



DAVID COLLIS

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“David's work is first rate in terms of his ability to clearly explain concepts and to make them come alive in a practical way for students and leaders on the front lines. His observations, suggestions and concepts ring true based on my years of experience managing and sitting on the boards of large and complex international companies. *International Strategy* is a valuable resource that advances the field.”

Kevin Sharer, former Chairman and CEO of Amgen, Senior Lecturer of Business Administration Harvard Business School

International Strategy

Context, Concepts and Implications

David Collis
Harvard Business School

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To my family: past, present, and future.

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Standing on the shoulders of giants that others may see further.

As the saying above suggests, my greatest debt of gratitude is to those who have gone before – some of whom I have learnt from personally, others of whom I only know through their work. It is my predecessors' research and insights that have enlightened my understanding of international strategy (and, more broadly, competitive strategy), and enabled me to capture and present the ideas expressed in this text. Collectively, the names of those who have developed the field are featured in the “Further Reading” sections of the book. I do, however, want to individually mention those who have had the greatest influence on this book. Chris Bartlett, Adam Brandenburger, Chris Carr, Dick Caves, Pankaj Ghemawat, Sumantra Ghoshal, Barry Nalebuff, Michael Porter, Mike Spence, Mike Yoshino, and, more recently, colleagues Juan Alcacer, Bharat Anand, Misiek Piskorski, Jan Rivkin, Jordan Siegel, Toby Stuart, and David Yoffie have all contributed in ways they probably do not know, let alone remember. I thank each of them.

Two other constituencies also deserve recognition for their contributions – intended or otherwise – to this book. The first are my former students whose comments and questions in class, although they often do not realize it, actually do influence my thinking. More important, the pressure to deliver something of more lasting value than just a fun 80-minute conversation pushed me to develop the frameworks for this book.

The companies I have worked with and written cases on over the years also deserve acknowledgment. If one is to

understand how the world really works, and whether one's ideas can actually influence practice, it is vital to be in the field, interacting with, learning from, and observing the results of employing the processes and frameworks laid out here. As an academic I truly value these opportunities.

Thanks are also due to the institutions where I have had the privilege of being employed for the last 30 years and which have supported the research and case writing that underpins this book. The Harvard Business School must be first among those, but it was during a five-year stay at the Yale School of Management from 1997 to 2002 that I began writing the book as a complement to the new “Global Strategy” course I originally developed there. I am embarrassed to note that the original draft has a start date of December 1998! But it was my stay at Yale that provided the impetus for the manuscript.

As always a cast of characters supports the actual writing of the text. Rosemary Nixon, my original editor at what was then Blackwell, stuck with me until we pushed the manuscript over the line about 10 years after signing the contract. Mary Reed and Matt Shaffer provided research support in the last couple of years, and Cathyjean Gustafson has been the orchestrator of all things administrative, ensuring that everything gets done on time and to her flawless standards. As always, errors and omissions remain my responsibility.

Finally, as the dedication observes, prolific thanks are due to my family.

David Collis

MVY and Concord

PREFACE

PERSPECTIVE

This book is designed for executives in companies that compete across national borders who wish to make valuable contributions to every discussion about their company's international strategy.

The decision maker it is written for is a senior manager within a multinational. This does not imply that the ideas apply only to large firms. That decision maker could as easily be the CEO of an Internet startup who is interested in expanding overseas, as the head of Unilever, Sharp, or Ford.

While the unit of analysis might occasionally shift from the firm to the country, the book takes as given the differences we see around the world – differences of geography, culture, economic policy, and institutional structures. This book is less about how the world economy is becoming more interdependent or what social, political, and economic forces are at work.¹ Instead, the book is concerned with how managers can effectively create shareholder value in the world today given all these differences and drivers.

This book is not about international trade theory, although the economics of comparative advantage and international trade under imperfect competition underpin it. Nor is it about international business in the sense of “how to” open an office in a foreign country, or the legal requirements of doing business in different countries, although those idiosyncrasies and vagaries are the background for the text. Neither is it about the specific functional aspects of

international business – international marketing and international finance, in particular – although it draws on and refers to those disciplines when necessary. The implications of exchange rate volatility and the financial instruments available to mitigate their effects, for example, are covered when they affect strategic decisions, but the book does not attempt to treat those topics on their own terms. This is not the text to learn about derivatives, or the benefits of exchange rate devaluations, but it will illustrate how those variables affect broader strategic questions. Less is said about joint ventures than in many other texts on international business. Alliances and other forms of partnerships are common in international competition for strategic reasons that will be made apparent in the text, but their specific form, and their operational management, are better dealt with as a subject in their own right.

This is, therefore, unashamedly a book about international strategy. Since so many authors claim to cover this ground when in fact they address tactical issues, an important early part of the text addresses the two definitional questions of what is distinctively international, and what is uniquely strategic about “international strategy”?

AUDIENCE

As a result of adopting the perspective of the manager in a firm active in international competition, the audience for this book should, first and foremost, be every executive concerned with the formulation and implementation of strategy in a company that competes internationally. For them it should provide a framework and a toolset to resolve the hard decisions they must make every day. It should also be relevant to executives who, even if they do not themselves operate outside a country, nevertheless face competitors from foreign countries.

The book has less to say to policy makers who have to address issues of trade, exchange rates, policies towards multinationals, etc., and who take the country and the welfare of its inhabitants as the focus of their concern. However, in designing those policies, government officials should benefit from understanding the managerial perspective - what concerns them, what motivates them, and what shapes their decisions. Only by empathizing with the incentives and choices that corporate executives face can policy makers effectively design programs that will achieve their desired ends.

Clearly, the book should be read not just by managers in multinationals, but also by those who work with, advise, or support multinationals. Investment bankers, consultants, investment analysts, suppliers, anyone who needs to know how companies are approaching international strategy and the profound ramifications that will have throughout their organizations, should read this text.

Because its content is designed for managers, the book will also be valuable to students who aspire to become such executives and who want to learn how companies can successfully compete internationally. Those are the two primary audiences - managers and students. Come to think of it, that covers just about everyone with an interest in international competition and strategy!

READING THE TEXT

This book has been designed for multiple uses and is, accordingly, divided into three parts: setting the context, introducing the conceptual framework, and providing pragmatic advice. Each has a specific purpose and a value for certain audiences, so a brief guide is in order.

The most obvious suggestion is for executives who are dipping into the text to provide real-time answers to a particular issue they currently face. For them, the solution is to jump to the relevant chapter in Part Three where tools and processes are presented that are immediately applicable to their situation. I would, of course, encourage them to spend time in the earlier parts of the book – particularly Chapters 5 and 6 – in order to improve their understanding of the concepts and theories of international strategy, but those parts are not required reading to get value from the pragmatic advice of Part Three.

For students, ideally MBA students with a grounding in competitive or business unit strategy, the converse is true. You should start at the beginning of the book in order to grasp the unique characteristics of international competition that practitioners already understand, and to absorb the intellectual foundations of the subject. For you, Part Three should be seen as an opportunity to apply what you have learnt and to begin to wrestle with the details of the topic that will confront the rest of your managerial careers.

For scholars, much of the early part of the book should be familiar, but the integrated presentation of ideas (with appropriate references and careful articulation of the links to well-known approaches) should be valuable. The text is intended to offer a coherent approach to international strategy that is derived from first principles: What is different about international strategy? What are the elements of such a “strategy?” And so on. Appropriate footnotes and a limited reading list of the most relevant and highly cited works accompany each chapter, so the intellectual support for the text is documented and supporting materials identified. There are also additional online resources available for instructors and students at www.wiley.com/go/internationalstrategy, which include a

suggested syllabus, lecture support materials, case suggestions, assignment questions and additional links.

The flow of the text is, therefore, best represented as starting from the general and proceeding to the specific - from understanding context and theory to application, tools, and practice. Along the way, extended examples or well-known theories that are perhaps peripheral to the core argument, but are nevertheless worthy of discussion, are captured in text boxes. These add to the richness and depth of coverage of the material. There is some (limited) repetition of ideas among the chapters since each is designed to be understood on its own terms, or assigned separately. That redundancy has been kept to a minimum.

Whatever your purpose in reading the text, I wish you well on your journey.

On Definitions

Terminology has complicated many previous discussions of international strategy. In particular, the use of the term “global” strategy has led to enormous misunderstanding. Many observers have used the term to describe any strategy with cross-border implications. Indeed, many told me to name this book “Global Strategy” since that is how executives today think of international competition. However, others have applied the term to a particular type of strategy for dealing with international competition which assumes a standard approach to competition around the world.

Another term that has meant different things to different authors is the unit of analysis that is the focus of this book: companies that compete across international borders. Some authors refer to such companies as multinationals, or MNCs, others as transnationals or TNCs, and yet others as multinational enterprises or MNEs.

While I would not claim that the definitions adopted here are held by everyone, it is important that readers become familiar with how they are applied in this text:

- International – a generic term that applies to anything that involves activities across borders. International strategy, for example, has no normative connotations whatsoever (hence it is used as the title of the book); it merely refers to the fact that when firms compete across borders they need to approach strategy from an international perspective.
- Multinational – a generic term referring to any company that has activities in many countries.

Multinational and its equivalents are used interchangeably with no normative connotations.

- Firm, company, corporation, enterprise, and organization are used interchangeably when referring to a hierarchical economic entity.

We describe and use a typology of different strategies in this book, and it is important to know that when referring to a particular strategy the terms below have specific meanings:

- Local - when used to describe a strategy this term implies that the firm's sales and activities are almost exclusively domestic.
- Export and import - transfer of goods or services across borders, but also refers to a particular choice of strategy that does not involve the firm in a substantial international presence.
- Multidomestic - identifies a strategy in which a multinational's activities in each country are managed independently.
- Global - a specific term that implies a company has adopted a uniform approach to competing around the world.
- Transnational - another specific term, popularized by Chris Bartlett and Sumantra Ghoshal, that identifies an ideal type of strategy and organization. The transnational strategy aims to transcend strategic tradeoffs and exploit a unique advantage through the coordinated management of a dispersed international network of activities.

These definitions imply that “international” is the umbrella term for activity that crosses borders, while

“global,” “multidomestic,” “transnational,” “local,” and “export” have specific meanings when designating a particular strategy for competing internationally.

NOTES

1. Chapter 1 does, however, explain how those forces establish the contemporary context for international strategy.

INTRODUCTION: MOTIVATION AND DEFINITION - WHAT IS INTERNATIONAL STRATEGY?

CHALLENGE

Not so long ago, three books arrived on my desk on the same day. Each is by a well-respected academic author, and each is replete with endorsements from successful executives. All are zealous, almost messianic, in their advocacy of a particular approach to international strategy. One proclaims that the only successful international strategy is to be “globally dominant” (Govindarajan and Gupta, 2001). Another argues instead that there is an absolute requirement to transform corporations “from global to metanational” (Doz *et al.*, 2001). The third states in no uncertain terms that the other two are wrong, and that when dealing with “the end of globalization” the only viable strategy is “to profit from the realities of regional markets” (Rugman, 2005). What are reasonable managers supposed to think, let alone do, when faced with such vehemently argued, yet contradictory, advice?

The answer is simple. All three authors are correct. And all three authors are wrong. Each is promulgating a strategy that is sensible – that can lead to competitive advantage and international success under the appropriate circumstances. All are badly overstating their case by arguing that every company should pursue their particular recommendation. In the vernacular of the racetrack, the real answer is that there are “horses for courses.” There is no one right international strategy that is best for every firm under every circumstance. Instead there is a set of