500 companies. We have grown from 10 million daily meeting participants as of December 2019, to over 300 million a day in April 2020.

Throughout March and April 2020, Zoom’s number of users broke a new record every day. Its original strategy obviously had to rapidly adapt and improvise. It was no longer its plan to be a leading corporate videoconferencing provider that mattered. What mattered was how its actions satisfied the ballooning demand for its services as a *mass market* service provider. In late February and early March, after schools in Italy and Japan were shut down, Zoom removed the time limits on its free product for educational institutions in these countries—a practice now extended to other countries where schools shut down.

OPENING CASE *(Continued)*

By design, a Zoom meeting was anchored by one of its 17 data centers worldwide. If one data center experienced problems, the meeting would be handed over to the next closest. In the middle of the crisis, Zoom added two more data centers and bought more cloud storage capacity for surge protection from Oracle and Amazon Web Services.

Although meteoric, Zoom's rise to become a household name was not without bumps. Its connections in China made it aware of the potential devastation of COVID-19. To protect its employees, Zoom shut down its San Jose headquarters two weeks before Santa Clara County ordered citizens to shelter in place. As a result, Yuan and his executive team—like millions of other people who work at home—had to go through a long series of Zoom meetings every day. "I hate that," Yuan admitted to a reporter—a sentiment more recently known as "Zoom fatigue" worldwide.

In addition to worrying about whether servers were overwhelmed by the surging traffic, another major headache was security. Simplicity versus security (read: complexity) has always been a source of tension in IT. The very reason behind Zoom's success—simplicity—also contained a seed for

security problems. How to enhance Zoom's security while maintaining its user-friendliness, thus, became a dilemma. "Zoombombings" arguably became one of the newest English words, indicating the severity and frequency of security incidents. In response, Zoom quickly addressed some issues (such as requiring passwords for all Zoom meetings as of April 4) and endeavored to solve some of the more challenging security weaknesses going forward. Rapidly becoming part of critical infrastructure, Zoom "is now owned by the world," noted Yuan in an interview. He went on to claim that Zoom "can't go back. . . . For now we have to embrace this new paradigm and figure out how to make it work."

Sources: (1) *Bloomberg Businessweek*, 2020, The accidental social network, April 13: 45–49; (2) CNBC, 2020, Zoom Video Communications Inc., April 27: www.cnbc.com; (3) *Economist*, 2020, Zoom diplomacy, April 11: 44; (4) *Guardian*, 2020, Worried about Zoom's privacy problems? April 9: theguardian.com; (5) *National Geographic*, 2020, "Zoom fatigue" is taxing the brain, April: www.nationalgeographic.com; (6) Zoom, 2019, Amendment No. 2 to Form S-1 Registration Statement, April 16, Washington: SEC; (7) Zoom, 2020, A letter from Zoom's management team to our customers, April 23: zoom.us.

How do firms such as Zoom compete around the globe? What determines their success and failure? Since strategy is about competing and winning, this book will help current and would-be strategists answer these and other important questions. In brief, "global strategy" in this book is about *strategy around the globe*—practiced by firms big and small. In other words, 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 more than three decades, this strategy, often referred to as *global strategy* for lack of a better term, has often been advocated by traditional global-strategy books.¹ However, such a relatively narrow "global strategy" had always been difficult to practice, going forward it is likely to be less useful in a possibly *deglobalizing* world.

The relatively narrow "global strategy" has been practiced by some **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 Although Zoom is a young firm, it has become an MNE with FDI in a number of countries. In reality, MNEs often have to adapt their strategies, products, and services for local markets. 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) are popular in Europe, but have little visibility in the streets of Asia

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.

and North America. The so-called world drink, Coke Classic, actually tastes different around the world (with varying sugar content). Coca-Cola'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 not been appreciated by many viewers around the world. Viewers in warmer weather countries had a hard time relating to the furry 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 In summary, one size does not fit all.

It is evident that the narrow notion of "global strategy" (the "one-size-fits-all strategy"), while useful for a small number of MNEs, is often incomplete and unbalanced. Even for most MNEs, a sensible approach seems to be "think global, act local." In the case of Zoom, it operates data centers in Australia, Brazil, Canada, China, Germany, India, Japan, the Netherlands, and the United States. Its "global" **business model**—a firm's way of doing business and creating and capturing value—is to route videoconferencing traffic to the data center anywhere in the world that can provide the most seamless and best performance. At any given time, data centers in some regions may be busier than those elsewhere. Given the sensitive nature of the content of Zoom meetings, some users expressed concerns about their meetings being routed to data centers in regions that have potential cybersecurity issues.⁴ In response, Zoom has offered a "local" solution, by letting users opt out of specific data center regions and opt in to specific data center regions. This gives customers more control over their data.⁵ In summary, simple-mindedly pushing for a "global" solution is likely to backfire, and a sensible combination of what is "global" and what is "local" is a must.

business model

A firm's way of doing business and creating and capturing value.

Why Study Global Strategy?

Strategy courses in general—and global-strategy courses in particular—are typically the most valued courses in a business school.⁶ Why study global strategy? Some of the most sought-after and highest-paid business school graduates (both MBAs and undergraduates) are typically strategy consultants with global-strategy expertise.⁷ 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. So, don't forget to add a line on your résumé that you have studied this strategically important course.

Even for graduates at large firms with no interest in working for the consulting industry and no aspiration to compete for top jobs, as well as individuals who work at small firms or are self-employed, you may find yourself using foreign products and services (such as Zoom meetings), competing with foreign entrants in your home market, and perhaps even selling and investing overseas. Alternatively, you may find yourself working for a foreign-owned firm, 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 seven 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 Britain, the largest private-sector employer is Tata Group with 50,000 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 want to be able to figure this out as soon as possible and be the first to post your résumé 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 to know!

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 strong military roots.⁸ The oldest book on strategy, *The Art of War*, dates back to approximately 500 B.C. It was authored by Sun Tzu, a Chinese military strategist.⁹ 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.¹⁰

strategic management

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

strategy

An organization’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.

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.

Plan versus Action

Because business strategy is a relatively young field (despite its long roots in military strategy), what defines strategy has been a subject of intense debate.¹¹ Three schools of thought have emerged (see **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,¹² this school suggests that strategy is embodied in the same explicit rigorous formal planning as in the military.

However, the planning school has been challenged by the likes of Liddell Hart, a British military strategist of the 20th century, who argued that the key to strategy is a set of flexible goal-oriented actions.¹³ 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

TABLE 1.1 What Is Strategy?

Strategy as Plan
<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
Strategy as Action
<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
Strategy as Integration
<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 ideas, decisions, and actions that enable a firm to succeed” (Dess, McNamara, Eisner, and Lee, 2019)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. McNamara, A. Eisner, & S. Lee, 2019, *Strategic Management*, 9th ed. (p. 6), Chicago: McGraw-Hill.

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.”¹⁴ Facebook is a good example. Its founder Mark Zuckerberg shared 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.”*¹⁵

It is not just fast-moving high-tech firms such as Facebook that are practitioners of the strategy as action school. For a firm as traditional as Walmart, its CEO Doug McMillon told a journalist:

*Once, a company like ours made big decisions annually or quarterly. Today strategy is daily.*¹⁶

Both of these two schools of thought have 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 Germans embraced the strategy as plan school, and the French practiced the strategy as action school. In the end, both militaries failed miserably. A crucial lesson is that a winning strategy must have a combination of *both* schools of thought, leveraging their advantages while minimizing their weaknesses.

Strategy as Theory

Shown in the Opening Case, Zoom had a plan to be a leading *corporate* videoconferencing provider. However, in the middle of the coronavirus outbreak, it ended up becoming a *mass-market* provider on a much larger scale. Its actions had to adjust to these new demands, ranging from making sure there was sufficient cloud capacity to meet the surging demand to improving its security measures in the middle of dramatically scaling up its operations. Like managers at Zoom, 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 (see **Table 1.1**).

First advocated by Alfred Chandler,¹⁷ an American business historian, this more balanced strategy as integration school of thought has been adopted in many textbooks.¹⁸ It is the

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 IN ACTION 1.1

German and French Military Strategies in 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.

The Germans embraced the strategy as plan school with a meticulous Schlieffen Plan. Focusing on the right wing, German forces would smash through Belgium. Every day’s schedule of march was fixed: Brussels would be taken by the 19th day, the French–Belgium border crossed on the 22nd, and Paris conquered and victory achieved 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 everything—except flexibility. In short, there was no Plan B.

The French were practitioners of the strategy as action school. Known as Plan 17, the French plan was a radical contrast

to the German one. Humiliated in the 1870 Franco–Prussian War, during which France lost two provinces (Alsace and Lorraine), the French were determined to regain them. But 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 *action*—the individual initiatives and bravery (known as *élan vital*, the all-conquering will). In Plan 17, a total of five sentences were all that was shared with the generals who would lead a million soldiers into battle. Sentence one was “Target Berlin.” Sentence two was “Recover Alsace and Lorraine.” The last sentence was “Vive la France!”

In the end, both plans failed miserably, with appalling casualties but no victory to show.

Source: Condensed from B. Tuchman, 1962, *The Guns of August*, New York: Macmillan.

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

perspective we embrace here. Following Peter Drucker, an Austrian–American management guru, we extend the strategy as integration school by defining strategy as *an organization’s theory about how to compete successfully*. In other words, if we have to define strategy with one word, it is neither plan nor action—it is *theory*.

According to Drucker, “a valid theory that is clear, consistent, and focused is extraordinarily powerful.”¹⁹ A theory in a business context can be viewed as a way of doing business.²⁰ For example, Zoom’s theory “to make video communications frictionless” is clear, consistent, and focused, helping to channel its energies to make it happen (see the Opening Case).

Table 1.2 outlines the four advantages associated with our 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.²¹ Implementing it through a series of actions (noted by the action school as **strategy implementation**) is a necessary second part.²² Although the cartoon in **Figure 1.1** humorously portrays these two activities as separate endeavors, in reality good strategists do *both*.

Shown in **Figure 1.2**, 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.²³ 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,

strategy formulation

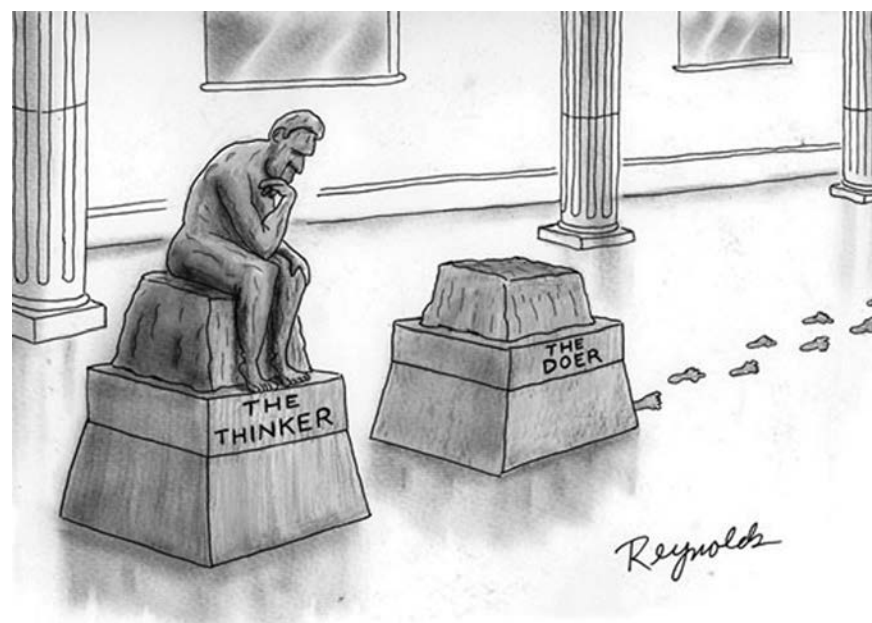
The crafting of a firm’s strategy.

strategy implementation

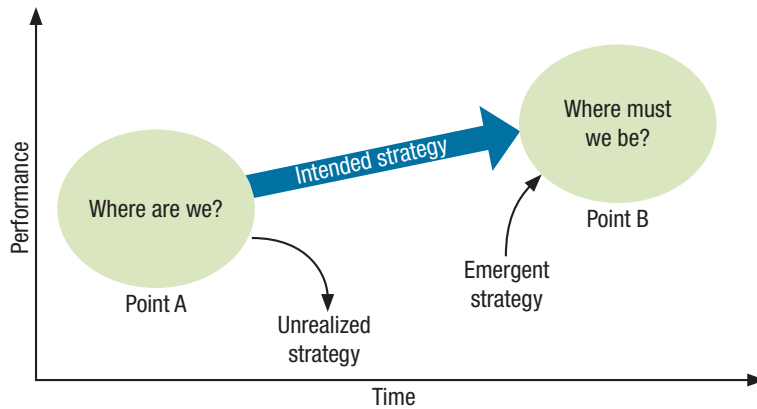
The actions undertaken to carry out a firm’s strategy.

SWOT analysis

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

FIGURE 1.1 Strategy Formulation and Strategy Implementation

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

FIGURE 1.2 The Essence of Strategy

not all intended strategies may prove successful, and some may become unrealized strategies. On the other hand, other unintended actions may become emergent strategies with a thrust toward point B. Overall, the strategy as theory definition enables us (1) to retain the elegance of the planning school with its more orthodox logical approach, and (2) to entertain the flexibility of the action school with its more dynamic experimental character.

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.²⁴ A theory is merely a statement on relationships between two phenomena. At its core, a theory serves two purposes: to *explain* the past and to *predict* the future. For example, the theory of gravity explains why many people committing suicide were “successful” by jumping from high-rise buildings or tall cliffs. It also predicts that should individuals (hypothetically) harbor such a dangerous tendency, they will be equally “successful” by doing the same. Each firm has a unique theory (way) of doing business.²⁵ Walmart’s theory, “everyday low prices,” explains why it has been successful in the past. After all, who doesn’t like everyday low prices? The theory also predicts that Walmart will continue to do well by focusing on low prices.

Third, a theory proven successful in one context during one period does not necessarily mean it will be successful elsewhere or in other periods. A hallmark of theory building and development is **replication**—repeated testing under a variety of conditions to establish a theory’s boundaries.²⁶ In natural sciences, this is known as *continuous experimentation*. For instance, after several decades of experiments in outer space, we now know that objects dropped by astronauts inside a spacecraft would not fall. Instead, they float. In other words, replication helps us understand that the theory of gravity is Earth bound and does not apply in outer space. Such replication seems to be the essence of business strategy. Firms successful in one product or geographic market—that is, having proven the merit of their theory once—constantly seek to expand into newer markets and replicate their success.²⁷ Each new entry can be viewed as a new experiment. In new markets, firms sometimes succeed and other times fail. As a result, firms are able to gradually establish the *limits* of their particular theory about how to compete successfully. For instance, Walmart’s theory failed in Germany and South Korea, and the firm had to pull out from those markets. Just as knowing the limits of the theory of gravity helps the scientific community, knowing the limits of a business theory, although painful to managers involved, is beneficial to the firm. Walmart’s corporate performance actually improved after exiting money-losing operations in Germany and South Korea.

Finally, the strategy as theory definition helps us understand why it is often difficult to change strategy. Imagine how hard it is to change an established theory. The reason that a certain theory is widely accepted is because of its past success. But past success does not guarantee

replication

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